



Fourth-quarter 2019 Earnings Report

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CONTENTS

1. EXECUTIVE SUMMARY	3
2. PULP BUSINESS	5
2.1. PULP MARKET TRENDS	5
2.2. REVENUE FROM PULP SALES	6
2.3. PULP PRODUCTION AND THE CASH COST	7
2.4. REVENUE FROM THE SALE OF ENERGY IN CONNECTION WITH PULP PRODUCTION	8
2.5. REVENUE FROM FORESTRY AND OTHER ACTIVITIES	9
2.6. STATEMENT OF PROFIT OR LOSS	9
2.7. CASH FLOW ANALYSIS	10
2.8. CHANGE IN NET DEBT	11
3. RENEWABLE ENERGY BUSINESS	12
3.1. ELECTRICITY MARKET TRENDS	12
3.2. REVENUE FROM ENERGY SALES	13
3.3. STATEMENT OF PROFIT OR LOSS	14
3.4. CASH FLOW ANALYSIS	15
3.5. CHANGE IN NET DEBT	16
4. CONSOLIDATED FINANCIAL STATEMENTS	18
4.1. STATEMENT OF PROFIT OR LOSS	18
4.2. BALANCE SHEET	18
4.3. CASH FLOW ANALYSIS	19
5. KEY DEVELOPMENTS	20
APPENDIX 1: REMUNERATION PARAMETERS APPLICABLE TO ENCE'S POWER PLANTS	26
APPENDIX 2: SHARE PRICE PERFORMANCE	27
APPENDIX 3: ALTERNATIVE PERFORMANCE MEASURES (APMS)	28

1. EXECUTIVE SUMMARY

Market figures	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
BHKP (USD/t) average price	696.7	1,045.8	(33.4%)	816.5	(14.7%)	860.1	1,037.3	(17.1%)
Average exchange rate (USD/€)	1.11	1.14	(3.4%)	1.12	(1.0%)	1.12	1.18	(5.0%)
BHKP (€/t) average price	630.4	914.1	(31.0%)	731.6	(13.8%)	766.9	878.6	(12.7%)
Average pool price (€/MWh)	40.9	63.0	(35.0%)	46.8	(12.5%)	47.6	57.4	(17.1%)

Source: Bloomberg

Operating Metrics	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
Pulp production (t)	185,404	253,701	(26.9%)	261,280	(29.0%)	912,028	967,969	(5.8%)
Pulp sales (t)	206,193	246,729	(16.4%)	266,356	(22.6%)	910,499	947,466	(3.9%)
Average sales pulp price (€/t)	432.2	643.6	(32.9%)	481.9	(10.3%)	522.8	635.1	(17.7%)
Cash cost (€/t)	426.6	383.5	11.2%	376.4	13.3%	396.6	376.9	5.2%
Renewable Energy sales volume (MWh)	263,749	208,835	26.3%	300,756	(12.3%)	1,047,163	923,935	13.3%
Average sales price - Pool + Ro (€/MWh)	87.8	90.5	(3.0%)	105.6	(16.9%)	99.8	104.2	(4.2%)
Remuneration for investment (€ m)	15.9	12.0	32.5%	15.9	(0.0%)	63.5	42.7	48.8%

P&L € m	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
Revenue from Pulp business	110.0	182.5	(39.7%)	154.3	(28.7%)	572.4	697.0	(17.9%)
Revenue from Renewable Energy business	39.3	31.0	26.8%	47.9	(18.0%)	168.0	138.9	20.9%
Consolidation adjustments	(1.0)	(1.2)		(1.2)		(5.0)	(3.9)	
Total revenue	148.3	212.3	(30.2%)	200.9	(26.2%)	735.4	832.0	(11.6%)
Pulp business EBITDA	(9.8)	64.5	n.s.	18.3	n.s.	75.2	245.6	(69.4%)
Margin %	-9%	35%	(44.3) p.p.	12%	(20.8) p.p.	13%	35%	(22.1) p.p.
Renewable Energy business EBITDA	10.3	12.7	(19.2%)	15.9	(35.2%)	51.8	45.3	14.5%
Margin %	26%	41%	(14.9) p.p.	33%	(7.0) p.p.	31%	33%	(1.7) p.p.
EBITDA	0.5	77.3	(99.4%)	34.2	(98.6%)	127.0	290.9	(56.3%)
Margin %	0%	36%	(36.1) p.p.	17%	(16.7) p.p.	17%	35%	(17.7) p.p.
Depreciation, amortisation and forestry depletion	(22.9)	(19.5)	17.4%	(24.7)	(7.3%)	(92.3)	(75.7)	22.0%
Impairment of and gains/(losses) on fixed-asset disposals	(0.2)	4.7	n.s.	0.4	n.s.	1.8	10.0	(81.7%)
Other non-ordinary results of operations	(0.9)	(9.7)	(91.2%)	(1.1)	(19.0%)	(4.0)	(15.7)	(74.5%)
EBIT	(23.4)	52.8	n.s.	8.9	n.s.	32.5	209.6	(84.5%)
Net finance cost	(3.8)	(5.1)	(26.5%)	(6.0)	(36.9%)	(22.7)	(37.4)	(39.3%)
Other finance income/(cost) results	(1.0)	(0.1)	n.s.	1.7	n.s.	1.3	1.1	22.6%
Profit before tax	(28.1)	47.6	n.s.	4.7	n.s.	11.1	173.2	(93.6%)
Income tax	9.5	(9.4)	n.s.	(1.0)	n.s.	0.4	(41.6)	n.s.
Net income	(18.6)	38.2	n.s.	3.7	n.s.	11.5	131.7	(91.3%)
Non-controlling interests	(0.0)	(0.8)	(99.4%)	(0.8)	(99.4%)	(2.3)	(2.5)	(9.9%)
Attributable Net Income	(18.6)	37.5	n.s.	2.9	n.s.	9.2	129.1	(92.9%)
Earnings per share (Basic EPS)	(0.08)	0.15	n.s.	0.01	n.s.	0.04	0.52	(92.9%)

Cash flow € m	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
EBITDA	0.5	77.3	(99.4%)	34.2	(98.6%)	127.0	290.9	(56.3%)
Change in working capital	70.6	8.3	n.s.	(1.6)	n.s.	65.5	(10.1)	n.s.
Maintenance capex	(8.2)	(7.0)	16.9%	(9.3)	(12.0%)	(29.8)	(21.8)	36.6%
Net interest Payment	(5.9)	(4.6)	28.9%	(1.7)	245.9%	(15.8)	(29.9)	(47.1%)
Income tax received/(paid)	(2.9)	(21.0)	(86.2%)	(1.5)	95.9%	(9.6)	(28.8)	(66.5%)
Normalised free cash flow	54.1	53.0	2.1%	20.1	168.8%	137.2	200.2	(31.5%)
Financial investments and other collections / (payments)	(6.8)	0.3	n.s.	3.4	n.s.	2.8	7.7	(62.9%)
Expansion capex	(31.0)	(158.1)	(80.4%)	(46.8)	(33.8%)	(217.6)	(279.6)	(22.2%)
Sustainability capex	(18.2)	(6.1)	199.8%	(9.2)	97.8%	(45.0)	(11.5)	n.s.
Disposals	0.5	(1.8)	n.s.	0.1	n.s.	5.1	1.4	n.s.
Free cash flow	(1.3)	(112.6)	(98.8%)	(32.4)	(95.9%)	(117.4)	(81.8)	43.4%
Dividends	(1.4)	(28.2)	(95.2%)	(11.0)	n.s.	(25.6)	(67.1)	(61.8%)

Net debt € m	Dec-19	Dec-18	Δ%
Net financial debt Pulp business	305.7	147.6	107.1%
Net financial debt Renewable Energy business	207.0	157.2	31.7%
Net financial debt	512.7	304.8	68.2%

- ✓ Ence defined in 2019 its Sustainability Plan, which is integrated in its 5 year Strategic Plan and constitutes its roadmap to excel in sustainability and create value for all its stakeholders.
- ✓ The 2019 results were driven by the downtrend in pulp prices and execution of sizeable investments, as envisaged in our Strategic Plan, to increase capacity in the Pulp business by 9% and in the Renewable Energy by 44%.
- ✓ Sudden inventory destocking in the paper industry in the last quarter of 2018 and first quarter of 2019 prompted a sharp contraction in demand for pulp and the corresponding increase in producer inventories, driving pulp prices to 10-year lows by the fourth quarter of 2019.
- ✓ Growth in demand during the second half of 2019 and normalisation of producer inventories has helped stabilise pulp prices in the first quarter of 2020.
- ✓ Against this backdrop, EBITDA in the Pulp business decreased by 69% to €75m in 2019. Lower volumes and higher costs, due mainly to the capacity expansions carried out during the year, are responsible for just 14pp of the contraction; lower sales prices account for 42pp, with the remaining 14pp attributable to exchange rate hedges.
- ✓ In contrast, EBITDA in the Renewable Energy business increased by 15% year-on-year to €52m, driven by the contribution by the solar thermal power plant in Puertollano acquired in December 2018. That contribution was partially offset by the effect of the extraordinary stoppages carried out to repower several plants during the year, exacerbated by lower electricity prices and higher biomass costs.
- ✓ In all, the Group's EBITDA and net profit amounted to €127m and €9m in 2019, respectively, while capital expenditure related with execution of the Strategic Plan totalled €263m.
- ✓ Capacity at the Navia biomill was increased by 80,000 tonnes as scheduled during the last quarter, an intervention which has improved nearly all of the facility's industrial processes. The rate of production at the biomill during the first two months of 2020 is tracking over 10% higher year-on-year, in line with the capacity added.
- ✓ Similarly, output at the Pontevedra biomill is trending more than 3% higher year-on-year so far this year, in line with the 20,000 tonnes of capacity added in the first quarter of 2019.
- ✓ The two new biomass plants, with combined capacity of 96 MW, were commissioned during the first quarter of 2020 and are expected to boost output in the Renewable Energy business by more than 50% in 2020.
- ✓ The Group's net debt ended 2019 at €513m, €306m in the Pulp business and €207 in the Renewable Energy business.
- ✓ Framed by the strategic objective of keeping leverage in the Pulp business (measured as net debt-to-EBITDA) under 2.5 times (based on mid-cycle prices), the Board of Directors has decided to postpone the rest of the investments contemplated in this unit's Strategic Plan.
- ✓ Framed by its strategy for continued growth in the renewable energy sector in Spain, Ence has a pipeline of 405 MW of grid-authorized projects for which locations have been secured: 240 MW of photovoltaic solar power, 140 MW of biomass and 25 MW of hybrid solar thermal power. Development of the latter two technologies is pending implementation of the European and Spanish renewable energy plans.
- ✓ Lastly, 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 taken to the highest possible level.

2. PULP BUSINESS

Ence has two eucalyptus hardwood pulp (BHKP) biomills in Spain: a 685,000-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.

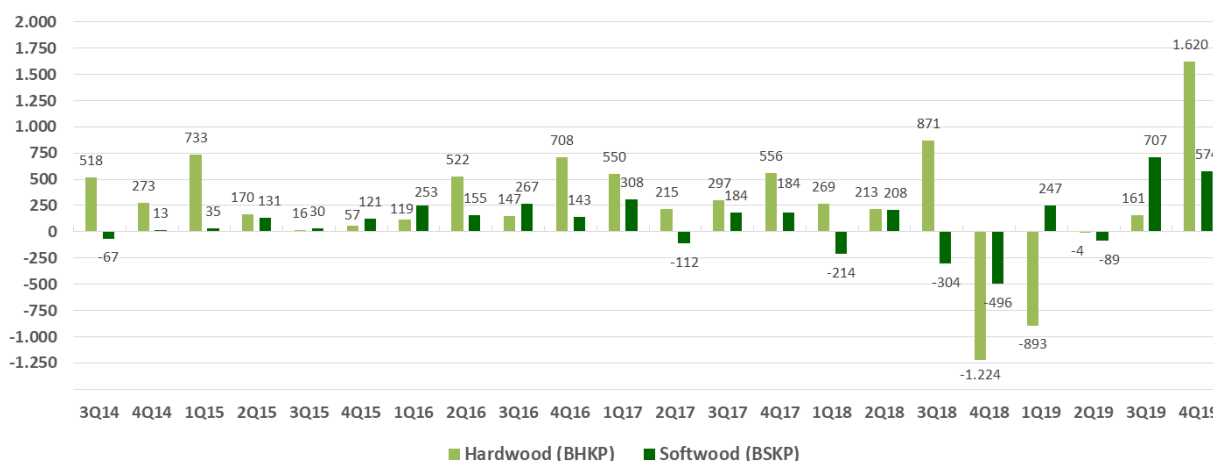
Ence's Pulp business encompasses all the activities related to the production of pulp for sale to third parties. It therefore includes not only the production and sale of pulp but also the generation and co-generation of energy using renewable biomass at the plants involved in the productive process,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

2.1. Pulp market trends

Rapid growth in urban populations and improving living standards in emerging markets are the key factors driving growth in global demand for pulp for tissue paper and hygiene products. Those demographic trends are being complemented by a substitution effect: pulp is a natural, sustainable, recyclable and biodegradable raw material with a smaller carbon footprint than other materials such as plastics and synthetic fibres.

These demand dynamics are very consistent over the long term and contrast with the *ad-hoc* slump in demand for pulp observed in the last quarter of 2018 and first quarter of 2019, prompted by destocking by the paper industry in the wake of apparent overbuying in prior quarters. The prospect of a slowdown in global economic growth, accentuated by trade tensions between China and the US, prompted sudden inventory destocking in the paper industry and triggered a 2.4-m tonne correction in demand for pulp during those two quarters and an attendant increase in inventories at pulp producers.

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

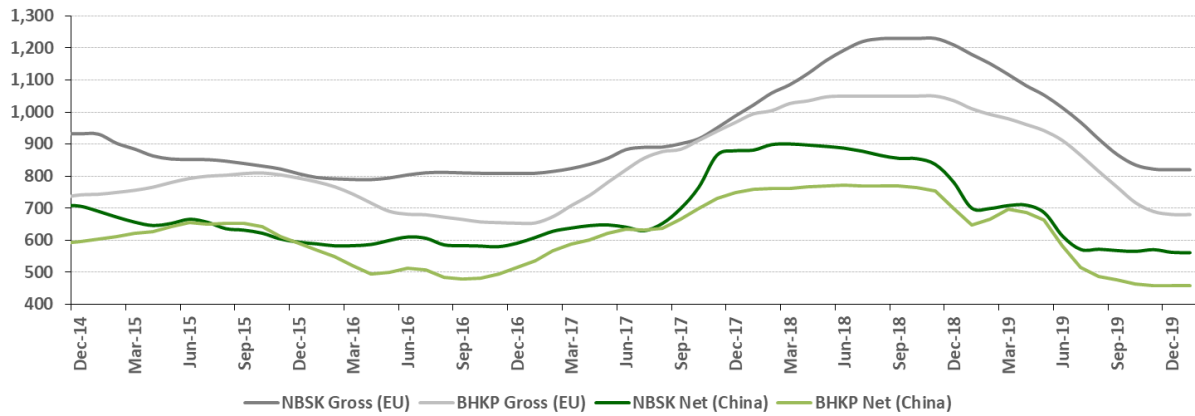


Source: Ence, PPC – GL100 and W20 for December

That drop in demand for pulp and the attendant increase in producer inventories drove pulp prices to a 10-year low. At the end of 2019, hardwood pulp (BHKP) prices stood at \$457/tonne (net) in China and \$680/tonne (gross) in Europe. Softwood pulp (BSKP) prices, meanwhile, stood at \$558/tonne (net) in China and \$820/tonne (gross) in Europe.

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.

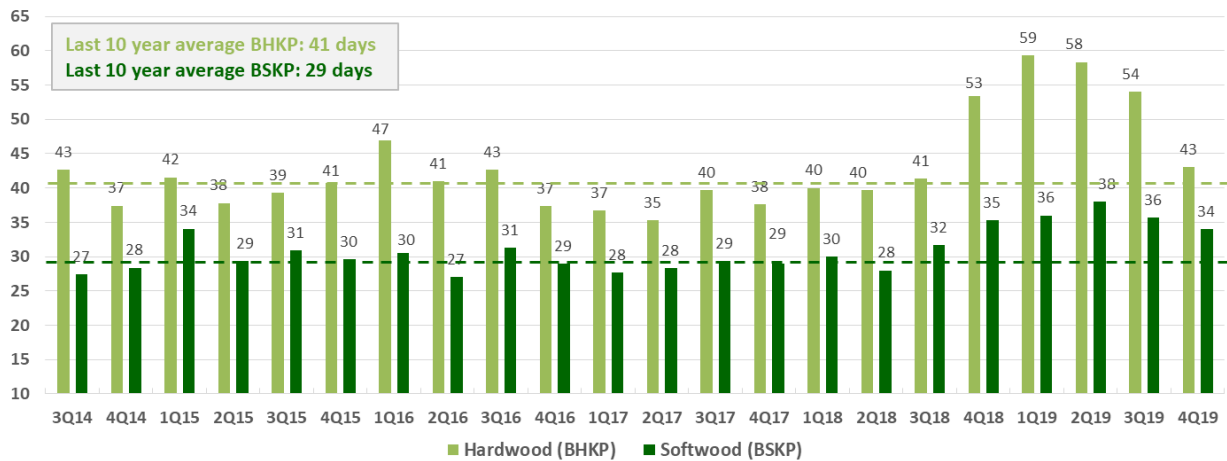
Net pulp prices in China and gross prices in Europe during the last five years (US\$)



Source: FOEX

Demand for pulp recovered to the tune of 3m tonnes during the second half of 2019, driven by higher shipments to China. Global demand for pulp registered year-on-year growth of 5% during the third quarter and 15% in the fourth. In 2019 as a whole, demand increased by 4% year-on-year, which is equivalent to 2.3m tonnes, of which 0.9m tonnes was demand for hardwood pulp and 1.4m for softwood pulp.

Pulp producer inventories during the last five years (no. of days)



Source: Ence, PPPC – GL100 and W20 for December

That recovery in demand, coupled with production cutbacks at some pulp makers, helped reduce producer inventories in the second half of the year, with pulp prices stabilising during the first quarter of 2020. By the end of 2019, producer inventories were once again close to the 10-year trailing average.

2.2. Revenue from pulp sales

	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
Pulp sales (t)	206,193	246,729	<i>(16.4%)</i>	266,356	<i>(22.6%)</i>	910,499	947,466	<i>(3.9%)</i>
Average sales price (€/t)	432.2	643.6	<i>(32.9%)</i>	481.9	<i>(10.3%)</i>	522.8	635.1	<i>(17.7%)</i>
Pulp sales revenue (€ m)	89.1	158.8	<i>(43.9%)</i>	128.4	<i>(30.6%)</i>	476.0	601.7	<i>(20.9%)</i>

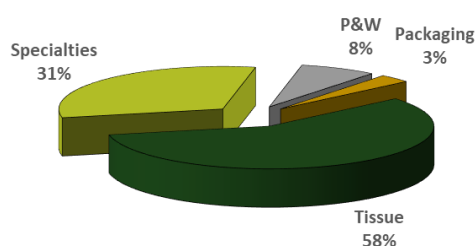
Pulp sales volumes, in tonnes, decreased by 16.4% year-on-year in the fourth quarter, to 206,193 tonnes, reflecting lower output at the Navia biomill which was idled for 37 days in order to increase its annual capacity by 80,000 tonnes.

Sales volumes in all of 2019 declined by 3.9% to 910,499 tonnes, for that same reason. Pulp inventories at year-end stood at 56,900 tonnes, compared to 54,900 tonnes at the end of 2018.

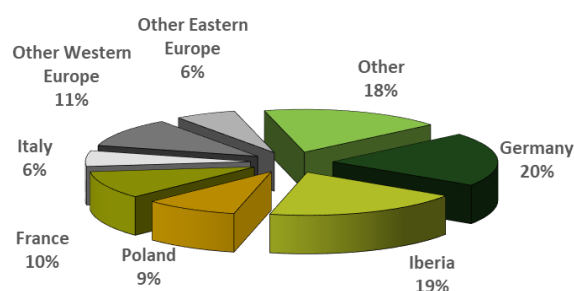
Ence's average sales price declined by 32.9% year-on-year in 4Q19 and by 17.7% in 2019 as a result of the drop in benchmark prices in Europe, coupled with the impact of higher sales volumes on the spot market, outside of Europe. The spot market accounted for 18% of pulp sales in 2019.

The combination of the two factors drove a year-on-year reduction in revenue from pulp sales of 43.9% to €89.1m in the fourth quarter and of 20.9% to €476.0m in 2019.

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 58% of revenue from pulp sales in 2019, followed by the specialty paper segment, at 31%, 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 82% of revenue from pulp sales. Germany and Iberia accounted for 20% and 19% of total revenue, respectively, followed by Poland (9%), France (10%) and Italy (6%). 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 decreased by 26.9% year-on-year in the fourth quarter, to 185,404 tonnes, reflecting a 50% drop in output at the Navia biomill, which was idled for 37 days in order to increase its annual capacity by 80,000 tonnes.

In 2019 as a whole, pulp production fell by 5.8% to 912,028 tonnes, shaped by a contraction of 13.8% in Navia offset by growth of 3.9% in Pontevedra, where 20,000 tonnes of additional capacity was brought on line in March.

	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
Navia pulp production	68,971	138,554	(50.2%)	141,284	(51.2%)	457,397	530,463	(13.8%)
Pontevedra pulp production	116,433	115,147	1.1%	119,996	(3.0%)	454,631	437,505	3.9%
Pulp production (t)	185,404	253,701	(26.9%)	261,280	(29.0%)	912,028	967,969	(5.8%)

Capacity at the Navia biomill was increased by 80,000 tonnes over 37 days between October and November. The expansion work has improved nearly all of the facility's industrial processes. In addition, during the annual maintenance stoppage programmed in May, which lasted 12 days, the shared effluent pipe discharging into the Navia River was cleaned thoroughly. 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 next maintenance stoppage is scheduled for the second quarter of 2020.

Meanwhile, the Pontevedra biomill was stopped for maintenance 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; that work included improvements to the recovery boiler, condensation turbine and evaporators. Sustainability-wise, it is worth highlighting the addition of a new water cycle. The next maintenance stoppage is scheduled for the second quarter of 2020.

Ence's cash cost was €426.6/tonne in the fourth quarter, up 13.3% quarter-on-quarter and 11.2% year-on-year as a result of lower dilution of fixed costs as a result of the extraordinary stoppage of the Navia biomill in order to add capacity.

Figures in €/t	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
Wood cost	205.4	207.6	(1.0%)	208.1	(1.3%)	208.5	201.4	3.5%
Conversion costs	147.4	105.4	39.9%	103.8	42.1%	118.9	109.1	9.1%
Sales and logistic costs	32.4	31.5	2.8%	31.3	3.6%	31.4	31.7	(1.0%)
Overheads	41.3	39.0	6.0%	33.2	24.4%	37.8	34.6	9.0%
Total cash cost	426.6	383.5	11.2%	376.4	13.3%	396.6	376.9	5.2%

In 2019 as a whole, the cash cost increased by €19.7/tonne, growth of 5.2% from 2018. Conversion costs and overhead increased by €9.8/tonne and €3.2/tonne, respectively, due to lower dilution of fixed costs and a smaller energy contribution during the extraordinary stoppage of the Navia biomill, as well as lower electricity prices during the fourth quarter. Timber costs increased by €7.1/tonne year-on-year, while sales and logistics costs decreased by €0.3/tonne.

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.**

	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
Navia energy sales	99,810	138,139	(27.7%)	144,521	(30.9%)	483,455	519,327	(6.9%)
Pontevedra energy sales	56,174	60,374	(7.0%)	59,009	(4.8%)	226,735	230,660	(1.7%)
Energy sales linked to the pulp process (MWh)	155,985	198,514	(21.4%)	203,529	(23.4%)	710,190	749,988	(5.3%)
Average sales price - Pool + Ro (€/MWh)	79.9	95.2	(16.1%)	91.1	(12.3%)	88.8	96.8	(8.2%)
Remuneration for investment (€ m)	2.6	2.6	0.2%	2.6	(0.0%)	10.2	10.2	0.0%
Revenues from energy sales linked to pulp (€ m)	15.0	21.5	(30.0%)	21.1	(28.8%)	73.3	82.8	(11.5%)

The sale of energy in connection with pulp production decreased by 21.4% year-on-year in the fourth quarter, to 155,985 MWh, mainly as a result of the extraordinary stoppage of the Navia biomill in order to add capacity. In 2019 as a whole, these energy sales fell 5.3%, for that same reason, to 710,190 MWh.

Elsewhere, average sales prices declined by 16.1% year-on-year in the fourth quarter and by 8.2% in 2019 as a whole to €79.9/MWh and €88.8/MWh, respectively, due to the contraction in pool prices.

As a result, revenue from energy sales in the Pulp business, factoring in remuneration for investment (unchanged), decreased by 30% year-on-year to €15.0m in 4Q19 and by 11.5% to €73.3m in 2019.

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.

	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
Forestry and other revenue (m €)	5.9	2.3	160.2%	4.8	22.3%	23.0	12.4	85.6%

Forestry revenue amounted to €5.9m in 4Q19 (€2.3m in 4Q18) and €23.0m in 2019 (€12.4m in 2018).

Exploitation of the eucalyptus plantations located in the south of Spain was reactivated in 2019 following the execution in 4Q18 of two 12-year contracts for the sale of approximately 200,000 tonnes of timber per annum.

2.6. Statement of profit or loss

Figures in € m	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
Total net revenue	110.0	182.5	(39.7%)	154.3	(28.7%)	572.4	697.0	(17.9%)
EBITDA	(9.8)	64.5	n.s.	18.3	n.s.	75.2	245.6	(69.4%)
<i>EBITDA margin</i>	<i>-9%</i>	<i>35%</i>	<i>(44.3) p.p.</i>	<i>12%</i>	<i>(20.8) p.p.</i>	<i>13%</i>	<i>35%</i>	<i>(22.1) p.p.</i>
Depreciation and amortisation	(11.6)	(12.8)	(9.6%)	(15.7)	(26.1%)	(53.8)	(52.0)	3.6%
Depletion of forestry reserves	(2.8)	(1.6)	75.8%	(2.0)	42.3%	(9.3)	(5.7)	62.7%
Impairment of and gains/(losses) on fixed-asset dispos:	0.2	4.3	(96.1%)	0.5	(63.2%)	2.3	11.6	(79.9%)
Other non-recurring gains/(losses)	(0.9)	(9.7)	(91.2%)	(1.1)	(19.0%)	(4.0)	(15.7)	(0.7) p.p.
EBIT	(24.9)	44.8	n.s.	0.1	n.s.	10.4	183.8	(94.3%)
<i>EBIT margin</i>	<i>-23%</i>	<i>25%</i>	<i>(47.1) p.p.</i>	<i>0%</i>	<i>(22.7) p.p.</i>	<i>2%</i>	<i>26%</i>	<i>(24.6) p.p.</i>
Net finance cost	(2.4)	(1.4)	69.2%	(2.3)	5.7%	(8.8)	(27.0)	(67.3%)
Other financial results	(1.0)	(0.1)	n.s.	1.7	n.s.	1.4	7.7	(82.4%)
Profit before tax	(28.2)	43.3	n.s.	(0.5)	n.s.	2.9	164.5	(98.2%)
Income tax	4.9	(9.3)	n.s.	0.3	n.s.	(2.6)	(38.3)	(93.1%)
Net Income	(23.4)	34.0	n.s.	(0.1)	n.s.	0.3	126.2	(99.8%)

EBITDA in the Pulp business amounted to €75.2m in 2019, down 69.4% year-on-year, shaped by a loss of €9.8m in the fourth quarter. Lower volumes and higher costs, due mainly to the capacity added during the year, are responsible for 14pp of the contraction; lower sales prices account for 42pp, with the remaining 14pp attributable to exchange rate hedges.

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 €30m in 2019, €6.5m of which corresponded to the fourth quarter. In 2018, settlement of those hedges had implied a gain of €3.7m.

In addition, 2019 EBITDA includes other expenses, net of other income, that are not included in the cash cost, of €9.6m (4Q19: €5.1m). The income and expenses not included in the cash cost include the EBITDA generated on the sale of timber to third parties, provisions for working capital, 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 3.6% higher at €53.8m in 2019 due to the commissioning of new assets during the period, while forest depletion charges increased by 62.7% to €9.3m as a result of higher sales of timber sourced from proprietary plantations during the period.

'Impairment of and gains/(losses) on disposal of intangible assets and PP&E' of €2.3m in 2019 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 €4.0m 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 67.3% year-on-year thanks to the refinancing work completed in 2018, which included the prepayment of €250m of the 5.375% annual coupon bond issued in October 2015, which was partially replaced by the 1.25% annual coupon convertible bond due 2023.

'Other finance income/costs' include €2.3m of exchange rate gains on working capital. In 2018, that heading included a €6.6m dividend from the Renewable Energy business.

In total, the Pulp business posted a net profit of €0.3m in 2019 - shaped by a loss of €23.4m in the fourth quarter - compared to a profit of €126.2m in 2018.

2.7. Cash flow analysis

Cash flow from operating activities amounted to €33.1m in the fourth quarter and €122.2m in 2019, down 25.9% and 38.0% year-on-year, respectively. The drop in EBITDA was partially offset by a lower working capital requirement and lower tax and interest payments.

Figures in € m	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
EBITDA	(9.8)	64.5	<i>n.s.</i>	18.3	<i>n.s.</i>	75.2	245.6	<i>(69.4%)</i>
Non cash expenses / (income)	1.5	0.8	71.2%	7.2	(79.9%)	13.5	5.7	136.5%
Other collections / (payments)	(0.1)	0.3	<i>n.s.</i>	(4.1)	(97.8%)	(3.9)	0.4	<i>n.s.</i>
Change in working capital	44.8	(0.4)	<i>n.s.</i>	13.3	235.6%	49.8	(14.6)	<i>n.s.</i>
Income tax received / (paid)	(0.9)	(20.2)	(95.7%)	(1.5)	(42.5%)	(7.5)	(26.7)	(71.9%)
Net interest received / (paid)	(2.3)	(0.3)	<i>n.s.</i>	(1.1)	108.8%	(4.8)	(13.3)	(64.2%)
Net cash flow from operating activities	33.1	44.7	<i>(25.9%)</i>	32.2	<i>3.1%</i>	122.2	197.1	<i>(38.0%)</i>

Note that net finance costs in 2018, in the amount of €13.3m, included: (i) a €6.6m dividend collected from the Renewable Energy business; and (ii) €15.8m related with the prepayment of €250m of the 5.375% annual coupon bond issued in October 2015, which was partially replaced by the 1.25% annual coupon convertible bond due 2023.

Figures in € m	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
Inventories	(0.8)	(5.4)	(86.0%)	5.6	<i>n.s.</i>	(12.3)	(9.2)	33.7%
Trade and other receivables	60.7	5.1	<i>n.s.</i>	2.9	<i>n.s.</i>	68.5	(7.5)	<i>n.s.</i>
Financial and other current assets	(0.8)	(0.7)	8.8%	3.3	<i>n.s.</i>	(2.2)	4.2	<i>n.s.</i>
Trade and other payables	(14.4)	0.6	<i>n.s.</i>	1.6	<i>n.s.</i>	(4.2)	(2.1)	99.7%
Change in working capital	44.8	(0.4)	<i>n.s.</i>	13.3	<i>235.6%</i>	49.8	(14.6)	<i>n.s.</i>

The change in working capital implied cash inflows of €44.8m in 4Q19 and of €49.8m in 2019, compared to outflows of €0.4m and €14.6m in 4Q18 and 2018, respectively.

At year-end, the Group had drawn down €74.4m of non-recourse factoring facilities, compared to €49.3m at year-end 2018.

Figures in € m	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
Maintenance capex	(5.6)	(5.8)	(3.2%)	(6.4)	(13.2%)	(21.0)	(17.6)	19.7%
Efficiency and expansion capex	(12.9)	(18.9)	(31.7%)	(34.8)	(63.0%)	(104.3)	(53.8)	93.8%
Sustainability capex	(16.1)	(4.7)	243.9%	(6.8)	137.6%	(36.8)	(8.6)	<i>n.s.</i>
Financial investments	(35.0)	(76.3)	(54.1%)	(0.0)	<i>n.s.</i>	(35.2)	(78.2)	(55.0%)
Investments	(69.6)	(105.6)	<i>(34.1%)</i>	(48.1)	<i>44.7%</i>	(197.3)	(158.2)	<i>24.7%</i>
Disposals	0.4	(1.8)	<i>n.s.</i>	0.1	218.1%	5.0	2.2	131.9%
Net cash flow used in investing activities	(69.2)	(107.5)	<i>(35.6%)</i>	(47.9)	<i>44.3%</i>	(192.3)	(156.0)	<i>23.3%</i>

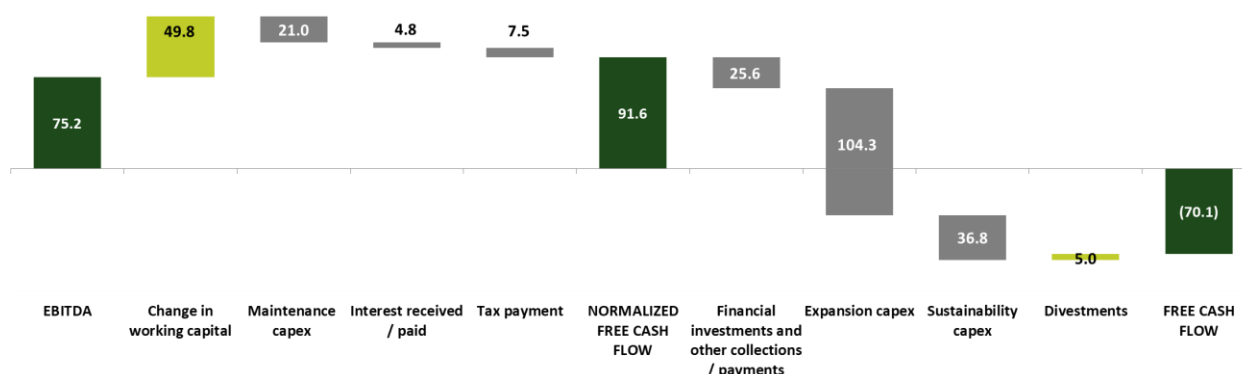
Maintenance capex amounted to €5.6m in 4Q19 and €21.0m in 2019, compared to €5.8m and €17.6m in 4Q18 and 2018, respectively.

Investments in efficiency and growth amounted to €12.9m in 4Q19 and €104.3m in 2019 and were mainly related to the addition of 20,000 tonnes of capacity at the Pontevedra biomill in the first quarter and of 80,000 tonnes at the Navia biomill in the fourth quarter.

Sustainability-related capital expenditure amounted to €16.1m in 4Q19 and €36.8m in 2019 and encompassed a range of initiatives mainly designed to reduce odours, noise levels and water consumption. In 2018, sustainability capex totalled €8.6m.

Financial investments included a €35m contribution in the fourth quarter in order to reinforce equity in the Renewable Energy business (4Q18: a contribution of €78m for the same purpose).

Lastly, Ence recognised €5.0m of proceeds from disposals in 2019 due mainly to the sale in the second quarter of the company that leases 1,743 hectares of eucalyptus plantations in Portugal.



* Financial investments include a €35m contribution made to reinforce equity in the Renewable Energy business which is not reflected in the Group's consolidated statement of cash flows.

As a result, normalised free cash flow in the Pulp business amounted to €91.6m in 2019, while free cash flow net of efficiency, growth and sustainability capex came in at a negative €70.1m, €35m of which is not reflected in the Group's consolidated statement of cash flows.

2.8. Change in net debt

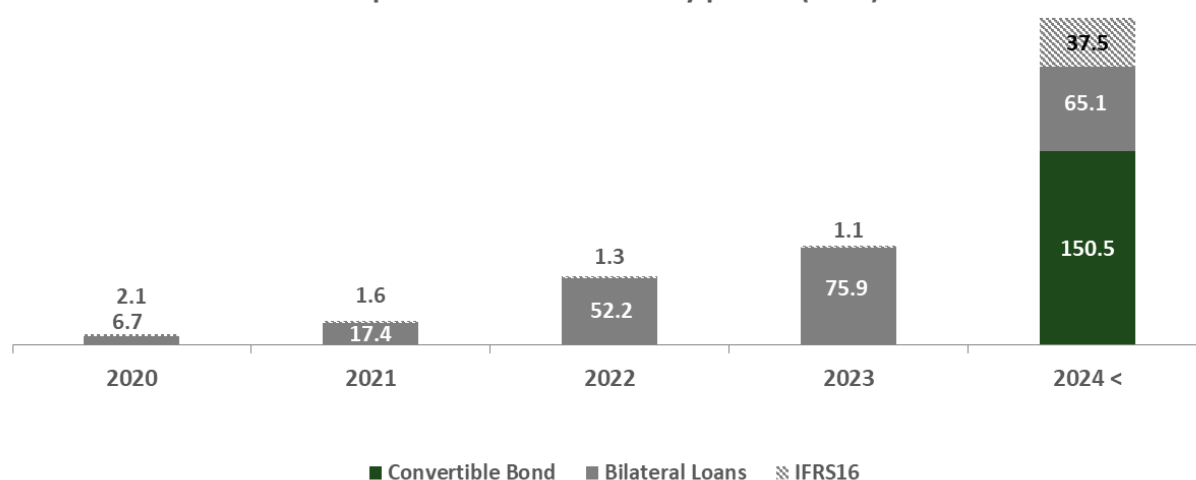
Net debt in the Pulp business increased by €158.1m from year-end 2018, €43.7m of which is attributable to the first-time application of IFRS 16 with effect from 1 January 2019. Free cash flow for the period, coupled with the payment of €25.6m of dividends and execution of a share buyback programme (€10.4m), was responsible for a €149.8m increase in net debt in this business. The remaining €8.3m of the increase relates to annual finance lease payments, provisions for interest and other share repurchases.

Figures in € m	Dec-19	Dec-18	Δ%
Non-current financial debt	361.1	292.6	23.4%
Current financial debt	6.7	5.4	24.4%
Gross financial debt	367.8	298.0	23.4%
Non-current lease contracts	41.5	-	n.s.
Current lease contracts	2.1	-	n.s.
Financial liabilities related to lease contracts	43.7	-	n.s.
Cash and cash equivalents	101.3	148.2	(31.6%)
Short-term financial investments	4.4	2.2	100.2%
Net financial debt Pulp business	305.7	147.6	107.1%

The ratio of net debt-to-LTM EBITDA in the Pulp business stood at 4.1x at the December close. Note that the financing arranged by the Pulp business is not subject to any leverage maintenance covenants.

The gross debt of €367.8m at the December close corresponds mainly to the €150.5m of convertible bonds (deducted by the value of the equity component), the outstanding balance of €155.3m on the bilateral loans and a series of loans totalling €62.0m 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.

Pulp business debt maturity profile (€Mn)



At the reporting date, the Pulp business had cash and cash equivalents of €105.7m. Lastly, note that none of the €70m sustainable credit facility had been drawn down at year-end.

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 316 MW that have no relation to the pulp production process.

Ence has eight power plants fuelled by forestry and agricultural biomass with aggregate installed capacity of 266 MW: three plants in Huelva (with capacity of 50 MW, 46 MW and 41 MW); two in Ciudad Real (50 MW and 16 MW); one in Merida (20 MW); one in Jaen (16 MW); and a complex in Cordoba (27 MW). In addition, Ence owns a 50-MW solar thermal plant in Ciudad Real.

Ence commissioned two new agricultural and forestry biomass plants - a 46-MW plant in Huelva and a 50-MW facility in Ciudad Real - during the first quarter of 2020.

3.1. Electricity market trends

The average pool price in mainland Spain declined by 35% year-on-year in 4Q19 to €40.9/MWh and by 17.1% in 2019 to €47.6/MWh.

	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
Average pool price (€/MWh)	40.9	63.0	(35.0%)	46.8	(12.5%)	47.6	57.4	(17.1%)

The price per MWh sold is determined by the market (pool) price, subject to the cap and floor set by the regulator (regulatory collar) plus the remuneration for operation (Ro) earned by each plant. On top of that, Ence's energy plants earn remuneration for investment (Ri), which totalled €63.5m in 2019. The plants' remuneration parameters are disclosed in greater detail in appendix 1.

Pool price, last five years; and regulatory collar, 2017 - 2019 (€/MWh)



3.2. Revenue from energy sales

Energy sales volumes increased by 26.3% year-on-year in 4Q19 and by 13.3% in 2019 to 263,749 MWh and 1,047,163 MWh, respectively, thanks to the contribution of the solar thermal plant in Puertollano acquired in December 2018 and higher output at the biomass plants.

	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
Huelva 41 MW - Biomass	55,785	36,574	52.5%	51,176	9.0%	155,726	148,640	4.8%
Jaén 16 MW - Biomass	17,420	12,498	39.4%	13,788	26.3%	71,315	79,349	(10.1%)
Ciudad Real 16 MW - Biomass	24,296	24,001	1.2%	23,955	1.4%	94,169	92,778	1.5%
Córdoba 27 MW - Biomass	51,031	27,101	88.3%	44,759	14.0%	195,915	167,537	16.9%
Ciudad Real 50 MW - Solar thermal plant	4,670	1,125	n.s.	28,059	(83.4%)	72,015	1,125	n.s.
Huelva 50 MW - Biomass	86,440	70,516	22.6%	98,846	(12.6%)	325,152	299,919	8.4%
Mérida 20 MW - Biomass	24,108	37,020	(34.9%)	40,173	(40.0%)	132,871	134,587	(1.3%)
Energy sales (MWh)	263,749	208,835	26.3%	300,756	(12.3%)	1,047,163	923,935	13.3%
Average sales price - Pool + Collar + Ro (€/MWh)	87.8	90.5	(3.0%)	105.6	(16.9%)	99.8	104.2	(4.2%)
Remuneration for investment (€ m)	15.9	12.0	32.5%	15.9	(0.0%)	63.5	42.7	48.8%
Revenue (€ m)	39.3	31.0	26.8%	47.9	(18.0%)	168.0	138.9	20.9%

It is worth noting the year-on-year growth in output at the 50-MW Huelva, 41-MW Huelva and 16-MW Jaen plants in the fourth quarter thanks to the improvements implemented at the facilities during the second and third quarters of 2019. Upgrade work is also being carried out at the 16-MW Ciudad Real plant during the first quarter and the turbine at the 50-MW Huelva plant is due an overhaul during the second quarter.

The drop in production at the 50-MW Huelva and 20-MW Merida plants compared to the previous quarter reflects the annual cap on plant output of 6,500 hours.

Elsewhere, the average sales price declined by 3.0% year-on-year in the fourth quarter and by 4.2% in 2019 as a whole to €87.8/MWh and €99.8/MWh, respectively, due mainly to the contraction in pool prices. Note that in the fourth quarter of 2018, the average sales price included a provision for the temporary suspension of the electricity generation levy by the regulator which had no impact at the EBITDA level.

Ence adjusts its average sales price monthly as a function of the limits set by the regulator (regulatory collar); this accounting treatment led to the recognition of €4.4m of provisions in 4Q19 and of €6.7m in all of 2019. By comparison, the Company recognised provisions of €4.3m and €10.5m in this respect in 4Q18 and 2018, respectively.

Lastly, remuneration for investment increased by 48.8% to €15.9m per quarter in 2019 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 26.8% in 4Q19 and of 20.9% in 2019 to €39.3m and €168.0m, respectively.

3.3. Statement of profit or loss

Figures in € m	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
Total revenue	39.3	31.0	26.8%	47.9	(18.0%)	168.0	138.9	20.9%
EBITDA	10.3	12.7	(19.2%)	15.9	(35.2%)	51.8	45.3	14.5%
<i>EBITDA margin</i>	<i>26%</i>	<i>41%</i>	<i>(14.9) p.p.</i>	<i>33%</i>	<i>(7.0) p.p.</i>	<i>31%</i>	<i>33%</i>	<i>(1.7) p.p.</i>
Depreciation and amortisation	(8.4)	(5.1)	66.7%	(7.0)	20.6%	(29.2)	(17.9)	63.3%
Depletion of forestry reserves	(0.0)	(0.0)	n.s.	(0.0)	n.s.	(0.1)	(0.1)	(45.9%)
Impairment of and gains/(losses) on fixed-asset dispo:	(0.3)	(1.3)	(74.6%)	(0.1)	n.s.	(0.5)	(1.5)	(67.2%)
EBIT	1.5	6.3	(76.7%)	8.8	(83.3%)	22.1	25.8	(14.2%)
<i>EBIT margin</i>	<i>4%</i>	<i>20%</i>	<i>(16.7) p.p.</i>	<i>18%</i>	<i>(14.7) p.p.</i>	<i>13%</i>	<i>19%</i>	<i>(5.4) p.p.</i>
Net finance cost	(1.4)	(3.7)	(62.8%)	(3.7)	(62.6%)	(13.9)	(10.4)	33.7%
Profit before tax	0.1	2.6	(96.4%)	5.2	(98.2%)	8.2	15.3	(46.7%)
Income tax	1.1	(0.5)	n.s.	(1.3)	n.s.	(0.6)	(3.7)	(84.8%)
Net Income	1.1	2.1	(45.2%)	3.8	(70.0%)	7.6	11.6	(34.5%)
Non-controlling interests	(0.0)	(0.8)	(99.4%)	(0.8)		(2.3)	(2.5)	(9.9%)
Attributable Net Income	1.1	1.3	(13.7%)	3.0	(61.6%)	5.3	9.1	(41.4%)

The Renewable Energy business reported EBITDA of €10.3m, down 19.2% year-on-year, in the fourth quarter, due mainly to the impact of the 35% drop in pool prices, as the regulatory collar provision was virtually the same in both periods.

For the full year, EBITDA came in at €51.8m, growth of 14.5%, thanks to the contribution by the solar thermal plant acquired in December 2018. That contribution was partially offset by the effect of the extraordinary stoppages carried out to repower several plants during the year, exacerbated by lower electricity prices and higher biomass costs.

Below the EBITDA line, it is worth highlighting the 63.3% increase in depreciation charges in 2019 to €29.2m, due mainly to the charges corresponding to the solar power plant acquired in December 2018.

Net finance costs increased to €13.9m in 2019 from €10.4m in 2018, due mainly to a higher average gross debt balance.

In all, attributable net profit in the Renewable Energy business amounted to €5.3m in 2019, down 41.4% from 2018.

3.4. Cash flow analysis

Figures in € m	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
EBITDA	10.3	12.7	(19.2%)	15.9	(35.2%)	51.8	45.3	14.5%
Non cash expenses / (incomes)	(1.5)	(2.3)	(36.8%)	0.7	n.s.	1.0	0.1	n.s.
Other collections / (payments)	(0.2)	(0.2)	47.6%	(0.4)	(38.2%)	(1.1)	(0.9)	21.8%
Change in working capital	25.8	8.8	194.8%	(15.0)	n.s.	15.7	4.5	n.s.
Income tax received / (paid)	(2.0)	(0.8)	159.2%	0.0	n.s.	(2.1)	(2.1)	0.5%
Net interest received / (paid)	(3.7)	(4.3)	(15.8%)	(0.6)	n.s.	(11.1)	(10.0)	10.3%
Net cash flow from operating activities	28.8	13.9	106.8%	0.7	n.s.	54.3	36.8	47.6%

Cash flow from operating activities amounted to €28.8m in 4Q19 and €54.3m in 2019, up 106.8% and 47.6% year-on-year, respectively.

Figures in € m	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
Inventories	(1.6)	(0.1)	n.s.	0.6	n.s.	(4.0)	2.7	n.s.
Trade and other receivables	22.7	8.4	170.2%	(13.1)	n.s.	14.4	3.4	n.s.
Trade and other payables	4.8	0.5	n.s.	(2.4)	n.s.	5.4	(1.6)	n.s.
Change in working capital	25.8	8.8	194.8%	(15.0)	n.s.	15.7	4.5	n.s.

Movements in working capital implied a cash inflow of €25.8m in 4Q19 and of €15.7m in 2019.

At year-end, the Renewable Energy business had drawn down its factoring lines by €26.3m.

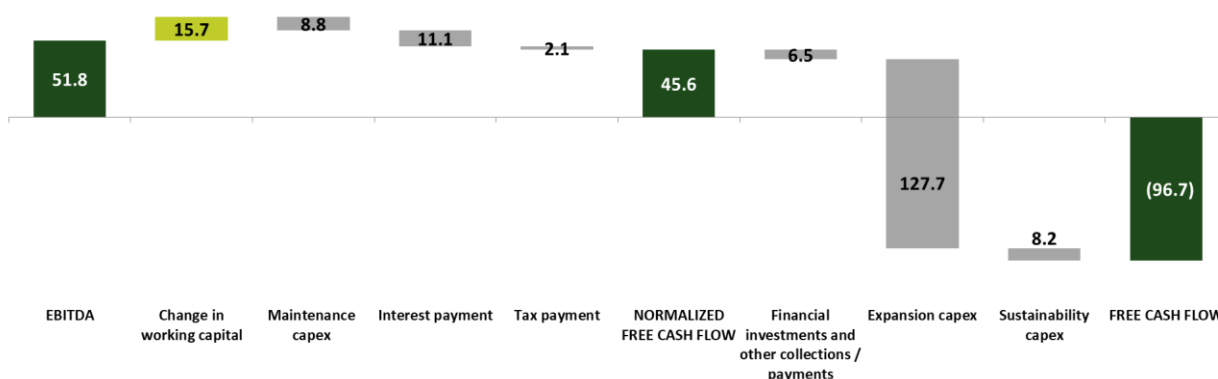
Figures in € m	4Q19	4Q18	Δ%	3Q19	Δ%	2019	2018	Δ%
Maintenance capex	(2.6)	(1.2)	111.6%	(2.8)	(9.3%)	(8.8)	(4.3)	105.8%
Efficiency and expansion capex	(18.1)	(139.2)	(87.0%)	(12.0)	51.1%	(127.7)	(228.3)	(44.1%)
Sustainability capex	(2.1)	(1.4)	51.4%	(2.4)	(13.3%)	(8.2)	(2.8)	188.3%
Financial investments	(6.4)	(0.0)	n.s.	(0.0)	n.s.	(6.4)	1.8	n.s.
Investments	(29.1)	(141.8)	(79.4%)	(17.3)	68.6%	(151.1)	(233.6)	(35.3%)
Disposals	0.1	0.0	n.s.	-	n.s.	0.1	0.1	133.3%
Net cash flow from investing activities	(29.0)	(141.8)	(79.5%)	(17.3)	68.0%	(150.9)	(233.5)	(35.4%)

The net cash outflow from investing activities amounted to €29.0m in 4Q19 and €150.9m in 2019, of which €8.8m and €8.2m corresponded to maintenance and sustainability capex, respectively.

Investments in efficiency and growth totalled €18.1m in 4Q19, €127.7m in 2019, mainly related with the construction of two new plants, a 46-MW plant in Huelva and a 50-MW plant in Cordoba, which were commissioned during the first quarter of 2020. That balance also includes €14.4m corresponding to an internal transfer of power generation rights from the Pulp business. That internal transfer has no impact on the Group's cash flows at the consolidated level.

Lastly, the financial investments, totalling €6.4m, include the payment of the earnout contemplated as part of the acquisition of the 50-MW solar thermal plant in December 2018.

As a result, normalised free cash flow in the Renewable Energy business amounted to €45.6m in 2019, while free cash flow net of efficiency, growth and sustainability capex came in at a negative €96.7m, €14.4m of which is not reflected in the Group's consolidated statement of cash flows.



* Growth capex includes the intracompany transfer of power generation rights from the Pulp business in the amount of €14.4m which is not reflected in the Group's consolidated statement of cash flows.

3.5. Change in net debt

Net debt in the Renewable Energy business increased by €49.8m from year-end 2018 to €207.0m. That balance includes the transfer of power generation rights (€14.4m) and the €35m contribution from the Pulp business to reinforce the Renewable Energy business's equity. Application of IFRS 16 - Leases from 1 January triggered the recognition of financial liabilities in the amount of €8.6m at year-end. Lastly, the change in net debt includes a positive impact of €6.1m mainly related with the provision recognised for the regulatory collar in 2019.

The ratio of net debt-to-LTM EBITDA in the Renewable Energy business stood at 4.0x at the December close.

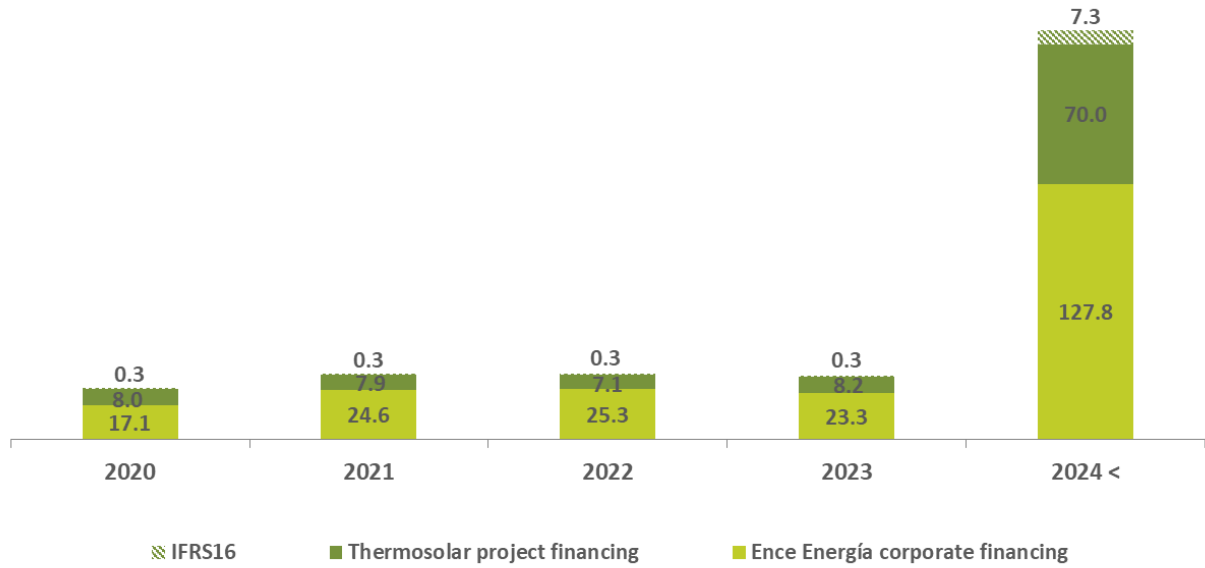
Figures in € m	Dec-19	Dec-18	Δ%
Non-current financial debt	294.2	205.4	43.2%
Current financial debt	25.1	152.2	(83.5%)
Gross financial debt	319.3	357.6	(10.7%)
Non-current lease contracts	8.3	-	n.s.
Current lease contracts	0.3	-	n.s.
Financial liabilities related to lease contracts	8.6	-	n.s.
Cash and cash equivalents	120.9	200.5	(39.7%)
Short-term financial investments	0.0	0.0	50.0%
Net financial debt Renewable Energy business	207.0	157.2	31.7%

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 €319.3m of gross borrowings at the December close correspond mainly to the €220.1m drawn down under the corporate finance facility and the €99.2m 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.

Energy debt maturity profile (€Mn)



Cash in this business stood at €120.9m at the reporting date.

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Statement of profit or loss

Figures in € m	2019				2018			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Total revenue	572.4	168.0	(5.0)	735.4	697.0	138.9	(3.9)	832.0
Other income	18.1	4.5	(3.4)	19.2	11.7	3.4	(3.7)	11.5
Change in inventories of finished products	(30.0)	-	-	(30.0)	3.7	-	-	3.7
Cost of sales	(260.8)	(48.7)	5.0	(304.5)	(252.9)	(44.0)	3.9	(292.9)
Personnel expenses	(79.9)	(12.4)	-	(92.3)	(69.4)	(8.3)	-	(77.7)
Other operating expenses	(144.6)	(59.5)	3.4	(200.7)	(144.6)	(44.8)	3.7	(185.7)
EBITDA	75.2	51.8		127.0	245.6	45.3		290.9
<i>EBITDA margin</i>	<i>13%</i>	<i>31%</i>		<i>17%</i>	<i>35%</i>	<i>33%</i>		<i>35%</i>
Depreciation and amortisation	(53.8)	(29.2)	-	(83.0)	(52.0)	(17.9)	-	(69.8)
Depletion of forestry reserves	(9.3)	(0.1)	-	(9.3)	(5.7)	(0.1)	-	(5.8)
Impairment of and gains/(losses) on fixed-asset disposal:	2.3	(0.5)	-	1.8	11.6	(1.5)	-	10.0
Other non-ordinary operating gains/(losses)	(4.0)	-	-	(4.0)	(15.7)	-	-	(15.7)
EBIT	10.4	22.1		32.5	183.8	25.8		209.6
<i>EBIT margin</i>	<i>2%</i>	<i>13%</i>		<i>4%</i>	<i>26%</i>	<i>19%</i>		<i>25%</i>
Net finance cost	(8.8)	(13.9)	-	(22.7)	(27.0)	(10.4)	-	(37.4)
Other finance income/(costs)	1.4	(0.0)	-	1.3	7.7	(0.0)	(6.6)	1.1
Profit before tax	2.9	8.2		11.1	164.5	15.3	(6.6)	173.2
Income tax	(2.6)	(0.6)	3.6	0.4	(38.3)	(3.7)	0.4	(41.6)
Net Income	0.3	7.6	3.6	11.5	126.2	11.6	(6.2)	131.7
Non-controlling interests	-	(2.3)	-	(2.3)	-	(2.5)	-	(2.5)
Attributable Net Income	0.3	5.3	3.6	9.2	126.2	9.1	(6.2)	129.1
Earnings per Share (EPS)	0.00	0.02	-	0.04	0.51	0.04	-	0.52

4.2. Balance sheet

Figures in € m	Dec - 19				Dec - 18			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Total non-current assets	1,170.8	675.0	(403.7)	1,442.2	967.3	587.0	(354.3)	1,200.0
Intangible assets	14.9	61.4	(14.4)	61.9	12.4	47.7	-	60.1
Property, plant and equipment	647.3	592.7	(1.7)	1,238.3	475.4	513.4	(1.7)	987.1
Biological assets	78.7	0.3	-	79.1	82.4	0.2	-	82.6
Non-current investments in Group companies	312.4	0.0	(312.4)	0.0	277.4	-	(277.4)	-
Non-current borrowings to Group companies	75.2	0.0	(75.2)	0.0	75.2	-	(75.2)	-
Non-current financial assets	3.6	5.2	-	8.7	1.7	12.0	-	13.7
Deferred tax assets	38.6	15.4	-	54.0	42.8	13.6	-	56.5
Non-current assets held for sale	-	-	-	-	4.0	-	-	4.0
Inventories	44.9	11.7	-	56.6	36.0	7.6	-	43.5
Trade and other accounts receivable	41.6	17.6	(16.9)	42.2	110.1	35.4	(23.1)	122.4
Income tax	6.9	1.7	-	8.6	0.0	1.4	-	1.4
Other current assets	1.7	0.2	-	1.8	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	4.4	0.0	-	4.5	2.2	0.0	-	2.2
Cash and cash equivalents	101.3	120.9	-	222.2	148.2	200.5	-	348.6
Total current assets	200.7	152.1	(16.9)	336.0	302.4	244.9	(23.1)	524.2
TOTAL ASSETS	1,371.5	827.2	(420.6)	1,778.1	1,269.7	831.8	(377.4)	1,724.2
Equity	696.4	303.1	(324.5)	674.9	724.5	251.4	(278.7)	697.3
Non-current borrowings	402.6	302.4	-	705.0	292.6	205.4	-	498.1
Non-current loans to Group companies	-	75.2	(75.2)	-	-	75.2	(75.2)	-
Non-current derivatives	0.2	6.3	-	6.4	0.1	4.5	-	4.7
Deferred tax liabilities	23.0	18.6	(4.0)	37.6	21.0	19.4	(0.4)	40.0
Non-current provisions	3.4	9.4	-	12.8	3.1	9.2	-	12.3
Other non-current liabilities	10.1	26.1	-	36.2	8.9	19.4	-	28.3
Total non-current liabilities	439.3	438.0	(79.2)	798.1	325.8	333.2	(75.6)	583.3
Current borrowings	8.8	25.5	-	34.3	5.4	152.2	-	157.6
Current derivatives	6.2	3.7	-	9.9	16.0	3.0	-	19.0
Trade and other account payable	196.4	55.2	(16.9)	234.7	175.0	90.9	(23.1)	242.8
Income tax	0.4	-	-	0.4	1.6	0.2	-	1.8
Current provisions	24.0	1.7	-	25.7	21.5	0.9	-	22.4
Total current liabilities	235.9	86.1	(16.9)	305.1	219.5	247.2	(23.1)	443.6
TOTAL EQUITY AND LIABILITIES	1,371.5	827.2	(420.6)	1,778.1	1,269.7	831.8	(377.4)	1,724.2

4.3. Cash flow analysis

Figures in € m	2019				2018			
	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Consolidated profit/(loss) for the period before tax	2.9	8.2		11.1	164.5	15.3	(6.6)	173.2
Depreciation and amortisation	64.1	28.3		92.3	58.7	17.0		75.6
Changes in provisions and other deferred expense	18.6	1.3		19.9	22.5	0.4		22.9
Impairment of gains/(losses) on disposals intangible asset	(2.4)	0.5	(1.9)		(11.4)	1.6	0.0	(9.7)
Net finance result	7.4	16.9		21.3	19.8	10.4	6.6	36.8
Government grants taken to income	(1.1)	(0.3)		(1.4)	(1.1)	(0.3)		(1.4)
Adjustments to profit	86.5	46.7		130.3	88.5	29.1	6.6	124.2
Inventories	(12.3)	(4.0)	(16.3)		(9.2)	2.7		(6.5)
Trade and other receivables	68.5	14.4	82.8		(7.5)	3.4		(4.1)
Current financial and other assets	(2.2)	-	(2.2)		4.2	-		4.2
Trade and other payables	(4.2)	5.4	1.2		(2.1)	(1.6)		(3.7)
Changes in working capital	49.8	15.7		65.5	(14.6)	4.5		(10.1)
Interest paid	(4.8)	(11.1)	(15.8)		(19.9)	(10.0)		(29.9)
Dividends received	-	-	-		6.6	-	(6.6)	-
Income tax received/(paid)	(7.5)	(2.1)	(9.6)		(26.7)	(2.1)		(28.8)
Other collections/(payments)	(4.7)	(0.2)	(4.9)		(1.3)	-		(1.3)
Other cash flows from operating activities	(17.0)	(13.4)		(30.3)	(41.3)	(12.1)	(6.6)	(60.0)
Net cash flow from operating activities	122.2	57.3		176.5	197.1	36.8	(6.6)	227.3
Property, plant and equipment	(155.7)	(126.9)		(285.6)	(78.0)	(88.3)	2.5	(163.8)
Intangible assets	(6.4)	(14.7)	14.4	(6.8)	(2.0)	(22.2)		(24.2)
Other financial assets	(35.2)	(6.4)	35.0	(6.6)	(78.2)	(123.0)	78.8	(122.4)
Disposals	5.0	0.1		5.1	2.2	0.1	(0.9)	1.4
Net cash flow used in investing activities	(192.3)	(147.9)	46.4	(293.8)	(156.0)	(233.5)	80.5	(309.1)
Free cash flow	(70.1)	(90.7)	43.4	(117.4)	41.1	(196.8)	73.9	(81.8)
Buyback/(disposal) of own equity instruments	(12.0)	49.4	(49.4)	(12.0)	14.1	80.5	(80.5)	14.1
Proceeds from and repayments of financial liabilities	60.9	(30.3)		30.6	(7.1)	222.9		215.7
Dividends payments	(25.6)	(2.0)		(27.6)	(67.1)	(9.4)	6.6	(69.9)
Net cash flow from/ (used in) financing activities	23.2	17.1	(49.4)	(9.1)	(60.2)	294.0	(73.9)	159.9
Net increase/(decrease) in cash and cash equivalents	(46.9)	(73.6)		(126.4)	(19.1)	97.2		78.1

5. KEY DEVELOPMENTS

Approval of 2019 – 2023 Sustainability Plan

Sustainability is intrinsic to Ence's business activities as a leading player in the bioeconomy and an important producer of renewable power. Sustainability is fully integrated into Ence's vision and mission and is one of its strategic priorities. Indeed, sustainability is one of the cornerstones of the firm's 2019-2023 Strategic Plan.

To articulate its sustainability strategy, Ence has defined a Sustainability Master Plan with the same time horizon as its Strategic Plan. It constitutes the roadmap for advancing towards excellence in sustainability and fostering the creation of shared value with its stakeholders. The plan sets out six priority lines of initiative:

1. Ence's people and values

On the human capital front, the Company's key objectives are: the provision of quality work; fostering of diversity and equal opportunities; development of talent; improvement of the organisational climate; and creation of a sustainability culture within the organisation.

In terms of the generation of quality work, note that in 2019, 87% of Ence employees had indefinite employment contracts and 98% were working full time. The commitment to equality materialised in growth of 17% in female representation in the workforce in 2019: 74% of new graduate hires were women. Moreover, the wage gap was reduced to zero.

As for the attraction and development of talent, training was boosted by 22.2% to 26.4 hours per employee. In parallel, the company continued to work to improve the organisational climate, as is evident in the 7% improvement in the overall climate indicator with respect to 2018. Lastly, as part of the effort to create sustainability awareness, Ence launched equality and sustainability related training programmes addressed at the entire organisation in 2019.

2. Safe and eco-friendly operations

Ence is working to achieve zero workplace accidents. In parallel, it is striving for exemplary business operations in environmental terms, by upholding the most stringent standards.

In 2019 it brought down its injury severity rate (including employees and subcontractors) in all three business lines (pulp, energy and forestry). Moreover, it concluded complex expansion and construction projects at its biomills and independent energy plants, on which as many as 2,000 people were working simultaneously, without any serious accidents.

As for its environmental performance, Ence's operations centres hold the corresponding integrated environmental permits and sector authorisations required for the pursuit of their industrial activities. Those 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, environmental management at Ence means more than simply complying with environmental legislation, to which end it has developed a total quality management (TQM) system which addresses matters related to quality, health and safety and environmental protection as one. Framed by that system, it sets improvement targets in order to minimise the environmental impacts of its activities in areas such as:

- | | |
|---------------------------------------|---|
| ✓ Reducing odour pollution | ✓ Boosting energy efficiency |
| ✓ Reducing noise | ✓ Reducing water consumption |
| ✓ Reducing air quality impact | ✓ Reducing the consumption of raw materials |
| ✓ Improving the quality of wastewater | ✓ Cutting waste generation |
| | ✓ Improving the management systems |

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. The continuous improvement approach has enabled Ence to outperform the limits set in its environmental permits by over 80%, while the environmental results achieved means that the pulp produced in Pontevedra and Navia carries the Nordic Swan seal (the official Scandinavian ecolabel) and the EU Ecolabel.

Among the environmental milestones achieved in 2019, it is worth highlighting the reduction in water consumption per tonne of pulp produced at the Pontevedra biomill, which is down 20% on aggregate over the last four years, and the 65% reduction in total odour emissions (in minutes) at the Navia biomill. On the circular economy front, it is also worth noting that both biomills and all of the biomass power generation plants are recycling and recovering waste at levels of over 90%, while the Pontevedra biomill was the first facility in its sector to achieve 'Zero Waste' certification from AENOR in 2019.

3. Rural and forest development

Ence works to ensure the sustainability and traceability of the raw materials it sources (timber and biomass) and create value for land owners, suppliers and other stakeholders in the agricultural and forestry sectors, generating positive knock-on effects on the area based on sustainable business models.

Indeed, Ence has cemented itself as a benchmark in Spain in sustainable forest management, applying internationally-recognised standards of excellence, such as the FSC® (FSC-C099970) (Forest Stewardship Council®) and PEFC (Program for the Endorsement of Forest Certification) schemes to the forest assets it manages and encouraging their adoption by its supply chain: at year-end 2019, 85% of its forest assets were certified under these standards and 82% of the timber that entered its biomills last year came with one or both certifications. As for its effort to create value for its suppliers, the Company lends particular support to small firms, which represent 94% of Ence's suppliers. In 2019, 69% of the timber purchased by Ence was bought from small suppliers; last year, the Company purchased timber from 2,014 forest owners, mobilising almost 2.8 million cubic feet of timber worth a little over €193 million.

Ence also strives to contribute to development in the areas in which it operates. To that end it encourages the purchase of timber locally; in fact, in 2019, all of the timber it bought came from Galicia, Asturias and Cantabria. Local timber purchasing not only help generate value in the vicinity of its business operations, it also reduces transport requirements, so lowering our carbon footprint.

Ence's renewable energy activities also make it an important player in the mobilisation of agricultural and forestry biomass in Spain. As a result, Ence not only contributes to minimising the environmental impacts of inappropriate management of agricultural and forestry waste, it actually creates value for the suppliers of these materials, while helping to invigorate the economy in the supply areas and stem the tide of rural depopulation. Specifically in 2019, Ence mobilised over 1.42 million tonnes of biomass, worth over €48.5 million, through its plants.

As well as generating value for its biomass suppliers, Ence contributes to fostering more sustainable agricultural management. To that end, in 2019, Ence made fresh progress on application of its 10-Point Declaration on the Sustainability of Biomass, which is leading to a gradual increase in the consumption of agricultural biomass, from 18.5% in 2016 to nearly 37% in 2019.

4. Sustainable products

Ence's strategic commitment to sustainable products crystallised in the launch of the Ence Advanced trademark in 2019. That development is the result of years of R&D and industrial and product development work. Under the umbrella of that platform, Ence is working to develop products with a lower carbon footprint as alternatives to

hardwood pulp (which has a larger timber consumption requirement): adapted products and unbleached pulp for the manufacture of bags and packaging suitable for substituting materials such as plastic.

5. Community commitment

On the community work front, Ence remains committed to investing in its local communities. In 2019, it launched the third edition of its Pontevedra Community Plan, endowed with €3 million for social, environmental, sports and entrepreneurship projects, and initiatives aimed at addressing social exclusion. Ence also arranged agreements with the town councils of Navia and San Juan del Puerto, endowed with €200,000, for the sponsorship and patronage of social and other community activities.

In addition to the above community investments, in 2019, Ence drew up specific relations plans for its communities in Huelva, Navia and Pontevedra, with the aim of educating local residents and other stakeholders about the Company's activities. Under the scope of those plans, it organised nearly 600 visits to Ence's facilities and carried out numerous training, education and volunteering activities with the help of Ence employees.

On top of those activities designed to improve community relations, it is worth highlighting the knock-on effects and impact on socioeconomic development Ence's activities have in communities such as Asturias and Galicia. It is estimated that Ence's biomill in Navia generates more than 6,400 direct, indirect and induced jobs, of which more than 440 are at the facility itself. More than half of them hail from Navia and surrounding towns. The Navia biomill also has a significant positive impact on local forestry, where it is responsible for an estimated 2,600 jobs, and on industries related with Ence's activities, such as timber harvesting, transportation and transformation. Ence's activities in Asturias also serve as a growth engine, creating wealth indirectly in other sectors such as the hospitality, food and independent retailing sectors.

Ence's biomill in Pontevedra is similarly an important source of job and wealth creation in the area. Over 5,100 families depend on the mill directly and indirectly, including 400 employees, around 2,700 contractor jobs in the industrial, logistics and transportation areas and over 2,100 jobs in the Galician forestry sector. In transport alone, the 300 trucks that enter the biomill daily paint a picture of the significance of the complex's activities for the local business landscape. As for the value generated for suppliers and contractors, note that in 2019, Ence purchased €65.4 million of goods and services from enterprises based in the province of Pontevedra.

6. Good governance

On the corporate governance front, Ence boasts a comprehensive and effective system which incorporates prevailing regulatory requirements and recommendations with respect to best practices in the field. Ence continuously assesses its stakeholders' legitimate expectations, engaging openly with shareholders, investors and proxy advisors and responding transparently to requests for information from research analysts, rating agencies and ESG consultants.

Ence has been working hard on its board's gender diversity, increasing the female presence in the boardroom from 7% in 2017 to 29% in 2019. In parallel, it has been focusing on gradually updating its corporate policies and reinforcing its transparency, expanding the information published about its governing bodies. The appointment of a lead independent director has reinforced debate in the boardroom and helped channel proposals from the non-executive members of the board.

In sum, the objectives being pursued on the corporate governance front are aimed at upholding the interests of its shareholders and other stakeholders in the long term.

Postponement of outstanding Pulp business investments contemplated in the Strategic Plan

On 26 February 2020, the Board of Directors decided to postpone the outstanding Strategic Plan investments contemplated for the Pulp business, framed by the commitment to keeping net debt-to-EBITDA in this business below 2.5x (assuming mid-cycle prices).

Change in ratings outlooks at Moody's and S&P

Last November, Moody's and S&P reiterated their issuer ratings of Ba2 and BB, respectively, but changed their outlooks from stable to negative due to the decline in pulp prices. On the positive side, both agencies flagged the growing contribution by the Renewable Energy business, which is injecting stability.

Change in the criteria posited by the Directorate General of Coastal and Marine Sustainability 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 Directorate General of Coastal and Marine Sustainability (the "Directorate General") 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 Directorate General, along with Ence in its capacity as co-defendant, had been defending the legality of the concession extension.

On 8 March 2019, the Directorate General 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 acquiescence vehemently.

The proceedings initiated by the town council of Pontevedra are in their final stages and those taken by Greenpeace and the APDR have concluded and are pending sentencing.

Although the Company believes that both the appeals lodged and the arguments put forward by the Directorate General 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 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 statement of profit or loss 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 Directorate General began to process draft legislation with the aim of amending the General Coast Regulations enacted by means of Royal Decree 876/2014. The Company presented its arguments on 29 March 2019, within the deadline granted to that end.

Given the legal uncertainty generated by the change in the Directorate General's criteria regarding the extension of Ence's concession in Pontevedra, the Board of Directors 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.

Appointment of Ms. Irene Hernandez to the Executive Committee

On 26 November 2019, the Board, at the recommendation of the Appointments and Remuneration Committee, resolved to appoint Ms. Irene Hernández Álvarez, an independent director, to the Company's Executive Committee.

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 2019, 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, framed by the stated policy of paying out 50% of earnings per share for the year.

According to such dividend policy, a second interim dividend was not approved 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 last Annual General Meeting on 28 March 2019. 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.
- Re-election and appointment of the following directors:
 - 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.
 - 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.
 - 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 ENCE'S POWER PLANTS

Facility	Type of facility	MW	Annual Remuneration for investment (Ri; €/MW) *	Type of fuel	Remuneration for operation 2019 (Ro; €/MWh)	Cap on sale hours under tariff per MW	Regulatory life (year of maturity)
Pontevedra	Biomass co-generation	34.6	- 55,308	Lignin Agroforestry biomass	36.7 58.4	- 6,500	2032
Navia	Biomass co-generation	40.3	-	Lignin	35.9	-	2034
	Biomass generation	36.2	230,190	Agroforestry biomass	60.2	6,500	
Huelva 41MW	Biomass generation	41.0	246,267	Agroforestry biomass	67.0	6,500	2025
Jaen 16MW	Biomass generation	16.0	261,008	Olive Pulp	45.8	6,500	2027
Ciudad Real 16MW	Biomass generation	16.0	261,008	Olive Pulp	46.8	6,500	2027
Cordoba 27MW	Biomass generation	14.3	229,582	Olive Pulp	47.9	6,500	2031
	Gas co-generation	12.8	-	Natural Gas	69.4	-	2030
Ciudad Real 50MW	Solar thermal plant	50.0	451,131	-	47.4	2,024	2034
Huelva 50MW	Biomass generation	50.0	266,452	Agroforestry biomass	58.3	6,500	2037
Mérida 20MW	Biomass generation	20.0	293,579	Agroforestry biomass	57.5	6,500	2039

* Ri original: It does not include subsequent adjustments for the regulatory collar, which Ence adjusts monthly in its revenue figure.

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 via two concepts, one fixed and the other variable, in order to ensure a reasonable return:

1. The **remuneration for investment (€/MW)** parameter guarantees the recovery of the initial investment plus a return on the estimated cost of building a 'standard' plant. It takes the form of a sum per MW installed (gross), which in the case of Ence implies annual revenue of €63m in the Renewable Energy business and €10m in the Pulp business.

Royal Decree-Law 17/2019 has established that 'reasonable return' at 7.4% for the regulatory period elapsing between 2020 and 2031 for all Ence plants entitled to its receipt. Note that the two new biomass plants commissioned in 2020 do not receive that remuneration for investment.

2. The **regulated sale price (€/MWh)** enables plant owners to cover all the costs of operating a 'standard' plant, including fuel costs. It is made up of the electricity market (pool) price, subject to the ceiling and floor set by the regulator, plus the remuneration for operation (Ro) earned by each plant.

The pool prices estimated by the regulator for the purpose of determining the 'Ro' complement are reviewed every three years. Any deviations between actual pool prices and the prices estimated by the regulator at the start of each period are compensated as a function of certain annual ceilings and floors (regulatory collar).

Below are the pool prices estimated by the regulator for 2017-2019, along with the corresponding ceilings and floors:

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

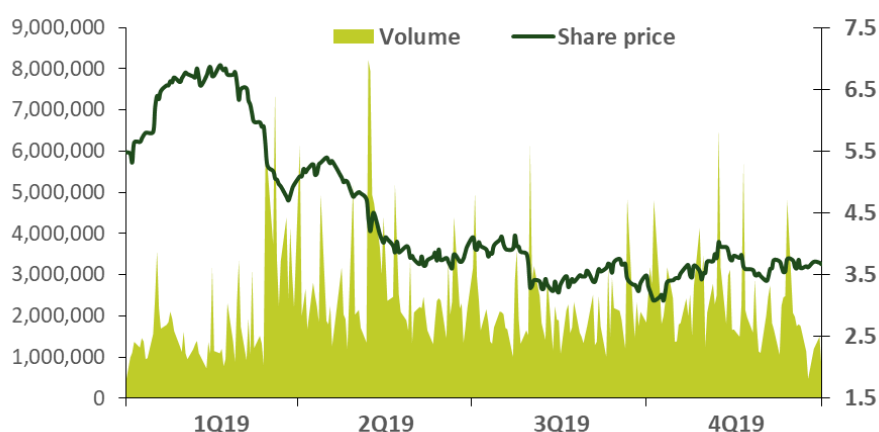
Both the return on investment and the regulated sale price are subject to a 7% tax on the value of electricity production.

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 and 2,024 hours for solar thermal electric power (there is no cap in the case of CHP facilities). Output above this cap is sold at pool prices, with no entitlement to additional premiums.

APPENDIX 2: 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 index.

Ence's share price ended 2019 at €3.67/share, down 33.1% from year-end 2018, affected by the correction in pulp prices and the uncertainty generated by the change in criteria with respect to the extension of the concession Ence holds in Pontevedra.



Source: Bloomberg

SHARES	1Q19	2Q19	3Q19	4Q19
Share price at the end of the period	4.96	3.97	3.49	3.67
Market capitalization at the end of the period	1221.5	977.2	859.5	903.8
Ence quarterly evolution	(9.6%)	(20.0%)	(12.0%)	5.2%
Daily average volume (shares)	1,993,546	2,748,155	2,108,567	2,309,519
Peers quarterly evolution *	11.3%	(22.9%)	(3.2%)	5.0%

(*) 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 in 2019 reflected the movement in the value of the conversion option in line with the correction in the share price.

CONVERTIBLE BOND	1Q19	2Q19	3Q19	4Q19
Bond price at the end of the period	98.46	94.47	94.27	94.26
Yield to worst at the end of the period*	1.656%	2.845%	3.025%	3.168%

*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	Negative	18/11/2019
Moody's	Ba2	Negative	06/11/2019

APPENDIX 3: 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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Earnings Report 4Q19

