Third-quarter 2018
Earnings report

31 October 2018

CONTENTS

1. EXECUTIVE SUMMARY

Market figures	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
BHKP (USD/t) average price	1,050.0	872.4	*20.4%*	1,044.4	*0.5%*	1,034.4	778.1	*32.9%*
Average exchange rate (USD/€)	1.16	1.17	*(0.7%)*	1.20	*(2.9%)*	1.19	1.11	*7.3%*
BHKP (€/t) average price	903.5	745.8	*21.2%*	872.3	*3.6%*	866.7	699.4	*23.9%*
Average pool price (€/MWh)	65.9	48.5	*35.9%*	52.4	*25.7%*	55.6	50.3	*10.5%*

Source: Bloomberg

Operating Magnitudes	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Pulp production (t)	**256,437**	**246,898**	***3.9%***	**232,186**	***10.4%***	**714,268**	**700,022**	***2.0%***
Pulp sales (t)	**237,615**	**239,034**	***(0.6%)***	**230,386**	***3.1%***	**700,737**	**719,901**	***(2.7%)***
Average sale pulp price (€/t)	659.9	543.2	*21.5%*	634.5	*4.0%*	632.1	509.3	*24.1%*
Cash cost (€/t)	376.0	350.0	*7.4%*	377.8	*(0.5%)*	374.3	346.7	*8.0%*
Wood cost €/m3	67.1	64.2	*4.6%*	66.2	*1.4%*	66.6	64.1	*3.8%*
Energy sales from Energy business (MWh)	**267,632**	**260,106**	***2.9%***	**219,920**	***21.7%***	**715,101**	**625,892**	***14.3%***
Average selling price - Pool + Ro (€/MWh)	106.9	98.9	*8.1%*	110.6	*(3.4%)*	108.0	105.3	*2.7%*
Investment remuneration (€Mn)	10.2	10.0	*2.7%*	10.2	*0.0%*	30.7	28.8	*6.5%*

P&L €Mn	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Revenues from Pulp business	181.1	150.9	*20.0%*	170.3	*6.3%*	514.5	436.2	*18.0%*
Revenues from Energy business	39.1	36.5	*7.2%*	34.8	*12.2%*	107.9	94.7	*14.0%*
Consolidation adjustments	(0.8)	(1.8)		(1.0)		(2.7)	(3.5)	
Total net revenue	**219.4**	**185.6**	*18.2%*	**204.1**	*7.5%*	**619.7**	**527.3**	*17.5%*
Pulp business EBITDA	66.0	45.4	*45.2%*	59.0	*11.7%*	181.1	114.7	*57.9%*
Margin %	**36%**	**30%**	*6.3 p.p.*	**35%**	*1.8 p.p.*	**35%**	**26%**	*8.9 p.p.*
Energy business EBITDA	12.9	14.4	*(10.2%)*	10.9	*18.7%*	32.5	33.0	*(1.4%)*
Margin %	**33%**	**39%**	*(6.4) p.p.*	**31%**	*1.8 p.p.*	**30%**	**35%**	*(4.7) p.p.*
EBITDA	**78.9**	**59.8**	*31.9%*	**69.9**	*12.8%*	**213.6**	**147.7**	*44.7%*
Margin %	*36%*	*32%*	*3.7 p.p.*	*34%*	*1.7 p.p.*	*34%*	*28%*	*6.5 p.p.*
Other non-ordinary results of operations	(2.0)	-	*n.s.*	(2.0)	-	(6.0)	-	*n.s.*
Amortization and forestry depletion	(18.3)	(18.6)	*(1.5%)*	(18.6)	*(1.8%)*	(56.2)	(53.9)	*4.2%*
Impairment of and gains/(losses) on fixed-asset disposals	1.3	1.5	*(9.6%)*	1.7	*(20.8%)*	5.4	5.6	*(4.0%)*
EBIT	**59.9**	**42.7**	*40.4%*	**50.9**	*17.6%*	**156.8**	**99.4**	*57.8%*
Net finance costs	(3.3)	(5.3)	*(37.1%)*	(23.3)	*(85.8%)*	(32.3)	(15.3)	*110.4%*
Other financial results	(0.1)	(0.1)	*14.0%*	1.5	*n.s.*	1.1	(3.6)	*n.s.*
Profit before tax	**56.5**	**37.3**	*51.4%*	**29.1**	*94.2%*	**125.7**	**80.5**	*56.2%*
Income tax	(14.3)	(8.8)	*63.3%*	(7.6)	*88.2%*	(32.2)	(19.7)	*63.6%*
Net Income	**42.1**	**28.5**	*47.7%*	**21.5**	*96.3%*	**93.4**	**60.8**	*53.7%*
Non-controlling interests	(0.8)	(0.5)	*54.4%*	(0.7)	*n.s*	(1.8)	(1.3)	*36.6%*
Atributable Net Income	**41.4**	**28.0**	*47.6%*	**20.8**	*99.2%*	**91.7**	**59.5**	*54.1%*
Earnings per share (EPS)	0.17	0.11	*47.6%*	0.08	*99.2%*	0.37	0.24	*54.1%*

Note: EBITDA definition has been updated in 3Q18 to exclude specific non-ordinary income and expenses unrelated to the ordinary operating activities of the company, which alter their comparability in different periods.

Cash flow €Mn	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
EBITDA	**78.9**	**59.8**	*31.9%*	**69.9**	*12.8%*	**213.6**	**147.7**	*44.7%*
Change in working capital	(9.2)	(12.7)	*(27.7%)*	21.4	*n.s.*	(18.5)	(28.8)	*(35.8%)*
Maintenance capex	(7.0)	(3.0)	*129.9%*	(4.1)	*70.1%*	(14.8)	(13.6)	*8.8%*
Net interest Payment	(1.4)	(0.1)	*n.s.*	(23.8)	*(94.0%)*	(25.3)	(10.4)	*143.7%*
Income tax received/(paid)	(0.6)	0.3	*n.s.*	(7.5)	*(92.0%)*	(7.8)	(3.0)	*156.8%*
Normalized free cash flow	**60.7**	**44.2**	*37.3%*	**55.9**	*8.6%*	**147.2**	**91.8**	*60.3%*
Other charges / (payments)	9.4	5.2	*n.s.*	(3.1)	*n.s*	9.0	10.2	*(11.2%)*
Expansion capex	(42.5)	(2.4)	*n.s.*	(59.4)	*(28.5%)*	(121.5)	(41.4)	*193.6%*
Environmental capex	(1.5)	(1.2)	*22.1%*	(2.3)	*(33.8%)*	(5.4)	(4.2)	*27.1%*
Disposals	(2.4)	0.5	*n.s.*	0.4	*n.s.*	1.6	3.2	*(50.9%)*
Free Cash Flow	**23.7**	**46.3**	*(48.8%)*	**(8.5)**	*n.s.*	**30.8**	**59.5**	*(48.2%)*
Dividends	(22.8)	(12.1)	*88.5%*	(16.2)	*n.s*	(39.0)	(23.7)	*64.6%*

Net debt €Mn	Sep-18	Dec-17	Δ%	Jun-18	Δ%
Pulp business net financial debt	60.2	120.1	*(49.9%)*	84.5	*(28.8%)*
Energy business net financial debt	96.6	33.0	*192.3%*	67.8	*42.5%*
Net financial debt	**156.8**	**153.1**	*2.4%*	**152.3**	*2.9%*

- ✓ **Global demand for pulp remained strong in the first nine months of 2018. Continued demand growth coupled with the lack of major capacity additions in the industry, foreshadows a period of strong pulp prices for the coming years.**

- ✓ **Group's Attributable Net Income and EBITDA registered year-on-year growth of 48% and 32%, respectively, in 3Q18.**

- ✓ **In 9M18, Group's Attributable Net Income and EBITDA registered year-on-year growth of 54% and 45%, respectively, driven by the Pulp business.**

- ✓ **EBITDA in the Pulp business was 58% higher year-on-year in 9M18, whereas EBITDA in the Renewable Energy business was stable.**

- ✓ **Normalised free cash flow was 60% higher in 9M18, facilitating the financing of a €39m dividend and €127m of capex incurred to complete the execution of the current Strategic Plan with hardly any impact on net debt, which stands at only 0.6 times LTM EBITDA.**

- ✓ **In the Pulp business, 30,000 tonnes of capacity were added at the Pontevedra biofactory and work has begun for the addition of 80,000 tonnes at the Navia biofactory, set for the second quarter of 2019.**

- ✓ **In the Renewable Energy Business, the investments in progress to add 99 megawatts of new biomass-powered generation capacity are on schedule for commissioning by the end of 2019. These new facilities are expected to contribute with an additional annualised EBITDA of €30m.**

- ✓ **In addition, in October Ence agreed to purchase a 90% stake in a 50-MW solar thermal plant in Puertollano (Ciudad Real) for €139.5m (net); this power plant is expected to contribute with an annual EBITDA of €18m, before synergies. Depending on the Regulated Return on Investment (IRR) approved by the Regulator in late 2019, this acquisition price could be increased up to €6.3m.**

- ✓ **This year both Moody's and Standard & Poor's have improved the credit ratings awarded to the Company by one notch, expressly acknowledging the structural improvement in Ence's business model in the wake of the growth in the Renewable Energy Business.**

- ✓ **The Company is set to publish its new Business Plan for 2019 - 2023 on 20 November aiming at almost doubling the current EBITDA at constant prices.**

- ✓ **The Pulp Business's debt was refinanced during the first half with the issuance of €160m of 1.25% convertible bonds and the prepayment of its €250m of 5.38% straight bonds. Those transactions will translate into annual interest savings for Ence of €11m from next year.**

- ✓ **The Board will approve the payment of the second interim dividend from this year's profits in November, in keeping with the prevailing dividend policy.**

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.

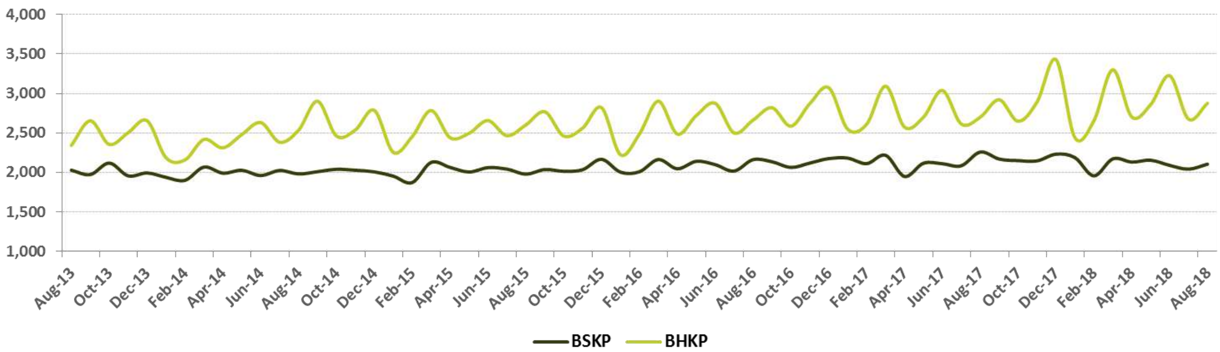
Ence's Pulp Business encompasses all the activities related to the production of pulp for sale to third parties. It therefore includes not only the production and sale of pulp but also the generation and co-generation of energy using renewable biomass at the plants involved in the productive process, 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 eight months of 2018, registering year-on-year growth of 4%, equivalent to an increase of 878,000 tonnes of pulp, according to PPPC estimates.

Continued growth 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 increasing living standards in emerging economies.

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



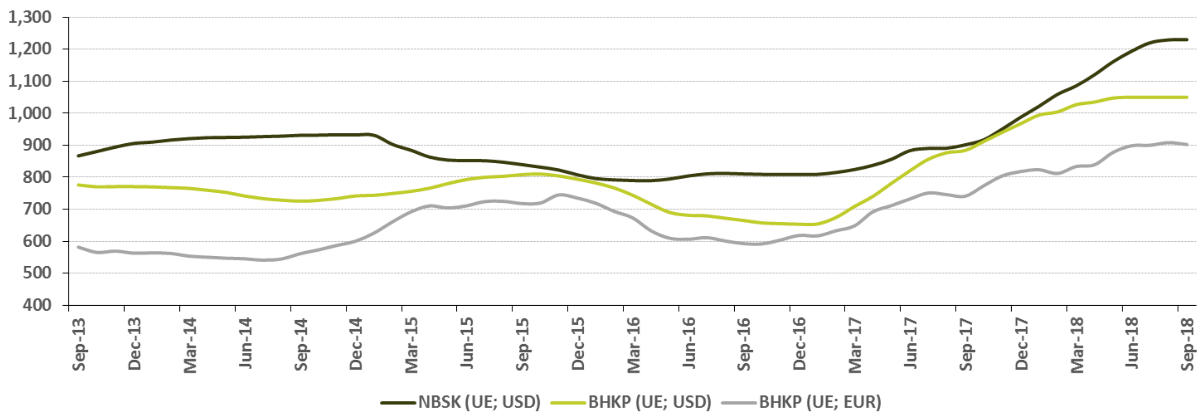
Source: PPPC (G-100)

On the other hand, the growth in supply of short-fibre pulp as a result of the start-up of the Fibria new line in Tres Lagoas (Brazil) in August 2017 and the resumption of production at the CMPC mill in Guaiba (Brazil) in November 2017 has been partially offset by a higher concentration of maintenance stoppages during the period, the timber supply issues encountered by the main producers in Indonesia and the truckers' strike in Brazil, which lasted 11 days towards the end of May and implied a loss of production of around 300,000 tonnes.

In this context, short-fibre pulp prices in Europe remained steady at $1,050 per tonne during the third quarter, compared to $872 in 3Q17.

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. The soonest confirmed project, being built by Arauco in Chile, is not expected to be operational until the second half of 2021.

Pulp prices in Europe during the last five years



Source: FOEX

2.2. Revenue from pulp sales

	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Pulp sales (t)	**237,615**	**239,034**	*(0.6%)*	**230,386**	*3.1%*	**700,737**	**719,901**	*(2.7%)*
Average selling price (€/t)	659.9	543.2	*21.5%*	634.5	*4.0%*	632.1	509.3	*24.1%*
Pulp sales revenues (€Mn)	**156.8**	**129.8**	*20.8%*	**146.2**	*7.3%*	**442.9**	**366.7**	*20.8%*

Ence´s average pulp selling price increased by 21.5% year-on-year in 3Q18, driven by growth of 20.4% in the dollar-denominated benchmark price, and boosted to a lesser degree by average euro depreciation against the dollar of 0.7%.

On the other hand, pulp sales volumes declined by 0.6% year-on-year despite growth in output of 3.9% during the same timeframe, due to the replenishment of inventories ahead of the capacity additions planned for the first half of 2019. Inventories stood at 46,200 tonnes at the September close.

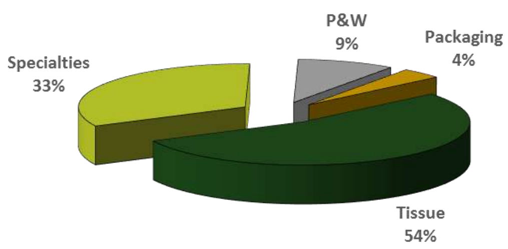
The combination of the two factors drove growth in revenue from pulp sales of 20.8% year-on-year in 3Q18 to €156.8m.

Revenue from pulp sales was 20.8% higher in the first nine months of the year at €442.9m, driven by growth of 24.1% in the average sales price.

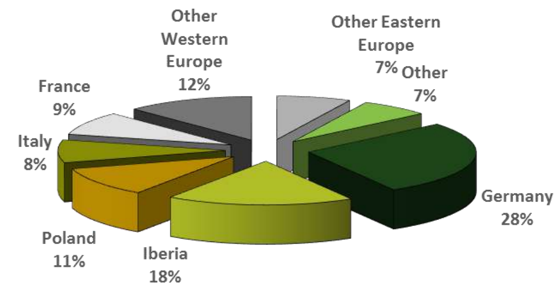
The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 54% of revenue from pulp sales year-to-date, followed by the specialty paper segment, at 33%, and the printing and writing papers segment, at 9%. The remaining 4% corresponds to the packaging segment.

Most of the pulp produced by Ence is sold in Europe, namely 93% of revenue from pulp sales in 9M18. Germany and Iberia accounted for 28% and 18% of total revenue, respectively, followed by Poland (11%), Italy (8%) and France (9%). Other western European countries accounted for 12% of the total, with Eastern Europe representing 7%.

Breakdown of revenue by end product



Breakdown of revenue by geographic market



2.3. Pulp production and the cash cost

	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Navia pulp production	143,176	133,501	*7.2%*	118,930	*20.4%*	391,909	380,517	*3.0%*
Pontevedra pulp production	113,261	113,396	*(0.1%)*	113,256	*0.0%*	322,358	319,505	*0.9%*
Pulp production (t)	**256,437**	**246,898**	*3.9%*	**232,186**	*10.4%*	**714,268**	**700,022**	*2.0%*

Pulp production increased by 3.9% year-on-year in 3Q18 boosting pulp production in the first nine months to 714,268 tonnes, up 2% from 9M17.

In May, the Company took advantage of the 10-day 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 odour and noise impact, minimise its emissions and improve the quality of its effluent.

In March, the Pontevedra biofactory was stopped for maintenance work for 12 days. The Company took advantage of that 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 be reached during the fourth quarter in the wake of the expansion work.

The third-quarter cash cost was €376/t, down €1.8/t from 2Q18. The €6.5/t reduction in conversion costs was partially offset by the €4.5/t increase in overheads, mainly due to new recruitments related to capacity expansions planned for 2019 and 2020.

Figures in €/t	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Wood cost	199.8	192.1	*4.0%*	198.9	*0.5%*	199.3	191.3	*4.2%*
Conversion costs	107.1	104.0	*3.0%*	113.6	*(5.7%)*	110.1	101.8	*8.1%*
Commercial and logistic costs	31.6	28.6	*10.7%*	32.4	*(2.3%)*	31.8	29.0	*9.8%*
Overheads	37.4	25.3	*47.7%*	32.9	*13.8%*	33.1	24.6	*34.9%*
Total cash cost	**376.0**	**350.0**	*7.4%*	**377.8**	*(0.5%)*	**374.3**	**346.7**	*8.0%*

In comparison with the third quarter of 2017, the cash cost increased by €26/t. Overhead increased by €12.1/t year-on-year, for the above-mentioned reasons, while timber costs were €7.7/t higher due to their indexation to pulp prices. In addition, conversion costs were €3.1/t higher as a result of the higher cost of chemicals, particularly caustic soda following the discontinuation of its production using mercury. Lastly, logistics costs were €3/t more expensive on the back of higher oil prices.

	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Wood cost €/m3	67.1	64.2	*4.6%*	66.2	*1.4%*	66.6	64.1	*3.8%*
Timber consumption (m3)	672,042	776,295	*(13.4%)*	776,295	*(13.4%)*	2,143,143	2,138,515	*0.2%*
Big suppliers	0%	26%		24%		17%	25%	
Small suppliers	74%	47%		*53%*		58%	48%	
Standing timber acquired directly from land owners	24%	27%		*19%*		21%	27%	
Owned timber	*2%*	0%		*5%*		5%	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.

	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Navia energy sales	136,631	139,616	*(2.1%)*	114,718	*19.1%*	381,188	384,979	*(1.0%)*
Pontevedra energy sales	59,217	58,539	*1.2%*	59,411	*(0.3%)*	170,286	159,331	*6.9%*
Energy sales linked to the pulp process (MWh)	**195,849**	**198,155**	*(1.2%)*	**174,129**	*12.5%*	**551,474**	**544,309**	*1.3%*
Average selling price - Pool + Ro (€/MWh)	103.1	84.7	*21.6%*	100.4	*2.7%*	97.4	88.0	*10.7%*
Investment remuneration (€Mn)	2.6	2.6	*(0.0%)*	2.6	*0.0%*	7.7	7.7	*(0.0%)*
Revenues from energy sales linked to pulp (€Mn)	**22.7**	**19.4**	*17.5%*	**20.0**	*13.5%*	**61.4**	**55.6**	*10.4%*

The energy sold as part of the pulp production process decreased by 1.2% year-on-year in 3Q18. In the first nine months of the year, energy volume sold grew by 1.3% year-on-year to 551,474 MWh.

The average sales price was 21.6% higher compared to 3Q17 at €103.1/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 nine months was €97.4/MWh, up 10.7% 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 €1.4m in 3Q18 and of €1.3m in 9M18, which have been recognised as a decrease in the average sales price. In comparison, the Company had recognised provisions of €0.9m and €1.8m in this respect in 3Q17 and 9M17, respectively.

In total, revenue from energy sales in the Pulp Business, factoring in remuneration for investment - unchanged - increased by 17.5% from 3Q17. And revenue from energy sales in 9M18 increased by 10.4% to €61.4m.

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.

	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Forestry and other revenues (€Mn)	**1.5**	**1.7**	*(12.3%)*	**4.1**	*(63.0%)*	**10.2**	**13.9**	*(27.1%)*

Revenue from forestry activities declined by 12.3% and 27.1% year-on-year, in 3Q18 and 9M18, respectively, as a result of the planned reduction in the volume of timber sold to third parties. This reduction is part of the Company's strategy to structure and valorise its forestry assets.

2.6. Income statement

Figures in €Mn	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Total net revenue	**181.1**	**150.9**	*20.0%*	**170.3**	*6.3%*	**514.5**	**436.2**	*18.0%*
EBITDA	**66.0**	**45.4**	*45.2%*	**59.0**	*11.7%*	**181.1**	**114.7**	*57.9%*
EBITDA margin	*36%*	*30%*	*6.3 p.p.*	*33%*	*2.9 p.p.*	*35%*	*26%*	*8.9 p.p.*
Other non-ordinary results of operations	(2.0)	-	*n.s.*	(2.0)	-	(6.0)	-	*n.s.*
Amortization	(13.3)	(13.6)	*(1.6%)*	(12.7)	*5.1%*	(39.1)	(38.6)	*1.4%*
Forest depletion	(0.6)	(0.1)	*n.s.*	(1.6)	*(65.0%)*	(4.1)	(2.6)	*59.0%*
Impairment of and gains/(losses) on fixed-asset disposal	1.4	1.5	*(9.2%)*	3.5	*(59.7%)*	7.3	5.7	*27.4%*
EBIT	**51.5**	**33.3**	*54.5%*	**46.2**	*11.4%*	**139.1**	**79.2**	*75.6%*
EBIT margin	*28%*	*22%*	*6.4 p.p.*	*27%*	*1.3 p.p.*	*27%*	*18%*	*8.9 p.p.*
Net finance costs	(1.3)	(3.8)	*(66.1%)*	(20.9)	*(93.8%)*	(25.6)	(10.9)	*135.3%*
Other financial results	(0.1)	(0.1)	*73.6%*	8.1	*n.s.*	7.7	4.5	*71.2%*
Profit before tax	**50.0**	**29.4**	*70.2%*	**33.4**	*49.9%*	**121.3**	**72.9**	*66.4%*
Income tax	(12.7)	(6.8)	*86.9%*	(6.6)	*92.2%*	(29.0)	(15.8)	*83.9%*
Net Income	**37.3**	**22.6**	*65.2%*	**26.8**	*39.5%*	**92.2**	**57.1**	*61.6%*

Note: EBITDA definition has been updated in 3Q18 to exclude specific non-ordinary income and expenses unrelated to the ordinary operating activities of the company, which alter their comparability in different periods.

EBITDA in the Pulp Business amounted to €66m in 3Q18, up 45.2% from 3Q17, thanks to the 21.5% increase in the average sales price, which offset the 0.6% decline in sales volumes and the 7.4% increase in the cash cost.

In 9M18, this business's EBITDA increased by 57.9% to €181.1m, driven by growth of 24.1% in the average pulp sales price, more than mitigating the 2.7% decline in sales volumes, due to the replenishment of inventories ahead of the capacity additions planned for the first half of 2019 and 8% increase in the cash cost.

In addition, 9M18 EBITDA includes €5.3m of gains from exchange rate hedges and €1.6m of other charges not included in the cash cost.

Bellow EBITDA, other non-ordinary results of operations include expenses related with Ence´s Environmental Pact in Pontevedra, signed in June 2016, which totalled €2m in 3Q18 and €6m accumulated in 9M18.

Depreciation and amortisation charges were 1.4% higher at €39.1m in 9M18, while forest depletion charges increased to €4.1m as a result of more intense use of timber sourced from proprietary plantations during the period.

Impairment charges/reversals and gains/losses on disposals amounted to €7.3m and included a gain of €1.7m on the transfer to the Renewable Energy Business of the land on which the Huelva industrial complex is located, thus culminating the separation of the Pulp and Energy Businesses. Most of the remainder of this heading relates to the reversal of the impairment 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 9M18 to €25.6m as a result of expenses totalling €18.8m associated with the prepayment of a €250m bond issue during the second quarter. Of that sum, €7m corresponded to the prepayment penalty, €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 €2.7m, €1.6m of which had no impact on cash.

'Other finance income/costs', which totalled €7.7m in 9M18, include a €6.6m dividend from the Renewable Energy Business, as well as exchange rate gains.

In all, the Pulp Business reported year-on-year Net Income growth of 65.2% in 3Q18 and of 61.6% to €92.2m in 9M18.

2.7. Cash flow statement

Net cash flows from operating activities amounted to €72.1m in 3Q18, which more than doubled (101.1%) those of 3Q17. In 9M18, net cash flows from operating activities amounted to €152.3m, up 60.4% from 9M17.

Net cash inflows from financing activities amounted to €5.9m in 3Q18 and included a €6.6m dividend from the Renewable Energy Business. Note that in 2017, the dividend from the Renewable Energy Business was collected in the second and not in the third quarter.

In 9M18, net cash outflows included, in addition to the €6.6m dividend, €13.7m related with the prepayment of the €250m bond issued in 2Q18. Of that sum, €7m corresponded to the prepayment penalty and €6.7m to the second annual coupon due 1 November. The costs associated with the €160m convertible bond issuance were €2.1m.

Figures in €Mn	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
EBITDA	**66.0**	**45.4**	*45.2%*	**59.0**	*11.8%*	**181.1**	**114.7**	*57.9%*
Non cash expenses / (incomes)	5.4	3.3	*61.1%*	(2.1)	*n.s.*	4.8	5.5	*(11.2%)*
Other charges / (payments)	0.4	0.0	*n.s.*	0.5	*(4.8%)*	0.1	(0.4)	*n.s.*
Change in working capital	(5.5)	(5.5)	*0.1%*	20.1	*n.s.*	(14.2)	(17.3)	*(17.9%)*
Income tax received/(paid)	(0.0)	-	*n.s.*	(6.4)	*(99.4%)*	(6.4)	(2.0)	*216.9%*
Net finance collection / (payment)	5.9	(7.4)	*n.s.*	(19.9)	*n.s.*	(13.1)	(5.5)	*138.2%*
Net cash flow from operating activities	**72.1**	**35.9**	*101.1%*	**51.1**	*41.1%*	**152.3**	**95.0**	*60.4%*

Note: EBITDA definition has been updated in 3Q18 to exclude specific non-ordinary income and expenses unrelated to the ordinary operating activities of the company, which alter their comparability in different periods.

Working capital increased by €5.5m in 3Q18, in line with the increase observed in 3Q17. In 9M18, working capital increased by €14.2m, compared to an increase of €17.3m in 9M17.

Figures in €Mn	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Inventories	(0.8)	(0.9)	*(19.8%)*	(5.3)	*(85.6%)*	(3.7)	4.7	*n.s.*
Trade and other receivables	2.8	(2.4)	*n.s.*	11.8	*(76.6%)*	(12.6)	(20.9)	*(39.7%)*
Current financial and other assets	2.4	0.9	*150.8%*	1.7	*42.1%*	4.9	0.8	*n.s.*
Trade and other payables	(9.9)	(3.1)	*222.0%*	11.9	*n.s.*	(2.8)	(1.9)	*44.8%*
Change in working capital	**(5.5)**	**(5.5)**	*0.1%*	**20.1**	*n.s.*	**(14.2)**	**(17.3)**	*(17.9%)*

Net cash flows used in investing activities amounted to €20.7m in 3Q18 and €48.5m in 9M18 (+129% year-on-year).

The outlay for maintenance and environmental capex totalled €5.4m and €1.5m in 3Q18, respectively, and €11.8m and €4.0m, respectively, in 9M18.

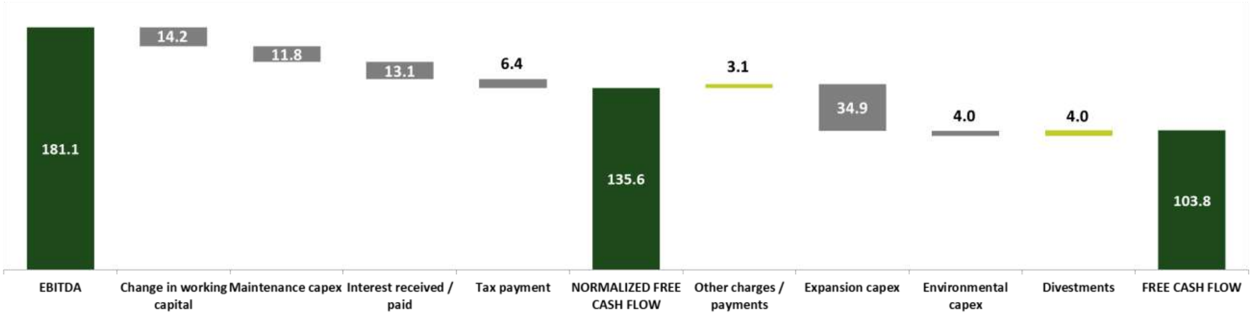
Investments in efficiency and growth amounted to €14.4m in 3Q18 and €34.9m in 9M18 which are largely related to the addition of 30,000 tonnes of capacity at the Pontevedra biofactory and the first payments associated with the planned addition of 80,000 tonnes of capacity in Navia scheduled for the second quarter of 2019.

Financial investments, which totalled €1.9m in 9M18, included the €2.5m capital increase carried out by the Renewable Energy Business in exchange for the non-monetary contribution of the land on which the Huelva industrial complex is located, following the business segregation process.

Figures in €Mn	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Maintenance capex	(5.4)	(2.6)	*107.1%*	(3.1)	*75.2%*	(11.8)	(10.8)	*9.1%*
Environmental capex	(1.5)	(1.2)	*22.1%*	(2.3)	*(33.8%)*	(4.0)	(4.2)	*(7.0%)*
Efficiency and expansion capex	(14.4)	(2.0)	*n.s.*	(12.5)	*15.5%*	(34.9)	(10.9)	*219.7%*
Financial investments	0.7	0.9	*(24.0%)*	(3.3)	*n.s.*	(1.9)	1.6	*n.s.*
Investments	**(20.7)**	**(5.0)**	*n.s.*	**(21.2)**	*(2.3%)*	**(52.5)**	**(24.3)**	*115.9%*
Disposals	0.0	0.5	*(97.8%)*	2.9	*(99.6%)*	4.0	3.2	*26.7%*
Net cash flow from investing activities	**(20.7)**	**(4.5)**	*n.s.*	**(18.2)**	*13.3%*	**(48.5)**	**(21.2)**	*129.2%*

Proceeds from disposals, meanwhile, which totalled €4m in 9M18, included the contribution of the above-mentioned site by the Renewable Energy Business.

As a result, normalised free cash flow from the Pulp Business amounted to €135.6m in the first nine months of the year, while free cash flow net of efficiency, growth and environmental capex totalled €103.8m.



2.8. Change in net debt

Net debt in this business declined by €60.2m from year-end 2017 to €60.2m, despite the payment of €39m in dividends.

Figures in €Mn	Sep-18	Dec-17	Δ%	Jun-18	Δ%
Long term financial debt	227.0	285.6	*(20.5%)*	227.1	*n.s.*
Short-term financial debt	3.0	8.2	*(63.2%)*	3.2	*n.s.*
Gross financial debt	**230.0**	**293.8**	*(21.7%)*	**230.4**	*n.s.*
Cash and cash equivalents	168.3	167.3	*0.6%*	142.0	*(100.0%)*
Short-term financial investments	1.5	6.4	*(76.7%)*	3.9	*n.s.*
Pulp business net financial debt	**60.2**	**120.1**	*(49.9%)*	**84.5**	*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. Those transactions will translate into annual interest savings for the Pulp Business of €11.4m from 2019.

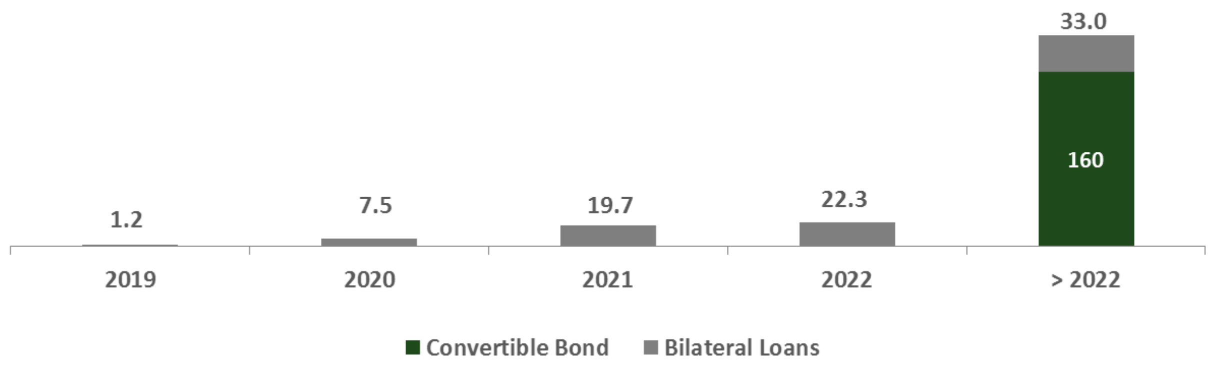
The new bonds are convertible into Ence shares at a price of €7.2635 per share. In keeping with prevailing accounting rules, the conversion option is valued at €14.5m and is recognised as an increase in equity on the balance sheet.

In addition, during the second quarter, Ence exchanged its €90m credit facility due 2021 (which was fully drawn down 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.

Also in 2Q18, the Company 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 €230m at the September 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 €39.4m awarded by the CDTI (acronym in Spanish for the Centre for the Development of Industrial Technology) and Spanish Ministry of Industry to finance investments in efficiency upgrades and capacity expansion work; the maturities on these loans range to 2028. Debt arrangement fees are deducted from gross borrowings on the balance sheet.

Pulp business debt maturity profile (€Mn)



At the reporting date, the Pulp Business had cash and cash equivalents of €169.8m. Lastly, note that none of the €70m sustainable credit facility had been drawn down at the September close.

3. RENEWABLE ENERGY BUSINESS

Ence's Renewable 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 operating plants with an 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 currently in the process of developing two 46-MW plants in Huelva and Ciudad Real and plans to locate a third 7-MW facility within one of its operating plants.

In addition, on 18 October 2018 Ence agreed to acquire a 90% stake in a 50-MW solar thermal power plant in Puertollano (Ciudad Real) which is expected to contribute with an additional EBITDA of €18m, before synergies.

3.1. Electricity market trends

	3Q18	3Q17	*Δ%*	2Q18	*Δ%*	9M18	9M17	*Δ%*
Average pool price (€/MWh)	65.9	48.5	*35.9%*	52.4	*25.7%*	55.6	50.3	*10.5%*

Average pool prices in mainland Spain were 35.9% higher year-on-year in 3Q18 at €65.9/MWh. The average price in the first nine months of the year was €55.6/MWh, up 10.5% year-on-year.

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

Note that Ence´s average selling price is subject to a cap and floor that are established by the regulator every three years (the regulatory collar), as outlined in greater detail in Appendix 1 which describes the plants' remuneration parameters.

3.2. Revenue from energy sales

Energy sales volumes increased by 2.9% year-on-year in 3Q18 to 267,632 MWh. The impact of the first-time consolidation of the 27-MW complex in Cordoba acquired in August 2017 was partially offset by a drop in output at four of the six plants due to various operating incidents sustained during the quarter.

	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Huelva 50 MW	94,499	97,793	*(3.4%)*	67,629	*39.7%*	229,404	234,822	*(2.3%)*
Huelva 41 MW	38,925	43,895	*(11.3%)*	37,118	*4.9%*	112,066	131,116	*(14.5%)*
Mérida 20 MW	40,522	41,982	*(3.5%)*	29,652	*36.7%*	97,567	99,765	*(2.2%)*
Ciudad Real 16 MW	23,605	24,995	*(5.6%)*	22,031	*7.1%*	68,777	67,673	*1.6%*
Jaén 16 MW	21,658	19,012	*13.9%*	20,788	*4.2%*	66,851	60,086	*11.3%*
Córdoba 27 MW	48,423	32,429	*49.3%*	42,702	*13.4%*	140,436	32,429	*n.s.*
Energy sales (MWh)	**267,632**	**260,106**	*2.9%*	**219,920**	*21.7%*	**715,101**	**625,892**	*14.3%*
Average selling price - Pool + Ro (€/MWh)	106.9	98.9	*8.1%*	110.6	*(3.4%)*	108.0	105.3	*2.7%*
Investment remuneration (€Mn)	10.2	10.0	*2.7%*	10.2	*0.0%*	30.7	28.8	*6.5%*
Revenues (€Mn)	**39.1**	**36.5**	*7.2%*	**34.8**	*12.2%*	**107.9**	**94.7**	*14.0%*

In 9M18, energy sales volumes were 14.3% higher thanks to the contribution by the 27-MW Cordoba complex. Generation at the other plants was 3.2% lower than in 9M17, due mainly to the operating incidents sustained during the first and third quarters.

The average sales price was 8.1% higher compared to 3Q17 at €106.9/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 nine months was €108/MWh, up 2.7% 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 €4.7m in 3Q18 and of €6.2m in 9M18, which have been recognised as a decrease in the average sales price. In comparison, the Company had recognised provisions of €1.5m and €2.6m in this respect in 3Q17 and 9M17, respectively.

Lastly, quarterly remuneration for investment increased by 2.7% 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 Renewable Energy Business reported topline growth of 7.2% in 3Q18 to €39.1m and of 14.0% in 9M18 to €107.9m.

3.3. Income statement

Figures in €Mn	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Total net revenue	**39.1**	**36.5**	*7.2%*	**34.8**	*12.2%*	**107.9**	**94.7**	*14.0%*
EBITDA	**12.9**	**14.4**	*(10.2%)*	**10.9**	*18.7%*	**32.5**	**33.0**	*(1.4%)*
EBITDA margin	*33%*	*39%*	*(6.4) p.p.*	*31%*	*1.8 p.p.*	*30%*	*35%*	*(4.7) p.p.*
Amortization	(4.3)	(4.1)	*3.4%*	(4.3)	*(1.2%)*	(12.8)	(11.7)	*9.3%*
Forest depletion	(0.1)	(0.8)	*(85.4%)*	-	*n.s.*	(0.1)	(1.0)	*(88.5%)*
Impairment of and gains/(losses) on fixed-asset disposals	(0.1)	(0.1)	*1.6%*	(0.1)	*(0.0%)*	(0.2)	(0.1)	*47.7%*
EBIT	**8.4**	**9.4**	*(10.1%)*	**6.5**	*30.5%*	**19.4**	**20.2**	*(3.6%)*
EBIT margin	*22%*	*26%*	*(4.1) p.p.*	*19%*	*3.0 p.p.*	*18%*	*21%*	*(3.3) p.p.*
Net finance costs	(2.0)	(1.4)	*39.9%*	(2.4)	*(17.3%)*	(6.7)	(4.5)	*50.0%*
Other financial results	(0.0)	(0.0)	*(86.0%)*	(0.0)	*(53.8%)*	(0.0)	(0.1)	*(70.5%)*
Profit before tax	**6.4**	**7.9**	*(18.8%)*	**4.0**	*59.9%*	**12.7**	**15.6**	*(18.7%)*
Income tax	(1.6)	(2.0)	*(18.2%)*	(1.0)	*61.1%*	(3.2)	(3.9)	*(18.4%)*
Net Income	**4.8**	**5.9**	*(19.0%)*	**3.0**	*59.5%*	**9.5**	**11.7**	*(18.8%)*
Non-controlling interests	(0.8)	(0.5)	*54.4%*	(0.7)		(1.8)	(1.3)	*36.6%*
Atributable Net Income	**4.0**	**5.4**	*(25.6%)*	**2.3**	*74.8%*	**7.7**	**10.4**	*(25.6%)*

The Renewable Energy Business reported third-quarter EBITDA of €12.9m, down 10.2% from 3Q17, due mainly to the above-mentioned operating incidents.

In 9M18, EBITDA was 1.4% lower year-on-year despite higher output due to the additional charges associated with the incidents sustained in the first and third quarters, as well as the expenses related with leachate treatment and inventory management at the 16-MW Jaen plant in 1Q18.

Below the EBITDA line, it is worth highlighting the 9.3% increase in depreciation charges in 9M18, due mainly to the first-time consolidation of the 27-MW plant in Cordoba from August 2017.

Finance costs increased to €6.7m in 9M18 due mainly to the increase in the average gross debt balance.

In all, the net profit attributable to the Renewable Energy Business amounted to €4m in 3Q18 and €7.7m in 9M18, down 25.6% year-on-year in both instances.

3.4. Cash flow statement

Net cash flow from operating activities amounted to €8.1m in 3Q18 and €22.9m in 9M18, up 40% year-on-year, due mainly to the improvement in working capital.

Figures in €Mn	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
EBITDA	**12.9**	**14.4**	*(10.2%)*	**10.9**	*18.7%*	**32.5**	**33.0**	*(1.4%)*
Non cash expenses / (incomes)	0.5	0.2	*121.2%*	(0.8)	*n.s.*	2.4	1.5	*58.1%*
Other charges / (payments)	(0.3)	(0.3)	*(15.6%)*	(0.2)	*6.6%*	(0.8)	(0.8)	*0.0%*
Change in working capital	(3.7)	(7.2)	*(48.9%)*	1.3	*n.s.*	(4.3)	(11.5)	*(62.7%)*
Income tax received / (paid)	(0.6)	0.3	*n.s.*	(1.1)	*(48.6%)*	(1.4)	(1.0)	*35.0%*
Net finance collection / (paiment)	(0.8)	(0.7)	*7.5%*	(3.9)	*(80.5%)*	(5.7)	(4.9)	*15.7%*
Net cash flow from operating activities	**8.1**	**6.7**	*21.4%*	**6.1**	*32.8%*	**22.9**	**16.3**	*40.0%*

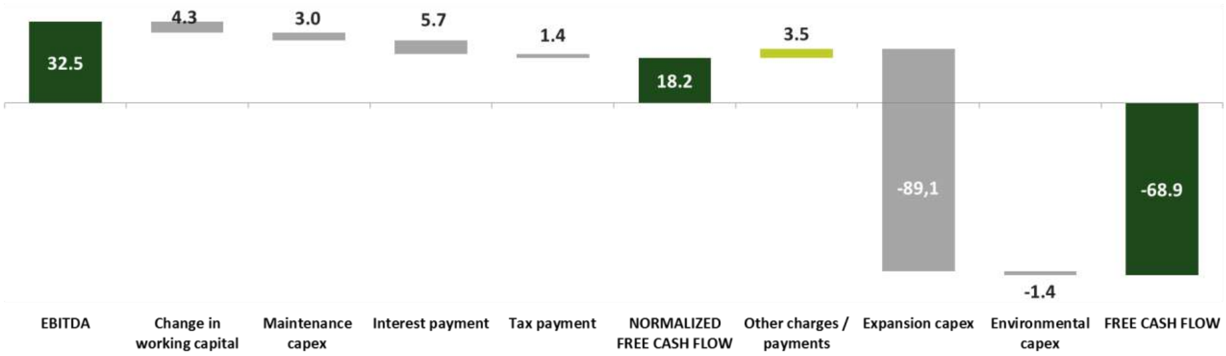
The change in working capital implied cash outflows of €3.7m in 3Q18 and €4.3m in 9M18, which was 48.9% and 62.7% smaller than the outlays in 3Q17 and 9M17, respectively, affected by the addition of the 27-MW Cordoba plant.

Figures in €Mn	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Inventories	2.1	(0.3)	*n.s.*	0.2	*n.s.*	2.8	(2.8)	*n.s.*
Trade and other receivables	(6.1)	(7.0)	*(12.8%)*	(0.0)	*n.s.*	(5.0)	(9.1)	*(45.4%)*
Trade and other payables	0.4	0.2	*120.5%*	1.1	*(63.2%)*	(2.1)	0.4	*n.s.*
Change in working capital	**(3.7)**	**(7.2)**	*(48.9%)*	**1.3**	*n.s.*	**(4.3)**	**(11.5)**	*(62.7%)*

Net cash flows used in investing activities totalled €32.7m in 3Q18 and €91.8 in 9M18, of which €3.0m corresponded to maintenance capex, €1.4m to environmental capex and €89.1m to payments related with the construction of two new 46-MW plants in Huelva and Ciudad Real, scheduled for start-up at the end of 2019.

Figures in €Mn	3Q18	3Q17	Δ%	2Q18	Δ%	9M18	9M17	Δ%
Maintenance capex	(1.6)	(0.4)	*n.s.*	(0.9)	*75.5%*	(3.0)	(2.8)	*7.6%*
Environmental capex	(0.9)	-		(0.3)		(1.4)	-	
Efficiency and expansion capex	(30.6)	(0.4)	*n.s.*	(49.2)	*(37.9%)*	(89.1)	(30.5)	*192.4%*
Financial investments	0.3	1.0	*(75.1%)*	0.4	*(39.2%)*	1.8	2.7	*(32.1%)*
Investments	**(32.7)**	**0.2**	*n.s.*	**(50.0)**	*(34.6%)*	**(91.8)**	**(30.6)**	*199.7%*
Disposals	0.0	-	*n.s.*	-	*n.s.*	0.0	-	*n.s.*
Net cash flow from investing activities	**(32.7)**	**0.2**	*n.s.*	**(50.0)**	*(34.7%)*	**(91.7)**	**(30.6)**	*199.5%*

As a result, the normalised free cash flow generated by the Renewable Energy Business amounted to €18.2m in 9M18, while free cash flow net of efficiency, growth and environmental capex was negative at €68.9m.

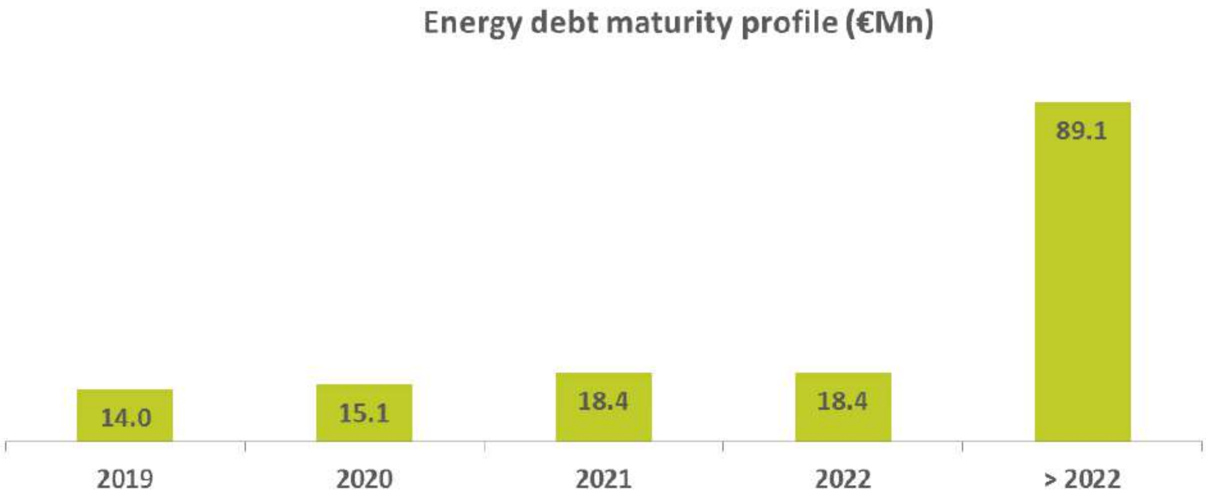


3.5. Change in net debt

Net debt in the Energy Business increased by €63.6m from year-end 2017 to €96.6m.

Figures in €Mn	Sep-18	Dec-17	Δ%	Jun-18	Δ%
Long term financial debt	144.7	129.2	*12.0%*	144.6	*0.1%*
Short-term financial debt	11.6	7.0	*64.5%*	10.6	*9.5%*
Gross financial debt	**156.3**	**136.3**	*14.7%*	**155.1**	*0.7%*
Cash and cash equivalents	59.7	103.2	*(42.2%)*	87.3	*(31.6%)*
Short-term financial investments	0.0	0.0	-	0.0	-
Energy business net financial debt	**96.6**	**33.0**	*192.3%*	**67.8**	*42.5%*

The €156.3m of gross borrowings at the reporting date correspond mainly to the balance drawn down under the €220m financing line arranged in November 2017 (of which the Company repaid €3.5m in 9M18). That financing line includes a €20m credit line that had not been drawn down as of the September close. Debt arrangement fees are deducted from gross borrowings on the balance sheet.



Cash stood at €59.7m at the September close.

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Income statement

	9M18				9M17			
Figures in €Mn	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Total net revenue	**514.5**	**107.9**	**(2.7)**	**619.7**	**436.2**	**94.7**	**(3.5)**	**527.3**
Other income	13.5	0.8	(2.4)	12.0	12.2	(0.0)	(4.4)	7.8
Change in inventories of finished products	4.6	-		4.6	(6.3)	-		(6.3)
Cost of sales	(192.5)	(34.7)	2.7	(224.5)	(181.4)	(28.3)	3.5	(206.1)
Personnel expenses	(51.7)	(6.6)		(58.3)	(47.8)	(5.0)		(52.8)
Other operating expenses	(107.4)	(34.9)	2.4	(140.0)	(98.2)	(28.4)	4.4	(122.3)
EBITDA	**181.1**	**32.5**		**213.6**	**114.7**	**33.0**		**147.7**
EBITDA margin	*35%*	*30%*		*34%*	*26%*	*35%*		*28%*
Other non-ordinary results of operations	(6.0)	-		(6.0)	-	-		-
Amortization	(39.1)	(12.8)		(51.9)	(38.6)	(11.7)		(50.3)
Forest depletion	(4.1)	(0.1)		(4.2)	(2.6)	(1.0)		(3.6)
Impairment of and gains/(losses) on fixed-asset disposals(a)	7.3	(0.2)	(1.7)	5.4	5.7	(0.1)		5.6
EBIT	**139.1**	**19.4**	**(1.7)**	**156.8**	**79.2**	**20.2**		**99.4**
EBIT margin	*27%*	18%		25%	*18%*	21%		*19%*
Net finance costs	(25.6)	(6.7)		(32.3)	(10.9)	(4.5)		(15.3)
Other financial results	7.7	(0.0)	(6.6)	1.1	4.5	(0.1)	(8.0)	(3.6)
Profit before tax	**121.3**	**12.7**	**(8.3)**	**125.7**	**72.9**	**15.6**	**(8.0)**	**80.5**
Income tax	(29.0)	(3.2)		(32.2)	(15.8)	(3.9)		(19.7)
Net Income	**92.2**	**9.5**	**(8.3)**	**93.4**	**57.1**	**11.7**	**(8.0)**	**60.8**
Non-controlling interests	-	(1.8)		(1.8)	-	(1.3)		(1.3)
Atributable Net Income	**92.2**	**7.7**	**(8.3)**	**91.7**	**57.1**	**10.4**	**(8.0)**	**59.5**
Earnings per Share (EPS)	0.37	0.03	(0.03)	0.37	0.23	0.04	(0.03)	0.24

Note: EBITDA definition has been updated in 3Q18 to exclude specific non-ordinary income and expenses unrelated to the ordinary operating activities of the company, which alter their comparability in different periods.

4.2. Balance sheet

	Sep - 18				Dec - 17			
Figures in €Mn	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Intangible assets	12.2	28.6	0.0	40.8	13.2	2.8		16.0
Property, plant and equipment	463.1	327.0	(1.7)	788.4	438.4	254.3		692.7
Biological assets	78.4	0.1		78.6	81.5	0.2		81.7
Intercompany long term participation	201.1	-	(201.1)	-	198.6	-	(198.6)	-
Intercompany long term loan	75.2	-	(75.2)	-	75.2	-	(75.2)	-
Non-current financial assets	1.4	0.2		1.7	4.6	2.1		6.6
Assets for deferred tax	43.2	10.0		53.2	47.3	12.5		59.8
Total fixed assets	**874.7**	**366.0**	**(278.0)**	**962.7**	**858.7**	**271.9**	**(273.8)**	**856.7**
Inventories	31	7.5		38.2	28.6	10.5		39.1
Trade other accounts receivable	121.7	36.7	(27.7)	130.6	111.9	35.5	(33.6)	113.7
Income tax	1.6	0.4		2.0	0.4	0.7		1.0
Other current assets	4.4	(0.2)	(1.4)	2.9	1.6	0.5		2.1
Hedging derivatives	0.0	-		-	13.5	-		13.5
Short-term financial assets in group companies	0.0	-		-	-	-		-
Short-term financial assets	1.5	0.0		1.5	6.4	0.0		6.4
Cash and cash equivalents	168.3	59.7		228.1	167.3	103.2		270.5
Total current assets	**328.2**	**104.1**	**(29.1)**	**403.2**	**329.6**	**150.4**	**(33.6)**	**446.4**
TOTAL ASSETS	**1,202.9**	**470.1**	**(307.0)**	**1,365.9**	**1,188.3**	**422.2**	**(307.4)**	**1,303.1**
Equity	**721.4**	**164.5**	**(202.8)**	**683.1**	**678.5**	**162.3**	**(198.6)**	**642.2**
Non-current borrowings	227.0	144.7		371.7	285.6	129.2		414.8
Long term intercompany debt	-	75.2	(75.2)	-	-	75.2	(75.2)	-
Non-current derivatives	1.2	3.4		4.7	-	3.6		3.6
Liabilities for deferred tax	21.0	7.3		28.3	21.1	2.8		23.8
Non-current provisions	2.5	0.3		2.8	3.7	0.4		4.2
Other non-current liabilities	7.3	6.2		13.5	7.3	1.9		9.2
Total non-current liabilities	**259.1**	**237.1**	**(75.2)**	**421.1**	**317.7**	**213.1**	**(75.2)**	**455.7**
Current borrowings	3.0	11.6		14.6	8.2	7.0		15.2
Current derivatives	8.8	2.6		11.5	0.0	2.2		2.2
Trade payables and other	180.9	52.5	(29.1)	204.3	177.2	36.7	(33.6)	180.3
Short-term debts with group companies	0.0	-		-	0.0	-		-
Income tax	16.1	0.7		16.8	0.0	0.4		0.4
Current provisions	13.5	1.1		14.6	6.7	0.4		7.1
Total current liabilities	**222.3**	**68.5**	**(29.1)**	**261.7**	**192.1**	**46.7**	**(33.6)**	**205.2**
TOTAL EQUITY AND LIABILITIES	**1,202.9**	**470.1**	**(307.0)**	**1,365.9**	**1,188.3**	**422.2**	**(307.4)**	**1,303.1**

4.3. Cash flow statement

	9M18				9M17			
Figures in €Mn	**Pulp**	**Energy**	**Adjustments**	**Consolidated**	**Pulp**	**Energy**	**Adjustments**	**Consolidated**
Consolidated profit/(loss) for the period before tax	**121.3**	**12.7**	**(8.3)**	**125.6**	**72.9**	**15.6**	**(8.0)**	**80.5**
Depreciation	44.0	12.2		56.2	42.1	11.8		53.9
Changes in provisions and other deferred expense	11.7	2.5		14.2	6.3	1.6		8.0
Impairment of gains/(losses) on disposals intangible asset	(7.0)	0.2	1.7	(5.1)	(5.6)	0.2		(5.4)
Net finance costs	18.2	6.7	6.6	31.5	13.0	4.6		17.6
Government grants taken to income	(0.8)	(0.1)		(0.9)	(0.9)	(0.1)		(1.0)
Adjustments to profit	**66.1**	**21.5**	**8.3**	**95.8**	**54.9**	**18.1**		**73.1**
Inventories	(3.7)	2.8		(1.0)	4.7	(2.8)		1.8
Trade and other receivables	(12.6)	(5.0)		(17.6)	(20.9)	(9.1)		(30.0)
Current financial and other assets	4.9	-		4.9	0.8	-		0.8
Trade and other payables	(2.8)	(2.1)		(4.8)	(1.9)	0.4		(1.5)
Changes in working capital	**(14.2)**	**(4.3)**		**(18.5)**	**(17.3)**	**(11.5)**		**(28.8)**
Interest paid	(22.8)	(6.0)	2.8	(26.0)	(8.0)	(5.3)	2.2	(11.1)
Interest received	3.1	0.4	(2.8)	0.8	2.6	0.4	(2.2)	0.8
Dividends received	6.6	-	(6.6)	-	-	-		-
Income tax received/(paid)	(6.4)	(1.4)		(7.8)	(2.0)	(1.0)		(3.0)
Variable Payment Plan	(1.3)	-		(1.3)				
Other cash flows from operating activities	**(20.8)**	**(7.0)**	**(6.6)**	**(34.4)**	**(7.5)**	**(5.9)**		**(13.4)**
Net cash flow from operating activities	**152.3**	**22.9**	**(6.6)**	**168.6**	**103.0**	**16.3**	**(8.0)**	**111.3**
Property, plant and equipment	(49.1)	(72.2)	2.5	(118.8)	(25.1)	(4.6)		(29.7)
Intangible assets	(1.6)	(21.4)		(23.0)	(0.9)	(0.3)		(1.2)
Other financial assets	(1.9)	1.8	2.5	2.4	1.6	(25.8)		(24.1)
Disposals	**4.0**	**0.0**	**(2.5)**	**1.5**	**3.2**	**-**		**3.2**
Net cash flow from investing activities	**(48.5)**	**(91.743)**	**2.4**	**(137.8)**	**(21.2)**	**(30.6)**		**(51.8)**
Free cash flow	**103.8**	**(68.9)**	**(4.1)**	**30.8**	**81.8**	**(14.3)**	**(8.0)**	**59.5**
Buyback/(disposal) of own equity instruments	14.6	2.5	(2.5)	14.6	0.5	-		0.5
Proceeds from and repayments of financial liabilities	(78.4)	32.3		(46.1)	(9.1)	(1.0)		(10.2)
Dividends payments	(39.0)	(9.4)	6.6	(41.7)	(23.7)	(8.0)	8.0	(23.7)
Net cash flow from financing activities	**(102.7)**	**25.4**	**4.1**	**(73.2)**	**(32.3)**	**(9.0)**	**8.0**	**(33.3)**
Net increase/(decrease) in cash and cash equivalents	**1.0**	**(43.5)**		**(42.5)**	**49.5**	**(23.3)**		**26.2**

5. KEY DEVELOPMENTS

Acquisition of 90% of the Puertollano solar thermal power plant

On 18 October 2018, Ence agreed to acquire a 90% interest in a 50-MW solar thermal power plant in Puertollano (Ciudad Real) from Iberdrola for €139.5m (net). The purchase agreement includes an earnout of up to €6.3m.

This transaction marks the first step in Ence's diversification into other renewable technologies where it believes it can add value. The Company is strategically committed to the hybridisation of certain solar thermal plants with biomass plants in order to increase their utilisation rates and convert a renewable source of energy that only generates power during daylight hours into a programmable source.

Moreover, the Puertollano solar thermal plant borders the site where Ence is building a new 46-MW biomass plant, formerly occupied by Elcogas. This proximity implies potential synergies between the two energy complexes.

This solar plant is initially expected to make a stable annual contribution to EBITDA of €18m, before factoring in synergies.

Payment of the first interim dividend from 2018 earnings

Ence paid the first interim dividend from 2018 profits - €0.104 per share (before withholding tax) - 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 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 straight 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 drawn down 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.

Also in 2Q18, the Company 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 Renewable 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 Renewable 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 a third 6.5-MW facility within one of its existing plants.

The new capacity (98.5 MW) is expected to entail €217m of capital expenditure and will generate annual EBITDA of €30m, which will lift the Renewable 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 in September 2017 and a second interim dividend of €0.06 in December.

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

APPENDIX 1: REMUNERATION PARAMETERS APPLICABLE TO THE GROUP'S FACILITIES

Facility	Type of facility	MW	Remuneration to investment 9M18 (Ri; €/MW)	Type of fuel	Remuneration to operation 9M18 (Ro; €/MW)	Maximum of sale hours per MW under tariff
Navia	Biomass co-generation	40.3	-	Lignin	36.822	-
	Biomass generation	36.2	172,642	Agroforestry biomass	62.113	6,500
Pontevedra	Biomass co-generation (a)	34.6	-	Lignin	37.287	-
			41,481	Agroforestry biomass	62.812	6,500
Huelva 41MW	Biomass generation	41.0	184,700	Agroforestry biomass	68.626	6,500
Huelva 50MW	Biomass generation	50.0	199,839	Agroforestry biomass	60.884	6,500
Mérida 20MW	Biomass generation	20.0	220,184	Agroforestry biomass	59.638	6,500
C. Real 16MW	Biomass generation	16.0	195,756	Olive pulp	47.526	6,500
Jaen 16MW	Biomass generation	16.0	195,756	Olive pulp	47.235	6,500
Cordoba 27MW	Biomass generation	14.3	172,186	Olive pulp	48.231	6,500
	Gas co-generation	12.8	-	Natural Gas	66.725	-

(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 93% and 79%, respectively, as of the September 2018 close.

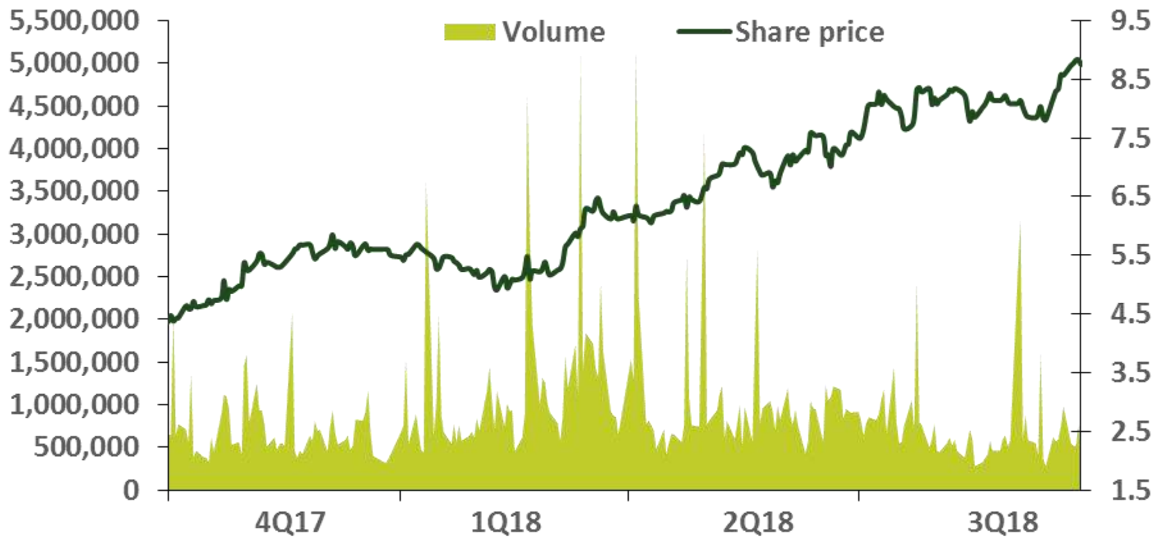
As for the sustainability of biomass as a fuel, Ence has once again emerged as a pioneer, developing a 10-point declaration guaranteeing its commitment to using biomass sustainably and caring for the environment in making use of this renewable source of energy. In formulating this declaration, Ence drew 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 September at €8.75, implying a gain of 15.1% in the third quarter and of 59.1% in the first nine months of the year. Over the same timeframes, the Company's sector peers* saw their share prices decrease by 2.7% and 68.5%, respectively.



Source: Bloomberg

	3Q17	4Q17	1Q18	2Q18	3Q18
Share price at the end of the period	4.40	5.50	6.12	7.60	8.75
Market capitalization at the end of the period	1083.6	1354.5	1507.2	1871.7	2154.9
Ence quarterly evolution	22.6%	25.0%	11.3%	24.2%	15.1%
Daily average volume (shares)	927,095	723,124	1,200,152	1,073,179	749,581
Peers quarterly evolution *	18.7%	6.8%	33.0%	28.1%	(2.7%)

(*) 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.

CONVERTIBLE BOND	3Q17	4Q17	1Q18	2Q18	3Q18
Bond price at the end of the period	-	-	106.77	119.28	130.77
Yield to worst at the end of the period*	-	-	-0.123%	-2.603%	-4.892%

(*) Yield to maturity.

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

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

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

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, corporate overhead, sales and marketing expenses and logistics costs. It excludes fixed-asset depreciation and forest depletion charges, impairment charges and gains/losses on non-current assets, finance costs/income, income tax and certain operating expenses which management deems to be non-recurring, such as *ad-hoc* consultancy projects, Ence's long-term remuneration plan, the termination benefits agreed with staff and the cost of certain benefits.

As a result, the difference between the average sales price and the cash cost applied to the total sales volume in tonnes yields a figure that is a very close proxy for the EBITDA generated by the Pulp Business.

EBITDA

Ence reports EBITDA metrics within the income statements detailed in sections 1, 2.6, 3.3 and 4.1 of this report. EBITDA is a measure of operating profit before depreciation, amortization and forestry depletion charges, non-current asset impairment charges, gains or losses on non-current assets and specific non-ordinary income and expenses unrelated to the ordinary operating activities of the company, which alter their comparability in different periods.

It provides an initial approximation of the cash generated by the company's ordinary operating activities, before interest and tax payments, and is a measure that is widely used in the capital markets to compare the earnings performances of different companies.

EBITDA is a measure used by the Ence´s management to compare the ordinary results of the company over time. For this reason and in order to make it comparable with the rest of the sector its definition has been updated in 3Q18, in line with the usual practice of the market, to exclude specific income and expenses unrelated to the ordinary operating activities of the company, which alter their comparability in different periods.

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.

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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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Earnings Report
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