Third-quarter 2019 Earnings Report

29th October 2019

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1. EXECUTIVE SUMMARY

Market figures	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
BHKP (USD/t) average price	816.5	1,050.0	*(22.2%)*	938.6	*(13.0%)*	914.9	1,034.4	*(11.6%)*
Average exchange rate (USD/€)	1.12	1.16	*(4.0%)*	1.12	*(0.6%)*	1.13	1.19	*(5.7%)*
BHKP (€/t) average price	731.6	903.5	*(19.0%)*	835.9	*(12.5%)*	812.7	866.7	*(6.2%)*
Average pool price (€/MWh)	46.8	65.9	*(29.0%)*	48.5	*(3.6%)*	50.6	55.6	*(8.9%)*

Source: Bloomberg

Operating Metrics	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
Pulp production (t)	**261,280**	**256,437**	***1.9%***	**226,182**	***15.5%***	**726,624**	**714,268**	***1.7%***
Pulp sales (t)	**266,356**	**237,615**	***12.1%***	**218,846**	***21.7%***	**704,306**	**700,737**	***0.5%***
Average sales pulp price (€/t)	481.9	659.9	*(27.0%)*	575.8	*(16.3%)*	549.4	632.1	*(13.1%)*
Cash cost (€/t)	376.4	376.0	*0.1%*	398.7	*(5.6%)*	389.0	374.3	*3.9%*
Renewable Energy sales volume (MWh)	**300,753**	**267,632**	***12.4%***	**235,363**	***27.8%***	**783,334**	**715,101**	***9.5%***
Average sales price - Pool + Ro (€/MWh)	105.6	106.9	*(1.2%)*	97.0	*8.9%*	103.5	108.0	*(4.2%)*
Remuneration for investment (€ m)	15.9	10.2	*55.1%*	15.9	-	47.6	30.7	*55.1%*

P&L € m	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
Revenue from Pulp business	154.3	181.1	*(14.8%)*	151.5	*1.8%*	462.4	514.5	*(10.1%)*
Revenue from Renewable Energy business	47.9	39.2	*22.3%*	40.8	*17.4%*	128.7	107.9	*19.2%*
Consolidation adjustments	(1.2)	(0.8)		(1.7)		(4.0)	(2.7)	
Total revenue	**200.9**	**219.4**	*(8.4%)*	**190.6**	*5.4%*	**587.1**	**619.7**	*(5.3%)*
Pulp business EBITDA	18.3	66.0	*(72.2%)*	27.8	*(34.0%)*	85.0	181.1	*(53.1%)*
Margin %	**12%**	**36%**	*(24.5) p.p.*	**18%**	*(6.4) p.p.*	**18%**	**35%**	*(16.8) p.p.*
Renewable Energy business EBITDA	15.9	12.9	*23.3%*	12.5	*26.8%*	41.6	32.5	*27.7%*
Margin %	**33%**	**33%**	*0.3 p.p.*	**31%**	*2.5 p.p.*	**32%**	**30%**	*2.1 p.p.*
EBITDA	**34.2**	**78.8**	*(56.6%)*	**40.3**	*(15.1%)*	**126.5**	**213.6**	*(40.8%)*
Margin %	*17%*	*36%*	*(18.9) p.p.*	*21%*	*(4.1) p.p.*	*22%*	*34%*	*(12.9) p.p.*
Depreciation, amortisation and forestry depletion	(24.7)	(18.3)	*34.8%*	(22.4)	*10.1%*	(69.5)	(56.2)	*23.7%*
Impairment of and gains/(losses) on fixed-asset disposals	0.4	1.3	*(70.7%)*	1.0	*(59.7%)*	2.0	5.4	*(62.6%)*
Other non-ordinary results of operations	(1.1)	(2.0)	*(47.4%)*	(1.1)	*(0.0%)*	(3.2)	(6.0)	*(47.5%)*
EBIT	**8.9**	**59.9**	*(85.1%)*	**17.8**	*(50.0%)*	**55.9**	**156.8**	*(64.3%)*
Net finance cost	(6.0)	(3.3)	*79.3%*	(6.3)	*(5.9%)*	(19.0)	(32.3)	*(41.3%)*
Other finance income/(cost) results	1.7	(0.1)	*n.s.*	(0.7)	*n.s.*	2.3	1.1	*102.1%*
Profit before tax	**4.7**	**56.4**	*(91.7%)*	**10.8**	*(56.6%)*	**39.2**	**125.7**	*(68.8%)*
Income tax	(1.0)	(14.3)	*(93.2%)*	(2.5)	*(61.1%)*	(9.1)	(32.2)	*(71.7%)*
Net income	**3.7**	**42.1**	*(91.2%)*	**8.3**	*(55.3%)*	**30.1**	**93.4**	*(67.8%)*
Non-controlling interests	(0.8)	(0.8)	*12.9%*	(0.6)	*42.4%*	(2.3)	(1.8)	*29.1%*
Atributable Net Income	**2.9**	**41.4**	*(93.1%)*	**7.7**	*(62.8%)*	**27.8**	**91.7**	*(69.6%)*
Earnings per share (Basic EPS)	0.01	0.17	*(93.1%)*	0.03	*(62.8%)*	0.11	0.37	*(69.6%)*

Cash flow € m	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
EBITDA	**34.2**	**78.8**	*(56.6%)*	**40.3**	*(15.1%)*	**126.5**	**213.6**	*(40.8%)*
Change in working capital	(1.6)	(9.1)	*(82.2%)*	2.2	*n.s.*	(5.1)	(18.5)	*(72.3%)*
Maintenance capex	(9.3)	(7.0)	*33.3%*	(7.2)	*29.1%*	(21.5)	(14.9)	*44.6%*
Net interest Payment	(1.7)	(1.4)	*20.6%*	(5.9)	*(71.0%)*	(9.9)	(25.3)	*(61.0%)*
Income tax received/(paid)	(1.5)	(0.6)	*147.3%*	(5.4)	*(72.5%)*	(6.8)	(7.8)	*(13.3%)*
Normalised free cash flow	**20.1**	**60.7**	*(66.9%)*	**24.1**	*(16.4%)*	**83.3**	**147.2**	*(43.4%)*
Financial investments and other collections / (payments)	3.4	6.9	*n.s.*	(2.9)	*n.s.*	9.6	9.0	*6.5%*
Expansion capex	(46.8)	(45.0)	*4.0%*	(62.1)	*(24.6%)*	(188.9)	(121.5)	*55.4%*
Sustainability capex	(9.2)	(2.4)	*n.s.*	(8.6)	*7.2%*	(24.6)	(5.4)	*n.s.*
Disposals	0.1	0.1	*107.1%*	4.4	*(97.3%)*	4.7	1.5	*208.2%*
Free cash flow	**(32.4)**	**20.3**	*n.s.*	**(45.1)**	*(28.2%)*	**(116.0)**	**30.8**	*n.s.*
Dividends	(11.0)	(22.8)	*(51.6%)*	(13.2)	*n.s*	(24.3)	(39.0)	*(37.7%)*

Net debt € m	Sep-19	Dec-18	Δ%
Net financial debt Pulp business	272.3	147.6	*84.5%*
Net financial debt Renewable Energy business	246.1	157.2	*56.6%*
Net financial debt	**518.5**	**304.8**	*70.1%*

- The Pulp business operating performance improved notably during the third quarter, shaped by a €22/tonne drop in the cash cost from the second quarter and growth of 8% in output at the Pontevedra biomill, where 20,000 tonnes of new capacity was added in March.
- During the third quarter, Ence launched a cost-cutting programme to ensure delivery of its 2019-2023 Strategic Plan cash cost targets.
- Elsewhere, the circumstantial dip in demand in previous quarters and the attendant growth in producer inventories continued to exert downward pressure on net pulp prices, leaving them around $180/tonne below the trailing 10-year average and below estimated cash costs for the least efficient producers.
- Shaped by that environment, EBITDA in the Pulp business declined by 53% year-on-year in the first nine months of 2019. The drop in average sales prices accounts for 32% of the EBITDA contraction; the negative effect of exchange rate hedges accounts for 16%; with the remaining 5% attributable to costs.
- In contrast, EBITDA in the Renewable Energy business increased by 28% year-on-year during the first nine months, driven by the contribution by the solar thermal power plant in Puertollano acquired in December 2018.
- As a result, the Group recorded EBITDA and net profit of €127m million and €28m, respectively.
- Normalised free cash flow amounted to €83m, while growth capex, related with execution of the Strategic Plan, amounted to €214m.
- In the Renewable Energy business, the Company repowered the biomass plants located in Huelva and Jaen, while continuing to make progress on the construction of two new biomass plants with combined capacity of 96 MW, which are scheduled for commissioning in January 2020. Those investments are expected to lift the business's annual EBITDA by approximately €30m.
- In addition, Ence has a pipeline of renewable facilities with aggregate capacity of over 2.1 GW, of which 386 MW already have grid connections: 280 MW of photovoltaic solar power; 81 MW of biomass power and 25 MW of hybrid solar thermal power. Execution of those projects is pending implementation of the European and Spanish renewable energy plans. Developments have also begun on another 1,670 MW of photovoltaic solar power and 75 MW of hybrid solar thermal power.
- In the Pulp business, 80,000 tonnes of new capacity is being added at the Navia biomill this October. Meanwhile, progress continues on the engineering and building permitting work required for the addition of a new 340,000-tonne swing line at that same biomill.
- The Board of Directors will decide on the timeline for executing that project in the first quarter of 2020, framed by the will to keeping net debt-to-EBITDA in the Pulp business below 2.5x assuming mid-cycle prices.
- The ratios of net debt-to-EBITDA stood at 1.8x in the Pulp business and 4.3x in the Renewable Energy business at 30 September 2019.
- Ence paid the first interim dividend from 2019 profits - €0.051 per share (before withholding tax) - on 19 September 2019. A motion for the final dividend will be put before the Company's shareholders at the Annual General Meeting in March 2020, framed by the stated policy of paying out 50% of earnings per share for the year. The approval of a second interim dividend payment is not due in November.
- Ence continues to defend the legality of the extension of its concession in Pontevedra until 2073 in the courts. An initial court ruling is expected in the coming months. The legal proceedings could take as long as four years, including appeals, which Ence will take to the highest possible level.

2. PULP BUSINESS

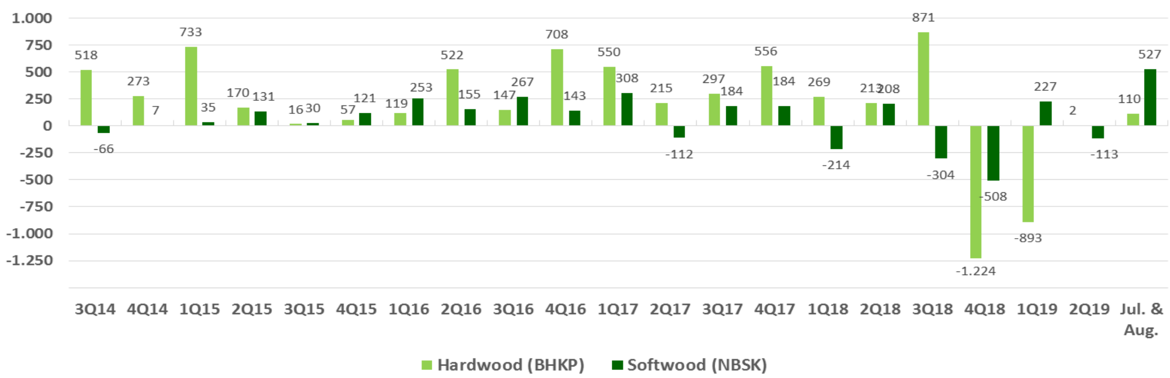
Ence has two eucalyptus hardwood pulp (BHKP) biomills in Spain: a 605,000-tonne-capacity facility in the town of Navia, Asturias, and a 515,000-tonne-capacity complex in Pontevedra, Galicia. Both use eucalyptus timber acquired locally.

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

2.1. Pulp market trends

The prospect of a slowdown in global economic growth, coupled with heightened trade tensions between China and the US, prompted sudden inventory destocking in the paper industry in 4Q18 and 1Q19 following apparent overpurchasing in previous quarters; that in turn triggered a sharp correction in demand for pulp and an increase in inventories at pulp producers.

Year-on-year change in global demand for pulp, last five years (tonnes, 000)



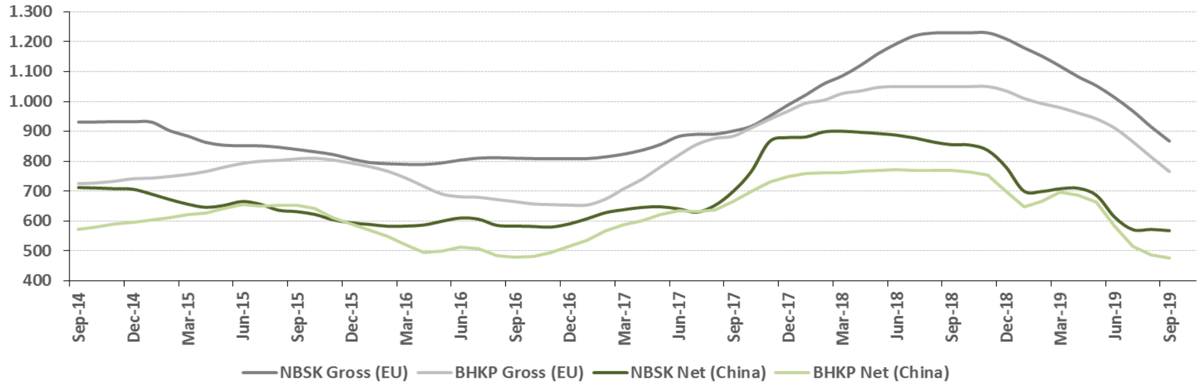
Source: PPPC–G100

Global demand for pulp strengthened by 6.4% year-on-year (equivalent to 0.6 million tonnes) in the months of July and August. However, demand remains 0.4% lower year-on-year (0.1 million tonnes) in the first eight months of 2019. Demand for hardwood pulp (BHKP) is down 3.4% year-on-year so far in 2019 (0.8 million tonnes), while demand for softwood pulp (BSKP) has recovered by 3.8% or 0.6 million tonnes.

Demand for pulp is being shaped primarily by ongoing growth in the consumption of tissue paper and personal care products, which is in turn being driven by rapid urban development and growing standards of living in emerging economies. These demand dynamics are very consistent over the long term and contrast with the *ad-hoc* slump in demand observed in recent quarters, prompted by destocking by the paper industry in the wake of apparent overbuying in prior quarters.

That circumstantial dip in demand for pulp and the attendant growth in producer inventories continues to exert downward pressure on pulp prices, which ended October at $460/tonne (net price) in China and $700/tonne (gross price) in Europe in the case of hardwood pulp and $570/tonne (net) in China and $824/tonne (gross) in Europe in the case of softwood pulp. Those net prices in China are around $180/tonne below the trailing 10-year average and below the estimated cash costs of the least efficient producers.

Net pulp prices in China and gross prices in Europe during the last five years (US$)



Source: FOEX

2.2. Revenue from pulp sales

	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
Pulp sales (t)	**266,356**	**237,615**	*12.1%*	**218,846**	*21.7%*	**704,306**	**700,737**	*0.5%*
Average sales price (€/t)	481.9	659.9	*(27.0%)*	575.8	*(16.3%)*	549.4	632.1	*(13.1%)*
Pulp sales revenue (€ m)	**128.4**	**156.8**	*(18.1%)*	**126.0**	*1.9%*	**386.9**	**442.9**	*(12.6%)*

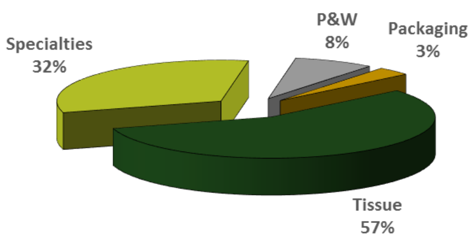
The Company sold 266,356 tonnes of pulp in 3Q19 (up 12.1% YoY) and 704,306 tonnes in 9M19 (+0.5%).

At the September close, the Company held 75,700 tonnes of inventories, compared to 53,400 tonnes at year-end 2018, as part of its preparations for the stoppage of the Navia biomill in October in order to add 80,000 tonnes of new capacity.

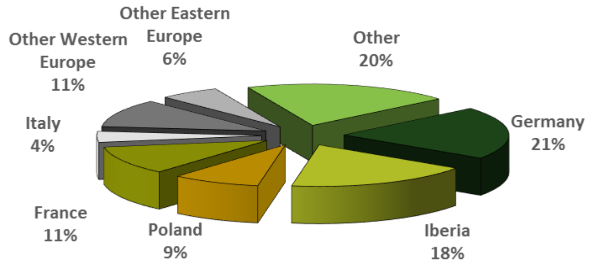
Ence saw its average sales price decline by 27.0% year-on-year in 3Q19 and by 13.1% in 9M19 as a result of the drop in benchmark prices in Europe, coupled with the impact of higher sales volumes on the spot market, outside of Europe. The spot market accounted for 20% of pulp sales in the first nine months.

The combination of the two factors drove a year-on-year reduction in revenue from pulp sales of 18.1% to €128.4m in the third quarter and of 12.6% to €386.9m in the first nine months.

Breakdown of revenue by end product



Breakdown of revenue by geographic market



The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 57% of revenue from pulp sales in 9M19, followed by the specialty paper segment, at 32%, and the printing and writing papers segment, at 8%. The remaining 3% corresponds to the packaging segment.

Most of the pulp produced by Ence is sold in Europe, namely 80% of revenue from pulp sales in 9M19. Germany and Iberia accounted for 21% and 18% of total revenue, respectively, followed by Poland (9%), France (11%) and Italy (4%). The other western European countries accounted for 11% of the total, with the rest of Eastern Europe representing 6%.

2.3. Pulp production and the cash cost

Pulp production increased by 1.9% year-on-year in 3Q19 to 261,280 tonnes and by 1.7% in 9M19 to 726,624 tonnes, thanks to the addition of 20,000 tonnes of new capacity at the Pontevedra biomill in March.

	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
Navia pulp production	141,284	143,176	*(1.3%)*	115,274	*22.6%*	388,425	391,909	*(0.9%)*
Pontevedra pulp production	119,996	113,261	*5.9%*	110,908	*8.2%*	338,199	322,358	*4.9%*
Pulp production (t)	**261,280**	**256,437**	*1.9%*	**226,182**	*15.5%*	**726,624**	**714,268**	*1.7%*

In May, the Navia biomill was stopped for maintenance for 12 days. During the stoppage, the shared effluent pipe discharging into the Navia River was cleaned thoroughly and the preparatory work required for the addition of 80,000 tonnes of capacity in October was carried out. Note that the October intervention will improve virtually all of that biomill's industrial processes. On the sustainability front, progress was made on reducing the noise impact, emissions and water footprint at this biomill, as well as improving the quality of its wastewater.

The Pontevedra biomill was stopped for 10 days in March 2019. During that stoppage, the Company carried out phase one of the plan for expanding capacity at this biomill by 20,000 tonnes thank to improvements made to the recovery boiler, condensation turbine and evaporators. Sustainability-wise, it is worth highlighting the addition of a new water cycle, which will drive a reduction in consumption.

The Company's third-quarter cash cost was €376.4/tonne, down 5.6%, or €22.3/tonne, from the second quarter, thanks to reductions of €12.6/tonne in conversion costs, of €8.1/tonne in overhead and of €1.9/tonne in timber costs.

Figures in €/t	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
Wood cost	208.1	199.8	*4.2%*	210.0	*(0.9%)*	209.2	199.3	*5.0%*
Conversion costs	103.8	107.1	*(3.1%)*	116.4	*(10.8%)*	111.8	110.1	*1.6%*
Sales and logistic costs	31.3	31.6	*(1.2%)*	31.0	*0.9%*	31.1	31.8	*(2.2%)*
Overheads	33.2	37.4	*(11.2%)*	41.3	*(19.6%)*	36.7	33.1	*10.9%*
Total cash cost	**376.4**	**376.0**	*0.1%*	**398.7**	*(5.6%)*	**389.0**	**374.3**	*3.9%*

Compared to the third quarter of 2018, the cash cost inched 0.1%, or €0.4/tonne, higher, due to an increase of €8.3/tonne in timber costs, offset by improvements of €3.3/tonne in conversion costs, of €4.2/tonne in overhead and of €0.3/tonne in sales, marketing and logistics costs.

In the first nine months of the year, the cash cost was 3.9%, or €14.7/tonne, higher year-on-year, due to increases of €9.9/tonne in timber costs, €3.6/tonne in overhead and €1.7/tonne in conversion costs, partially mitigated by a €0.7/tonne improvement in sales, marketing and logistics costs.

2.4. Revenue from the sale of energy in connection with pulp production (included in the cash cost)

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

The energy generated at these power plants is sold to the grid and subsequently repurchased. **The operating profit from this activity is included in the above-mentioned conversion costs within the cash cost metric**.

	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
Navia energy sales	144,521	136,631	*5.8%*	110,582	*30.7%*	383,644	381,188	*0.6%*
Pontevedra energy sales	59,009	59,217	*(0.4%)*	55,136	*7.0%*	170,561	170,286	*0.2%*
Energy sales linked to the pulp process (MWh)	**203,529**	**195,849**	*3.9%*	**165,718**	*22.8%*	**554,205**	**551,474**	*0.5%*
Average sales price - Pool + Ro (€/MWh)	91.1	103.1	*(11.6%)*	92.6	*(1.7%)*	91.4	97.4	*(6.2%)*
Remuneration for investment (€ m)	2.6	2.6	*(0.0%)*	2.6	*(0.0%)*	7.7	7.7	*0.0%*
Revenues from energy sales linked to pulp (€ m)	**21.1**	**22.7**	*(7.2%)*	**17.9**	*17.8%*	**58.3**	**61.4**	*(5.0%)*

The energy sold as part of the pulp production process amounted to 203,529 MWh in the third quarter (up 3.9% YoY) and 554,205 MWh in the first nine months (+0.5% YoY).

The average sales price declined by 11.6% year-on-year in 3Q19 and by 6.2% in 9M19 to €91.1/MWh and €91.4/MWh, respectively, driven by the correction in pool prices and the temporary suspension of the electricity generation levy in the first quarter.

As a result, revenue from energy sales in the Pulp business, factoring in remuneration for investment (unchanged), decreased by 7.2% year-on-year to €21.1m in 3Q19 and by 5.0% to €58.3m in 9M19.

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.

	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
Forestry and other revenue (m €)	**4.8**	**1.5**	*216.0%*	**7.5**	*(36.5%)*	**17.2**	**10.2**	*69.0%*

Forestry revenue amounted to €4.8m in 3Q19 (€1.5m in 3Q18) and €17.2m in 9M19 (€10.2m in 9M18).

Exploitation of the eucalyptus plantations located in the south of Spain has been reactivated following the execution in 4Q18 of two 12-year contracts for the sale of approximately 200,000 tonnes of timber per annum.

2.6. Income statement

Figures in € m	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
Total net revenue	**154.3**	**181.1**	*(14.8%)*	**151.5**	*1.8%*	**462.4**	**514.5**	*(10.1%)*
EBITDA	**18.3**	**66.0**	*(72.2%)*	**27.8**	*(34.0%)*	**85.0**	**181.1**	*(53.1%)*
EBITDA margin	*12%*	*36%*	*(24.5) p.p.*	*18%*	*(6.4) p.p.*	*18%*	*35%*	*(16.8) p.p.*
Depreciation and amortisation	(15.7)	(13.3)	*17.7%*	(13.1)	*19.7%*	(42.2)	(39.1)	*7.9%*
Depletion of forestry reserves	(2.0)	(0.6)	*245.0%*	(2.3)	*(16.7%)*	(6.5)	(4.1)	*57.6%*
Impairment of and gains/(losses) on fixed-asset dispos	0.5	1.4	*(67.5%)*	1.0	*(55.2%)*	2.2	7.3	*(70.2%)*
Other non-recurring gains/(losses)	(1.1)	(2.0)	*(47.4%)*	(1.1)	*(0.0%)*	(3.2)	(6.0)	*(0.5) p.p.*
EBIT	**0.1**	**51.5**	*(99.8%)*	**12.3**	*(99.3%)*	**35.3**	**139.1**	*(74.6%)*
EBIT margin	*0%*	*28%*	*(28.4) p.p.*	*8%*	*(8.0) p.p.*	*8%*	*27%*	*(19.4) p.p.*
Net finance cost	(2.3)	(1.3)	*75.4%*	(2.1)	*10.6%*	(6.4)	(25.6)	*(74.9%)*
Other financial results	1.7	(0.1)	*n.s.*	(0.7)	*n.s.*	2.3	7.7	*(70.2%)*
Profit before tax	**(0.5)**	**50.0**	*n.s.*	**9.5**	*n.s.*	**31.2**	**121.3**	*(74.3%)*
Income tax	0.3	(12.7)	*n.s.*	(2.2)	*n.s.*	(7.5)	(29.0)	*(74.1%)*
Net Income	**(0.1)**	**37.3**	*n.s.*	**7.3**	*n.s.*	**23.7**	**92.2**	*(74.3%)*

EBITDA in the Pulp business amounted to €18.3m in 3Q19, down 72.2% year-on-year, and €85.0m in 9M19, down 53.1%. The drop in average sales prices accounts for 32% of the EBITDA contraction; the effect of exchange rate hedges accounts for 16%; with the remaining 5% attributable to costs.

Ence has an ongoing hedging policy designed to mitigate the impact of exchange rate volatility on its earnings. Settlement of those hedges implied a loss of €23.5m in the first nine months of the year, €8.8m of which corresponded to the third quarter. In contrast, settlement of those instruments had resulted in net gains of €5.3m and €0.1m in 9M18 and 3Q18, respectively.

In addition, 9M19 EBITDA includes other expenses, net of other income, that are not included in the cash cost, of €4.5m. The income and expenses not included in the cash cash include the EBITDA generated on the sale of timber to third parties, charges for community work in the vicinity of the Group's biomills, non-recurring staff costs and *ad-hoc* advisory service costs.

Below the EBITDA line, depreciation and amortisation charges were 7.9% higher at €42.2m in 9H19 due to the commissioning of new assets during the period, while forest depletion charges increased by 57.6% to €6.5m as a result of more intense use of timber sourced from proprietary plantations.

'Impairment of and gains/(losses) on disposal of intangible assets and PP&E' of €2.2m in 9M19 includes the reversal of the impairment losses previously recognised against the industrial assets remaining in Huelva in order to offset their depreciation. Other non-recurring operating charges include a €3.2m provision for expenses under Ence's Environmental Pact in Pontevedra, signed in June 2016.

Lastly, it is worth highlighting the fact that net finance costs declined by 74.9% year-on-year thanks to the refinancing work completed in 2018, which included the prepayment of €250m of 5.375% bonds issued in October 2016, which were partially replaced by 1.25% convertible bonds due 2023.

'Other finance income/costs' include €2.3m of exchange rate gains. In 9M18, that heading included a €6.6m dividend from the Renewable Energy business.

In all, the Pulp business recorded a profit of €23.7m in 9M19 and a loss of €0.1m in 3Q19 (down 74.3% YoY).

2.7. Cash flow analysis

Net cash from operating activities amounted to €32.2m in 3Q19 (down 59.2% YoY) and €89.1m in 9M19 (down 41.5%) as a result of the decline in EBITDA, which was partially offset by more favourable working capital dynamics and lower interest payments.

Figures in € m	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
EBITDA	**18.3**	**66.0**	*(72.2%)*	**27.8**	*(34.0%)*	**85.0**	**181.1**	*(53.1%)*
Non cash expenses / (income)	7.2	5.4	*34.2%*	(1.1)	*n.s.*	12.0	4.8	*147.9%*
Other collections / (payments)	(4.1)	0.4	*n.s.*	0.2	*n.s.*	(3.8)	0.1	*n.s.*
Change in working capital	13.3	(5.5)	*n.s.*	(8.4)	*n.s.*	5.0	(14.2)	*n.s.*
Income tax received / (paid)	(1.5)	(0.0)	*n.s.*	(5.1)	*(70.1%)*	(6.6)	(6.4)	*3.0%*
Net interest received / (paid)	(1.1)	5.9	*n.s.*	(0.2)	*n.s.*	(2.5)	(13.1)	*(81.0%)*
Net cash flow from operating activities	**32.2**	**72.1**	*(55.4%)*	**13.1**	*145.8%*	**89.1**	**152.3**	*(41.5%)*

Note that net finance costs in 9M18, in the amount of €13.1m, included: (i) a €6.6m dividend collected from the Renewable Energy business; and (ii) €15.8m related with the prepayment of €250m of 5.375% bonds issued in October 2015, which were partially replaced by 1.25% convertible bonds due 2023, on the other.

Figures in € m	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
Inventories	5.6	(0.8)	*n.s.*	(8.4)	*n.s.*	(11.5)	(3.7)	*207.8%*
Trade and other receivables	2.9	2.8	*4.5%*	(6.6)	*n.s.*	7.7	(12.6)	*n.s.*
Financial and other current assets	3.3	2.4	*37.1%*	(4.1)	*n.s.*	(1.4)	4.9	*n.s.*
Trade and other payables	1.6	(9.9)	*n.s.*	10.7	*(85.0%)*	10.2	(2.8)	*n.s.*
Change in working capital	**13.3**	**(5.5)**	*n.s.*	**(8.4)**	*n.s.*	**5.0**	**(14.2)**	*n.s.*

The change in working capital implied cash inflows of €13.3m in 3Q19 and of €5.0m in 9M19, compared to outflows of €5.5m and €14.2m in 3Q18 and 9M18, respectively. The reduction in accounts receivable and the increase in accounts payable in 9M19 were partially offset by the increase in inventories.

Figures in € m	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
Maintenance capex	(6.4)	(5.4)	*19.2%*	(5.5)	*16.4%*	(15.7)	(11.8)	*32.6%*
Efficiency and expansion capex	(34.8)	(14.4)	*141.5%*	(40.0)	*(13.0%)*	(93.3)	(34.9)	*167.1%*
Sustainability capex	(6.8)	(1.5)	*n.s.*	(6.5)	*4.5%*	(18.6)	(3.9)	*n.s.*
Financial investments	(0.0)	0.7	*n.s.*	(0.1)	*(65.2%)*	(0.2)	(1.9)	*(91.2%)*
Investments	**(48.1)**	**(20.7)**	*132.5%*	**(52.2)**	*(7.9%)*	**(127.7)**	**(52.5)**	*143.1%*
Disposals	0.1	0.0	*n.s.*	4.3	*(97.3%)*	4.6	4.0	*15.7%*
Net cash flow used in investing activities	**(47.9)**	**(20.7)**	*132.0%*	**(47.8)**	*0.3%*	**(123.1)**	**(48.5)**	*153.7%*

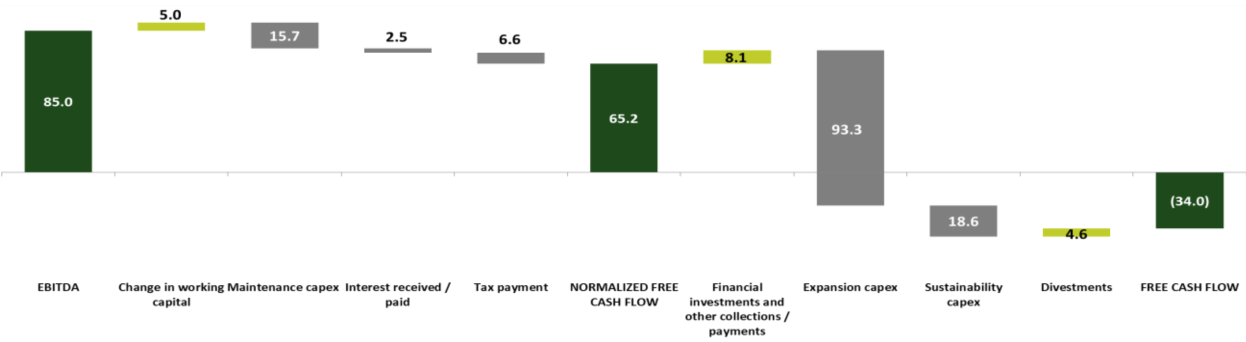
The cash outflow from investing activities amounted to €48.1m in 3Q19 and €127.7m in 9M19, year-on-year growth of 132.5% and 143.1%, respectively, evidencing intensified capital expenditure under the scope of the new Strategic Plan.

Investments in efficiency and growth amounted to €34.8m in 3Q19 and €93.3m in 9M19 and were mainly related to the addition of 20,000 tonnes of capacity at the Pontevedra biomill in the first quarter and preparation for the addition of 80,000 tonnes at the Navia biomill in October.

Sustainability-related capital expenditure amounted to €6.8m in 3Q19 and €18.6m in 9M19 and encompassed a range of initiatives designed to reduce odours, noise levels and water consumption.

Lastly, Ence recognised €4.3m of proceeds from disposals in the second quarter following the sale of the company that leases 1,743 hectares of eucalyptus plantations in Portugal.

As a result, normalised free cash flow in the Pulp business amounted to €65.2m in 9M19, while free cash flow net of efficiency, growth and sustainability capex came in at a negative €34.0m.



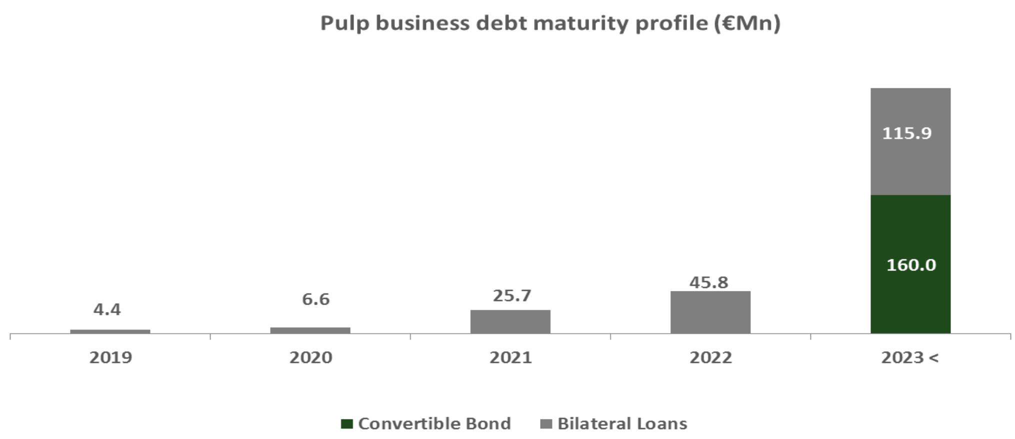
2.8. Change in net debt

Net debt in the Pulp business increased by €124.7m from year-end 2018, €44.2m of which is attributable to the first-time application of IFRS 16 with effect from 1 January 2019. Free cash flow for the period, coupled with the payment of €24.2m of dividends and execution of a share buyback programme (2.4m shares repurchased for €10.4m), was responsible for a €68.6m increase in net debt in this business. The remaining increase - €11.9m - corresponds to finance lease payments, provisions for interest due, other own share purchases and the movement in intragroup borrowings.

The ratio of net debt-to-LTM EBITDA in the Pulp business stood at 1.8x at the September close. Stripping out the accounting impact of the first-time application of IFRS 16, leverage falls to 1.5x.

Figures in € m	Sep-19	Dec-18	Δ%
Non-current financial debt	340.9	292.6	*16.5%*
Current financial debt	7.3	5.4	*34.7%*
Gross financial debt	**348.2**	**298.0**	*16.8%*
Non-current lease contracts	42.1	-	*n.s.*
Current lease contracts	2.2	-	*n.s.*
Financial liabilities related to lease contracts	**44.2**	**-**	*n.s.*
Cash and cash equivalents	116.4	148.2	*(21.5%)*
Short-term financial investments	3.6	2.2	*64.4%*
Net financial debt Pulp business	**272.3**	**147.6**	*84.5%*

The gross debt of €348.2m at the September close corresponds mainly to the €148.1m of convertible bonds (deducted by the value of the equity component), the outstanding balance of €135.4m on the bilateral loans and a series of loans totalling €64.1m awarded by the CDTI (acronym in Spanish for the Centre for the Development of Industrial Technology) and Spanish Ministry of Industry to finance investments in efficiency upgrades and capacity expansion work; the maturities on these loans range to 2028. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.



At the reporting date, the Pulp business had cash and cash equivalents of €120.0m. Lastly, note that none of the €70m sustainable credit facility had been drawn down as of the reporting date.

3. RENEWABLE ENERGY BUSINESS

Ence's Renewable Energy business encompasses the generation of power from renewable sources at independent plants with aggregate installed capacity of 220 MW that have no relation to the pulp production process.

Ence has six power plants fuelled by forestry and agricultural biomass with aggregate installed capacity of 170 MW: two plants in Huelva (with capacity of 50 MW and 41 MW); one in Merida (20 MW); one in Ciudad Real (16 MW); one in Jaen (16 MW); and a complex in Cordoba (27 MW). In addition, on 30 November 2018, Ence closed the acquisition of a 50-MW solar thermal plant in Puertollano (Ciudad Real).

The Company is currently in the process of building two new agricultural and forestry biomass plants - a 46-MW plant in Huelva and a 50-MW facility in Ciudad Real - both of which are on schedule for commissioning in January 2020.

3.1. Electricity market trends

The average pool price in mainland Spain declined by 29% year-on-year in 3Q19 to €46.8/MWh and by 8.9% in 9M19 to €50.6/MWh.

	3Q19	3Q18	*Δ%*	2Q19	*Δ%*	9M19	9M18	*Δ%*
Average pool price (€/MWh)	46.8	65.9	*(29.0%)*	48.5	*(3.6%)*	50.6	55.6	*(8.9%)*

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

Pool price, last five years; and regulatory collar, 2016 - 2019 (€/MWh)

3.2. Revenue from energy sales

Energy sales volumes increased by 12.4% year-on-year in 3Q19 and by 9.5% in 9M19 to 300,753 MWh and 783,334 MWh, respectively, thanks to the contribution of the solar thermal plant in Puertollano acquired last December.

It is worth highlighting the improved performance at the biomass plants in Huelva in the third quarter following the repair and repowering work carried out during the previous quarter. The decline in power generated at the Jaen biomass facility is attributable to the repowering stoppage programmed at the plant during the months of September and October.

	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
Huelva 50 MW - Biomass	98,843	94,499	*4.6%*	66,858	*47.8%*	238,672	229,404	*4.0%*
Huelva 41 MW - Biomass	51,176	38,925	*31.5%*	13,976	*n.s.*	99,932	112,066	*(10.8%)*
Mérida 20 MW - Biomass	40,173	40,522	*(0.9%)*	33,860	*18.6%*	108,734	97,567	*11.4%*
Ciudad Real 16 MW - Biomass	23,955	23,605	*1.5%*	23,364	*2.5%*	69,865	68,777	*1.6%*
Jaén 16 MW - Biomass	13,788	21,658	*(36.3%)*	21,219	*(35.0%)*	53,895	66,851	*(19.4%)*
Córdoba 27 MW - Biomass	44,759	48,423	*(7.6%)*	48,173	*(7.1%)*	144,883	140,436	*3.2%*
Ciudad Real 50 MW - Solar thermal plant	28,059	-	*n.s.*	27,913	*0.5%*	67,352	-	*n.s.*
Energy sales (MWh)	**300,753**	**267,632**	*12.4%*	**235,363**	*27.8%*	**783,334**	**715,101**	*9.5%*
Average sales price - Pool + Collar + Ro (€/MWh)	105.6	106.9	*(1.2%)*	97.0	*8.9%*	103.5	108.0	*(4.2%)*
Remuneration for investment (€ m)	15.9	10.2	*55.1%*	15.9	-	47.6	30.7	*55.1%*
Revenue (€ m)	**47.9**	**39.2**	*22.3%*	**40.8**	*17.4%*	**128.7**	**107.9**	*19.2%*

The average sales prices of €105.6/MWh in 3Q19 and of €103.5/MWh in 9M19 were 1.2% and 4.2% below the equivalent prior-year prices due to the temporary suspension of the electricity generation levy in the first quarter and the adjustment for the regulatory collar.

Remuneration for operation of the plants was adjusted for the period between October 2018 and March 2019 to reflect the temporary suspension of the generation levy, so that there was no impact at the EBITDA level. In addition, Ence adjusts its average sales prices monthly as a function of pool prices and the limits set by the regulator; that accounting treatment led to the recognition of €0.1m of provisions in 3Q19 and of €2.3m in 9M19, compared to €4.6m and €6.2m in 3Q18 and 9M18, respectively.

Lastly, quarterly remuneration for investment increased by 55.1% to €15.9m as a result of the first-time consolidation of the 50-MW solar thermal plant in Ciudad Real, acquired in December 2018.

As a result, revenue in the Renewable Energy business registered year-on-year growth of 22.3% in 3Q19 and of 19.2% in 9M19 to €47.9m and €128.7m, respectively.

3.3. Income statement

EBITDA in the Renewable Energy business amounted to €15.9m in 3Q19, up 23.3% year-on-year, and €41.6m in 9M19, up 27.7%, again driven by the contribution of the solar thermal plant acquired in December.

Figures in € m	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
Total revenue	**47.9**	**39.2**	*22.3%*	**40.8**	*17.4%*	**128.7**	**107.9**	*19.2%*
EBITDA	**15.9**	**12.9**	*23.3%*	**12.5**	*26.8%*	**41.6**	**32.5**	*27.7%*
EBITDA margin	*33%*	*33%*	*0.3 p.p.*	*31%*	*2.5 p.p.*	*32%*	*30%*	*2.1 p.p.*
Depreciation and amortisation	(7.0)	(4.3)	*63.7%*	(6.9)	*1.3%*	(20.7)	(12.8)	*62.0%*
Depletion of forestry reserves	(0.0)	(0.1)	*(95.6%)*	(0.0)	*(79.2%)*	(0.0)	(0.1)	*(74.6%)*
Impairment of and gains/(losses) on fixed-asset dispo:	(0.1)	(0.1)	*1.6%*	(0.0)	*61.5%*	(0.2)	(0.2)	*(15.9%)*
EBIT	**8.8**	**8.4**	*4.6%*	**5.6**	*58.6%*	**20.6**	**19.4**	*6.1%*
EBIT margin	*18%*	*22%*	*(3.1) p.p.*	*14%*	*4.8 p.p.*	*16%*	*18%*	*(2.0) p.p.*
Net finance cost	(3.7)	(2.0)	*81.6%*	(4.2)	*(13.3%)*	(12.5)	(6.7)	*86.6%*
Other finance income/(cost)	(0.0)	(0.0)	*(66.7%)*	(0.0)	*(75.0%)*	(0.0)	(0.0)	*(34.8%)*
Profit before tax	**5.2**	**6.4**	*(19.6%)*	**1.3**	*n.s.*	**8.1**	**12.7**	*(36.4%)*
Income tax	(1.3)	(1.6)	*(18.1%)*	(0.3)	*n.s.*	(1.6)	(3.2)	*(49.2%)*
Net Income	**3.8**	**4.8**	*(20.1%)*	**1.0**	*n.s.*	**6.5**	**9.5**	*(32.2%)*
Non-controlling interests	(0.8)	(0.8)	*12.9%*	(0.6)		(2.3)	(1.8)	*29.1%*
Atributable Net Income	**3.0**	**4.0**	*(26.2%)*	**0.4**	*n.s.*	**4.2**	**7.7**	*(46.1%)*

For that same reason, depreciation charges increased by 62.0% from 9M18 to €20.7m.

The increase in net finance costs to €12.5m in 9M19 (9M18: €6.7m) is mainly attributable to the higher average gross debt balance following the investments made in conjunction with the two new biomass plants (a 46-MW plant in Huelva and a 50-MW plant in Ciudad Real) scheduled for commissioning in January 2020.

In all, the net profit attributable to the Renewable Energy business amounted to €3.0m in 3Q19 and €4.2m in 9M19, down 26.2% and 46.1% year-on-year, respectively.

3.4. Cash flow analysis

Net cash from operating activities amounted to €0.7m in 3Q19 (€8.1m in 3Q18) and €25.5m in 9M19 (€22.9m in 9M18). The growth in EBITDA was partially offset by the movement in working capital,

Figures in € m	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
EBITDA	**15.9**	**12.9**	*23.3%*	**12.5**	*26.8%*	**41.6**	**32.5**	*27.7%*
Non cash expenses / (incomes)	0.7	0.5	*64.5%*	(1.3)	*n.s.*	2.5	2.4	*3.0%*
Other collections / (payments)	(0.4)	(0.3)	*51.6%*	(0.5)	*(17.9%)*	(0.9)	(0.8)	*16.1%*
Change in working capital	(15.0)	(3.7)	*n.s.*	10.7	*n.s.*	(10.1)	(4.3)	*135.1%*
Income tax received / (paid)	0.0	(0.6)	*n.s.*	(0.3)	*n.s.*	(0.1)	(1.4)	*(90.7%)*
Net interest received / (paid)	(0.6)	(0.8)	*(17.3%)*	(5.7)	*(89.1%)*	(7.4)	(5.7)	*30.4%*
Net cash flow from operating activities	**0.7**	**8.1**	*(91.5%)*	**15.4**	*(95.5%)*	**25.5**	**22.9**	*11.6%*

which implied a cash outflow of €15.0m in the third quarter, due mainly to impact of the change in the coverage coefficient and of higher sales volumes on trade receivables.

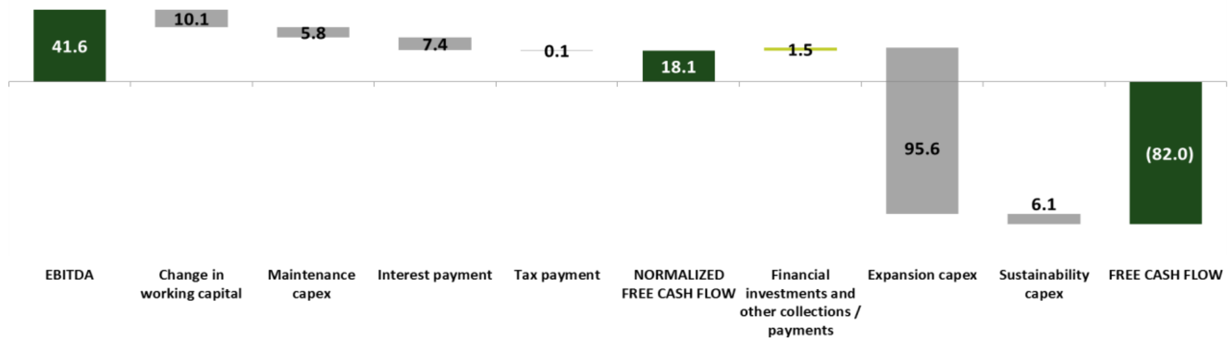
Figures in € m	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
Inventories	0.6	2.1	*(72.9%)*	(1.1)	*n.s.*	(2.4)	2.8	*n.s.*
Trade and other receivables	(13.1)	(6.1)	*114.7%*	6.7	*n.s.*	(8.3)	(5.0)	*66.4%*
Trade and other payables	(2.4)	0.4	*n.s.*	5.0	*n.s.*	0.6	(2.1)	*n.s.*
Change in working capital	**(15.0)**	**(3.7)**	*n.s.*	**10.7**	*n.s.*	**(10.1)**	**(4.3)**	*135.1%*

The net cash outflow from investing activities amounted to €17.3m in 3Q19 and €121.9m in 9M19, of which €5.8m and €6.1m corresponded to maintenance and sustainability capex, respectively.

Figures in € m	3Q19	3Q18	Δ%	2Q19	Δ%	9M19	9M18	Δ%
Maintenance capex	(2.8)	(1.6)	*82.2%*	(1.7)	*71.2%*	(5.8)	(3.0)	*91.0%*
Efficiency and expansion capex	(12.0)	(30.6)	*(60.8%)*	(36.4)	*(67.1%)*	(110.0)	(89.1)	*23.4%*
Sustainability capex	(2.4)	(0.9)	*183.3%*	(2.1)	*15.2%*	(6.1)	(1.4)	*n.s.*
Financial investments	(0.0)	0.3	*n.s.*	(0.0)	*68.2%*	(0.1)	1.8	*n.s.*
Investments	**(17.3)**	**(32.7)**	*(47.2%)*	**(40.2)**	*(57.0%)*	**(121.9)**	**(91.8)**	*32.8%*
Disposals	-	0.0	*(100.0%)*	-	*n.s.*	0.0	0.0	*(50.0%)*
Net cash flow from investing activities	**(17.3)**	**(32.7)**	*(47.1%)*	**(40.2)**	*(57.0%)*	**(121.9)**	**(91.7)**	*32.9%*

Investments in efficiency and growth totalled €110.0m in 9M19, €12.0m of which in the third quarter, mainly related with the construction of two new plants, a 46-MW plant in Huelva and a 50-MW plant in Ciudad Real, which are scheduled to be commissioned in January 2020. Of those amounts, €14.4m corresponds to the internal transfer of power generation rights from the Pulp business for use at the new 50-MW biomass plant being built in Ciudad Real. That internal transfer has no impact on the Group's cash flows at the consolidated level.

As a result, the Renewable Energy business generated normalised free cash flow of €18.1m in 9M19, while free cash flow net of growth, efficiency and sustainability capex came in at a negative €82.0m.



** Growth capex adjusted for the internal transfer of generation rights in the amount of €14.4m*

3.5. Change in net debt

Net debt in the Renewable Energy business increased by €88.9m from year-end 2018 to €246.1m. Application of IFRS 16 *Leases* from 1 January triggered the recognition of financial liabilities in the amount of €8.7m at the September close.

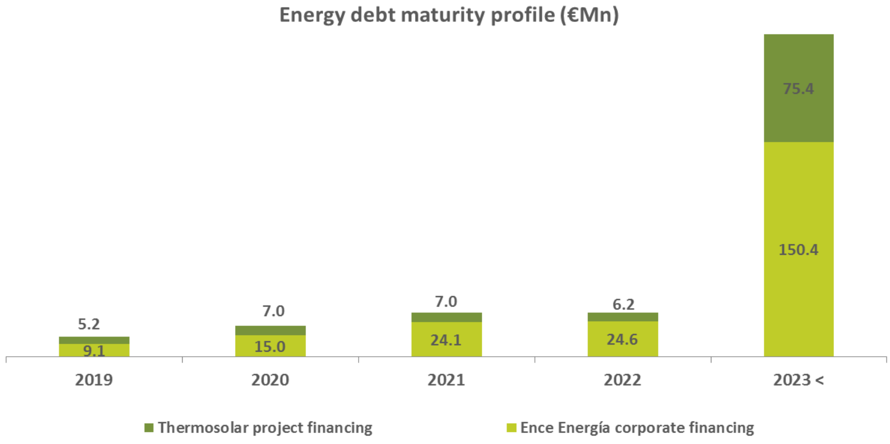
The ratio of net debt-to-LTM EBITDA (including the annualised contribution by the solar thermal plant consolidated for the first time in December) in the Renewable Energy business stood at 4.3x at the September close.

Figures in € m	Sep-19	Dec-18	Δ%
Non-current financial debt	299.0	205.4	*45.6%*
Current financial debt	25.0	152.2	*(83.6%)*
Gross financial debt	**324.0**	**357.6**	*(9.4%)*
Non-current lease contracts	8.3	-	*n.s.*
Current lease contracts	0.4	-	*n.s.*
Financial liabilities related to lease contracts	**8.7**	**-**	*n.s.*
Cash and cash equivalents	86.6	200.5	*(56.8%)*
Short-term financial investments	0.0	0.0	*50.0%*
Net financial debt Renewable Energy business	**246.1**	**157.2**	*56.6%*

In March 2019, Ence Solar, a wholly-owned subsidiary of Ence Energía, arranged €109.6m of non-recourse project finance, due 2031, at the 50-MW solar thermal plant in Ciudad Real. The proceeds from that facility, coupled with the €45.9m released from escrow, were used to prepay the €139m bridge loan taken out in November 2018 to fund the plant's acquisition.

As with the rest of the corporate finance taken on by the Renewable Energy business, the new project finance facility boasts Standard & Poor's highest green rating, evidencing Ence's commitment to sustainability, transparency and good governance.

This business unit's €324.0m of gross borrowings at the September close correspond mainly to the €224.6m drawn down under the corporate finance facility and the €99.3m drawn under the above project finance facility arranged by the solar thermal plant. Debt arrangement fees are deducted from gross borrowings on the statement of financial position.



Cash in this business stood at €86.6m at the September close.

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Income statement

	9M19				9M18			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Total revenue	**462.4**	**128.7**	**(4.0)**	**587.1**	**514.5**	**107.9**	**(2.7)**	**619.7**
Other income	(9.6)	1.8	(3.1)	(10.9)	13.5	0.8	(2.4)	12.0
Change in inventories of finished products	8.1	-		8.1	4.6	-		4.6
Cost of sales	(207.5)	(35.4)	4.0	(238.9)	(192.5)	(34.7)	2.7	(224.5)
Personnel expenses	(62.2)	(9.1)		(71.2)	(51.7)	(6.6)		(58.3)
Other operating expenses	(106.2)	(44.5)	3.1	(147.6)	(107.4)	(34.9)	2.4	(140.0)
EBITDA	**85.0**	**41.6**		**126.5**	**181.1**	**32.5**		**213.6**
EBITDA margin	*18%*	*32%*		*22%*	*35%*	*30%*		*34%*
Depreciation and amortisation	(42.2)	(20.7)		(62.9)	(39.1)	(12.8)		(51.9)
Depletion of forestry reserves	(6.5)	(0.0)		(6.5)	(4.1)	(0.1)		(4.2)
Impairment of and gains/(losses) on fixed-asset disposals	2.2	(0.2)		2.0	7.3	(0.2)	(1.7)	5.4
Other non-ordinary operating gains/(losses)	(3.2)	-		(3.2)	(6.0)	-		(6.0)
EBIT	**35.3**	**20.6**		**55.9**	**139.1**	**19.4**	**(1.7)**	**156.8**
EBIT margin	*8%*	16%		10%	*27%*	18%		*25%*
Net finance cost	(6.4)	(12.5)		(19.0)	(25.6)	(6.7)		(32.3)
Other finance income/(costs)	2.3	(0.0)		2.3	7.7	(0.0)	(6.6)	1.1
Profit before tax	**31.2**	**8.1**		**39.2**	**121.3**	**12.7**	**(8.3)**	**125.7**
Income tax	(7.5)	(1.6)		(9.1)	(29.0)	(3.2)		(32.2)
Net Income	**23.7**	**6.5**		**30.1**	**92.2**	**9.5**	**(8.3)**	**93.4**
Non-controlling interests	-	(2.3)		(2.3)	-	(1.8)		(1.8)
Atributable Net Income	**23.7**	**4.2**		**27.8**	**92.2**	**7.7**	**(8.3)**	**91.7**
Earnings per Share (EPS)	0.10	0.02		0.11	0.37	0.03		0.37

4.2. Balance sheet

	Sep - 19				Dec - 18			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Intangible assets	46.7	63.0	(14.4)	95.3	12.4	47.7		60.1
Property, plant and equipment	579.3	578.4	(1.7)	1,156.0	475.4	513.4	(1.7)	987.1
Biological assets	79.9	0.3		80.2	82.4	0.2		82.6
Non-current investments in Group companies	277.4	-	(277.4)	-	277.4	-	(277.4)	-
Non-current borrowings to Group companies	75.2	-	(75.2)	0.0	75.2	-	(75.2)	-
Non-current financial assets	1.6	5.1		6.7	1.7	12.0		13.7
Deferred tax assets	42.5	15.4		57.9	42.8	13.6		56.5
Total non-current assets	**1,102.5**	**662.3**	**(368.7)**	**1,396.2**	**967.3**	**587.0**	**(354.3)**	**1,200.0**
Non-current assets held for sale	-	-		-	4.0	-		4.0
Inventories	46.5	10.0		56.6	36.0	7.6		43.5
Trade and other accounts receivable	121.2	45.4	(40.1)	126.5	110.1	35.4	(23.1)	122.4
Income tax	0.4	1.3		1.7	0.0	1.4		1.4
Other current assets	1.8	(0.9)		0.9	2.0	0.0		2.1
Hedging derivatives	0.0	-		-	0.0	-		-
Current financial investments in Group companies	0.0	0.0		0.0	-	-		-
Current financial investments	3.7	0.0		3.7	2.2	0.0		2.2
Cash and cash equivalents	116.4	86.6		203.0	148.2	200.5		348.6
Total current assets	**290.0**	**142.6**	**(40.1)**	**392.4**	**302.4**	**244.9**	**(23.1)**	**524.2**
TOTAL ASSETS	**1,392.5**	**804.9**	**(408.8)**	**1,788.6**	**1,269.7**	**831.8**	**(377.4)**	**1,724.2**
Equity	**707.7**	**264.2**	**(293.1)**	**678.9**	**724.5**	**251.4**	**(278.7)**	**697.3**
Non-current borrowings	383.0	307.4		690.4	292.6	205.4		498.1
Non-current loans to Group companies	-	75.2	(75.2)	-	-	75.2	(75.2)	-
Non-current derivatives	0.7	10.9		11.6	0.1	4.5		4.7
Deferred tax liabilities	19.7	19.2	(0.4)	38.4	21.0	19.4	(0.4)	40.0
Non-current provisions	3.2	9.4		12.6	3.1	9.2		12.3
Other non-current liabilities	9.6	22.8		32.4	8.9	19.4		28.3
Total non-current liabilities	**416.2**	**444.8**	**(75.6)**	**785.4**	**325.8**	**333.2**	**(75.6)**	**583.3**
Current borrowings	9.4	25.4		34.8	5.4	152.2		157.6
Current derivatives	19.2	4.0		23.2	16.0	3.0		19.0
Trade and other account payable	214.7	63.9	(40.1)	238.5	175.0	90.9	(23.1)	242.8
Income tax	2.9	1.2		4.1	1.6	0.2		1.8
Current provisions	22.4	1.3		23.7	21.5	0.9		22.4
Total current liabilities	**268.6**	**95.8**	**(40.1)**	**324.3**	**219.5**	**247.2**	**(23.1)**	**443.6**
TOTAL EQUITY AND LIABILITIES	**1,392.5**	**804.9**	**(408.8)**	**1,788.6**	**1,269.7**	**831.8**	**(377.4)**	**1,724.2**

4.3. Cash flow statement

	9M19				9M18			
Figures in € m	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Consolidated profit/(loss) for the period before tax	**31.2**	**8.1**		**39.2**	**121.3**	**12.7**	**(8.3)**	**125.6**
Depreciation and amortisation	49.4	20.0		69.5	44.0	12.2		56.2
Changes in provisions and other deferred expense	15.9	2.7		18.6	11.7	2.5		14.2
Impairment of gains/(losses) on disposals intangible asset	(2.2)	0.2		(2.0)	(7.0)	0.2	1.7	(5.1)
Net finance cost	4.3	12.5		16.9	18.2	6.7	6.6	31.5
Government grants taken to income	(0.8)	(0.2)		(1.0)	(0.8)	(0.1)		(0.9)
Adjustments to profit	**66.7**	**35.2**		**102.0**	**66.1**	**21.5**	**8.3**	**95.8**
Inventories	(11.5)	(2.4)		(13.9)	(3.7)	2.8		(1.0)
Trade and other receivables	7.7	(8.3)		(0.6)	(12.6)	(5.0)		(17.6)
Current financial and other assets	(1.4)	-		(1.4)	4.9	-		4.9
Trade and other payables	10.2	0.6		10.8	(2.8)	(2.1)		(4.8)
Changes in working capital	**5.0**	**(10.1)**		**(5.1)**	**(14.2)**	**(4.3)**		**(18.5)**
Interest paid	(2.5)	(7.4)		(9.9)	(19.6)	(5.7)		(25.3)
Dividends received	-	-		-	6.6	-	(6.6)	-
Income tax received/(paid)	(6.6)	(0.1)		(6.8)	(6.4)	(1.4)		(7.8)
Other collections/(payments)	(4.7)	(0.2)		(4.9)	(1.3)	-		(1.3)
Other cash flows from operating activities	**(13.8)**	**(7.7)**		**(21.5)**	**(20.8)**	**(7.0)**	**(6.6)**	**(34.4)**
Net cash flow from operating activities	**89.1**	**25.5**		**114.6**	**152.3**	**22.9**	**(6.6)**	**168.6**
Property, plant and equipment	(123.2)	(107.2)		(230.4)	(49.1)	(72.2)	2.5	(118.8)
Intangible assets	(4.4)	(14.6)	14.4	(4.6)	(1.6)	(21.4)		(23.0)
Other financial assets	(0.2)	(0.1)		(0.2)	(1.9)	1.8	2.5	2.4
Disposals	4.6	0.0	(0.0)	4.7	4.0	0.0	(2.5)	1.5
Net cash flow used in investing activities	**(123.1)**	**(121.9)**	**14.4**	**(230.6)**	**(48.5)**	**(91.7)**	**2.4**	**(137.8)**
Free cash flow	**(34.0)**	**(96.4)**	**14.4**	**(116.0)**	**103.8**	**(68.9)**	**(4.1)**	**30.8**
							-	
Buyback/(disposal) of own equity instruments	(12.6)	14.4	(14.4)	(12.6)	14.6	2.5	(2.5)	14.6
Proceeds from and repayments of financial liabilities	39.1	(30.3)		8.8	(78.4)	32.3		(46.1)
Dividends payments	(24.3)	(1.5)		(25.8)	(39.0)	(9.4)	6.6	(41.7)
Net cash flow from/ (used in) financing activities	**2.2**	**(17.4)**	**(14.4)**	**(29.6)**	**(102.7)**	**25.4**	**4.1**	**(73.2)**
Net increase/(decrease) in cash and cash equivalents	**(31.8)**	**(113.8)**		**(145.6)**	**1.0**	**(43.5)**		**(42.5)**

5. KEY DEVELOPMENTS

Change in the state's criteria regarding the extension of Ence's concession in Pontevedra

The Pontevedra biomill's original concession of 1958 was extended for a term of 60 years (starting from 8 November 2013) by the then Ministry of Agriculture, Food and Environment via a resolution dated 20 January 2016 by virtue of: (i) Law 2/2013, of 29 May 2013, on coastal protection and sustainability and amending the Coastal Act; and (ii) the General Coast Regulations enacted by means of Royal Decree 876/2014 (10 October 2014). That resolution was challenged by the Council of Pontevedra and two environmental associations (Greenpeace Spain and *Asociación Pola Defensa da Ría de Pontevedra* or the APDR), giving rise to three court cases before the National Appellate Court's Chamber for Contentious Administrative Proceedings, in which the Ministry, along with Ence in its capacity as co-defendant, had been defending the legality of the concession extension.

On 8 March 2019, the newly-named Ministry of Ecological Transition presented written deeds effectively acquiescing in all three lawsuits. In other words, it requested to have Greenpeace's and the APDR's claims upheld, despite having previously argued throughout all of the proceedings that the Resolution of 20 January 2016 was lawful. Ence is opposing the state's acquiescence vehemently.

The cases taken by Greenpeace and the APDR are pending sentencing. As for the lawsuit taken by the City Council of Pontevedra, the Appellate Court, which is not conditioned by the state's acquiescence, has decided to continue to hear the case, which is currently in the discovery phase.

Although the Company believes that both the appeals lodged and the arguments put forward by the state government to substantiate its acquiescence lack legal grounds, in order to act transparently, on 15 March 2019, it filed a price-sensitive notice in which it provided its assessment of the financial consequences of the worst-case scenario, specifically that in which: (i) the legal proceedings pursued by the Company to defend the validity of the concession extension awarded by the state government in 2016, including all ordinary and extraordinary remedies presented at the highest possible level, conclude without success; (ii) the Company is unable to find an acceptable alternative for continuing the activities of the Pontevedra biomill; and (iii) the foregoing leads to discontinuation of operations at the Pontevedra complex.

The Company estimates that in the unlikely event that operations have to be discontinued, that development would have an extraordinary impact on its income statement of €185m. Of that sum, €74m would entail an outflow of cash: €43m for dismantling work; €16m to terminate existing contracts (based on the prior experience of dismantling the former mill in Huelva); and €15m related with employee layoffs. The remaining €111m would correspond to asset impairment charges and would not, accordingly, affect cash.

In addition, on 19 March 2019, the Ministry of Ecological Transition began to process draft legislation with the aim of amending the General Coast Regulations enacted by means of Royal Decree 876/2014. The reason given by the Ministry for amending the Regulations is to bring them in line with the Public Authority Property Act in keeping with reports and rulings recently issued by the state attorney's office (report 611/2018 and ruling 25/18). The Company presented its arguments on 29 March 2019, within the deadline granted to that end.

The concession term matter lies at the crux of the above-mentioned draft bill. In contrast to the prevailing legislation, which contemplates the possibility of extending the term by up to 75 years, the draft bill endorses a new interpretation, namely that the maximum concession term of 75 years refers to both the initial term of a concession and any extension thereof.

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

First interim dividend from 2019 profits

The Board of Directors paid an interim dividend from 2019 profits of €0.051 per share (before tax) on 19 September, which is equivalent to 50% of the Group's first-half earnings per share.

A motion for the final dividend will be put before the Company's shareholders at the Annual General Meeting in March 2020, in line with the stated policy of paying out 50% of earnings per share for the year. The approval of a second interim dividend payment is not due in November.

Execution of the share buyback programme

On 30 April 2019, the Board approved the buyback of 2,439,000 own shares representing approximately 1% of share capital for delivery to the beneficiaries of the 2019-2023 long-term bonus plan approved at the Annual General Meeting on 28 March 2019.

The share buyback programme was executed between 7 and 17 May, both dates inclusive, at a cost of €10,410,492, implying an average price of €4.27 per share.

Ignacio Colmenares appointed Ence's new Chairman and Juan Luis Arregui named Honorary Chairman

On 30 April 2019, the Board of Directors agreed to name the Company's current CEO and Vice-Chairman, Ignacio de Colmenares Brunet, Chairman of the Board and of the Executive Committee, in replacement of Juan Luis Arregui Ciarsolo. Mr. Arregui will remain a member of the Company's Board of Directors and of its Executive and Sustainability Committees.

In addition, the Board, at the recommendation of its Appointments and Remuneration Committee, appointed independent director José Carlos Del Álamo Jiménez as its Lead Independent Director.

Payment of the final dividend

The Company paid out a final dividend against 2018 profits of €0.054 per share (before tax) on 11 April 2019.

The final dividend complemented two interim dividends from 2018 profits: a first interim dividend of €0.104 paid out on 12 September 2018 and a second interim dividend of €0.105, distributed on 18 December 2018.

Together, the three dividends are equivalent to 50% of 2018 earnings per share and imply a dividend yield of over 5% with respect to the year-end 2018 share price.

2019 Annual General Meeting

Ence held its Annual General Meeting on 28 March. It was attended by shareholders representing 70% of its share capital who ratified all of the agenda items, including:

- Approval of the 2018 financial statements, management report and sustainability report.
- Approval of the Board of Directors' performance and proposed appropriation of profit for 2018.
- The re-election and appointment of the following directors:
  - The re-election of Ms. Isabel Tocino Biscarolasaga as independent director and her appointment as Chairwoman of the Audit Committee and member of the Appointments and Remuneration Committee.
  - The re-election of Mr. Fernando Abril-Martorell as other external director and his appointment as member of the Executive Committee and of the Appointments and Remuneration Committee.
  - The re-election of Mr. José Guillermo Zubía Guinea as other external director, his appointment as Chairman of the Sustainability Committee and his re-election as Secretary of the Audit Committee and member of the Executive Committee.

- Appointment of Ms. Amaia Gorostiza Tellería as independent director and as Secretary of the Appointments and Remuneration Committee.
- Appointment of Ms. Irene Hernández Álvarez as independent director and as member of the Audit Committee.
- Appointment of Ms. Rosa María García Piñeiro as member of the Audit Committee and of the Sustainability Committee.
- Appointment of RETOS OPERATIVOS XXI, S.L. as member of the Executive Committee and of the Sustainability Committee.
- Appointment of TURINA 2000, S.L. as member of the Appointments and Remuneration Committee.
- Appointment of Ms. Reyes Cerezo Rodríguez-Sedano as Vice-Chairwoman of the Board of Directors.

- Re-election of the Company's auditor.
- Approval of the long-term bonus plan for 2019-2023.

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

Facility	Type of facility	MW	Annual Remuneration for investment (Ri; €/MW)	Type of fuel	Remuneration for operation 9M19 (Ro; €/MWh)	Cap on sale hours per MW under tariff
Navia	Biomass co-generation	40.3	-	Lignin	35.5	-
	Biomass generation	36.2	230,190	Agroforestry biomass	59.3	6,500
Pontevedra	Biomass co-generation (a)	34.6	-	Lignin	36.4	-
			55,308	Agroforestry biomass	56.6	6,500
Huelva 41MW	Biomass generation	41.0	246,267	Agroforestry biomass	65.6	6,500
Huelva 50MW	Biomass generation	50.0	266,452	Agroforestry biomass	57.3	6,500
Mérida 20MW	Biomass generation	20.0	293,579	Agroforestry biomass	57.0	6,500
C. Real 16MW	Biomass generation	16.0	261,008	Olive Pulp	46.0	6,500
Jaen 16MW	Biomass generation	16.0	261,008	Olive Pulp	45.1	6,500
Cordoba 27MW	Biomass generation	14.3	229,582	Olive Pulp	47.6	6,500
	Gas co-generation	12.8	-	Natural Gas	70.8	-
C.Real 50MW	Solar thermal plant	50.0	451,131		47.1	2,024

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

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

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

   Income from operations = (Ro + pool) * MWh

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

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

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

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

   Investment income = MW * Ri

APPENDIX 2: ENVIRONMENTAL PLEDGE

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

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

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

The integrated management system in place at the Navia, Pontevedra and Huelva Operations Centres is certified by an accredited organisation in keeping with the following international standards: The UNE-EN-ISO 9001 quality management standard, the UNE-EN-ISO 14001 environmental management standard and the OHSAS 18001 workplace health and safety standard. It is audited annually.

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

Framed by the sustainability goals set by the Company for 2019, Ence is prioritising the elimination of odour emissions at its biomills as part of its so-called Xer0 Odour Plan. To date, it has already reduced these emissions by 99%.

Another of the objectives set for 2019 is to reduce its biomills' water footprint. Here it is worth noting the improvement recorded at the Pontevedra biomill during the first nine months of the year, where consumption decreased by over 11% from 33.5m^3/ADt at year-end 2018 to 29.9m^3/ADt at the September close.

Ence has also positioned itself as the benchmark Spanish player in forest sustainability matters thanks to its strategic focus on three key lines of initiative: environmental responsibility, management efficiency and social commitment. Ence uses internationally-recognised standards of excellence, such as the FSC® (FSC-C099970) (Forest Stewardship Council®) and PEFC (Program for the Endorsement of Forest Certification) schemes, in managing its own forest tracts and fosters their adoption in the case of third-party forests. In addition, Ence aims to deliver continuous improvement in terms of its consumption of natural resources and works to promote its management criteria by collaborating actively on planning matters, pest control, plant issues and forest certification, among other aspects.

The fruits of this policy are evident in the gradual increase in the percentages of incoming timber that is certified, which have risen from 42% and 6% at Navia and Pontevedra, respectively, in 2011 to levels of 92% and 72%, respectively, as of the September 2019 close.

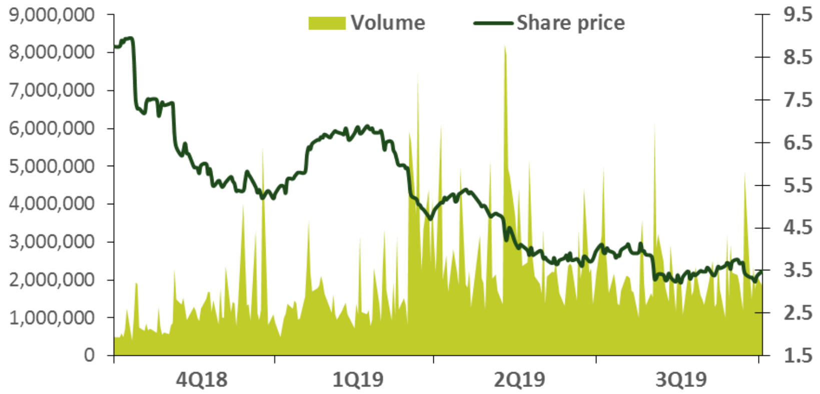
As for its biomass-fuelled Renewable Energy business, Ence has pioneered the segment, developing a 10-point declaration guaranteeing its commitment to using biomass sustainably and caring for the environment in making use of this renewable source of energy. In formulating this declaration, Ence drew from the biomass sustainability criteria established by some of Europe's leading environmentalist organisations.

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

APPENDIX 3: SHARE PRICE PERFORMANCE

Ence's share capital consists of 246,272,500 shares with a unit par value of €0.90. They are represented by book entries and all carry identical voting and dividend rights. The Company's shares have been traded on the Spanish stock exchanges and on the continuous market since it was privatised in 2001 and are part of the Ibex-35 and Ibex Top Dividendo indices.

Ence's share price ended September at €3.49/share, down 36.4% from year-end 2018, affected by the correction in pulp prices and the uncertainty generated by the change in government criteria with respect to the extension of the concession Ence holds in Pontevedra.



Source: Bloomberg

SHARES	4Q18	1Q19	2Q19	3Q19
Share price at the end of the period	5.49	4.96	3.97	3.49
Market capitalization at the end of the period	1350.8	1221.5	977.2	859.5
Ence quarterly evolution	(37.3%)	(9.6%)	(20.0%)	(12.0%)
Daily average volume (shares)	1,261,459	1,993,546	2,748,155	2,108,567
Peers quarterly evolution *	(23.2%)	11.3%	(22.9%)	(3.2%)

(*) Altri, Navigator, Suzano, CMPC and Canfor Pulp

On 5 March 2018, Ence issued €160m of convertible bonds due 5 March 2023. The bonds carry a fixed annual coupon of 1.25%, payable semi-annually, and are convertible into shares of the Company, at the option of the bondholders, at an initial conversion price of €7.2635 per share. The convertible bonds are traded on the Frankfurt stock exchange. Their trading performance during the first quarter reflected the movement in the value of the conversion option in line with the correction in the share price.

CONVERTIBLE BOND	4Q18	1Q19	2Q19	3Q19
Bond price at the end of the period	105.67	98.46	94.47	94.27
Yield to worst at the end of the period*	-0.107%	1.656%	2.845%	3.025%

*Yield to maturity

The following table shows the current credit ratings awarded to the Ence Group by Moody's and S&P:

	RATING	OUTLOOK	DATE
S&P	**BB**	**Stable**	**08/08/2019**
Moody's	**Ba2**	**Stable**	**21/06/2019**

APPENDIX 4: ALTERNATIVE PERFORMANCE MEASURES (APMs)

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

CASH COST

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

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

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

EBITDA

EBITDA is a measure used in the income statements presented in this report, in sections 2.6, 3.3 and 4.1, and is a measure of operating profit before depreciation, amortisation and forest depletion charges, non-current asset impairment charges, gains or losses on non-current assets and one-off items of income and expense that are not part of the Company's ordinary operating activities and therefore undermine the comparability of the numbers.

EBITDA is an indicator used by management to track the Company's recurring profitability over time. This metric 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.

CASH FLOW ANALYSIS

The Cash Flow Analysis presented in sections 1, 2.7 and 3.4 of this report differs from the cash flow movements presented in the statement of cash flows included in section 4.3 and also presented in the annual financial statements.

The difference stems from the fact that the former analyses the movements in Free Cash Flow starting from EBITDA, whereas the Cash Flow Statement presents the movements in the Group's cash and cash equivalents starting from profit before tax, using the indirect method.

As a result, the headings, 'Other receipts/(payments)' and 'Expenses/(income) with no impact on cash' do not coincide exactly with 'Consolidated profit/(loss) for the period - Adjustments' and 'Other receipts/(payments)', albeit in both instances arriving at net cash from operating activities.

NORMALISED FREE CASH FLOW

Ence reports normalised free cash flow within the cash flow analysis provided for each of its two business units in sections 1, 2.7 and 3.4 of this report. Normalised FCF is the sum of EBITDA, the change in working capital, maintenance capital expenditure, net interest payments and income tax payments.

Normalised free cash flow provides a proxy for the cash generated by the Company's operating activities before collection of proceeds from asset sales; this cash represents the amount available for investments other than maintenance capex, for shareholder remuneration and for debt repayment.

MAINTENANCE, EFFICIENCY, GROWTH AND SUSTAINABILITY CAPEX

Ence provides the breakdown of its capex-related cash outflows for each of its business units in sections 1, 2.7 and 3.4, distinguishing between maintenance, efficiency, growth and sustainability capex.

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

Ence's 2019-2023 Strategic Plan includes a schedule of the amounts it expects to invest annually in efficiency, growth and sustainability in order to attain the strategic targets set. The disclosure of capex cash flows broken down by area of investment facilitates oversight of execution of the published Strategic Plan.

FREE CASH FLOW

Ence reports free cash flow as the sum of its net cash flows from operating activities and its net cash flows from investing activities in sections 2.7, 3.4 and 4.3 of this report.

Free cash flow provides information about the cash generated by the Group's operating activities that is left over after its investing activities for the remuneration of shareholders and repayment of debt.

NET DEBT

The borrowings recognised on the balance sheet, as detailed in section 4.2 of this report, include bonds and other marketable securities, bank borrowings and other financial liabilities. They do not however include the measurement of financial derivatives.

Net debt is calculated as the difference between current and non-current borrowings on the liability side of the balance sheet and the sum of cash and cash equivalents and other financial investments within current assets, as outlined in sections 2.8 and 3.5 of this report.

Net debt provides a proxy for the Company's indebtedness and is a metric that is widely used in the capital markets to compare the financial position of different companies.

DISCLAIMER

The information contained in this report was prepared by Ence and includes forward-looking statements.

Any statements made in this report other than those based on historical information, including, merely for illustrative purposes, those referring to Ence's financial situation, business strategy, planned capital expenditure, management plans and objectives related to future operations, as well as statements including words such as “anticipate”, “believe”, “estimate”, “consider”, “expect” and other similar expressions, constitute forward-looking statements that reflect the current outlook of Ence or its management team with respect to future events and involve known and unknown risks and uncertainties. As a result, the actual situation and results of Ence and its sector could differ substantially from those depicted expressly or implicitly in these forward-looking statements.

These forward-looking statements are based on numerous assumptions regarding Ence's current and future business strategy and the environment it expects to encounter in the future. A series of material factors could cause Ence's situation and results to differ materially from those reflected in these forward-looking statements, including fluctuations in pulp and/or timber prices, business seasonality, exchange rate fluctuations, financial risks, strikes or other action taken by Ence's employees, the competitive landscape, environmental risks and any of the other factors detailed in this document. The forward-looking statements are made only as of the date of this presentation. Ence disclaims any obligation or undertaking to update or revise these statements, whether as a result of any change in Ence's expectations or the conditions or circumstances underlying these statements, or any other information or data contained in this presentation.

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