



# Earnings Report 3<sup>rd</sup> Quarter 2016

26 October 2016

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## 1. EXECUTIVE SUMMARY

Market figures	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
BHKP (USD/t) average price	672.1	695.7	(3.4%)	803.7	(16.4%)	710.7	777.6	(8.6%)
Average exchange rate (USD/€)	1.12	1.13	(1.1%)	1.11	0.4%	1.11	1.12	(0.1%)
BHKP (€/t) average price	601.6	616.1	(2.4%)	722.2	(16.7%)	637.6	696.6	(8.5%)
Average pool price (€/MWh)	41.8	29.7	40.9%	55.7	(25.0%)	34.2	50.0	(31.6%)

Operating Magnitudes	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
Pulp sales (t)	215,236	231,140	(6.9%)	220,623	(2.4%)	663,879	652,389	1.8%
Cash cost (€/t)	354.8	366.8	(3.3%)	365.0	(2.8%)	366.7	364.8	0.5%
Energy sales from Energy business (MWh)	195,321	98,578	98.1%	183,108	6.7%	433,523	458,879	(5.5%)

Key magnitudes in €Mn	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
Revenues from Pulp business	116.5	123.8	(6.0%)	145.8	(20.1%)	369.8	415.9	(11.1%)
Revenues from Energy business	26.2	15.5	68.6%	28.1	(6.9%)	64.2	72.1	(10.9%)
Consolidation adjustments	(2.1)	(0.3)		(0.4)		(4.4)	(1.2)	
<b>Total net revenue</b>	<b>140.5</b>	<b>139.0</b>	<b>1.1%</b>	<b>173.5</b>	<b>(19.0%)</b>	<b>429.7</b>	<b>486.7</b>	<b>(11.7%)</b>
Pulp business Adjusted EBITDA	23.4	21.9	6.8%	41.2	(43.3%)	74.5	108.8	(31.5%)
Energy business Adjusted EBITDA	9.3	4.3	119.4%	14.4	(35.2%)	21.3	33.5	(36.3%)
Consolidation adjustments	0.0	0.0		0.0		-	(1.3)	
<b>Adjusted EBITDA</b>	<b>32.7</b>	<b>26.1</b>	<b>25.1%</b>	<b>55.6</b>	<b>(41.2%)</b>	<b>95.8</b>	<b>141.0</b>	<b>(32.1%)</b>
<i>Adjusted EBITDA margin</i>	<i>23%</i>	<i>19%</i>	<i>4.5 p.p.</i>	<i>32%</i>	<i>(8.8) p.p.</i>	<i>22%</i>	<i>29%</i>	<i>(6.7) p.p.</i>
<b>EBIT</b>	<b>20.1</b>	<b>5.9</b>	<b>243.0%</b>	<b>38.1</b>	<b>(47.2%)</b>	<b>43.9</b>	<b>83.7</b>	<b>(47.6%)</b>
<b>Net profit</b>	<b>12.9</b>	<b>(2.6)</b>	<i>n.s.</i>	<b>13.0</b>	<b>(0.4%)</b>	<b>24.3</b>	<b>35.1</b>	<b>(30.8%)</b>
Pulp business recurrent free cash flow	10.5	19.3	(45.7%)	(4.9)	<i>n.s.</i>	39.4	41.9	(5.9%)
Energy business recurrent free cash flow	23.8	0.2	<i>n.s.</i>	11.3	109.8%	25.7	28.1	(8.5%)
Consolidation adjustments	0.0	0.0		0.0		0.0	(1.3)	
<b>Recurrent free cash flow</b>	<b>34.2</b>	<b>20.6</b>	<b>66.4%</b>	<b>6.4</b>	<b>434.6%</b>	<b>65.1</b>	<b>68.7</b>	<b>(5.2%)</b>

Net financial debt	Sep-16	Jun-16	Δ%	Dec-15	Δ%
Pulp business net financial debt	211.4	211.7	(0.2%)	181.3	16.6%
Energy business net financial debt	22.2	47.7	(53.5%)	59.9	(63.0%)
<b>Net financial debt</b>	<b>233.5</b>	<b>259.4</b>	<b>(10.0%)</b>	<b>241.2</b>	<b>(3.2%)</b>

- ✓ The cash cost in the pulp business declined to €354.8/tonne in the third quarter, from €366.8/tonne in the second quarter, as a result of the investments made to boost efficiency and increase capacity at the Navia mill in June, increasing annual production capacity to 540,000 tonnes, in line with the Business Plan measures.
- ✓ Volumes in the energy business virtually doubled quarter-over-quarter in 3Q16, in keeping with the Company's strategy of making optimal use, timing-wise, of its output cap of 6,500 hours, coupled with a 40.9% increase in average pool prices.
- ✓ Adjusted EBITDA was 25.1% quarter-over-quarter in 3Q16 at €32.7m, while recurrent cash flow rose to €34.2m.
- ✓ Net debt was pared back by €25.9m in the third quarter to €233.5m, which is down €7.7m from the year-end 2015 balance, despite the payment of €24.9m of dividends and execution of the share buyback programme, entailing an outlay of €8.6m.

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- ✓ During the third quarter, the Company closed the sale of 968 hectares of estates and signed deposit agreements for the sale of an additional 167 hectares and collected €17.6m in sale proceeds and down-payments.

Year-to-date, the Company has closed the sale of 1,031 hectares and signed deposit agreements for the sale of an additional 708 hectares. In aggregate, these land sales imply proceeds for the Company of €38m and an estimated gain of €16m. In the first nine months of the year, it has collected €24.9m and recognised gains of €9.5m.

- ✓ During the third quarter, the energy business collected receivables due from the national electricity system in the amount of €18.7m in connection with the classification of the 41-MW Huelva plant in the official remuneration regime registry last quarter. An additional €10.1m is due for collection in the fourth quarter.
- ✓ Global demand for pulp remained strong throughout the first nine months, up 2.8% year-over-year, boosted by China, where demand jumped 12.4% year-over-year, making it once again the main demand growth engine.
- ✓ However, European short-fibre pulp prices continued the gradual correction initiated during the last quarter of 2015, closing September at \$662 per tonne. The gap with long-fibre prices stood at \$148/tonne at the September close, above the 10-year average of \$90, foreshadowing stronger demand for short-fibre pulp in the coming months shaped by substitution dynamics.
- ✓ Ence has announced a \$10/t pulp price increase applicable from October.

## 2. PULP BUSINESS

Ence has two eucalyptus pulp mills in Spain: a 540,000-tonne-capacity facility in the town of Navia, Asturias, and a 440,000-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

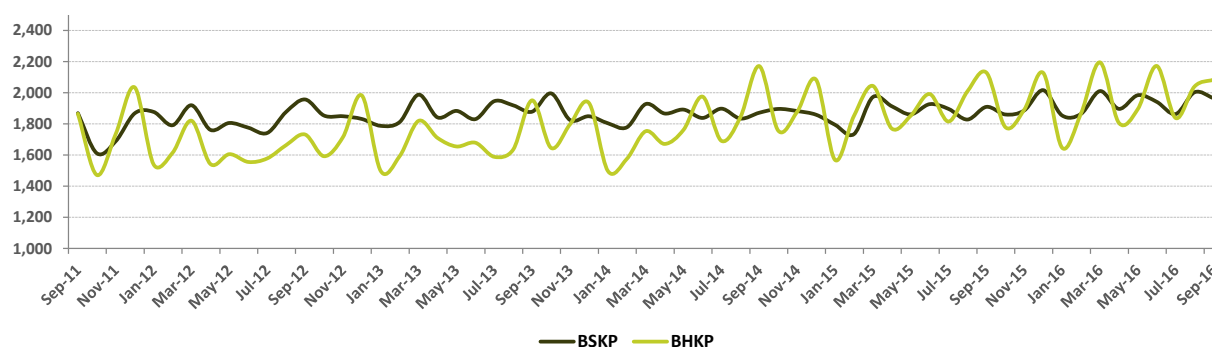
Global demand for pulp remained strong during the first nine months of the year, registering year-over-year growth of 2.8%, compared to growth of 3.2% in 2015 and compound annual growth during the last five years of 2.7% (PPPC W-20).

China remained the key growth engine, posting year-over-year growth of 12.4% in 9M16, compared to growth of 13.3% in 2015 and compound annual growth during the last five years of 10.5%.

Demand growth continues to be led by demand for eucalyptus pulp, which was 4.5% higher year-over-year in 9M16; this grade continues to win market share from other less-efficient short fibres for which demand contracted by 8.1% year-over-year during the reporting period. Demand for eucalyptus pulp in China is up by 15.3% year-over-year.

Demand for long-fibre pulp, meanwhile, registered year-over-year growth of 3.3% in the first nine months, compared to 1.1% growth in 2015 and compound annual growth during the last five years of 1.9%, helped by the narrowing of the price gap with respect to short-fibre pulp to close to \$10 per tonne in Europe in January.

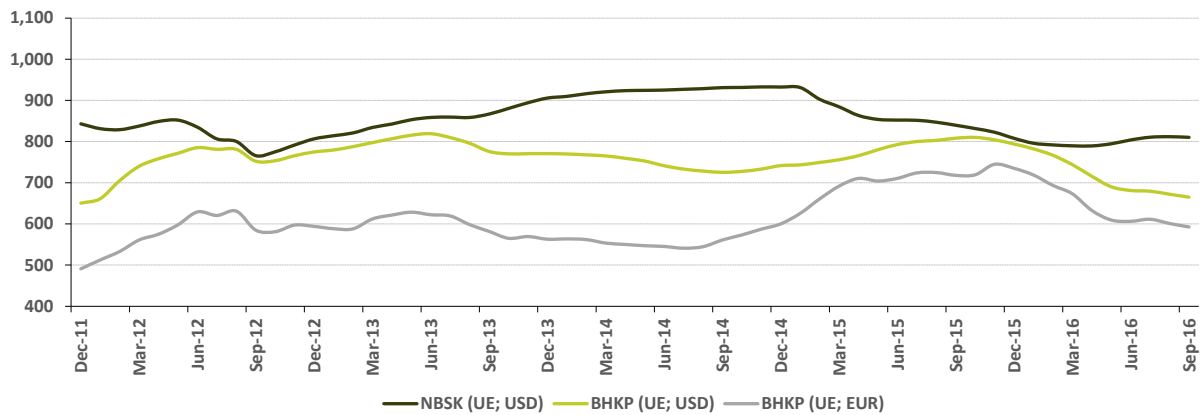
**Demand for pulp during the last five years (millions of tonnes)**



Source: PPPC (W-20)

During the third quarter of 2016, European short-fibre pulp prices continued the gradual correction initiated during the last quarter of 2015, closing September at \$662 per tonne, compared to \$810 per tonne as of September 2015. Long-fibre pulp prices, meanwhile, have regained close to \$10 per tonne year-to-date, ending September at \$810 per tonne.

### Pulp prices during the last five years



Source: FOEX

As a result, the spread between short (BHKP) and long fibre (BSKP) prices, which had been at lows of close to \$10 per tonne in January, had widened to \$148 per tonne by the end of September, which is above the trailing 10-year average of \$90; this should fuel stronger demand for short fibre pulp in the months to come driven by substitution dynamics.

China is the world's largest importer of market pulp as well as boasting local short-fibre (BHKP) production capacity of over two million tonnes, whose average production costs are very close to current price levels according to the sector consultant Hawkins Wright; this factor should lend additional support to short-fibre (BHKP) prices in the medium term.

Ence has announced a \$10/t pulp price increase applicable from October.

## 2.2. Revenue from pulp sales

	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
<b>Pulp sales (t)</b>	<b>215,236</b>	<b>231,140</b>	<b>(6.9%)</b>	<b>220,623</b>	<b>(2.4%)</b>	<b>663,879</b>	<b>652,389</b>	<b>1.8%</b>
Average selling price (€/t)	451.6	459.8	(1.8%)	560.0	(19.4%)	474.3	539.5	(12.1%)
<b>Pulp sales revenues (€Mn)</b>	<b>97.2</b>	<b>106.3</b>	<b>(8.5%)</b>	<b>123.5</b>	<b>(21.3%)</b>	<b>314.8</b>	<b>352.0</b>	<b>(10.5%)</b>

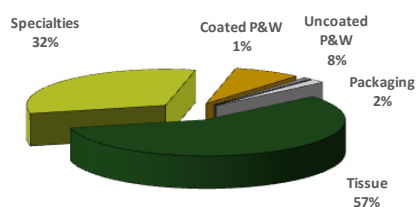
In the first nine months of 2016, the Company sold 1.8% more tonnes of pulp than in 9M15, driven by increased pulp production in the wake of two successive 20,000-tonne capacity expansions at the Navia mill carried out during the maintenance stoppages of June 2015 and 2016.

In the third quarter, pulp sales volumes dipped by 6.9% quarter-over-quarter as a result of the price increase announced for the fourth quarter, when sales volumes are expected to rise.

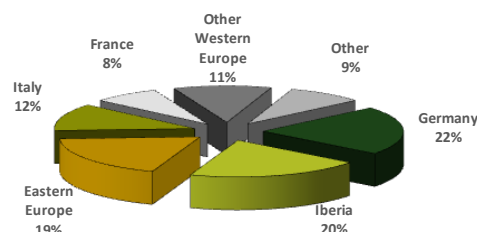
The growth in sales volumes in 9M16 partially offset the 12.1% drop in average sales prices with respect to 9M15, as a result of which revenue from pulp sales declined by 10.5% to €314.8m.

The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 57% of revenue from pulp sales, followed by the specialty paper segment, at 32%. 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 91% of revenue from pulp sales in the first nine months of 2016. Germany and Iberia accounted for 22% and 20% of total revenue, respectively, followed by Italy and France, at 12% and 8%, respectively. Eastern Europe as a bloc accounted for 19% of the total, with the other western European countries purchasing the remaining 11%.

## 2.3. Pulp production and cash cost

	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
Navia pulp production	131,002	107,826	21.5%	119,819	9.3%	367,924	345,054	6.6%
Pontevedra pulp production	108,324	112,931	(4.1%)	118,003	(8.2%)	311,914	312,420	(0.2%)
<b>Pulp production (t)</b>	<b>239,326</b>	<b>220,757</b>	<b>8.4%</b>	<b>237,822</b>	<b>0.6%</b>	<b>679,838</b>	<b>657,474</b>	<b>3.4%</b>

Pulp production increased by 3.4% year-over-year in 9M16. Production at Navia increased by 6.6%, due mainly to the 20,000 tonnes of capacity added during each of the maintenance stoppages of June 2015 and June 2016, whereas output in Pontevedra was flat year-over-year, despite the operating incidents of the first quarter.

As is customary, the Pontevedra mill was stopped for maintenance for 12 days in March and the Navia mill was halted for 13 days in June; the latter maintenance stoppage was accompanied by a longer stoppage at the co-generation plants, maintenance work that is carried out every five years.

The stoppage at Navia in June was used to finalise the programmed efficiency measures and add another 20,000 tonnes of capacity (total capex in 9M16: €24.8m); these measures, contemplated in the Business Plan, will translate into a lower cash cost at this complex, as was already tangible in the third quarter. Following these investments, annual capacity at the Navia complex stands at 540,000 tonnes.

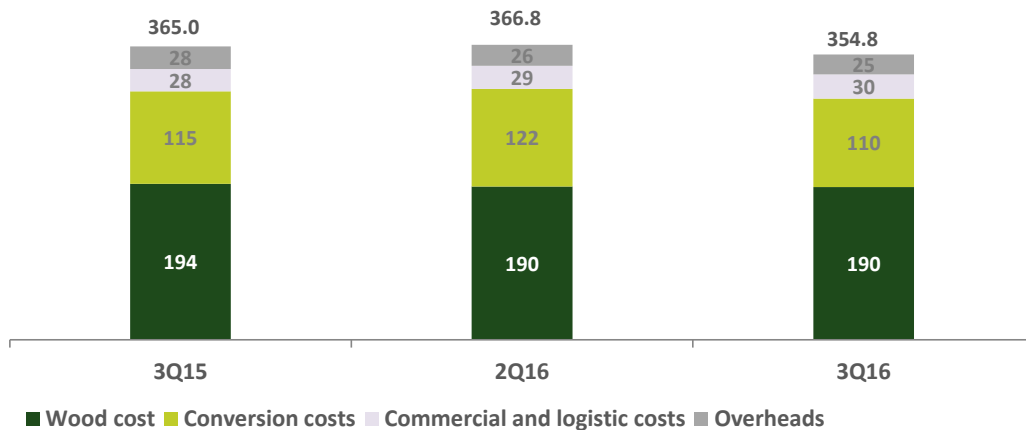
Figures in €/t	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
Wood cost	189.8	190.4	(0.3%)	193.9	(2.1%)	191.0	192.1	(0.6%)
Conversion costs	110.1	121.6	(9.5%)	115.1	(4.4%)	119.6	117.5	1.8%
Commercial and logistic costs	30.2	28.6	5.5%	27.8	8.5%	29.0	28.4	2.0%
Overheads	24.7	26.1	(5.4%)	28.1	(12.1%)	27.1	26.8	1.3%
<b>Total cash cost</b>	<b>354.8</b>	<b>366.8</b>	<b>(3.3%)</b>	<b>365.0</b>	<b>(2.8%)</b>	<b>366.7</b>	<b>364.8</b>	<b>0.5%</b>

The cash cost amounted to €366.7/tonne in the first nine months, up 0.5% year-over-year, due mainly to the impact of the breakdown of the turbine rotor at the Pontevedra co-generation plant during the first quarter, which rendered it idle for over a month, and was fixed during the March maintenance stoppage. As a result, the cash cost has declined from €379.6/tonne in the first quarter to €366.8/tonne in the second quarter and €354.8/tonne in the third quarter.



The third-quarter cash cost was 3.3% lower quarter-over-quarter and 2.8% lower year-over-year thanks to the efficiency investments and capacity expansion work carried out at the Navia mill which have translated into considerably lower transformation costs. The impact of these investments was amplified by the reclassification of overhead to each business following their formal segregation at year-end 2015.

Trend in cash cost per tonne (€/t)



Timber costs were 4.1% lower year-over-year thanks to last year's decision to tie timber prices to pulp prices. This was partially offset in cash cost terms by increased consumption per tonne due to the use of less productive eucalyptus varieties.

	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
Wood cost €/m3	64.9	63.9	1.5%	67.6	(4.1%)	64.7	66.3	(2.4%)
Timber consumption (m3)	685,847	746,644	(8.1%)	637,288	7.6%	2,128,932	1,977,417	7.7%
Suppliers	65%	73%		72%		72%	73%	
Standing timber acquired directly from land own	33%	25%		26%		26%	24%	
Owned timber	2%	2%		2%		2%	3%	

The increase in timber procurement costs quarter-over quarter mainly reflects a higher incidence of standing timber purchases relative to purchases from suppliers.

## 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 co-generation plant, integrated within the Pontevedra mill, and a 40.3-MW co-generation 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 transformation costs within the cash cost metric.

	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
Navia energy sales	119,712	97,570	22.7%	131,414	(8.9%)	341,939	363,192	(5.9%)
Pontevedra energy sales	53,329	56,500	(5.6%)	58,398	(8.7%)	139,509	155,846	(10.5%)
<b>Energy sales linked to the pulp process (MWh)</b>	<b>173,040</b>	<b>154,070</b>	<b>12.3%</b>	<b>189,813</b>	<b>(8.8%)</b>	<b>481,448</b>	<b>519,038</b>	<b>(7.2%)</b>
Average selling price - Pool + Ro (€/MWh)	77.3	64.2	20.4%	92.3	(16.2%)	70.0	86.8	(19.3%)
Investment remuneration (€Mn)	2.6	2.6	0.0%	2.6	-	7.8	7.9	(2.3%)
<b>Revenues from energy sales linked to pulp (€)</b>	<b>16.0</b>	<b>12.5</b>	<b>27.9%</b>	<b>20.1</b>	<b>(20.6%)</b>	<b>41.5</b>	<b>53.0</b>	<b>(21.7%)</b>

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Revenue from the sale of energy in connection with pulp production fell by 21.7% year-over-year in 9M16, due mainly to a 19.3% drop in average sales prices during the period as a result of lower pool prices, coupled with a 7.2% decline in sales volumes shaped primarily by the breakdown of the turbine in Pontevedra in the first quarter and the overhaul of the Navia co-generation plants in June and July.

## 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.

	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
<b>Forestry and other revenues (€Mn)</b>	<b>3.3</b>	<b>5.1</b>	<b>(35.4%)</b>	<b>2.2</b>	<b>51.1%</b>	<b>13.5</b>	<b>11.0</b>	<b>23.3%</b>

Revenue from forestry increased by 23.3% year-over-year in 9M16 due mainly to higher sales of timber to third parties.

## 2.6. Income statement

Figures in €Mn	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
<b>Total net revenue</b>	<b>116.5</b>	<b>123.8</b>	<b>(6.0%)</b>	<b>145.8</b>	<b>(20.1%)</b>	<b>369.8</b>	<b>415.9</b>	<b>(11.1%)</b>
<b>Adjusted EBITDA</b>	<b>23.4</b>	<b>21.9</b>	<b>6.8%</b>	<b>41.2</b>	<b>(43.3%)</b>	<b>74.5</b>	<b>108.8</b>	<b>(31.5%)</b>
<i>Adjusted EBITDA margin</i>	<i>20%</i>	<i>18%</i>	<i>2.4 p.p.</i>	<i>28%</i>	<i>(0.3) p.p.</i>	<i>20%</i>	<i>26%</i>	<i>(6.0) p.p.</i>
<b>EBITDA</b>	<b>21.2</b>	<b>19.1</b>	<b>11.1%</b>	<b>38.1</b>	<b>(44.3%)</b>	<b>66.0</b>	<b>97.9</b>	<b>(32.6%)</b>
<i>EBITDA margin</i>	<i>18%</i>	<i>15%</i>	<i>2.8 p.p.</i>	<i>26%</i>	<i>(0.3) p.p.</i>	<i>18%</i>	<i>24%</i>	<i>(5.7) p.p.</i>
Amortization	(24.5)	(9.1)	169.1%	(13.6)	80.1%	(44.3)	(36.7)	20.6%
Forest depletion	(0.9)	(1.9)	(55.7%)	(0.9)	(7.1%)	(3.9)	(4.8)	(19.7%)
Impairment of and gains/(losses) on fixed-asset	18.5	0.4	n.s.	3.2	477.2%	19.0	3.3	478.9%
<b>EBIT</b>	<b>14.4</b>	<b>8.5</b>	<b>70.3%</b>	<b>26.8</b>	<b>(46.3%)</b>	<b>36.8</b>	<b>59.6</b>	<b>(38.2%)</b>
<i>EBIT margin</i>	<i>12%</i>	<i>7%</i>	<i>5.5 p.p.</i>	<i>18%</i>	<i>(0.3) p.p.</i>	<i>10%</i>	<i>14%</i>	<i>(4.4) p.p.</i>
Net finance costs	(3.4)	(3.5)	(2.5%)	(5.3)	(35.2%)	(10.7)	(17.1)	(37.6%)
Other financial results	1.1	(4.2)	n.s.	(1.0)	n.s.	2.8	0.7	325.5%
<b>Profit before tax</b>	<b>12.1</b>	<b>0.7</b>	<b>n.s.</b>	<b>20.5</b>	<b>(41.1%)</b>	<b>29.0</b>	<b>43.2</b>	<b>(32.9%)</b>
Income tax	(2.3)	(0.2)	n.s.	(5.2)	(56.6%)	(6.7)	(11.7)	(42.5%)
<b>Net profit</b>	<b>9.8</b>	<b>0.5</b>	<b>n.s.</b>	<b>15.3</b>	<b>(35.8%)</b>	<b>22.3</b>	<b>31.5</b>	<b>(29.3%)</b>

Adjusted 9M16 EBITDA totalled €74.5m, down 31.5% year-over-year, due mainly to the 12.1% decline in average pulp sales prices during the period, partially mitigated by growth of 1.8% in sales volumes and the reclassification of certain expenses to each business following their segregation at year-end 2015.

It is worth highlighting the fact that the 6.8% quarter-over-quarter improvement in adjusted third-quarter EBITDA was driven by the reduction in the cash cost brought about by the efficiency investments and capacity additions executed at the Navia mill.

Non-recurring charges totalled €8.5m in 9M16, compared to €10.9m in 9M15. In this respect it is worth highlighting the charges related to the ad-hoc operating incidents of the first quarter, outlined above, coupled with consultancy fees and non-recurring staff expenses.

Depreciation charges were 20.6% higher year-over-year in 9M16, at €44.3m, as a result of €13.5m of depreciation charges in respect of the industrial complex in Huelva which was reclassified from assets held for sale to property, plant and equipment during the third quarter.

This higher depreciation charge was largely offset by the reversal of the impairment provision recognised against these assets in the amount of €9.5m. In addition to the above provision reversal, 'Impairment of and gain/(losses) on fixed asset disposals' includes €9.5m of gains on estate sales in 9M16.

Accrued net interest expense fell by 37.6% year-over-year to €10.7m in 9M16, evidencing the savings achieved in the wake of the corporate bond restructuring effort concluded in 2015. The restructuring exercise not only reduced the associated borrowing cost but also extended the issue's maturity until 2022.

'Other finance income' meanwhile reflects a net gain of €2.8m deriving from exchange differences and the fair value restatement (mark-to-market) of the exchange rate hedging programme implemented by the Company.

In all, the pulp business reported a net profit of €22.3m in 9M16, compared to €31.5m in 9M15

## 2.7. Cash flows

Net cash flows from operating activities amounted to €47.9m in 9M16 (just €5m less than in 9M15 despite a €34.3m decline in adjusted EBITDA), thanks to a smaller increase in the working capital requirement and lower interest expense, largely the result of the new payment schedule in place in the wake of the refinancing work undertaken in 2015.

Figures in €Mn	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
<b>Adjusted EBITDA</b>	<b>23.4</b>	<b>21.9</b>	<b>6.8%</b>	<b>41.2</b>	<b>(43.3%)</b>	<b>74.5</b>	<b>108.8</b>	<b>(31.5%)</b>
Non cash expenses / (incomes)	1.6	(1.3)	n.s.	2.3	(28.4%)	0.9	3.6	(76.5%)
Other incomes / (payments)	(2.2)	(2.2)	0.9%	(2.5)	(12.2%)	(6.6)	(6.3)	4.5%
Change in working capital	(7.3)	5.1	n.s.	(28.1)	(74.0%)	(13.6)	(33.7)	(59.7%)
Income tax received/(paid)	-	(0.7)	(100.0%)	(1.9)	(100.0%)	(0.6)	(0.7)	(12.7%)
Interest paid	0.3	(6.9)	n.s.	(7.9)	n.s.	(6.6)	(18.8)	(65.1%)
<b>Net cash flow from operating activities</b>	<b>15.8</b>	<b>15.9</b>	<b>(0.7%)</b>	<b>3.0</b>	<b>427.3%</b>	<b>47.9</b>	<b>52.9</b>	<b>(9.4%)</b>

The working capital requirement increased by €13.6m in 9M16, compared to an increase of €20.1m in 9M15, due mainly to the impact on trade and other accounts receivable of the 12.1% decline in average pulp sales prices.

Figures in €Mn	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
Inventories	(5.8)	(0.4)	n.s.	(2.2)	163.8%	(7.7)	(0.0)	n.s.
Trade and other receivables	8.8	4.0	119.1%	(10.1)	n.s.	8.6	(16.1)	n.s.
Trade and other payables	(10.3)	1.5	n.s.	(15.8)	(34.9%)	(14.4)	(17.5)	(17.9%)
<b>Change in working capital</b>	<b>(7.3)</b>	<b>5.1</b>	<b>n.s.</b>	<b>(28.1)</b>	<b>(74.0%)</b>	<b>(13.6)</b>	<b>(33.7)</b>	<b>(59.7%)</b>

Net cash used in investing activities amounted to €23.8m, compared to €28.8m in 9M15, as the higher outlay for efficiency enhancements and expansion work was more than offset by the collection of more proceeds from asset sales.

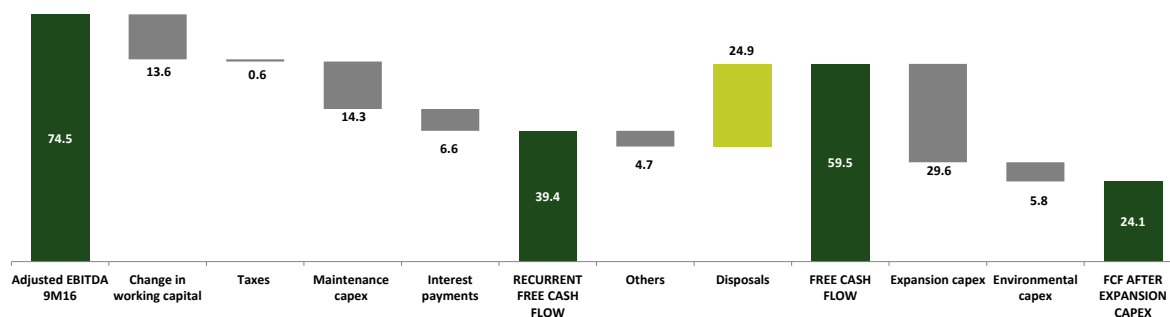
Figures in €Mn	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
Maintenance capex	(5.9)	(0.1)	n.s.	(8.1)	(27.8%)	(14.3)	(13.7)	4.3%
Environmental capex	(2.9)	(1.4)	104.9%	(4.5)	(35.8%)	(5.8)	(5.0)	15.2%
Efficiency and expansion capex	(9.3)	(14.0)	(33.9%)	(11.1)	(16.8%)	(29.6)	(17.8)	66.7%
Financial investments	0.0	1.0	(97.4%)	(0.2)	n.s.	1.0	(0.1)	n.s.
<b>Investments</b>	<b>(18.0)</b>	<b>(14.5)</b>	<b>24.1%</b>	<b>(24.0)</b>	<b>(24.9%)</b>	<b>(48.7)</b>	<b>(36.6)</b>	<b>33.0%</b>
Disposals	17.6	3.9	350.9%	4.3	313.3%	24.9	7.9	216.8%
<b>Net cash flow from investing activities</b>	<b>(0.4)</b>	<b>(10.6)</b>	<b>(96.1%)</b>	<b>(19.7)</b>	<b>(97.9%)</b>	<b>(23.8)</b>	<b>(28.8)</b>	<b>(17.2%)</b>

Investments in efficiency and expansion work totalled €29.6m in 9M16, mainly related to the successive efficiency improvements and 20,000-tonne capacity expansions carried out at Navia in each of June 2015 and June 2016.

Maintenance capex amounted to €14.3m (vs. €13.7m in 9M15), while environmental capex totalled €5.8m (vs. €5.0m in 9M15), earmarked primarily to upgrade work at the Pontevedra complex.

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Elsewhere, during the first nine months the Company closed the sale of 1,031 hectares of estates and signed deposit agreements for the sale of an additional 708 hectares for a total of €38m and collected €24.9m in sale proceeds and down-payments.



As a result, recurring free cash flow from the pulp business amounted to €39.4m in the first nine months, while free cash flow net of efficiency, growth and environmental capex totalled €24.1m.

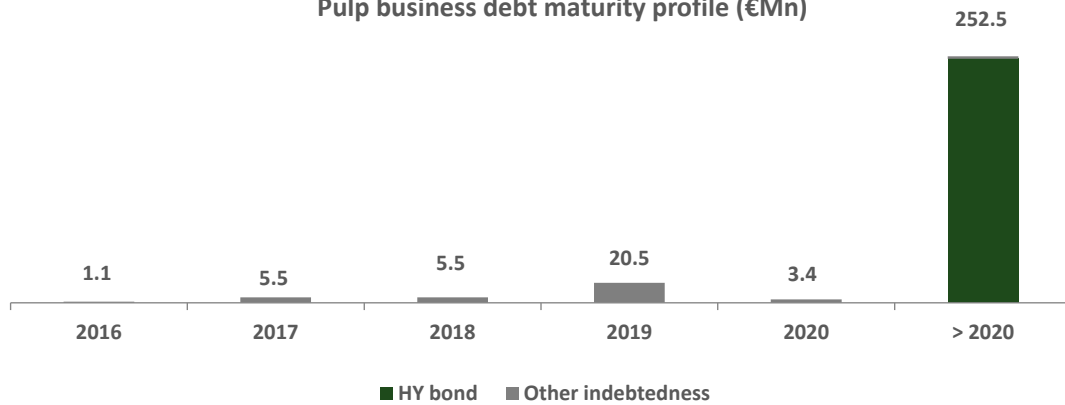
## 2.8. Change in net debt

Net debt in this business unit increased by €30.1m from year-end 2015 to €211.3m following distribution of the final dividend from 2015 profits (€24.9m) and execution of the share buyback programme (€8.6m), as well as movements between the pulp and energy businesses related to the segregation exercise carried out in the last quarter of 2015 (€15.9m).

Figures in €Mn	Sep-16	Jun-16	Δ%	Dec-15	Δ%
Long term financial debt	277.1	277.9	(0.3%)	279.8	(0.9%)
Short-term financial debt	9.2	5.8	57.1%	4.1	122.4%
<b>Gross financial debt</b>	<b>286.3</b>	<b>283.8</b>	<b>0.9%</b>	<b>283.9</b>	<b>0.9%</b>
Cash and cash equivalents	64.3	60.8	5.8%	93.9	(31.5%)
Short-term financial investments	10.7	11.3	(5.7%)	8.7	22.5%
<b>Pulp business net financial debt</b>	<b>211.4</b>	<b>211.7</b>	<b>(0.2%)</b>	<b>181.3</b>	<b>16.6%</b>

The gross debt of €286.3m at the September close corresponds mainly to the €250m corporate bonds due 2022 and two separate €15m bilateral loans due in 2019 and 2020 taken on to finance the capacity expansion work undertaken in Navia.

Pulp business debt maturity profile (€Mn)



At 30 September 2016, the Company had cash and cash equivalents of €75m 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 currently 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.

#### 3.1. Electricity market trends

	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
Average pool price (€/MWh)	41.8	29.7	40.9%	55.7	(25.0%)	34.2	50.0	(31.6%)

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



(Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails)

Average pool prices in mainland Spain were 31.6% lower year-over-year in 9M16. This in turn primarily reflects a 33.8% increase in generation at hydro power plants to the detriment of coal and gas-fired stations, whose output fell by 31.7% year-over-year.

The impact of this phenomenon was particularly noticeable during the first half of the year. During the third quarter, average electricity prices were 40.9% higher quarter-over-quarter, at €41.8/MWh, albeit still 25.0% lower year-over-year.

### 3.2. Revenue from energy sales

	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
Huelva 50 MW	99,128	62,134	59.5%	99,233	(0.1%)	236,344	242,228	(2.4%)
Huelva 41 MW	53,157	9,271	473.3%	45,503	16.8%	103,631	114,512	(9.5%)
Mérida 20 MW	43,036	27,173	58.4%	38,371	12.2%	93,548	102,139	(8.4%)
<b>Energy sales (MWh)</b>	<b>195,321</b>	<b>98,578</b>	<b>98.1%</b>	<b>183,108</b>	<b>6.7%</b>	<b>433,523</b>	<b>458,879</b>	<b>(5.5%)</b>
Average selling price - Pool + Ro (€/MWh)	96.1	86.0	11.8%	109.1	(11.9%)	93.0	103.9	(10.4%)
Investment remuneration (€/Mn)	7.3	6.9	6.5%	7.8	(5.7%)	22.0	23.3	(5.7%)
<b>Revenues (€/Mn)</b>	<b>26.2</b>	<b>15.5</b>	<b>68.6%</b>	<b>28.1</b>	<b>(6.9%)</b>	<b>64.2</b>	<b>72.1</b>	<b>(10.9%)</b>

In light of the low pool prices prevailing during the first half of the year and the annual limit on operating hours of 6,500 hours for regulatory remuneration purposes, Ence decided to pare back generation at its biomass power plants from a quarterly average of 1,289 hours in 1H15 to a quarterly average of 1,083 hours in 1H16.

However, during the third quarter, the average was 1,816 hours and generation volumes virtually doubled quarter-over-quarter. Year-to-date, generation volumes are currently tracking just 5.5% below the 9M15 level. The remaining shortfall will be made up in the last quarter.

The drop in energy sales volumes, coupled with the 10.4% year-over-year decline in average sales prices, driven by the 31.6% drop in the average pool price, was largely responsible for the 10.9% reduction in revenue in the energy segment in the first nine months to €64.2m.

In addition, the classification of the 41-MW Huelva plant as a hybrid plant (85% biomass; 15% black liquor) in the official remuneration regime registry in the second quarter had the effect of reducing revenue by €1.3m with respect to 9M15.

Elsewhere, Ence had hedged 77% of 9M16 output at a price of €44.5/MWh, a strategy which reported a gain of €2.9m.

Looking to the fourth quarter, the Company has hedged 91% of forecast output at an average price of €45.7/MWh.

### 3.3. Income statement

Figures in €Mn	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
<b>Total net revenue</b>	<b>26.2</b>	<b>15.5</b>	<b>68.6%</b>	<b>28.1</b>	<b>(6.9%)</b>	<b>64.2</b>	<b>72.1</b>	<b>(10.9%)</b>
<b>Adjusted EBITDA</b>	<b>9.3</b>	<b>4.3</b>	<b>119.4%</b>	<b>14.4</b>	<b>(35.2%)</b>	<b>21.3</b>	<b>33.5</b>	<b>(36.3%)</b>
<i>Adjusted EBITDA margin</i>	<i>36%</i>	<i>27%</i>	<i>8.3 p.p.</i>	<i>51%</i>	<i>(15.6) p.p.</i>	<i>33%</i>	<i>47%</i>	<i>(13.3) p.p.</i>
<b>EBITDA</b>	<b>8.9</b>	<b>0.7</b>	<i>n.s.</i>	<b>14.3</b>	<b>(37.6%)</b>	<b>17.4</b>	<b>33.1</b>	<b>(47.5%)</b>
<i>EBITDA margin</i>	<i>34%</i>	<i>5%</i>	<i>29.6 p.p.</i>	<i>51%</i>	<i>(16.8) p.p.</i>	<i>27%</i>	<i>46%</i>	<i>(18.9) p.p.</i>
Amortization	(3.7)	(3.2)	15.8%	(2.1)	80.5%	(9.9)	(6.2)	58.5%
Forest depletion	(0.2)	(0.0)	428.3%	(1.1)	(78.0%)	(1.1)	(1.9)	(39.8%)
Impairment of and gains/(losses) on fixed-asset disposals	0.8	(0.0)	n.s.	0.0	n.s.	0.6	(0.0)	n.s.
<b>EBIT</b>	<b>5.7</b>	<b>(2.6)</b>	<i>n.s.</i>	<b>11.2</b>	<b>(48.7%)</b>	<b>7.0</b>	<b>25.0</b>	<b>(72.0%)</b>
<i>EBIT margin</i>	<i>22%</i>	<i>-17%</i>	<i>38.6 p.p.</i>	<i>40%</i>	<i>(17.9) p.p.</i>	<i>11%</i>	<i>35%</i>	<i>(23.8) p.p.</i>
Net finance costs	(1.4)	(1.5)	(1.7%)	(15.4)	(90.6%)	(4.2)	(19.9)	(79.1%)
<b>Profit before tax</b>	<b>4.3</b>	<b>(4.0)</b>	<i>n.s.</i>	<b>(4.2)</b>	<i>n.s.</i>	<b>2.9</b>	<b>5.1</b>	<b>(44.1%)</b>
Income tax	(1.2)	1.0	n.s.	1.2	n.s.	(0.8)	(1.4)	(41.6%)
<b>Net profit</b>	<b>3.1</b>	<b>(3.0)</b>	<i>n.s.</i>	<b>(3.0)</b>	<i>n.s.</i>	<b>2.0</b>	<b>3.7</b>	<b>(45.0%)</b>

Adjusted 9M16 EBITDA was 21.3m, down 36.3% year-over-year, driven mainly by lower pool prices and lower generation volumes (a phenomenon that will be fully offset in the fourth quarter).

Note that adjusted 9M15 energy business EBITDA had benefitted from a timing effect, namely the formal separation of the Group's two core businesses in 4Q15 and the attendant recognition that quarter, in one go, of the full year's overhead of €3.9m; adjusted EBITDA this year, on the other hand, already reflects the corresponding quarterly overhead allocation. This comparative distortion will be offset in the fourth quarter of this year.

It is worth highlighting the improvement in adjusted EBITDA registered in the third quarter: 3Q16 EBITDA jumped 119.4% quarter-over-quarter thanks to the 98.1% surge in generation volumes, coupled with an 11.8% improvement in average sales prices.

Non-recurring charges totalled €3.9m in the first nine months of the year, of which €2.9m corresponds to the restatement of the revenue recognised between 14 July 2013 and 31 December 2015 in respect of the 41-MW biomass power plant in Huelva, as a result of the afore-mentioned ministry decision to classify this facility as a hybrid plant (85% biomass; 15% black liquor) in the official remuneration regime registry.

The Company recognised a depreciation and amortisation charge of €9.9m in 9M16, compared to €6.2m in 9M15, due to the transfer of assets and standardisation of the depreciation regime in the energy business following the segregation of the businesses in the fourth quarter of 2015.

Below the EBITDA line, it is worth highlighting the 79.1% reduction in this business unit's net finance expense thanks to the refinancing work undertaken in 3Q15. That refinancing work triggered the recognition that quarter of non-recurring charges associated with the arrangement of hedges (€12.1m) and the write-off of issuance costs (€2.9m).

As a result, the energy business reported a net profit of €2m in 9M16, compared to €3.7m in 9M15.

### 3.4. Cash flows

Despite the decline in adjusted EBITDA, net cash flows from operating activities totalled €25.3m in 9M16, compared to €31.7m in 9M15; note that the latter figure included €10m of tax rebates collected in the wake of approval of regulatory changes in Spain.

Figures in €Mn	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
<b>Adjusted EBITDA</b>	<b>9.3</b>	<b>4.3</b>	<b>119.4%</b>	<b>14.4</b>	<b>(35.2%)</b>	<b>21.3</b>	<b>33.5</b>	<b>(36.3%)</b>
Non cash expenses / (incomes)	0.4	(1.0)	n.s.	0.0	n.s.	(0.1)	(0.6)	(89.1%)
Other incomes / (payments)	(1.0)	(1.0)	(5.2%)	0.3	n.s.	(2.8)	(0.0)	n.s.
Change in working capital	16.3	0.3	n.s.	(3.1)	n.s.	12.0	(5.8)	n.s.
Income tax received/(paid)	-	(0.1)	(100.0%)	1.9	(100.0%)	(0.1)	10.0	n.s.
Interest paid	(0.6)	(3.7)	(85.1%)	(1.2)	(52.4%)	(5.0)	(5.5)	(9.5%)
<b>Net cash flow from operating activities</b>	<b>24.5</b>	<b>(1.4)</b>	<b>n.s.</b>	<b>12.3</b>	<b>98.5%</b>	<b>25.3</b>	<b>31.7</b>	<b>(20.1%)</b>

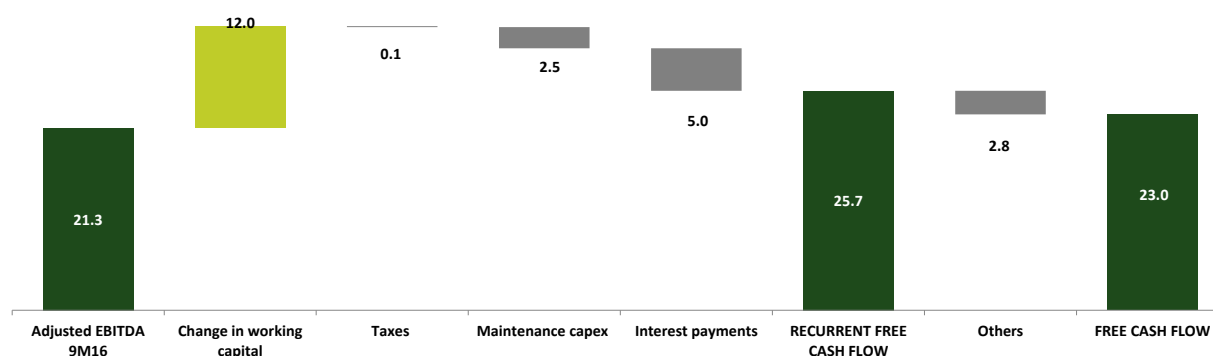
The movement in working capital implied a cash inflow of €12m in 9M16, compared to a cash outflow of €5.8m in 9M15, thanks to the collection of balances due from the Spanish electricity system in the amount of €18.7m in 3Q16. An additional €10.1m is due for collection in the fourth quarter.

Figures in €Mn	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
Inventories	0.5	(0.0)	n.s.	(0.1)	n.s.	0.7	(0.6)	n.s.
Trade and other receivables	13.5	(1.4)	n.s.	(6.0)	n.s.	8.6	(10.2)	n.s.
Trade and other payables	2.3	1.7	34.1%	2.9	(22.1%)	2.6	5.0	(47.5%)
<b>Change in working capital</b>	<b>16.3</b>	<b>0.3</b>	<b>n.s.</b>	<b>(3.1)</b>	<b>n.s.</b>	<b>12.0</b>	<b>(5.8)</b>	<b>n.s.</b>

Net cash flows used in investing activities amounted to €2.3m in 9M16 and corresponded mainly to maintenance capex (note that in 9M15, the €4.1m net cash outlay included €3.4m corresponding to costs incurred to abandon energy crops in 2015).

Figures in €Mn	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
Maintenance capex	(1.3)	(0.6)	137.1%	(0.7)	89.0%	(2.5)	(4.1)	(40.4%)
Efficiency and expansion capex	-	-	n.s.	-	n.s.	-	-	n.s.
Financial investments	-	0.2	(100.0%)	-	n.s.	0.1	-	n.s.
Investments	(1.3)	(0.4)	229.3%	(0.7)	89.0%	(2.3)	(4.1)	(43.6%)
Disposals	-	-	n.s.	-	n.s.	-	-	n.s.
<b>Net cash flow from investing activities</b>	<b>(1.3)</b>	<b>(0.4)</b>	<b>229.3%</b>	<b>(0.7)</b>	<b>89.0%</b>	<b>(2.3)</b>	<b>(4.1)</b>	<b>(43.6%)</b>

In all, the energy business generated €23.0m of free cash flow in 9M16.





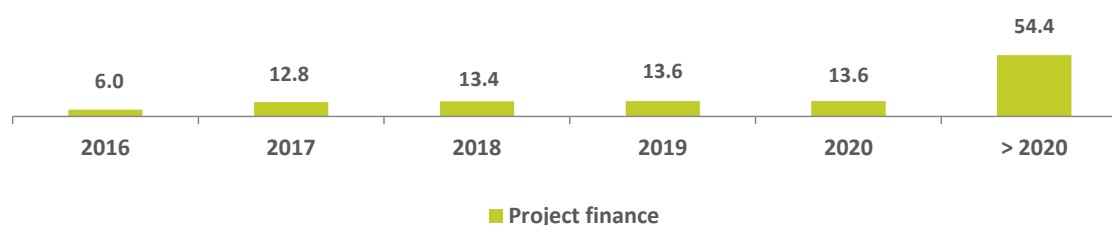
### 3.5. Change in net debt

Net debt in the energy business decreased by €37.7m from year-end 2015 to €22.2m, thanks to the generation of €23.0m of free cash flow during the reporting period, as well as movements between the pulp and energy businesses related to the segregation exercise carried out in the last quarter of 2015 (€15.9m).

Figures in €Mn	Sep-16	Jun-16	Δ%	Dec-15	Δ%
Long term financial debt	99.5	99.4	0.1%	113.5	(12.4%)
Short-term financial debt	13.1	12.4	5.9%	12.0	8.9%
<b>Gross financial debt</b>	<b>112.6</b>	<b>111.8</b>	<b>0.8%</b>	<b>125.6</b>	<b>(10.3%)</b>
Cash and cash equivalents	90.4	64.0	41.2%	65.7	37.7%
Short-term financial investments	0.0	0.0	-	0.0	-
<b>Energy business net financial debt</b>	<b>22.2</b>	<b>47.7</b>	<b>(53.5%)</b>	<b>59.9</b>	<b>(63.0%)</b>

The gross debt of €112.6m at the September 2016 close corresponds to the outstanding balance on the project finance facility financing the 50-MW and 20-MW power plants in Huelva and Merida.

#### Energy debt maturity profile (€Mn)



Cash at the close stood at €90.4m.

## 4. CONSOLIDATED FINANCIAL STATEMENTS

### 4.1. Income statement

Figures in €Mn	9M16				9M15			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
<b>Total net revenue</b>	<b>369.8</b>	<b>64.2</b>	<b>(4.4)</b>	<b>429.7</b>	<b>415.9</b>	<b>72.1</b>	<b>(1.2)</b>	<b>486.7</b>
Other income	21.0	3.8	(12.5)	12.3	11.5	3.6	(5.5)	9.5
Change in inventories of finished products	3.9	-	-	3.9	1.5	-	-	1.5
Cost of sales	(181.6)	(19.9)	4.4	(197.1)	(184.5)	(18.2)	1.2	(201.5)
Personnel expenses	(47.1)	(2.3)	0.0	(49.4)	(42.2)	-	0.0	(42.2)
Other operating expenses	(91.6)	(24.5)	12.5	(103.6)	(93.4)	(24.0)	4.3	(113.0)
<b>Adjusted EBITDA</b>	<b>74.5</b>	<b>21.3</b>	<b>0.0</b>	<b>95.8</b>	<b>108.8</b>	<b>33.5</b>	<b>(1.3)</b>	<b>141.0</b>
<i>Adjusted EBITDA margin</i>	<i>20%</i>	<i>33%</i>		<i>22%</i>	<i>26%</i>	<i>47%</i>		<i>29%</i>
Variations in trading provisions	(0.0)	(0.0)	0.0	(0.0)	(1.3)	0.0	0.0	(1.3)
Other non recurrent personnel expenses	(1.6)	(0.5)	-	(2.1)	(3.8)	-	0.0	(3.8)
Income / (expenses)	(6.8)	(3.5)	0.0	(10.3)	(5.8)	(0.4)	0.0	(6.2)
<b>EBITDA</b>	<b>66.0</b>	<b>17.4</b>	<b>0.0</b>	<b>83.4</b>	<b>97.9</b>	<b>33.1</b>	<b>(1.3)</b>	<b>129.7</b>
<i>EBITDA margin</i>	<i>18%</i>	<i>27%</i>		<i>19%</i>	<i>24%</i>	<i>46%</i>		<i>27%</i>
Amortization	(44.3)	(9.9)	(0.0)	(54.1)	(36.7)	(6.2)	(0.0)	(42.9)
Forest depletion	(3.9)	(1.1)	-	(5.0)	(4.8)	(1.9)	0.2	(6.5)
Impairment of and gains/(losses) on fixed-asset disposals(a)	19.0	0.6	(0.0)	19.6	3.3	(0.0)	0.2	3.4
<b>EBIT</b>	<b>36.8</b>	<b>7.0</b>	<b>(0.0)</b>	<b>43.9</b>	<b>59.6</b>	<b>25.0</b>	<b>(0.9)</b>	<b>83.7</b>
<i>EBIT margin</i>	<i>10%</i>	<i>11%</i>		<i>10%</i>	<i>14%</i>	<i>35%</i>		<i>17%</i>
Net finance costs	(10.7)	(4.2)	(0.0)	(14.8)	(17.1)	(8.8)	0.9	(25.0)
Other financial results	2.8	-	(0.0)	2.8	0.7	(11.1)	0.0	(10.5)
<b>Profit before tax</b>	<b>29.0</b>	<b>2.9</b>	<b>(0.0)</b>	<b>31.8</b>	<b>43.2</b>	<b>5.1</b>	<b>(0.1)</b>	<b>48.2</b>
Income tax	(6.7)	(0.8)	0.0	(7.6)	(11.7)	(1.4)	0.0	(13.1)
<b>Net profit</b>	<b>22.3</b>	<b>2.0</b>	<b>(0.0)</b>	<b>24.3</b>	<b>31.5</b>	<b>3.7</b>	<b>(0.1)</b>	<b>35.1</b>

### 4.2. Balance sheet

Figures in €Mn	Sep-16				Dec-15			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Intangible assets	15.4	0.0	(0.0)	15.4	12.6	0.0	(0.0)	12.6
Property, plant and equipment	463.1	206.8	0.0	669.9	457.7	184.2	(0.0)	641.9
Biological assets	81.0	4.3	0.0	85.3	83.7	4.2	-	87.9
Intercompany long term participation	198.6	-	(198.6)	-	170.5	-	(170.5)	-
Intercompany long term loan	68.2	0.0	(68.2)	-	63.3	27.4	(90.8)	-
Non-current financial assets	1.4	0.2	0.4	2.0	2.7	0.3	(0.0)	3.0
Assets for deferred tax	55.7	11.1	-	66.8	61.1	9.7	0.0	70.8
<b>Total fixed assets</b>	<b>883.8</b>	<b>222.5</b>	<b>(266.7)</b>	<b>839.5</b>	<b>851.6</b>	<b>226.0</b>	<b>(261.3)</b>	<b>816.3</b>
Non-current assets held for sale	16.3	1.0	0.0	17.3	48.1	2.2	(0.0)	50.3
Inventories	40.9	6.3	(0.0)	47.2	34.5	5.7	(0.0)	40.2
Trade other accounts receivable	97.4	31.6	(26.3)	102.7	115.6	49.8	(34.4)	131.0
Income tax	0.9	-	-	0.9	1.0	-	-	1.0
Other current assets	5.7	(0.1)	0.0	5.6	0.6	(0.1)	-	0.5
Hedging derivatives	0.9	-	-	0.9	0.1	0.1	(0.0)	0.2
Short-term financial assets	10.7	0.0	(0.0)	10.7	8.7	0.0	(0.0)	8.7
Cash and cash equivalents	64.3	90.4	(0.0)	154.7	93.9	65.7	-	159.6
<b>Total current assets</b>	<b>237.0</b>	<b>129.3</b>	<b>(26.3)</b>	<b>340.1</b>	<b>302.5</b>	<b>123.4</b>	<b>(34.4)</b>	<b>391.5</b>
<b>TOTAL ASSETS</b>	<b>1,120.8</b>	<b>351.8</b>	<b>(293.0)</b>	<b>1,179.6</b>	<b>1,154.1</b>	<b>349.4</b>	<b>(295.7)</b>	<b>1,207.8</b>
<b>Equity</b>	<b>619.4</b>	<b>134.6</b>	<b>(198.6)</b>	<b>555.4</b>	<b>630.3</b>	<b>108.5</b>	<b>(170.5)</b>	<b>568.2</b>
Non-current borrowings	277.1	99.5	-	376.6	279.8	113.5	-	393.3
Long term intercompany debt	0.0	68.1	(68.1)	-	27.4	63.2	(90.7)	-
Non-current derivatives	-	9.9	-	9.9	0.7	7.0	-	7.6
Liabilities for deferred tax	18.6	0.2	0.0	18.9	20.3	0.3	-	20.6
Non-current provisions	6.1	0.4	-	6.5	8.5	0.8	-	9.3
Other non-current liabilities	9.1	1.3	0.0	10.3	11.2	0.0	(0.0)	11.3
<b>Total non-current liabilities</b>	<b>310.9</b>	<b>179.5</b>	<b>(68.1)</b>	<b>422.2</b>	<b>347.9</b>	<b>184.8</b>	<b>(90.7)</b>	<b>442.0</b>
Liabilities linked to non-current assets held for sale	-	-	-	-	-	-	-	-
Current borrowings	9.2	13.1	-	22.3	4.1	12.1	(0.0)	16.2
Current derivatives	0.2	3.3	-	3.5	3.0	2.9	-	5.9
Trade payables and other	170.8	21.2	(26.3)	165.7	162.5	41.1	(34.4)	169.1
Income tax	3.2	0.1	0.0	3.3	0.1	-	-	0.1
Current provisions	7.1	0.0	(0.0)	7.1	6.3	0.1	(0.1)	6.3
<b>Total current liabilities</b>	<b>190.4</b>	<b>37.8</b>	<b>(26.3)</b>	<b>202.0</b>	<b>175.9</b>	<b>56.1</b>	<b>(34.5)</b>	<b>197.5</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,120.8</b>	<b>351.8</b>	<b>(293.0)</b>	<b>1,179.6</b>	<b>1,154.1</b>	<b>349.4</b>	<b>(295.7)</b>	<b>1,207.8</b>

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### 4.3. Statement of cash flows

Figures in €Mn	9M16				9M15			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
<b>Consolidated profit/(loss) for the period before tax</b>	<b>29.0</b>	<b>2.9</b>	<b>0.0</b>	<b>31.8</b>	<b>43.2</b>	<b>5.1</b>	<b>(0.1)</b>	<b>48.2</b>
Depreciation	50.0	9.2	-	59.1	41.6	8.1	(0.2)	49.5
Changes in provisions and other deferred expense	2.2	2.9	(0.0)	5.1	9.9	(0.2)	-	9.7
Impairment of gains/(losses) on disposals intangible asset:	(19.0)	(0.6)	(0.0)	(19.6)	(3.0)	-	0.2	(2.7)
Net finance costs	7.8	4.2	-	12.0	15.7	19.9	-	35.6
Government grants taken to income	(1.2)	(0.1)	0.0	(1.3)	(1.3)	-	-	(1.3)
<b>Adjustments to profit</b>	<b>39.7</b>	<b>15.6</b>	<b>(0.0)</b>	<b>55.3</b>	<b>62.9</b>	<b>27.8</b>	<b>0.1</b>	<b>90.8</b>
Inventories	(7.7)	0.7	-	(7.0)	(0.0)	(0.6)	-	(0.6)
Trade and other receivables	8.6	8.6	0.0	17.2	(16.1)	(10.2)	-	(26.3)
Current financial and other assets	(2.0)	-	-	(2.0)	0.7	-	-	0.7
Trade and other payables	(14.4)	2.6	-	(11.8)	(17.5)	5.0	-	(12.5)
<b>Changes in working capital</b>	<b>(15.5)</b>	<b>12.0</b>	<b>0.0</b>	<b>(3.6)</b>	<b>(32.9)</b>	<b>(5.8)</b>	<b>-</b>	<b>(38.7)</b>
Interest paid	(7.8)	(5.3)	1.4	(11.8)	(22.9)	(9.0)	7.5	(24.5)
Interest received	1.3	0.3	(1.4)	0.2	4.2	3.5	(7.5)	0.2
Income tax received/(paid)	(0.6)	(0.1)	-	(0.8)	(0.7)	10.0	-	9.3
<b>Other cash flows from operating activities</b>	<b>(7.2)</b>	<b>(5.1)</b>	<b>-</b>	<b>(12.3)</b>	<b>(19.5)</b>	<b>4.5</b>	<b>-</b>	<b>(15.0)</b>
<b>Net cash flow from operating activities</b>	<b>46.0</b>	<b>25.3</b>	<b>0.0</b>	<b>71.3</b>	<b>53.6</b>	<b>31.7</b>	<b>-</b>	<b>85.3</b>
Property, plant and equipment	(44.2)	(2.4)	(0.0)	(46.6)	(34.3)	(3.9)	-	(38.2)
Intangible assets	(5.5)	(0.0)	(0.0)	(5.6)	(2.2)	(0.3)	-	(2.5)
Other financial assets	1.0	0.1	-	1.1	(0.1)	-	-	(0.1)
<b>Other cash flows from operating activities</b>	<b>24.9</b>	<b>-</b>	<b>-</b>	<b>24.9</b>	<b>7.9</b>	<b>-</b>	<b>-</b>	<b>7.9</b>
<b>Investments</b>	<b>(23.8)</b>	<b>(2.3)</b>	<b>(0.0)</b>	<b>(26.1)</b>	<b>(28.8)</b>	<b>(4.1)</b>	<b>0.0</b>	<b>(32.9)</b>
Buyback/(disposal) of own equity instruments	(9.1)	-	0.0	(9.1)	(91.5)	95.5	-	4.0
Proceeds from and repayments of financial liabilities	(1.9)	(14.1)	-	(16.0)	0.8	24.4	-	25.1
Dividends payments	(24.9)	-	-	(24.9)	(24.9)	-	-	(24.9)
Translation differences	-	-	-	-	0.0	-	-	0.0
Group and Associated companies	(15.9)	15.9	-	-	85.8	(85.8)	-	-
<b>Net cash flow from financing activities</b>	<b>(51.8)</b>	<b>1.8</b>	<b>-</b>	<b>(50.0)</b>	<b>(29.8)</b>	<b>34.1</b>	<b>-</b>	<b>4.3</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(29.6)</b>	<b>24.8</b>	<b>(0.0)</b>	<b>(4.8)</b>	<b>(5.0)</b>	<b>61.6</b>	<b>-</b>	<b>56.6</b>

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## 5. KEY DEVELOPMENTS 2Q16

### Execution of the share buyback programme

On 29 September 2016, the Company reached the upper limit of 4 million shares (equivalent to 1.6% of share capital) it was permitted to repurchase under the scope of the share buyback programme authorised by the Board of Directors on 23 June 2016. To do so, it incurred a cash outlay of €8.6m, implying an average purchase price of €2.138 per share.

The purpose of the programme is to complement shareholder remuneration by subsequently cancelling the shares, thereby increasing earnings per share.

## APPENDIX 1: REPORTED WORKING CAPITAL AND CAPEX

Figures in €Mn	Sep-16	Jun-16	Δ%	Dec-15	Δ%
Inventories	47.2	42.0	12.3%	40.2	17.4%
Trade and other receivables	102.7	125.8	(18.3%)	131.0	(21.6%)
Other current assets	5.6	6.9	(17.9%)	0.5	n.s.
Trade and other payables	(165.7)	(177.2)	(6.5%)	(169.1)	(2.0%)
Income tax	(2.5)	(0.0)	n.s.	0.9	n.s.
Current provisions	(7.1)	(7.3)	(3.6%)	(6.3)	12.3%
<b>Working Capital</b>	<b>(19.7)</b>	<b>(9.9)</b>	<b>99.4%</b>	<b>(2.8)</b>	<b>n.s.</b>

Reported working capital declined by €16.9m in 9M16 from year-end 2015, due mainly to the €28.3m reduction in trade and other accounts receivable following collection in the energy business of balances due from the electricity system and the impact of the 12.1% drop in average sales prices on the pulp business.

Figures in €Mn	3Q16	2Q16	Δ%	3Q15	Δ%	9M16	9M15	Δ%
Maintenance capex	4.3	3.0	41.3%	5.0	(15.1%)	16.5	15.5	6.7%
Environmental capex	1.9	2.3	(16.9%)	0.4	337.1%	6.2	3.7	70.8%
Efficiency and expansion capex	11.0	14.9	(26.6%)	18.0	(39.0%)	33.1	27.0	22.5%
<b>Pulp business capex</b>	<b>17.1</b>	<b>20.2</b>	<b>(15.4%)</b>	<b>23.4</b>	<b>(26.9%)</b>	<b>55.8</b>	<b>46.1</b>	<b>21.0%</b>
Maintenance and environmental capex	1.0	1.6	(38.5%)	1.0	3.3%	2.7	4.2	(34.6%)
Efficiency and expansion capex	-	-	n.s.	-	n.s.	-	-	n.s.
<b>Energy business capex</b>	<b>1.0</b>	<b>1.6</b>	<b>(38.5%)</b>	<b>1.0</b>	<b>3.3%</b>	<b>2.7</b>	<b>4.2</b>	<b>(34.6%)</b>
<b>Total capex</b>	<b>18.1</b>	<b>21.9</b>	<b>(17.1%)</b>	<b>24.4</b>	<b>(25.7%)</b>	<b>58.6</b>	<b>50.3</b>	<b>16.4%</b>

Capitalised capex amounted to €58.6m in 9M16, €55.8m of which corresponded to the pulp business and €2.7m (maintenance capex) to the energy business.

In the pulp business, investments in efficiency and expansion work totalled €33.1m in 9M16, mostly driven by efficiency upgrade work and the expansion of 20,000 tonnes of capacity at the Navia mill. Maintenance capex amounted to €16.5m, while environmental capex totalled €6.2m and was earmarked primarily to environmental upgrade work at the Pontevedra complex.

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

Facility	Type of facility	MW	Remuneration to investment (Ri; €/MW)	Type of fuel	Remuneration to operation (Ro; €/MW)	Maximum of sale hours per MW under tariff
Navia	Biomass co-generation	40.3	-	Black liquor	30.170	-
	Biomass generation	36.7	230,244	Forestry waste	55.024	6,500
Pontevedra	Biomass co-generation (a)	34.6	-	Black liquor	30.170	-
				Forestry waste	54.854	
Huelva 41MW	Biomass generation	41.0	246,371	Forestry waste	60.378	6,500
Huelva 50MW	Biomass generation	50.0	266,452	Forestry waste	53.337	6,500
Mérida 20MW	Biomass generation	20.0	293,579	Forestry waste	51.677	6,500

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

The remuneration deriving from the new remuneration regime is calculated as follows:

- **Ri (remuneration on investment):** annual 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
- **Ro (remuneration for operations):** 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

$$\text{Income from operations} = (\text{Ro} + \text{pool}) * \text{MWh}$$

Sales volumes in MWh may not exceed the product of a facility's gross installed capacity (MW) and the annual cap on hourly impact (there is no cap in the case of co-generation facilities).

$$\text{MWh} < \text{MW} * 6,500 \quad (\text{for power generated from biomass})$$

Output above this cap is sold at pool prices, with no entitlement to additional premiums.

Under the new regulatory framework, the Company's revenue from energy sales in any given period will depend on the trend in pool prices. Deviations in average pool prices with respect to the estimate reflected in the ministerial order (€49.16/MWh on average in 2014-2016; €52/MWh thereafter), within certain fluctuation ranges, will be offset in the next regulatory stub period (which lasts three years) by means of adjustments to the standard facility remuneration parameters.

Following publication of Spanish Royal Decree 413/2014, the biomass power generation plants located in the industrial complexes in Pontevedra, Navia and Huelva were incorrectly classified as black liquor facilities in the new official remuneration regime registry.

Ence took the administrative steps that the Ministry of Industry, Energy and Tourism made available to the generators with a view to seeking redress for errors of this kind. In 2015, the authorities ruled in favour of the claims made in respect of the Pontevedra and Navia facilities and in 2Q16, in favour of the Huelva plant's reclassification, such that this facility is now registered as a hybrid plant (85% biomass; 15% black liquor), in keeping with its profile prior to closure of the pulp mill in 3Q14.

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## APPENDIX 3: ENVIRONMENTAL COMMITMENT

Each of ENCE's four Operations Centres, located in Huelva, Navia, Pontevedra and Mérida, 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 in order to prevent, or at least minimize, 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 legislation: Ence wants to be a sector benchmark in terms of its environmental management and record. Accordingly, it has implemented a total quality management model (TQM) based on a continuous improvement approach with a focus on maximizing efficiency and competitiveness by addressing 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

This integrated management model at Huelva, Navia and Pontevedra Operations Centres is certified by an accredited organism that audits it annually and meets the following international standards:

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

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

Additionally, Ence has become the national benchmark in forest sustainability for its activity in three main areas of action: environmental responsibility, efficiency management and social commitment. In this line, Ence applies internationally recognized standards of excellence such as FSC (Forest Stewardship Council) and PEFC (Program for the Endorsement of Forest Certification schemes) in managing their own forests and actively promotes forest certification among its timber suppliers.

The fruits of this policy are evident in the gradual increase in the percentages of incoming timber that is certified, having risen from 42% and 6% at Navia and Pontevedra, respectively, to levels of 92% and 76%, respectively, as of May 2016.

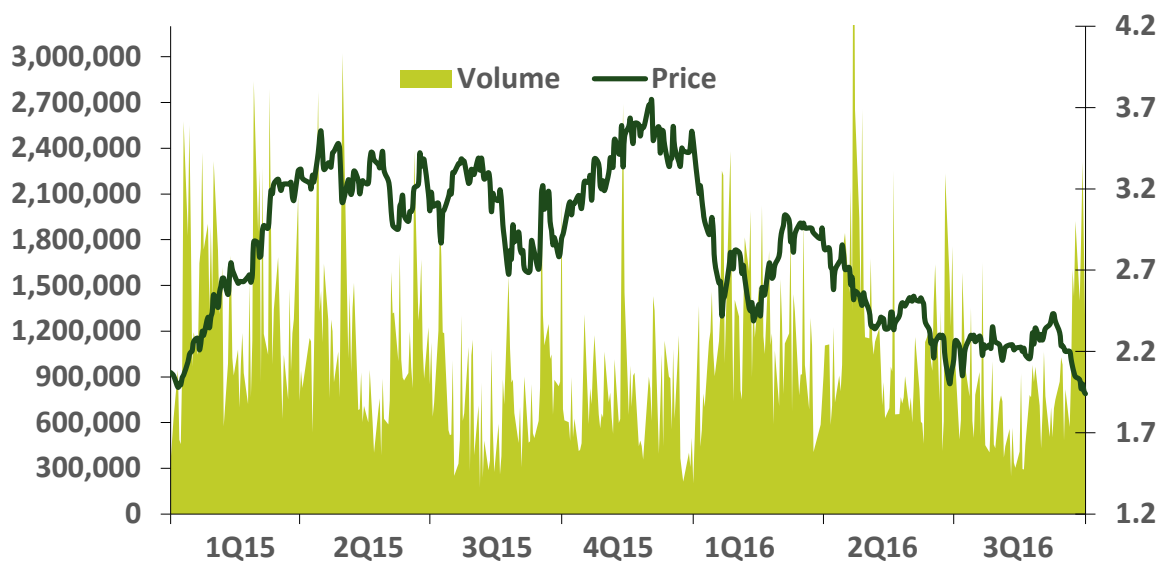
The high environmental standards achieved allow for the pulp produced in Pontevedra and Navia to carry the distinguished Nordic Swan seal. This is the official Scandinavian ecolabel, which was created in 1989 by the Nordic Council of Ministers with the aim of making a positive contribution to sustainable 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 price corrected by 44.5% during the first nine months of 2016, affected by the drop in pulp prices during the period, ending September at €1.94, down from €3.495 at year-end 2015.

During the same period, the Company's sector peers saw their share prices correct by 40.3% on average(\*).



Source: Thomson Reuters

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16
<b>Share price at the end of the period</b>	3.32	3.07	2.90	3.50	2.87	2.15	1.94
<b>Average share price in the period</b>	2.66	3.26	3.06	3.38	2.80	2.47	2.22
<b>Average daily volume (shares)</b>	1,382,498	1,094,473	805,633	780,649	1,185,754	1,185,453	834,452
<b>Ence performance</b>	60%	(7%)	(6%)	21%	(16%)	(25%)	(10%)
<b>Ibex 35 performance</b>	12%	(7%)	(11%)	(0%)	(9%)	(6%)	8%
<b>Eurostoxx performance</b>	18%	(8%)	(9%)	5%	(8%)	(5%)	5%

Note: Ence's share price performance has been adjusted for the €0.10 per share dividend paid on 8 May 2015, the €0.44 per share dividend paid on 7 October 2015 and the €0.10 per share dividend paid on 14 April 2016.

(\*) Altri, Navigator, Fibria and Suzano.

Ence's shares are part of the IBEX Small Cap, the IBEX Top Dividendo and FTSE4Good Ibex indices.

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# 3Q16 Earnings Report

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