Second-quarter 2018
Earnings report

24 July 2018

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1. EXECUTIVE SUMMARY

Market figures	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
BHKP (USD/t) average price	1,044.4	782.9	33.4%	1,008.4	3.6%	1,026.4	729.9	40.6%
Average exchange rate (USD/€)	1.20	1.10	9.1%	1.23	(2.3%)	1.21	1.08	12.1%
BHKP (€/t) average price	872.3	713.1	22.3%	823.1	6.0%	847.7	675.6	25.5%
Average pool price (€/MWh)	52.4	47.2	11.1%	48.3	8.4%	50.4	51.2	(1.7%)

Source: Bloomberg

Operating Magnitudes	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
Pulp production (t)	**232,186**	**226,522**	**2.5%**	**225,644**	**2.9%**	**457,830**	**453,124**	**1.0%**
Pulp sales (t)	**230,386**	**234,728**	**(1.8%)**	**232,735**	**(1.0%)**	**463,121**	**480,866**	**(3.7%)**
Average sale pulp price (€/t)	634.5	520.6	21.9%	601.4	5.5%	617.9	492.5	25.5%
Cash cost (€/t)	377.8	346.3	9.1%	369.3	2.3%	374.0	344.5	8.5%
Wood cost €/m3	66.2	64.2	3.2%	66.4	(0.2%)	66.3	64.1	3.4%
Energy sales from Energy business (MWh)	**219,874**	**154,741**	**42.1%**	**227,610**	**(3.4%)**	**447,485**	**365,786**	**22.3%**
Average selling price - Pool + Ro (€/MWh)	110.7	97.6	13.4%	102.9	7.5%	108.2	107.6	0.5%
Investment remuneration (€Mn)	10.2	9.4	8.7%	10.2	(0.0%)	20.5	18.9	8.5%

P&L €Mn	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
Revenues from Pulp business	170.3	143.8	18.4%	163.1	4.4%	333.4	285.2	16.9%
Revenues from Energy business	34.8	24.6	41.6%	34.0	2.4%	68.9	58.2	18.2%
Consolidation adjustments	(1.0)	(0.8)		(0.9)		(1.9)	(1.7)	
Total net revenue	**204.1**	**167.6**	21.8%	**196.3**	4.0%	**400.3**	**341.8**	17.1%
Pulp business EBITDA	57.0	39.1	45.7%	54.1	5.5%	111.1	69.2	60.4%
Margin %	33%	27%	6.3 p.p.	33%	0.3 p.p.	33%	24%	9.0 p.p.
Energy business EBITDA	10.9	8.0	36.5%	8.8	23.1%	19.7	18.7	5.4%
Margin %	31%	32%	(1.2) p.p.	26%	5.2 p.p.	29%	32%	(3.5) p.p.
EBITDA	**67.9**	**47.1**	44.1%	**62.9**	8.0%	**130.8**	**87.9**	48.7%
Margin %	33%	28%	5.2 p.p.	32%	1.2 p.p.	33%	26%	6.9 p.p.
Amortization and forestry depletion	(18.6)	(17.7)	5.3%	(19.2)	(3.2%)	(37.9)	(35.3)	7.3%
Impairment of and gains/(losses) on fixed-asset disposals	1.7	2.2	(23.0%)	2.3	(27.1%)	4.0	4.1	(2.0%)
EBIT	**50.9**	**31.6**	61.2%	**46.0**	10.8%	**96.9**	**56.7**	70.9%
Net finance costs	(23.3)	(5.1)	n.s.	(5.6)	n.s.	(29.0)	(10.1)	187.6%
Other financial results	1.5	(2.3)	n.s.	(0.2)	n.s.	1.3	(3.4)	n.s.
Profit before tax	**29.1**	**24.2**	20.1%	**40.1**	(27.5%)	**69.2**	**43.2**	60.3%
Income tax	(7.6)	(6.1)	24.3%	(10.3)	(25.7%)	(17.9)	(10.9)	63.8%
Net Income	**21.5**	**18.1**	18.7%	**29.9**	(28.2%)	**51.3**	**32.3**	59.0%
Non-controlling interests	(0.7)	(0.4)	93.3%	(0.3)	n.s	(1.0)	(0.8)	25.9%
Atributable Net Income	**20.8**	**17.7**	17.2%	**29.5**	(29.7%)	**50.3**	**31.5**	59.9%
Earnings per share (EPS)	0.08	0.07	17.2%	0.12	(29.7%)	0.20	0.13	59.9%

Cash flow €Mn	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
EBITDA	**67.9**	**47.1**	44.1%	**62.9**	8.0%	**130.8**	**87.9**	48.7%
Change in working capital	21.4	(0.3)	n.s.	(30.7)	n.s.	(9.3)	(16.2)	(42.3%)
Maintenance capex	(4.1)	(3.5)	16.1%	(5.1)	(19.7%)	(9.2)	(9.9)	(7.2%)
Net interest Payment	(23.8)	(10.0)	136.6%	(0.1)	n.s.	(23.9)	(10.2)	133.3%
Income tax received/(paid)	(7.5)	(3.3)	125.0%	0.3	n.s.	(7.2)	(3.3)	116.4%
Normalized free cash flow	**53.9**	**30.0**	80.0%	**27.3**	97.8%	**81.2**	**48.3**	68.1%
Other charges / (payments)	(1.1)	0.1	n.s.	7.3	n.s	6.1	4.5	37.6%
Expansion capex	(59.4)	(2.8)	n.s.	(16.4)	n.s.	(75.9)	(9.4)	n.s.
Environmental capex	(2.3)	(1.2)	92.0%	(0.1)	n.s.	(2.4)	(3.0)	(19.1%)
Disposals	0.4	2.7	(84.1%)	1.1	(60.9%)	1.5	2.7	(43.6%)
Free Cash Flow	**(8.5)**	**28.7**	n.s.	**19.0**	n.s.	**10.5**	**43.0**	(75.6%)
Dividends	(16.2)	(11.6)	39.6%	-	n.s	(16.2)	(11.6)	39.6%

Net debt €Mn	Jun-18	Dec-17	Δ%	Mar-18	Δ%
Pulp business net financial debt	84.5	120.1	(29.6%)	98.3	(14.0%)
Energy business net financial debt	67.8	33.0	105.2%	27.3	148.6%
Net financial debt	**152.3**	**153.1**	(0.5%)	**125.6**	21.3%

- ✓ **Group's Attributable Net Income and EBITDA registered year-on-year growth of 60% and 49%, respectively, in 1H18.**
- ✓ **In 2Q18, Group EBITDA increased by 44% year-on-year, with the Pulp Business reporting growth of 46% and the Energy Business, 36%.**
- ✓ **EBITDA in the Pulp Business was 60% higher in the first half, boosted by growth of 25% in the average sales price.**
- ✓ **The Energy Business posted EBITDA growth of 5% in the first half, lifted by the consolidation of the 27-MW biomass plant in Cordoba since August 2017. EBITDA target for the Energy Business of €55 million in 2018 is based on higher generation volumes expected for the second half of the year.**
- ✓ **Strong free cash flow generation during the first half enabled the Group to earmark €78m to capital expenditure related with execution of its Business Plan, pay out a final dividend of €16m and keep net debt flat compared to year-end 2017 levels. Group leverage stood at just 0.6x LTM EBITDA at the June close.**
- ✓ **In the Energy Business, the investments underway to install 99 MW of new biomass power generation capacity progress satisfactorily. Specifically, ENCE is developing two 46-MW plants in Huelva and Ciudad Real and plans to locate a third 7-MW plant within one of its existing plants in the olive-growing region. Start-up of these new plants is slated for the end of 2019. They are expected to contribute with an annual EBITDA of €30 million, pushing this business unit's EBITDA run rate to €90 million in 2020.**
- ✓ **In March, ENCE expanded capacity at the Pontevedra biofactory by 30,000 tonnes, as scheduled, which will translate into a gradual increase in output at this complex during the second half of the year. In May, it took advantage of the maintenance stoppage at Navia to start on the work needed to add a further 80,000 tonnes at the facility in the second quarter of 2019.**
- ✓ **The first half was also marked by completion of the refinancing of the Pulp Business's debt with the issuance of €160m of 1.25% convertible bonds and the prepayment of its €250m of 5.38% bonds. Non-recurring expenses in the second quarter derived from the prepayment of the bond amount to €19m, of which €5m are non-cash. This transaction will translate into annual interest savings of €11m from next year.**
- ✓ **The outlook for pulp prices remains very positive. The strength of demand for pulp, coupled with a lack of major capacity addition plans, foreshadows a period of strong pulp prices for at least the next three years.**
- ✓ **The Board of Directors has agreed to pay out an interim dividend from 2018 profits of €0.104 per share (before withholdings) on 12 September; the approved dividend implies a payout of €25m.**

2. PULP BUSINESS

ENCE has two eucalyptus pulp biofactories in Spain: a 605,000-tonne-capacity facility in the town of Navia, Asturias, and a 495,000-tonne-capacity complex in Pontevedra, Galicia. Both use eucalyptus timber acquired locally.

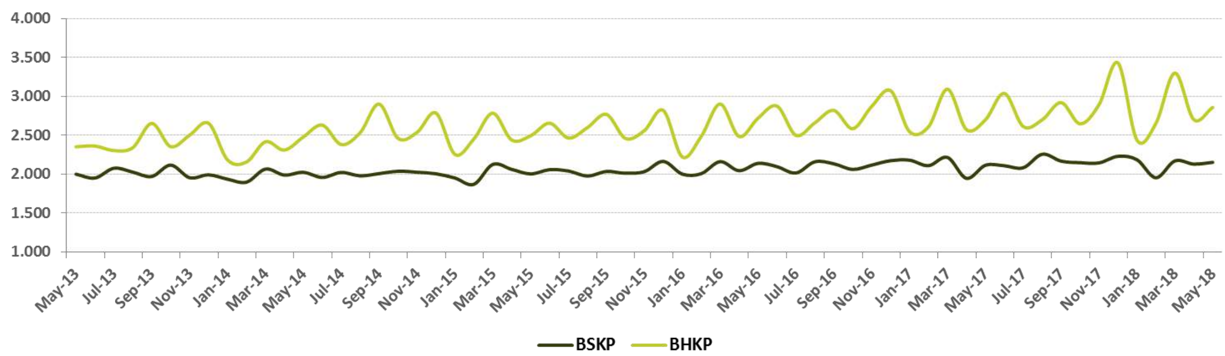
ENCE's Pulp Business encompasses all the activities related to the production of pulp for sale to third parties. It therefore includes not only the production and sale of pulp but also the generation and co-generation of energy using renewable biomass at the plants involved in the productive process,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

2.1. Pulp market trends

Global demand for short-fibre eucalyptus pulp remained strong in the first five months of 2018, registering year-on-year growth of 4.3%, equivalent to an increase of 570,000 tonnes of pulp, according to PPPC estimates.

The momentum in demand for short-fibre pulp is being shaped primarily by ongoing growth in the consumption of tissue paper on the back of rapid urban development and growing standards of living in emerging economies. This trend is additionally being shored up by the rollout of more stringent environmental standards in China.

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



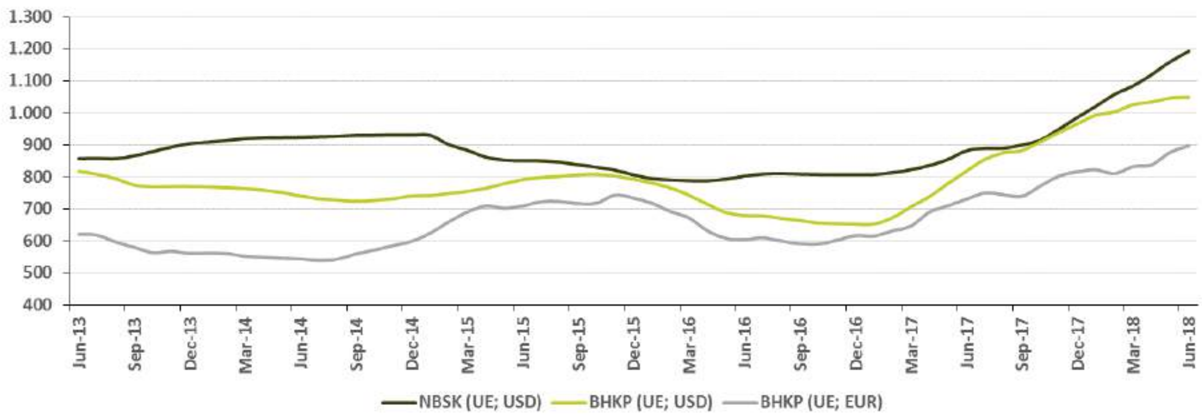
Source: PPPC (G-100)

Supply, meanwhile, was curtailed by the operational and timber supply issues affecting the main short-fibre producers in Indonesia, timber supply problems also in northern Europe and a higher concentration of maintenance stoppages by Latin American producers during the first half of the year.

In addition, the truckers' strike in Brazil, which last 11 days, at the end of May implied the loss of around 300,000 tonnes of production, which will reduce the market supply of pulp during the summer.

Against this backdrop, in March, ENCE announced it was increasing the price of its pulp to $1,070/tonne from June.

Pulp prices in Europe during the last five years



Source: FOEX

Longer-term, the lack of major plans to add short-fibre pulp capacity bodes for strong price fundamentals for at least the next three years.

2.2. Revenue from pulp sales

	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
Pulp sales (t)	**230,386**	**234,728**	*(1.8%)*	**232,735**	*(1.0%)*	**463,121**	**480,866**	*(3.7%)*
Average selling price (€/t)	634.5	520.6	*21.9%*	601.4	*5.5%*	617.9	492.5	*25.5%*
Pulp sales revenues (€Mn)	**146.2**	**122.2**	*19.6%*	**140.0**	*4.4%*	**286.1**	**236.8**	*20.8%*

Ence´s average pulp sales price increased by 21.9% year-on-year in 2Q18, driven by growth of 33.4% in the dollar-denominated benchmark price, which was partially offset by average euro appreciation against the dollar of 9.1%.

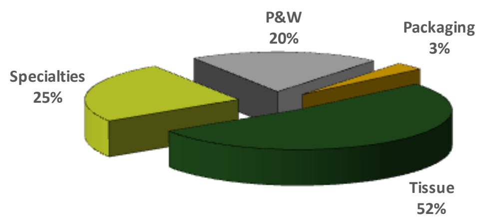
Elsewhere, pulp sales volumes declined by 1.8% compared to 2Q17 due to lower sales from inventories. The Company sold 8,206 tonnes of pulp from inventories during the second quarter of 2017; in contrast, inventories increased by 1,800 tonnes during the second quarter of this year to end June at 27,600 tonnes.

The combination of the two factors drove growth in revenue from pulp sales of 19.6% to €146.2m in 2Q18.

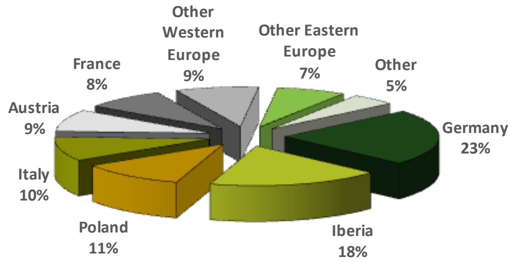
Revenue from pulp sales was 20.8% higher in the first half at €286.1m, driven by growth of 25.5% in the average sales price.

The tissue paper segment remains the main end use given to the pulp sold by ENCE, accounting for 52% of revenue from pulp sales during the first half, followed by the specialty paper segment, at 25%, and the printing and writing papers segment, at 20%. The remaining 3% corresponds to the packaging segment.

Breakdown of revenue by end product



Breakdown of revenue by geographic market



Most of the pulp produced by ENCE is sold in Europe, namely 95% of revenue from pulp sales. Germany and Iberia accounted for 23% and 18% of total revenue, respectively, followed by Poland (11%), Italy (10%), Austria (9%) and France (8%). Other western European countries accounted for 9% of the total, with Eastern Europe representing 7%.

2.3. Pulp production and the cash cost

	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
Navia pulp production	118,930	115,026	*3.4%*	129,803	*(8.4%)*	248,733	247,015	*0.7%*
Pontevedra pulp production	113,256	111,496	*1.6%*	95,841	*18.2%*	209,097	206,109	*1.4%*
Pulp production (t)	**232,186**	**226,522**	*2.5%*	**225,644**	*2.9%*	**457,830**	**453,124**	*1.0%*

Pulp production increased by 2.5% year-on-year in 2Q18, with output in both Navia and Pontevedra higher, making up for the drop in production at the Navia biofactory during the first quarter. First-half production amounted to 457,830 tonnes, up 1% year-on-year.

In May, the Company took advantage of the 10-day annual maintenance stoppage at the Navia biofactory to prepare the connections needed to expand its annual capacity by 80,000 tonnes, work which will be carried out in the second quarter of 2019. It also attained new milestones on the environmental excellence front with investments designed to reduce the biofactory's sound and noise impact, minimise its emissions and improve the quality of its discharges.

In March, the Pontevedra biofactory was stopped for maintenance work for 12 days. The Company took advantage of this annual stoppage to carry out the investments required to increase annual capacity at the complex by 30,000 tonnes; notably, it invested in the recovery boiler, the causticising system and the evaporation facilities, which were expanded. The normal rate of pulp production is expected to resume during the fourth quarter in the wake of the expansion work.

The cash cost was €377.8/tonne in the second quarter, up €8.5/tonne from the first quarter due mainly to an increase of €3.9/tonne in conversion costs, with higher maintenance expenses associated with the stoppage at the Navia biofactory and a €3.9/tonne increase in overhead expenses in line with the capacity additions underway.

Figures in €/t	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
Wood cost	198.9	191.6	*3.8%*	199.1	*(0.1%)*	199.0	190.9	*4.2%*
Conversion costs	113.6	99.4	*14.3%*	109.7	*3.5%*	112.1	100.2	*11.9%*
Commercial and logistic costs	32.4	29.0	*11.6%*	31.5	*2.8%*	31.9	29.2	*9.3%*
Overheads	32.9	26.2	*25.4%*	29.0	*13.5%*	30.9	24.2	*27.9%*
Total cash cost	**377.8**	**346.3**	*9.1%*	**369.3**	*2.3%*	**374.0**	**344.5**	*8.5%*

In comparison with the second quarter of 2017, the cash cost was €31.5/tonne higher due to a €14.2/tonne increase in conversion costs, mainly as a result of the higher cost of chemical products, particularly caustic soda following the discontinuation of its production using mercury, higher maintenance expenses, and a €7.3/tonne increase in timber costs as a result of their indexation to pulp prices; also, overheads were €6.7/tonne higher year-on-year in line with the capacity additions in progress and sales and logistics costs were €3.4/tonne higher.

	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
Wood cost €/m3	66.2	64.2	3.2%	66.4	(0.2%)	66.3	64.1	3.4%
Timber consumption (m3)	776,295	726,003	6.9%	694,806	11.7%	1,471,101	1,438,800	2.2%
Big suppliers	24%	25%		25%		24%	24%	
Small suppliers	53%	48%		48%		50%	48%	
Standing timber acquired directly from land owners	19%	27%		19%		19%	28%	
Owned timber	5%	0%		8%		6%	0%	

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

As an integral part of its pulp production process, ENCE uses the lignin and forest biomass derived from its manufacturing to generate the energy needed for the process. To this end, it operates a 34.6-MW CHP plant, integrated within the Pontevedra biofactory, and a 40.3-MW CHP plant and a 36.7-MW biomass generation plant, both of which are integrated within the pulp production process at the Navia biofactory.

The energy generated 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.

	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
Navia energy sales	114,718	109,881	4.4%	129,839	(11.6%)	244,557	245,363	(0.3%)
Pontevedra energy sales	59,411	55,112	7.8%	51,658	15.0%	111,069	100,792	10.2%
Energy sales linked to the pulp process (MWh)	**174,129**	**164,993**	5.5%	**181,497**	(4.1%)	**355,626**	**346,155**	2.7%
Average selling price - Pool + Ro (€/MWh)	100.4	81.9	22.5%	88.3	13.6%	94.2	89.8	4.9%
Investment remuneration (€Mn)	2.6	2.6	(0.0%)	2.6	(0.0%)	5.1	5.1	(0.0%)
Revenues from energy sales linked to pulp (€Mn)	**20.0**	**16.1**	24.6%	**18.6**	7.8%	**38.6**	**36.2**	6.6%

The energy sold as part of the pulp production process increased by 5.5% year-on-year in 2Q18, with output at both Navia and Pontevedra higher, making up for the drop in production at the Navia biofactory during the first quarter. First-half energy sales amounted to 355,626 MWh, up 2.7% year-on-year.

The average sales price was 22.5% higher compared to 2Q17 at €100.4/MWh as a result of higher pool prices and price management by ENCE, as well as the impact of the accounting treatment of the regulatory collar during the quarter. The average sales price in the first half was €94.2/MWh, up 4.9% year-on-year.

Erring on the side of caution, ENCE adjusts average pool prices monthly as a function of the limits set by the regulator (regulatory collar); this accounting treatment led to the recognition of income of €0.8m in 2Q18 and of €0.04m in 1H18, which has been recognised as an increase in the average sales price. In contrast, the Company had recognised provisions of €0.7m and €0.9m in this respect in 2Q17 and 1H17, respectively.

In total, revenue from energy sales in the Pulp Business, factoring in remuneration for investment - unchanged - increased by 24.6% from 2Q17. First-half revenue from energy sales increased by 6.6% to €38.6m.

2.5. Revenue from forestry and other activities

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

	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
Forestry and other revenues (€Mn)	**4.1**	**5.5**	*(26.0%)*	**4.5**	*(10.0%)*	**8.6**	**12.2**	*(29.2%)*

Revenue from forestry activities declined by 26% and 29.2% year-on-year, in 2Q18 and 1H18, respectively, as a result of the planned reduction in the volume of timber sold to third parties.

2.6. Income statement

Figures in €Mn	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
Total net revenue	**170.3**	**143.8**	*18.4%*	**163.1**	*4.4%*	**333.4**	**285.2**	*16.9%*
EBITDA	**57.0**	**39.1**	*45.7%*	**54.1**	*5.5%*	**111.1**	**69.2**	*60.4%*
EBITDA margin	*33%*	*27%*	*6.3 p.p.*	*33%*	*0.3 p.p.*	*33%*	*24%*	*9.0 p.p.*
Amortization	(12.7)	(12.3)	*3.5%*	(13.1)	*(3.3%)*	(25.8)	(25.0)	*3.1%*
Forest depletion	(1.6)	(1.3)	*23.2%*	(1.9)	*(16.2%)*	(3.5)	(2.5)	*43.0%*
Impairment of and gains/(losses) on fixed-asset disposal	3.5	2.3	*53.2%*	2.4	*45.3%*	5.9	4.2	*40.9%*
EBIT	**46.2**	**27.9**	*65.9%*	**41.4**	*11.6%*	**87.6**	**45.9**	*90.9%*
EBIT margin	*27%*	*19%*	*7.8 p.p.*	*25%*	*1.8 p.p.*	*26%*	*16%*	*10.2 p.p.*
Net finance costs	(20.9)	(3.5)	*n.s.*	(3.4)	*n.s.*	(24.3)	(7.0)	*245.0%*
Other financial results	8.1	5.7	*40.6%*	(0.2)	*n.s.*	7.9	4.6	*71.2%*
Profit before tax	**33.4**	**30.1**	*11.0%*	**37.8**	*(11.8%)*	**71.2**	**43.5**	*63.9%*
Income tax	(6.6)	(5.6)	*18.0%*	(9.7)	*(31.6%)*	(16.3)	(9.0)	*81.5%*
Net Income	**26.8**	**24.5**	*9.4%*	**28.2**	*(5.0%)*	**54.9**	**34.5**	*59.3%*

EBITDA in the Pulp Business amounted to €57m in 2Q18, up 45.7% from 2Q17, thanks to the 21.9% increase in the average sales price, which offset the 1.8% decline in sales volumes and the 9.1% increase in the cash cost.

First-half EBITDA in this business increased by 60.4% to €111.1m, driven by growth of 25.5% in the average pulp sales price, more than mitigating the 3.7% decline in sales volumes and the 8.5% increase in the cash cost.

In addition, 1H18 EBITDA includes €5.2m of gains from exchange rate hedges and €6.1m of other charges not included in the cash cost, €5.2m of which correspond to expenses related with ENCE's Environmental Pact in Pontevedra, signed in June 2016.

Below the EBITDA line, depreciation and amortisation charges were 3.1% higher at €25.8m in 1H18, while forest depletion charges increased to €3.5m as a result of more intense use of timber sourced from proprietary plantations during the period.

Elsewhere, having culminated the separation of the Pulp and Energy Businesses, impairment charges and gains on disposals includes a €2.5m gain derived mainly from the sale to the Energy Business of the land on which the Huelva industrial complex is located. The remainder of this heading relates to the provision for the industrial assets within the Huelva complex to offset the depreciation charges.

Lastly, it is worth highlighting the increase in finance costs in 1H18 to €24.3m as a result of expenses totalling €18.8m associated with the prepayment of a €250m bond issue during the second quarter. €7m of that figure corresponds to the redemption premium, €6.7m to the second annual coupon due on 1 November and the remaining €5.1m to the original bond arrangement fees that were still pending recognition in profit and loss (which did not accordingly imply a cash outlay). The finance costs corresponding to the €160m of convertible bonds amounted to €1.5m, €0.9m of which had no cash impact.

'Other finance income/costs', which totalled €7.9m in 1H18, include a €6.6m dividend from the Energy Business to be paid in July, as well as exchange rate gains.

In all, the Pulp Business reported year-on-year bottom-line growth of 9.4% in 2Q18 and of 59.3% to €54.9m in 1H18.

2.7. Cash flow statement

Net cash flows from operating activities amounted to €51.1m in 2Q18, up 28,7% year-on-year. The higher interest burden during the quarter was more than offset by a lower working capital requirement. In the first-half, net cash flows from operating activities amounted to €80.2m, up 35.6% from 1H17.

The payments associated with the prepayment of the €250m bond issue in 2Q18 totalled €13.7m. €7m of that figure corresponds to the redemption premium and €6.7m to the second annual coupon due on 1 November. The costs associated the €160m convertible bond issue were €2.1m.

Net finance collections in 2Q17 totalling €1.5m included the collection of the dividend from the energy business for €8m, while in 2018 the dividend of €6.6m will be collected in 3Q18.

Figures in €Mn	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
EBITDA	**57.0**	**39.1**	*45.7%*	**54.1**	*5.5%*	**111.1**	**69.2**	*60.4%*
Non cash expenses / (incomes)	(0.1)	(0.5)	*(70.4%)*	3.6	*n.s.*	3.5	2.1	*63.7%*
Other charges / (payments)	0.5	(0.9)	*n.s.*	(0.8)	*n.s.*	(0.3)	(0.4)	*(14.0%)*
Change in working capital	20.1	2.5	*n.s.*	(28.8)	*n.s.*	(8.7)	(11.8)	*(26.3%)*
Income tax received/(paid)	(6.4)	(2.0)	*214.9%*	-	*n.s.*	(6.4)	(2.0)	*214.9%*
Net finance collection / (payment)	(19.9)	1.5	*n.s.*	0.9	*n.s.*	(19.0)	2.0	*n.s.*
Net cash flow from operating activities	**51.1**	**39.7**	*28.7%*	**29.0**	*76.1%*	**80.2**	**59.1**	*35.6%*

The working capital requirement declined by €20.1m in 2Q18 thanks mainly to more normal use of the receivables discounting facilities (which had been reduced by €15.5m in 1Q18). For the first half, the working capital requirement increased by €8.7m.

Figures in €Mn	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
Inventories	(5.3)	1.0	*n.s.*	2.3	*n.s.*	(3.0)	5.6	*n.s.*
Trade and other receivables	11.8	(5.5)	*n.s.*	(27.1)	*n.s.*	(15.3)	(18.4)	*(16.8%)*
Current financial and other assets	1.7	0.5	*n.s.*	0.8	*101.9%*	2.5	(0.1)	*n.s.*
Trade and other payables	11.9	6.6	*80.3%*	(4.8)	*n.s.*	7.1	1.2	*n.s.*
Change in working capital	**20.1**	**2.5**	*n.s.*	**(28.8)**	*n.s.*	**(8.7)**	**(11.8)**	*(26.3%)*

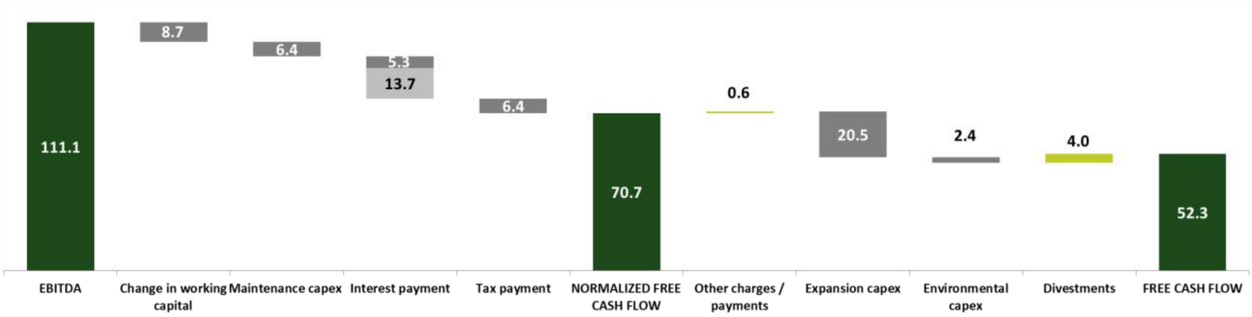
Net cash flows used in investing activities amounted to €18.2m in the second quarter, including collection of €2.9m from asset sales, mainly related to the contribution to the Energy Business of the land on which the Huelva industrial complex is located for €2.5m. In the first half, net cash flows used in investing activities totalled €27.9m, including proceeds of €4m from asset sales.

Figures in €Mn	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
Maintenance capex	(3.1)	(3.1)	*(0.7%)*	(3.3)	*(7.2%)*	(6.4)	(8.2)	*(22.0%)*
Environmental capex	(2.3)	(1.2)	*92.0%*	(0.1)	*n.s.*	(2.4)	(3.0)	*(19.1%)*
Efficiency and expansion capex	(12.5)	(2.4)	*n.s.*	(8.0)	*55.4%*	(20.5)	(8.9)	*130.5%*
Financial investments	(3.3)	0.8	*n.s.*	0.8	*n.s.*	(2.5)	0.8	*n.s.*
Investments	**(21.2)**	**(5.9)**	*n.s.*	**(10.7)**	*98.0%*	**(31.9)**	**(19.3)**	*64.8%*
Disposals	2.9	2.7	*10.1%*	1.1	*171.5%*	4.0	2.7	*50.6%*
Net cash flow from investing activities	**(18.2)**	**(3.2)**	*n.s.*	**(9.6)**	*89.8%*	**(27.9)**	**(16.7)**	*67.1%*

The outlay for maintenance and environmental capex totalled €3.1m and €2.3m in 2Q18, respectively, and €6.4m and €2.4m, respectively, in 1H18.

Investments in efficiency and growth amounted to €12.5m in 2Q18 and €20.5m in 1H18 which were largely related to the addition of 30,000 tonnes of capacity at the Pontevedra biofactory and the first payments associated with the planned addition of 80,000 tonnes of capacity in Navia in the second quarter of 2019.

Lastly, the financial investments in the amounts of €3.3m in 2Q18 and €2.5m in 1H18 include the €2.5m capital increase carried out by the Energy Business in exchange for the non-monetary contribution of the above-mentioned land.



As a result, normalised free cash flow in the Pulp Business amounted to €70.7m in 1H18, while free cash flow net of efficiency, growth and environmental capex totalled €52.3m.

Excluding the higher financial payments as a result of the redemption premium of the €250m bond issue and the second annual coupon due on 1 November in an aggregate amount of €13.7m, normalised free cash flow would have been €84.4m and free cash flow, €66m.

2.8. Change in net debt

Net debt in this business declined by €35.6m from year-end 2017 to €84.5m, despite the payment of a €16.2m final dividend in 2Q18.

Figures in €Mn	Jun-18	Dec-17	Δ%	Mar-18	Δ%
Long term financial debt	227.1	285.6	*(20.5%)*	448.1	*n.s.*
Short-term financial debt	3.2	8.2	*(60.2%)*	12.1	*n.s.*
Gross financial debt	**230.4**	**293.8**	*(21.6%)*	**460.2**	*n.s.*
Cash and cash equivalents	142.0	167.3	*(15.1%)*	356.4	*n.s.*
Short-term financial investments	3.9	6.4	*(39.3%)*	5.5	*n.s.*
Pulp business net financial debt	**84.5**	**120.1**	*(29.6%)*	**98.3**	*n.s.*

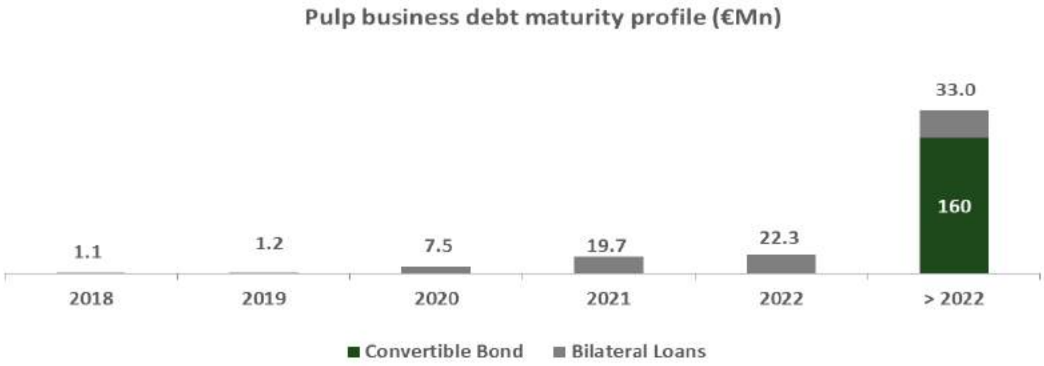
On 5 March 2018, ENCE issued €160m of convertible 5-year bonds which carry an annual coupon of 1.25% and on 1 June it prepaid the €250m of 5.375% bonds it had issued on 30 October 2015. These transactions will translate into annual interest savings for the Pulp Business of €11.4m from 2019.

The new bonds are convertible into ENCE shares at a price of €7.2635 per share. In keeping with prevailing accounting rules, the conversion option has been valued at €14.5m and has been recognised as an increase in equity on the balance sheet.

In addition, during the second quarter, ENCE exchanged its €90m credit facility due 2021 (which was fully available at the time) for a new €70m 'sustainable' credit facility due 2023 the cost of which is partially linked to ENCE's performance along environmental, social and corporate governance dimensions.

Framed by this same sustainability scheme, in 2Q18 it also refinanced two bilateral loans originally due in 2019 and 2020 (with an outstanding balance at 31 March 2018 of €25.7m) with two new 'green' loans due 2023 with an aggregate limit of €45m.

The gross debt of €230.4m at the June close corresponds mainly to the €145.5m of convertible bonds (deducted by the above-mentioned equity component), the outstanding balance of €45m on the two green loans due and a series of loans totalling €40.2m awarded by the CDTI (acronym in Spanish for the Centre for the Development of Industrial Technology) and Spanish Ministry of Industry to finance investments in efficiency upgrades and capacity expansion work; the maturities on these loans range to 2028. Debt arrangement fees are deducted from gross borrowings on the balance sheet.



At the reporting date, the business had cash and cash equivalents of €145.9m. Lastly, note that the €70m sustainable credit facility was fully available at the June close.

3. ENERGY BUSINESS

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

ENCE has six plants 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), acquired in August 2017.

The Company is also in the process of developing two 46-MW plants in Huelva and Ciudad Real and plans to locate a third 7-MW plant within one of its existing plants in the olive-growing region.

3.1. Electricity market trends

	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
Average pool price (€/MWh)	52.4	47.2	*11.1%*	48.3	*8.4%*	50.4	51.2	*(1.7%)*

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

Average pool prices in mainland Spain were 11.1% higher year-on-year in 2Q18 at €52.4/MWh. However, in 1H18, the average pool price (€50.4/MWh) was still 1.7% below that of 1H17 on account of the year-on-year decline of 12.8% sustained in 1Q18.

3.2. Revenue from energy sales

Energy sales volumes increased by 42.1% in 2Q18 to 219,874 MWh, thanks to the first-time consolidation of the 27-MW biomass plant acquired in Cordoba in August 2017, as well as higher output at the other plants in response to the increase in pool prices, considering their annual production limit of 6,500 hours.

	2Q18	2Q17	*Δ%*	1Q18	*Δ%*	1H18	1H17	*Δ%*
Huelva 50 MW	67,629	51,111	*32.3%*	67,276	*0.5%*	134,905	137,029	*(1.6%)*
Huelva 41 MW	37,118	39,931	*(7.0%)*	36,025	*3.0%*	73,143	87,221	*(16.1%)*
Mérida 20 MW	29,606	24,507	*20.8%*	27,392	*8.1%*	56,998	57,784	*(1.4%)*
Ciudad Real 16 MW	22,031	19,323	*14.0%*	23,141	*(4.8%)*	45,172	42,678	*5.8%*
Jaén 16 MW	20,788	19,869	*4.6%*	24,404	*(14.8%)*	45,193	41,074	*10.0%*
Córdoba 27 MW	42,702	-		49,372	*(13.5%)*	92,074	-	
Energy sales (MWh)	**219,874**	**154,741**	*42.1%*	**227,610**	*(3.4%)*	**447,485**	**365,786**	*22.3%*
Average selling price - Pool + Ro (€/MWh)	110.7	97.6	*13.4%*	102.9	*7.5%*	108.2	107.6	*0.5%*
Investment remuneration (€Mn)	10.2	9.4	*8.7%*	10.2	*(0.0%)*	20.5	18.9	*8.5%*
Revenues (€Mn)	**34.8**	**24.6**	*41.6%*	**34.0**	*2.4%*	**68.9**	**58.2**	*18.2%*

In 1H18, energy sales volumes were 22.3% higher thanks to the contribution by the 27-MW Cordoba plant. Generation at the other plants was 2.8% lower year-on-year due mainly to the incidents at the 41-MW Huelva plant in 1Q18 which were resolved during the maintenance stoppage in April.

In addition, in response to the decline in pool prices at the start of the year and in light of the annual output cap of 6,500 operating hours, generation at the 50-MW Huelva and 20-MW Merida plants was pared back slightly during the first half to save up permitted hours of output for the second half.

The average sales price was 13.4% higher compared to 2Q17 at €110.7/MWh as a result of higher pool prices and price management by ENCE, as well as the impact of the accounting collar. The average sales price in the first half was €108.2/MWh, up 0.5% year-on-year.

Erring on the side of caution, ENCE adjusts average pool prices monthly as a function of the limits set by the regulator (regulatory collar); this accounting treatment led to the recognition of provisions of €0.4m in 2Q18 and of €1.6m in 1H18, which have been recognised as a decrease in the average sales price. In comparison, the Company had recognised provisions of €0.9m and €1m in this respect in 2Q17 and 1H17, respectively.

Lastly, quarterly remuneration for investment increased to €10.2m as a result of the first-time consolidation of the 27-MW biomass plant acquired in Cordoba in August 2017.

In total, the Energy Business reported topline growth of 41.6% in 2Q18 to €34.8m and of 18.2% in 1H18 to €68.9m.

3.3. Income statement

Figures in €Mn	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
Total net revenue	**34.8**	**24.6**	*41.6%*	**34.0**	*2.4%*	**68.9**	**58.2**	*18.2%*
EBITDA	**10.9**	**8.0**	*36.5%*	**8.8**	*23.1%*	**19.7**	**18.7**	*5.4%*
EBITDA margin	*31%*	*32%*	*(1.2) p.p.*	*26%*	*5.2 p.p.*	*29%*	*32%*	*(3.5) p.p.*
Amortization	(4.3)	(4.0)	*6.9%*	(4.2)	*3.2%*	(8.5)	(7.6)	*12.5%*
Forest depletion		(0.1)		-	*n.s.*		(0.2)	
Impairment of and gains/(losses) on fixed-asset disposals	(0.1)	(0.1)	*(13.9%)*	(0.1)	*(12.7%)*	(0.1)	(0.1)	*87.3%*
EBIT	**6.5**	**3.8**	*72.2%*	**4.6**	*42.0%*	**11.0**	**10.8**	*2.0%*
EBIT margin	*19%*	*15%*	*3.3 p.p.*	*13%*	*5.2 p.p.*	*16%*	*19%*	*(2.6) p.p.*
Net finance costs	(2.4)	(1.6)	*53.2%*	(2.3)	*8.3%*	(4.7)	(3.0)	*54.8%*
Other financial results	(0.0)	(0.0)	*(55.2%)*	(0.0)	*225.0%*	(0.0)	(0.0)	*(51.4%)*
Profit before tax	**4.0**	**2.1**	*88.1%*	**2.3**	*74.8%*	**6.3**	**7.7**	*(18.5%)*
Income tax	(1.0)	(0.5)	*91.0%*	(0.6)	*74.7%*	(1.6)	(1.9)	*(18.6%)*
Net Income	**3.0**	**1.6**	*87.2%*	**1.7**	*74.9%*	**4.7**	**5.8**	*(18.5%)*
Non-controlling interests	(0.7)	(0.4)	*93.3%*	(0.3)		(1.0)	(0.8)	*25.9%*
Atributable Net Income	**2.3**	**1.2**	*85.4%*	**1.4**	*65.6%*	**3.7**	**5.0**	*(25.7%)*

EBITDA in the Energy Business increased by 36.5% year-on-year to €10.9m in 2Q18 thanks to growth of 13.4% in the average sales price, the first-time consolidation of the 27-MW Cordoba plant and higher output at the other plants.

In the first half EBITDA was 5.4% higher at €19.7m, mainly due to the contribution by the new Cordoba plant, which was partially offset by lower output at the other plants and non-recurring charges recognised in 1Q18 in connection with leachate treatment and inventory management at the 16-MW Jaen plant.

Below the EBITDA line, it is worth highlighting the 12.5% increase in depreciation charges in 1H18, due mainly to the first-time consolidation of the 27-MW Cordoba plant.

Finance costs increased to €4.7m due to the increase in the average outstanding gross debt balance and growth in accrued interest on borrowings from Group companies.

In all, the net profit attributable to the Energy Business amounted to €2.3m in the second quarter, year-on-year growth of 85.4%. In 1H18, net profit was nevertheless 25.7% lower, at €3.7m. This result should revert during the second half of the year as the unit makes optimal use of the output limit of 6,500 hours.

3.4. Cash flow statement

Net cash flow from operating activities totalled €6.1m in 2Q18 and €14.8m in 1H18 (+52.8% from 1H17). In addition to EBITDA growth, cash flow benefitted from a lower working capital requirement.

Figures in €Mn	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
EBITDA	**10.9**	**8.0**	*36.5%*	**8.8**	*23.1%*	**19.7**	**18.7**	*5.4%*
Non cash expenses / (incomes)	(0.8)	(0.3)	*226.7%*	2.8	*n.s.*	2.0	1.3	*48.4%*
Other charges / (payments)	(0.2)	(0.2)	*53.5%*	(0.3)	*(3.5%)*	(0.5)	(0.5)	*10.8%*
Change in working capital	1.3	(2.8)	*n.s.*	(1.9)	*n.s.*	(0.6)	(4.4)	*(85.4%)*
Income tax received / (paid)	(1.1)	(1.3)	*(16.3%)*	0.3	*n.s.*	(0.8)	(1.3)	*(38.4%)*
Net finance collection / (paiment)	(3.9)	(3.5)	*9.2%*	(1.1)	*n.s.*	(4.9)	(4.2)	*17.1%*
Net cash flow from operating activities	**6.1**	**(0.0)**	*n.s.*	**8.7**	*(29.6%)*	**14.8**	**9.7**	*52.8%*

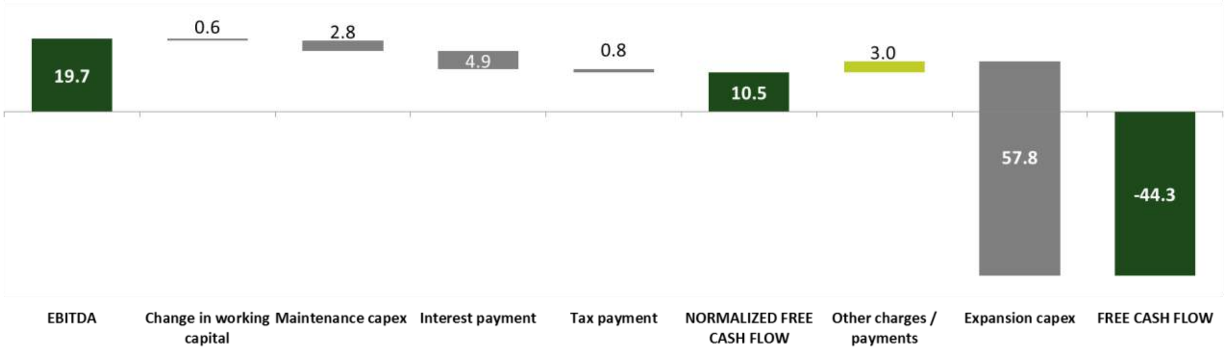
Working capital movements implied a cash inflow of €1.3m in 2Q18, compared to a cash outflow of €2.8m in 1H17. In 1H18, the working capital requirement increased by €0.6m from €4.4m in 1H17.

Figures in €Mn	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
Inventories	0.2	(2.1)	*n.s.*	0.5	*(56.3%)*	0.7	(2.5)	*n.s.*
Trade and other receivables	(0.0)	1.4	*n.s.*	1.2	*n.s.*	1.1	(2.1)	*n.s.*
Trade and other payables	1.1	(2.1)	*n.s.*	(3.5)	*n.s.*	(2.5)	0.2	*n.s.*
Change in working capital	**1.3**	**(2.8)**	*n.s.*	**(1.9)**	*n.s.*	**(0.6)**	**(4.4)**	*(85.4%)*

Net cash flows used in investing activities totalled €50m in 2Q18 and €59.1 in 1H18, of which €2.8m corresponded to maintenance capex and €57.8m to payments related with the construction of two new 46-MW plants in Huelva and Ciudad Real, scheduled for start-up in December 2019.

Figures in €Mn	2Q18	2Q17	Δ%	1Q18	Δ%	1H18	1H17	Δ%
Maintenance capex	(1.0)	(0.4)	*139.6%*	(1.8)	*(43.0%)*	(2.8)	(1.7)	*64.5%*
Efficiency and expansion capex	(49.4)	(0.4)	*n.s.*	(8.4)	*n.s.*	(57.8)	(0.5)	*n.s.*
Financial investments	0.4	1.0	*(59.0%)*	1.1	*(62.1%)*	1.6	1.1	*42.9%*
Investments	**(50.0)**	**0.2**	*n.s.*	**(9.1)**	*n.s.*	**(59.1)**	**(1.1)**	*n.s.*
Disposals	-	-	*n.s.*	-	*n.s.*	-	-	*n.s.*
Net cash flow from investing activities	**(50.0)**	**0.2**	*n.s.*	**(9.1)**	*n.s.*	**(59.1)**	**(1.1)**	*n.s.*

The inflow from financial investments of €1.6m in 1H18 mainly reflects the impact of the regulatory collar.



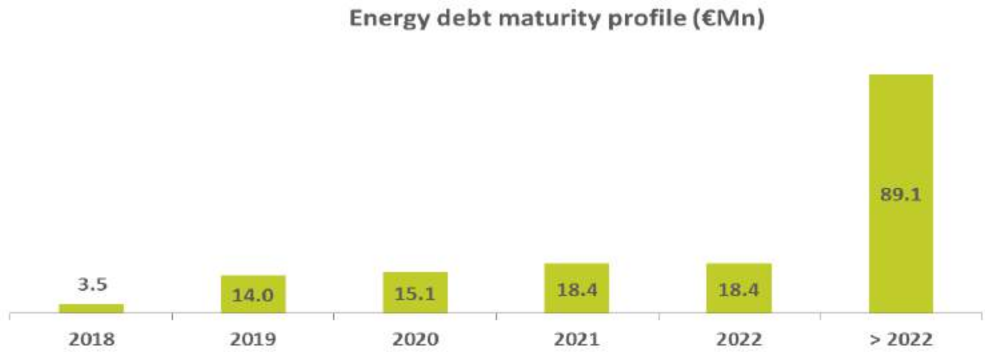
As a result, the normalised free cash flow generated by the Energy Business amounted 10.5m in 1H18, while free cash flow net of efficiency and growth capex was a negative €44.3m.

3.5. Change in net debt

Net debt in the Energy Business increased by €34.8m from year-end 2017 to €67.8m.

Figures in €Mn	Jun-18	Dec-17	Δ%	Mar-18	Δ%
Long term financial debt	144.6	129.2	*11.8%*	136.4	*6.0%*
Short-term financial debt	10.6	7.0	*50.3%*	8.0	*32.5%*
Gross financial debt	**155.1**	**136.3**	*13.8%*	**144.4**	*7.4%*
Cash and cash equivalents	87.3	103.2	*(15.4%)*	117.1	*(25.4%)*
Short-term financial investments	0.0	0.0	-	0.0	-
Energy business net financial debt	**67.8**	**33.0**	*105.2%*	**27.3**	*148.6%*

The €155.1m of gross borrowings at the reporting date correspond mainly to the balance drawn down under the €220m financing line arranged in November 2017 (the last instalment of which is due in 8 years), which includes a €20m credit line that had not been drawn down as of the June close. Debt arrangement fees are deducted from gross borrowings on the balance sheet.



Cash in this business stood at €87.3m at the reporting date.

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Income statement

Figures in €Mn	1H18 Pulp	1H18 Energy	1H18 Adjustments	1H18 Consolidated	1H17 Pulp	1H17 Energy	1H17 Adjustments	1H17 Consolidated
Total net revenue	**333.4**	**68.9**	**(1.9)**	**400.3**	**285.2**	**58.2**	**(1.7)**	**341.8**
Other income	11.2	0.4	(1.7)	9.8	8.1	(0.1)	(3.3)	4.7
Change in inventories of finished products	(2.1)	-		(2.1)	(8.9)	-		(8.9)
Cost of sales	(126.3)	(22.2)	1.9	(146.5)	(119.5)	(17.2)	1.7	(135.0)
Personnel expenses	(32.8)	(4.2)		(37.0)	(30.7)	(3.2)		(33.8)
Other operating expenses	(72.3)	(23.2)	1.7	(93.8)	(64.9)	(19.1)	3.3	(80.8)
EBITDA	**111.1**	**19.7**		**130.8**	**69.2**	**18.7**		**87.9**
EBITDA margin	*33%*	*29%*		*33%*	*24%*	*32%*		*26%*
Amortization	(25.8)	(8.5)		(34.3)	(25.0)	(7.6)		(32.6)
Forest depletion	(3.5)	-		(3.5)	(2.5)	(0.2)		(2.7)
Impairment of and gains/(losses) on fixed-asset disposals(a)	5.9	(0.1)	(1.7)	4.0	4.2	(0.1)		4.1
EBIT	**87.6**	**11.0**	**(1.7)**	**96.9**	**45.9**	**10.8**		**56.7**
EBIT margin	*26%*	16%		24%	*16%*	19%		*17%*
Net finance costs	(24.3)	(4.7)		(29.0)	(7.0)	(3.0)	-	(10.1)
Other financial results	7.9	(0.0)	(6.6)	1.3	4.6	(0.0)	(8.0)	(3.4)
Profit before tax	**71.2**	**6.3**	**(8.3)**	**69.2**	**43.5**	**7.7**	**(8.0)**	**43.2**
Income tax	(16.3)	(1.6)		(17.9)	(9.0)	(1.9)		(10.9)
Net Income	**54.9**	**4.7**	**(8.3)**	**51.3**	**34.5**	**5.8**	**(8.0)**	**32.3**
Non-controlling interests	-	(1.0)		(1.0)	-	(0.8)		(0.8)
Atributable Net Income	**54.9**	**3.7**	**(8.3)**	**50.3**	**34.5**	**5.0**	**(8.0)**	**31.5**
Earnings per Share (EPS)	0.22	0.02		0.20	0.14	0.02		0.13

4.2. Balance sheet

Figures in €Mn	Jun - 18 Pulp	Jun - 18 Energy	Jun - 18 Adjustments	Jun - 18 Consolidated	Dec - 17 Pulp	Dec - 17 Energy	Dec - 17 Adjustments	Dec - 17 Consolidated
Intangible assets	12.3	28.6		40.9	13.2	2.8		16.0
Property, plant and equipment	455.5	315.5	(1.7)	769.3	438.4	254.3		692.7
Biological assets	79.1	0.2		79.3	81.5	0.2		81.7
Intercompany long term participation	201.1	-	(201.1)	-	198.6	-	(198.6)	-
Intercompany long term loan	75.2	0.0	(75.2)	-	75.2	0.0	(75.2)	-
Non-current financial assets	2.1	0.5		2.6	4.6	2.1		6.6
Assets for deferred tax	42.8	12.7		55.4	47.3	12.5		59.8
Total fixed assets	**868.0**	**357.5**	**(278.0)**	**947.5**	**858.7**	**271.9**	**(273.8)**	**856.7**
Inventories	30	9.6		39.8	28.6	10.5		39.1
Trade other accounts receivable	123.1	30.7	(24.5)	129.2	111.9	35.4	(33.6)	113.7
Income tax	0.4	0.4		0.7	0.4	0.7		1.0
Other current assets	7.2	(0.0)	(1.7)	5.5	1.6	0.5		2.1
Hedging derivatives	0.0	-		-	13.5	-		13.5
Short-term financial assets in group companies	6.6	-	(6.6)	-	-	-		-
Short-term financial assets	3.9	0.0		3.9	6.4	0.0		6.4
Cash and cash equivalents	142.0	87.3		229.3	167.3	103.2		270.5
Total current assets	**313.2**	**128.0**	**(32.8)**	**408.4**	**329.6**	**150.4**	**(33.6)**	**446.4**
TOTAL ASSETS	**1,181.2**	**485.5**	**(310.7)**	**1,356.0**	**1,188.3**	**422.2**	**(307.4)**	**1,303.1**
Equity	**712.8**	**159.4**	**(202.8)**	**669.4**	**678.5**	**162.3**	**(198.6)**	**642.2**
Non-current borrowings	227.1	144.6		371.7	285.6	129.2		414.8
Long term intercompany debt	-	75.2	(75.2)	-	-	75.2	(75.2)	-
Non-current derivatives	2.8	3.8		6.6	-	3.6		3.6
Liabilities for deferred tax	19.3	7.4		26.7	21.1	2.8		23.8
Non-current provisions	4.0	0.4		4.4	3.7	0.4		4.2
Other non-current liabilities	7.1	1.9		9.0	7.3	1.9		9.2
Total non-current liabilities	**260.4**	**233.3**	**(75.2)**	**418.5**	**317.7**	**213.1**	**(75.2)**	**455.7**
Current borrowings	3.2	10.6		13.8	8.2	7.0		15.2
Current derivatives	2.4	2.5		5.0	0.0	2.2		2.2
Trade payables and other	187.3	71.8	(26.2)	232.8	177.2	36.7	(33.6)	180.3
Short-term debts with group companies	0.0	6.6	(6.6)	-	0.0	-		-
Income tax	5.6	0.9		6.5	0.0	0.4		0.4
Current provisions	9.5	0.5		10.0	6.7	0.4		7.1
Total current liabilities	**208.0**	**92.8**	**(32.8)**	**268.1**	**192.1**	**46.7**	**(33.6)**	**205.2**
TOTAL EQUITY AND LIABILITIES	**1,181.2**	**485.5**	**(310.7)**	**1,356.0**	**1,188.3**	**422.2**	**(307.4)**	**1,303.1**

4.3. Cash flow statement

Figures in €Mn	1H18 Pulp	1H18 Energy	1H18 Adjustments	1H18 Consolidated	1H17 Pulp	1H17 Energy	1H17 Adjustments	1H17 Consolidated
Consolidated profit/(loss) for the period before tax	**71.2**	**6.3**	**(8.3)**	**69.2**	**43.5**	**7.7**	**(8.0)**	**43.2**
Depreciation	29.8	8.0		37.9	28.1	7.2		35.3
Changes in provisions and other deferred expense	4.0	2.0		6.0	2.7	1.4		4.1
Impairment of gains/(losses) on disposals intangible asset	(5.9)	0.1	1.7	(4.0)	(4.1)	0.2		(3.9)
Net finance costs	16.9	4.7	6.6	28.2	9.4	3.1		12.4
Government grants taken to income	(0.5)	(0.1)		(0.6)	(0.6)	(0.1)		(0.7)
Adjustments to profit	**44.3**	**14.8**	**8.3**	**67.5**	**35.5**	**11.8**		**47.3**
Inventories	(3.0)	0.7		(2.3)	5.6	(2.5)		3.1
Trade and other receivables	(15.3)	1.1		(14.2)	(18.4)	(2.1)		(20.5)
Current financial and other assets	2.5	-		2.5	(0.1)	-		(0.1)
Trade and other payables	7.1	(2.5)		4.6	1.2	0.2		1.4
Changes in working capital	**(8.7)**	**(0.6)**		**(9.3)**	**(11.8)**	**(4.4)**		**(16.2)**
Interest paid	(21.4)	(5.2)	2.1	(24.4)	(7.7)	(4.4)	1.5	(10.7)
Interest received	2.4	0.2	(2.1)	0.5	1.7	0.2	(1.5)	0.5
Income tax received/(paid)	(6.4)	(0.8)		(7.2)	(2.0)	(1.3)		(3.3)
Variable Payment Plan	(1.3)	-		(1.3)				
Other cash flows from operating activities	**(26.7)**	**(5.7)**		**(32.4)**	**(8.1)**	**(5.5)**		**(13.6)**
Net cash flow from operating activities	**80.2**	**14.8**		**94.9**	**59.1**	**9.7**	**(8.0)**	**60.8**
Property, plant and equipment	(28.3)	(39.4)	2.5	(65.2)	(19.7)	(1.9)		(21.6)
Intangible assets	(1.0)	(21.2)		(22.2)	(0.4)	(0.3)		(0.7)
Other financial assets	(2.5)	1.6	2.5	1.5	0.8	1.1		1.9
Disposals	**4.0**	**-**	**(2.5)**	**1.5**	**2.7**	**-**		**2.7**
Net cash flow from investing activities	**(27.9)**	**(59.1)**	**2.5**	**(84.5)**	**(16.7)**	**(1.1)**		**(17.8)**
Free cash flow	**52.3**	**(44.3)**	**2.5**	**10.5**	**42.4**	**8.6**	**(8.0)**	**43.0**
Buyback/(disposal) of own equity instruments	14.7	2.5	(2.5)	14.7	(0.1)	-		(0.1)
Proceeds from and repayments of financial liabilities	(76.2)	25.9		(50.2)	(0.9)	(8.2)		(9.1)
Dividends payments	(16.2)	-		(16.2)	(11.6)	(8.0)	8.0	(11.6)
Net cash flow from financing activities	**(77.6)**	**28.4**	**(2.5)**	**(51.7)**	**(12.6)**	**(16.2)**	**8.0**	**(20.8)**
Net increase/(decrease) in cash and cash equivalents	**(25.3)**	**(15.9)**		**(41.2)**	**29.9**	**(7.7)**		**22.2**

5. KEY DEVELOPMENTS

Resolution to pay a first interim dividend from 2018 earnings

At a meeting held on 24 July, the Board of Directors resolved to pay a first interim dividend from 2018 profits of €0.104 per share (before withholdings) on 12 September 2018.

The Company's dividend policy consists of paying out a dividend per share roughly equivalent to 50% of earnings per share every year in three annual instalments: two interim dividends, one approved at the end of the first half and the other in November of each year, and a final dividend, to be put before the Company's shareholders for approval at the Annual General Meeting.

ENCE moved up to the Ibex Medium Cap index

At its June meeting, the Ibex Advisory Committee decided to move ENCE up to the the Ibex Medium Cap index from 18 June 2018 (having been traded in the Ibex Small Cap index up until that juncture).

Issuance of €160m of convertible bonds and prepayment of the €250m bond issue

On 5 March 2018, ENCE issued €160m of convertible 5-year bonds with an annual coupon of 1.25%. The new bonds are convertible into ENCE shares at a price of €7.2635 per share.

The proceeds were used to partially finance the prepayment on 1 June of the €250m of 5.375% bonds issued on 30 October 2015. This transaction will translate into annual interest savings for ENCE of €11.4m from 2019.

Moving towards a sustainable financing model

In May, ENCE exchanged its €90m credit facility due 2021 (which was fully available at the time) for a new €70m 'sustainable' credit facility due 2023, the cost of which is partially linked to its performance along environmental, social and corporate governance dimensions.

Framed by this same sustainability scheme, in 2Q18 it also refinanced two bilateral loans originally due in 2019 and 2020 (with an outstanding balance at 31 March 2018 of €25.7m) with two new 'green' loans due 2023 with an aggregate limit of €45m.

Thanks to these new transactions, and the €220m of financing arranged by the Energy Business in November 2017, which obtained S&P's highest green rating, ENCE has further evidenced its commitment to sustainability, transparency and good governance.

Moody's and S&P improve ENCE's credit ratings

On 28 May, 2018, Moody's raised the Company's long-term corporate credit rating from Ba3 to Ba2 (stable outlook). In substantiating its decision, Moody's expressly acknowledged the structural improvements made to ENCE's business model and cited the likelihood that pulp prices will remain strong for the next two to three years.

On 27 April 2018, Standard & Poor's improved its corporate rating from BB- to BB (similarly with a stable outlook), underpinned by the Company's solid business performance and the Energy Business's growing contribution to Group earnings, injecting stability.

Acquisition of auctioned remuneration rights for 58.5 MW of capacity

On 25 April, ENCE announced the acquisition of 58.5 MW of capacity awarded as part of the Spanish auction of 2016. Adding in the 40 MW initially adjudicated directly to it, the Company is currently in a position to develop 98.5 MW of new biomass-fuelled power generation capacity.

Specifically, it is developing two 46-MW plants in Huelva and Ciudad Real and plans to locate a third 6.5-MW plant within one of its existing plants in the olive-growing region. The new plants are expected to be commissioned by December 2019.

The new capacity (98.5 MW) is expected to entail €217m of investment and will generate annual EBITDA of €30m, which will lift the Energy Business's EBITDA run rate to an estimated €90m.

Payment of the final dividend

The Company paid out a final dividend against 2017 profits of €0.066 per share (before tax) on 12 April 2018.

The final dividend complemented two interim dividends from 2017 profits: a first interim dividend of €0.061 paid out on 6 September 2017 and a second interim dividend of €0.06, on 14 December 2017.

Together, the three dividends are equivalent to 50% of 2017 earnings per share.

Annual General Meeting

ENCE held its Annual General Meeting on 22 March. It was attended by shareholders representing 72% of its share capital who ratified all of the agenda items, including:

- Approval of the 2017 financial statements and the motion for the appropriation of profit
- Re-election of the Company's auditor
- Grant of discharge for the Board's performance
- Re-election and ratification of certain directors and the appointment of Ms. Rosa María García Piñeiro as independent director
- Approval of the 2017 director remuneration report.
- Approval of the proposed director remuneration policy for 2018-2020

€160m convertible bond issue

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 proceeds were used to partially finance the prepayment of the €250m 5.375% bonds issued on 30 October 2015.

APPENDIX 1: REMUNERATION PARAMETERS TO THE GROUP'S FACILITIES

Facility	Type of facility	MW	Remuneration to investment 1H18 (Ri; €/MW)	Type of fuel	Remuneration to operation 1H18 (Ro; €/MW) 3	Maximum of sale hours per MW under tariff
Navia	Biomass co-generation	40.3	-	Lignin	36.968	-
	Biomass generation	36.2	230,190	Agroforestry biomass	61.984	6,500
Pontevedra	Biomass co-generation (a)	34.6	-	Lignin	37.289	-
			55,308	Agroforestry biomass	62.670	6,500
Huelva 41MW	Biomass generation	41.0	246,267	Agroforestry biomass	68.500	6,500
Huelva 50MW	Biomass generation	50.0	266,452	Agroforestry biomass	61.019	6,500
Mérida 20MW	Biomass generation	20.0	293,579	Agroforestry biomass	59.593	6,500
C. Real 16MW	Biomass generation	16.0	262,317	Olive pulp	47.537	6,500
Jaen 16MW	Biomass generation	16.0	262,317	Olive pulp	47.142	6,500
Cordoba 27MW	Biomass generation	14.3	95,659	Olive pulp	48.519	6,500
	Gas co-generation	12.8	-	Natural Gas	64.225	-

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

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

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

   Income from operations = (Ro + pool) * MWh

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

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

Eur / MWh	2017	2018	2019
LS2	49.81	48.30	48.68
LS1	46.33	44.92	45.28
Estimated pool price	42.84	41.54	41.87
LI1	39.35	38.16	38.46
LI2	35.87	34.78	35.06

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

   Investment income = MW * Ri

APPENDIX 2: ENVIRONMENTAL PLEDGE

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

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

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

The integrated management system in place at the Navia, Pontevedra and Huelva 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 92% and 78%, respectively, as of the June 2018 close.

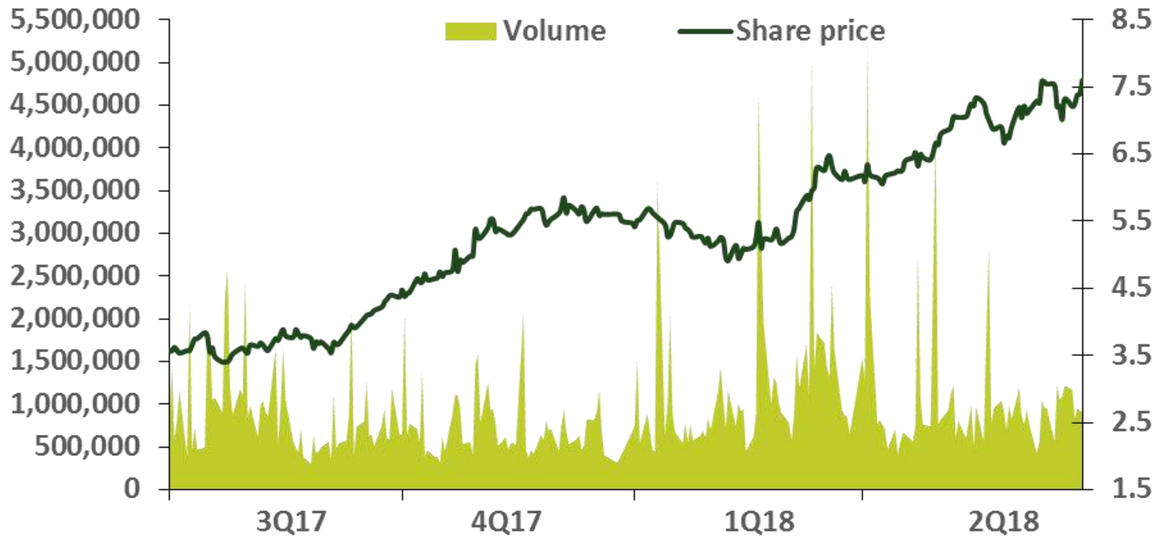
As for the sustainability of biomass as a fuel, ENCE has once again emerged as a pioneer, developing a 10-point declaration guaranteeing its commitment to using biomass sustainably and caring for the environment in making use of this renewable source of energy. In formulating this declaration, ENCE drew 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 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 Medium Cap index.

ENCE's share price ended June at €7.6, implying a cumulative gain of 24.2% in the second quarter and of 38.2% in the first half. Over the same timeframes, the Company's sector peers* saw their share prices increase by 28.1% and 69.9%, respectively.



Source: Bloomberg

	2Q17	3Q17	4Q17	1Q18	2Q18
Share price at the end of the period	3.59	4.40	5.50	6.12	7.60
Market capitalization at the end of the period	884.1	1083.6	1354.5	1507.2	1871.7
Ence quarterly evolution	24.2%	22.6%	25.0%	11.3%	24.2%
Daily average volume (shares)	938,535	927,095	723,124	1,200,152	1,073,179
Peers quarterly evolution *	5.3%	18.7%	6.8%	33.0%	28.1%

(*) Altri, Navigator, Fibria and Suzano.

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.

	2Q17	3Q17	4Q17	1Q18	2Q18
Bond price at the end of the period	-	-	-	106.77	119.28
Yield to worst at the end of the period*	-	-	-	-0.123%	-2.603%

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

The proceeds were used to partially fund the prepayment on 1 June 2018 of the €250m bond issued on 30 October 2015.

	2Q17	3Q17	4Q17	1Q18	2Q18
Share price at the end of the period	107.15	107.62	106.41	105.25	-
Yield to worst at the end of the period*	1.90%	0.76%	0.83%	0.87%	-

(*) Yield to maturity.

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

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

APPENDIX 4: ALTERNATIVE PERFORMANCE MEASURES (APMs)

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

CASH COST

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

Cash cost includes all of the expenses incurred to produce pulp: timber, conversion costs, overheads, 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 social expenses.

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 1, 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 and gains or losses on non-current assets.

EBITDA provides an initial approximation of the cash generated by the Company's 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.

NORMALISED FREE CASH FLOW

ENCE reports normalised free cash flow within the cash flow metrics 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 ENVIRONMENTAL CAPEX

ENCE provides the breakdown of its capital expenditure related cash outflows for each of its business units in sections 1, 2.7 and 3.4, distinguishing between maintenance, efficiency & growth and environmental capex.

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

ENCE's 2016-2020 Business Plan includes a schedule of the amounts it expects to invest annually in efficiency & growth and environmental capex 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 2016-2020 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 short-term financial investments on the asset side, 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.

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