Fourth Quarter 2016
Earnings Report

27 February 2017

CONTENTS

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

1. EXECUTIVE SUMMARY

Market figures	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
BHKP (USD/t) average price	655.1	672.1	*(2.5%)*	802.8	*(18.4%)*	696.8	783.0	*(11.0%)*
Average exchange rate (USD/€)	1.08	1.12	*(3.0%)*	1.10	*(1.5%)*	1.11	1.11	*(0.2%)*
BHKP (€/t) average price	604.5	601.6	*0.5%*	729.8	*(17.2%)*	629.3	705.7	*(10.8%)*
Average pool price (€/MWh)	56.5	41.8	*35.3%*	51.2	*10.3%*	39.8	50.3	*(20.9%)*

Operating Magnitudes	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Pulp production (t)	**251,605**	**239,326**	***5.1%***	**240,692**	***4.5%***	**931,443**	**898,166**	***3.7%***
Pulp sales (t)	**259,529**	**215,236**	***20.6%***	**232,891**	***11.4%***	**923,408**	**885,280**	***4.3%***
Net sale pulp price (€/t)	439	460	*(4.5%)*	563	*(22.0%)*	464	546	*(14.9%)*
Cash cost (€/t)	340.9	351.0	*(2.9%)*	354.8	*(3.9%)*	356.7	359.0	*(0.6%)*
Wood cost €/m3	63.6	64.9	*(1.9%)*	66.8	*(4.7%)*	64.4	66.4	*(2.9%)*
Energy sales from Energy business (MWh)	**194,864**	**195,321**	***(0.2%)***	**156,518**	***24.5%***	**628,386**	**615,397**	***2.1%***
Average selling price - Pool + Ro (€/MWh)	105.5	96.1	*9.8%*	105.7	*(0.2%)*	96.9	104.3	*(7.1%)*
Investment remuneration (€Mn)	11.2	7.3	*53.4%*	7.8	*44.6%*	33.2	31.1	*6.8%*

P&L €Mn	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Revenues from Pulp business	144.4	116.5	*24.0%*	153.9	*(6.1%)*	514.3	569.8	*(9.7%)*
Revenues from Energy business	31.8	26.2	*21.6%*	24.9	*27.4%*	96.0	97.0	*(1.1%)*
Consolidation adjustments	(0.4)	(2.1)		(1.6)		(4.8)	(2.9)	
Total net revenue	**175.8**	**140.5**	*25.1%*	**177.2**	*(0.8%)*	**605.4**	**663.9**	*(8.8%)*
Pulp business Adjusted EBITDA	29.5	23.4	*26.5%*	60.8	*(51.4%)*	104.0	169.6	*(38.7%)*
Margin %	**20%**	**20%**	*0.4 p.p.*	**40%**	*(19.1) p.p.*	**20%**	**30%**	*(9.5) p.p.*
Energy business Adjusted EBITDA	12.7	9.3	*35.6%*	(2.3)	*n.s.*	34.0	31.2	*9.0%*
Margin %	**40%**	**36%**	*4.1 p.p.*	-9%	*49.2 p.p.*	**35%**	**32%**	*3.3 p.p.*
Consolidation adjustments	0.0	0.0		(0.0)		0.0	(1.3)	
Adjusted EBITDA	**42.2**	**32.7**	*29.1%*	**58.5**	*(27.8%)*	**138.0**	**199.5**	*(30.8%)*
Adjusted EBITDA margin	*24%*	*23%*	*0.7 p.p.*	*33%*	*(9.0) p.p.*	*23%*	*30%*	*(7.3) p.p.*
Non-recurrent expenses	(0.1)	(2.5)	*(98.0%)*	3.5	*n.s.*	(12.5)	(7.7)	*61.0%*
Amortization and forestry depletion	(17.7)	(29.4)	*(39.7%)*	(17.7)	*0.2%*	(76.9)	(67.2)	*14.5%*
Impairment of and gains/(losses) on fixed-asset disposals	4.4	19.3	*(77.1%)*	5.2	*(14.4%)*	24.0	8.6	*179.1%*
EBIT	**28.9**	**20.1**	*43.4%*	**49.5**	*(41.7%)*	**72.7**	**133.2**	*(45.4%)*
Net finance costs	(5.3)	(4.9)	*8.0%*	(28.5)	*(81.6%)*	(20.1)	(53.6)	*(62.5%)*
Hedging derivatives and other financial results	(4.3)	1.1	*n.s.*	(2.1)	*102.2%*	(1.5)	(12.6)	*(87.7%)*
Profit before tax	**19.3**	**16.4**	*17.7%*	**18.8**	*2.3%*	**51.1**	**67.0**	*(23.8%)*
Income tax	(4.8)	(3.4)	*40.1%*	(4.1)	*18.5%*	(12.4)	(17.2)	*(27.9%)*
Net profit	**14.4**	**12.9**	*11.7%*	**14.8**	*(2.2%)*	**38.7**	**49.9**	*(22.4%)*

Cash flow €Mn	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Pulp business recurrent free cash flow	24.1	11.1	*117.3%*	49.4	*(51.2%)*	61.5	92.0	*(33.1%)*
Energy business recurrent free cash flow	19.1	23.8	*(19.7%)*	(7.6)	*n.s.*	44.8	19.5	*130.4%*
Consolidation adjustments	2.8	0.0		-		2.8	-	
Recurrent free cash flow	**46.0**	**34.9**	*31.9%*	**41.8**	*9.9%*	**109.1**	**111.4**	*(2.1%)*
Other non recurrent	(10.6)	(1.1)	*n.s.*	(25.9)	*(59.0%)*	(18.1)	(28.2)	*(35.7%)*
Expansion capex	(28.7)	(9.3)	*209.7%*	(8.7)	*230.7%*	(58.3)	(26.4)	*120.4%*
Environmental capex	(1.7)	(2.9)	*(40.5%)*	(0.4)	*319.5%*	(7.5)	(5.4)	*38.2%*
Disposals	13.7	17.6	*(22.0%)*	24.4	*(43.8%)*	38.7	32.3	*19.9%*
Free Cash Flow	**18.7**	**39.2**	*(52.3%)*	**31.3**	*(40.3%)*	**63.9**	**83.6**	*(23.6%)*
Dividends	(7.8)	-	*n.s.*	(11.0)	*(28.6%)*	(32.7)	(35.8)	*(8.7%)*
Share buyback program	-	(8.6)	*(100.0%)*	-	*n.s.*	(8.6)	-	*n.s.*

Net debt €Mn	Dec-16	Sep-16	Δ%	Dec-15	Δ%
Pulp business net financial debt	195.1	211.4	*(7.7%)*	181.3	*7.6%*
Energy business net financial debt	23.2	22.2	*4.6%*	59.9	*(61.3%)*
Net financial debt	**218.3**	**233.5**	*(6.5%)*	**241.2**	*(9.5%)*

- ✓ **The cash cost in the Pulp business declined to €340.9/tonne in the fourth quarter, in line with the level targeted in the Business Plan, thanks to the investments made to boost efficiency and increase capacity at the Navia mill in June, which have had the effect of substantially reducing the facility's conversion costs and better overheads dilution.**

- ✓ **Adjusted EBITDA was 29.1% higher year-on-year in 4Q16 at €42.2m, driven by growth of 26.5% in the Pulp business and of 35.6% in the Energy business. In 2016 as a whole, adjusted EBITDA declined by 30.8% to €138m, marked by the pulp price correction.**

- ✓ **The Energy business's profit margin widened by 3.3 percentage points despite the drop in the pool price, thanks to operational and biomass supply improvements brought about at the power plants.**

- ✓ **The Group's recurring cash flow was stable year-on-year in 2016 at €109m, reflecting working capital dynamics.**

- ✓ **Growth capex, earmarked mainly to execution of projects contemplated in the 2016 - 2020 Business Plan, doubled with respect to 2015 to €65.8m. Some €43.3m of the total went to the Pulp business. The €22.5m devoted to the Energy business related to the acquisition in December of two separate 16-MW biomass-fuelled renewable energy plants.**

- ✓ **In addition, Ence earmarked €41.3m to shareholder remuneration, marking year-on-year growth of 15.4% and a return of 6.6% (calculated in respect of the year-end share price). Of the total, €24.9m was accounted for by the final dividend paid from 2015 profits, €7.8m to the interim dividend from 2016 earnings and €8.6m to the buyback of 4 million shares.**

- ✓ **Elsewhere, phase one of the divestment plan of the forest assets located in Huelva was completed in 2016. Specifically, the Group closed the sale of 1,736 hectares of estates for €38m in total; the proceeds, already collected, generated a gain of €16m.**

- ✓ **Consolidated net debt declined by €22.9m from year-end 2015, implying a leverage ratio of just 1.6 times.**

- ✓ **Global demand for eucalyptus pulp remained buoyant in 2016, registering growth of 7.7%, boosted by China, where growth reached 23.8%, driving an uptick of 8.6% in short-fibre pulp prices in that market in the last quarter.**

- ✓ **Ence has locked in 975,100 tonnes of pulp sales in 2017, which is as much as 100% of targeted output, and has announced to its customers that it will increase its pulp prices to $740/tonne with effect from March.**

2. PULP BUSINESS

Ence has two eucalyptus pulp mills in Spain: a 605,000-tonne-capacity facility in the town of Navia, Asturias, and a 465,000-tonne-capacity complex in Pontevedra, Galicia. Both use eucalyptus timber acquired locally in abundant markets.

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

2.1. Pulp market trends

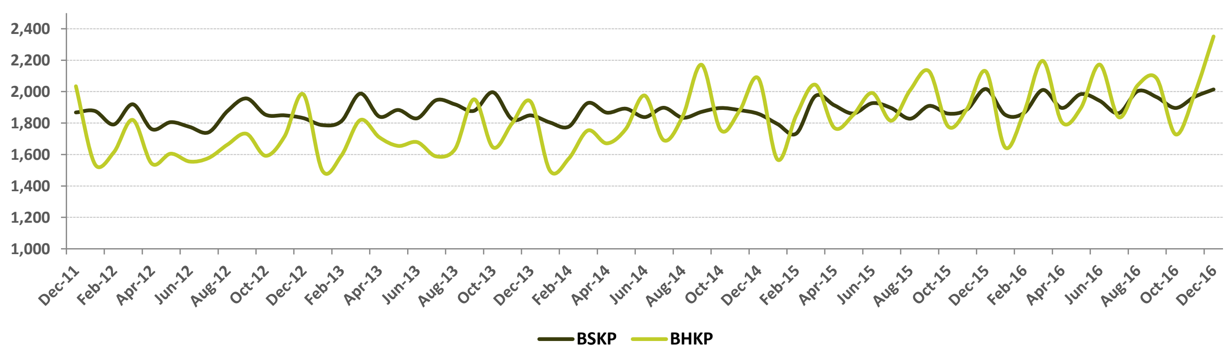
Global demand for pulp remained strong, registering year-on-year growth of 3.9% in 2016, compared to growth of 3.2% in 2015 and compound annual growth during the last five years of 2.7% (PPPC-G100).

China remains the key growth engine, posting year-on-year growth of 13.8% last year, compared to growth of 13.3% in 2015 and compound annual growth during the last five years of 10.5%.

Growth continues to be led by demand for eucalyptus pulp, which was 7.7% higher year-on-year; this grade continues to win market share from other less-efficient short fibres for which demand contracted by 4.4% year-on-year. Demand for eucalyptus pulp in China rose by 23.8% in 2016.

Demand for long-fibre pulp, meanwhile, registered year-on-year growth of 3.3% in 2016, compared to growth of 1.1% in 2015 and compound annual growth during the last five years of 1.9%, shaped to a degree by the narrowing of the price gap with respect to short-fibre pulp to close to $10 per tonne in Europe in January.

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

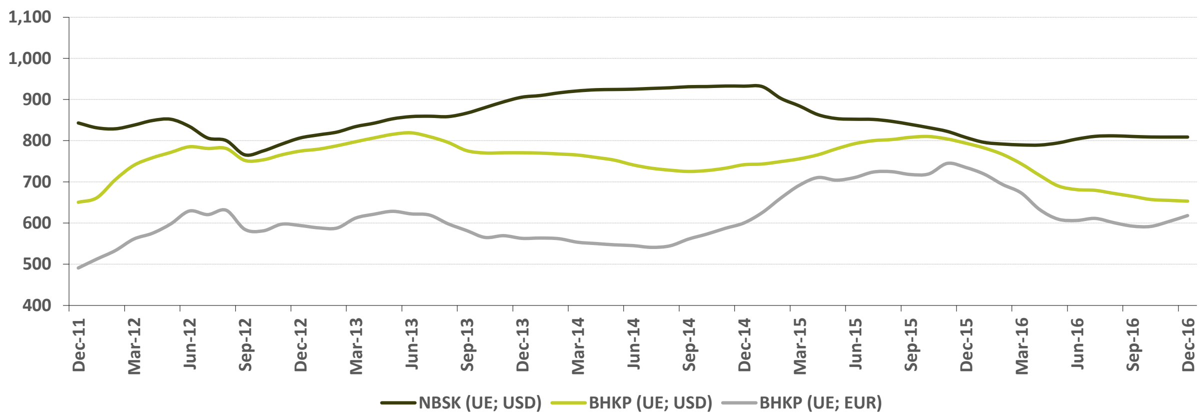


Source: PPPC (W-20)

After the sharp short-fibre pulp price correction sustained in the first half of the year, prices were largely stable in the fourth quarter, ending December at $653/tonne. In euros, average short-fibre pulp prices firmed 0.5% quarter-over-quarter, propped up by dollar appreciation.

However, the strength of Chinese demand fuelled an 8.6% spike in short fibre prices in that market from the end of September; prices in China ended the year at $528/tonne. So far in 2017, this is translating into price strength in Europe.

Pulp prices during the last five years



Source: FOEX

In addition, the spread between short (BHKP) and long-fibre (BSKP) prices, which had been at lows of close to $10 per tonne in January, had widened to $156 per tonne by the end of the year, which is above the trailing 10-year average of $90; this should fuel stronger demand for short-fibre pulp in the months to come driven by substitution dynamics.

Against this backdrop, in early 2017, Ence secured forward pulp sales agreements covering 975,100 tonnes, which is equivalent to up to 100% of its targeted output for the year. It has also announced to its customers that it will increase the price of its pulp to $740/tonne with effect from March.

2.2. Revenue from pulp sales

	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Pulp sales (t)	**259,529**	**215,236**	*20.6%*	**232,891**	*11.4%*	**923,408**	**885,280**	*4.3%*
Average selling price (€/t)	439.3	451.6	*(2.7%)*	563.0	*(22.0%)*	464.4	545.7	*(14.9%)*
Pulp sales revenues (€Mn)	**114.0**	**97.2**	*17.3%*	**131.1**	*(13.0%)*	**428.8**	**483.1**	*(11.2%)*

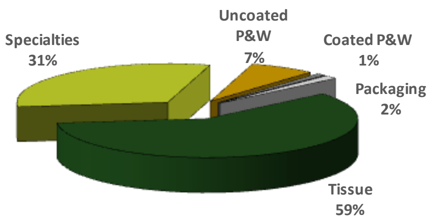
In 2016, the Company sold 4.3% more tonnes of pulp than in 2015, in line with the growth in pulp production in the wake of two successive 20,000-tonne capacity expansions at the Navia mill carried out during the maintenance stoppages of June 2015 and June 2016.

In the fourth quarter, sales volumes jumped 20.6% quarter-over-quarter, in line with expectations.

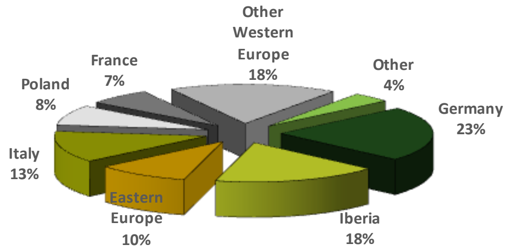
The growth in sales volumes in 2016 partially offset the 14.9% drop in average sales prices with respect to 2015, as a result of which revenue from pulp sales declined by 11.2% to €428.8m.

The tissue paper segment remains the main end use given to the pulp sold by Ence, accounting for 59% of revenue from pulp sales, followed by the specialty paper segment, at 31%. The tissue paper segment has been one of the fastest-growing paper segments in recent years and is expected to continue to gain weight in the Company's sales mix relative to slower-growing segments such as printing and writing papers.

Breakdown of revenue by end product



Breakdown of revenue by geographic market



Most of the pulp produced by Ence is sold in Europe, namely 96% of revenue from pulp sales in 2016. Germany and Spain/Portugal accounted for 23% and 18% of total revenue, respectively, followed by Italy, Poland and France, at 13%, 8% and 7%, respectively. Western Europe accounted for 18% of the total, with the rest of Eastern Europe representing 10%.

2.3. Pulp production and cash cost

	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Navia pulp production	141,262	131,002	*7.8%*	124,058	*13.9%*	509,186	469,112	*8.5%*
Pontevedra pulp production	110,343	108,324	*1.9%*	116,633	*(5.4%)*	422,257	429,054	*(1.6%)*
Pulp production (t)	**251,605**	**239,326**	*5.1%*	**240,692**	*4.5%*	**931,443**	**898,166**	*3.7%*

Pulp production increased by 3.7% year-on-year in 2016. Production at Navia increased by 8.5%, due mainly to the 20,000 tonnes of capacity added during each of the maintenance stoppages of June 2015 and June 2016, whereas output in Pontevedra declined by 1.6% from 2015.

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

The stoppage at Navia in June was used to finalise the programmed efficiency measures and add another 20,000 tonnes of capacity; these measures, contemplated in the Business Plan, were designed to translate into a lower cash cost at this complex, as was already clearly tangible in the second half of the year. Following these investments, annual capacity at the Navia complex stands at 605,000 tonnes.

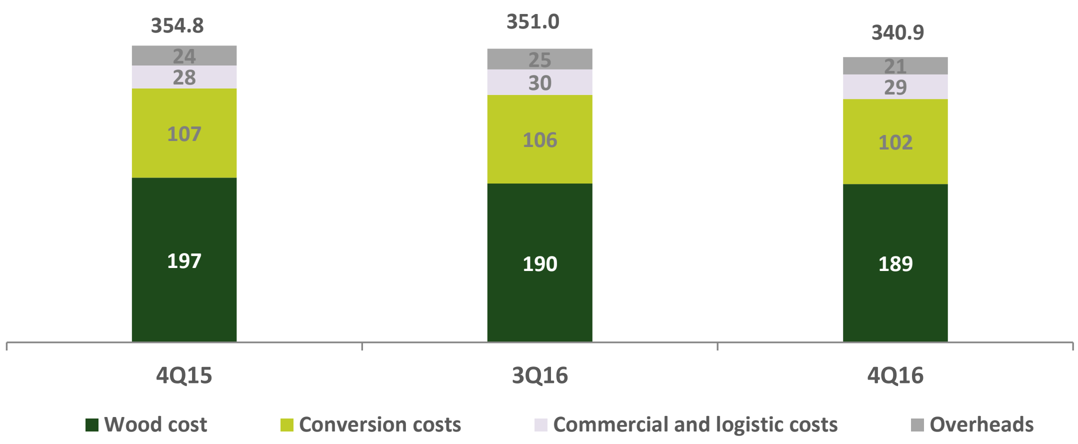
Figures in €/t	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Wood cost	189.3	189.8	*(0.2%)*	196.9	*(3.9%)*	190.6	193.4	*(1.5%)*
Conversion costs	101.7	106.2	*(4.3%)*	106.8	*(4.8%)*	111.8	114.1	*(2.1%)*
Commercial and logistic costs	29.3	30.2	*(3.1%)*	27.5	*6.4%*	29.0	28.2	*3.1%*
Overheads	20.7	24.7	*(16.4%)*	23.6	*(12.4%)*	25.3	23.3	*8.6%*
Total cash cost	**340.9**	**351.0**	*(2.9%)*	**354.8**	*(3.9%)*	**356.7**	**359.0**	*(0.6%)*

Note: These quarterly cash cost figures have been adjusted to include the lower conversion costs by the energy component due to the revenues derived from the difference between the pool price estimated by the Regulator and the real pool price in 2016, according to Accounting Standards.

The cash cost amounted to €356.7/tonne in 2016, down €2.3/tonne from 2015, despite the impact of the breakdown of the turbine rotor at the Pontevedra CHP plant during the first quarter, which rendered it idle for over a month and was fixed during the March maintenance stoppage. As a result, the 1Q16 cash cost rose to €375.4/tonne, going on to decline to €362.7/tonne in the second quarter, €351.0/tonne in the third quarter and €340.9/tonne in the last quarter.

The fourth-quarter cash cost was €10.1/tonne lower quarter-over-quarter and €13.9/tonne lower year-over-year thanks to the successive efficiency investments and capacity expansion work carried out at the Navia mill which have translated into considerably lower transformation costs, as well as generating economies of scale. In addition, timber consumption costs at this facility were lower in comparison to 4Q15.

Trend in cash cost per tonne (€/t)



Timber supply costs were 4.7% lower year-over-year thanks to the decision in the fourth quarter of 2015 to tie timber prices to pulp prices, triggering three price reductions of €1/tonne over the course of 2016 (in February, April and September). This was partially offset in cash cost terms by increased consumption per tonne due to the use of less productive eucalyptus varieties.

	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Wood cost €/m3	63.6	64.9	*(1.9%)*	66.8	*(4.7%)*	64.4	66.4	*(2.9%)*
Timber consumption (m3)	696,040	685,847	*1.5%*	693,698	*0.3%*	2,824,973	2,671,114	*5.8%*
Suppliers	67%	65%		76%		71%	74%	
Standing timber acquired directly from land own	32%	33%		23%		28%	24%	
Owned timber	1%	2%		1%		1%	2%	

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

As an integral part of its pulp production process, Ence uses the lignin and forest waste derived from its manufacturing to generate the energy needed for the process. To this end, it operates a 34.6-MW CHP plant, integrated within the Pontevedra mill, 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 facility.

The energy produced at these power plants is sold to the grid and subsequently repurchased. The net cost is included in the above-mentioned transformation costs within the cash cost metric.

	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Navia energy sales	143,028	119,712	*19.5%*	131,121	*9.1%*	484,967	494,312	*(1.9%)*
Pontevedra energy sales	55,223	53,329	*3.6%*	59,306	*(6.9%)*	194,732	215,152	*(9.5%)*
Energy sales linked to the pulp process (MWh	**198,251**	**173,040**	*14.6%*	**190,426**	*4.1%*	**679,699**	**709,464**	*(4.2%)*
Average selling price - Pool + Ro (€/MWh)	94.0	77.3	*21.5%*	87.5	*7.4%*	77.0	87.0	*(11.5%)*
Investment remuneration (€Mn)	6.5	2.6	*151.9%*	2.6	*151.9%*	14.3	10.5	*35.6%*
Revenues from energy sales linked to pulp (€I	**25.1**	**16.0**	*57.5%*	**19.3**	*30.6%*	**66.6**	**72.2**	*(7.8%)*

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

Revenue from the sale of energy in connection with pulp production fell by 7.8% in 2016, due to a 4.2% decline in sales volumes shaped primarily by the breakdown of the turbine in Pontevedra in the first quarter and the overhaul of the Navia CHP plants in June and July.

The 11.5% drop in average sales prices in 2016, the result of lower pool prices, was partially offset by a €3.9m increase in remuneration for investment in the fourth quarter to compensate for the difference between the pool price estimated by the regulator and the actual pool price in 2016.

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.

	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Forestry and other revenues (€Mn)	**5.3**	**3.3**	*60.6%*	**3.5**	*50.9%*	**18.8**	**14.5**	*30.0%*

Revenue from forestry increased by 30% in 2016 due mainly to higher sales of timber to third parties.

2.6. Income statement

Figures in €Mn	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Total net revenue	**144.4**	**116.5**	*24.0%*	**153.9**	*(6.1%)*	**514.3**	**569.8**	*(9.7%)*
Adjusted EBITDA	**29.5**	**23.4**	*26.5%*	**60.8**	*(51.4%)*	**104.0**	**169.6**	*(38.7%)*
Adjusted EBITDA margin	*20%*	*20%*	*0.4 p.p.*	*40%*	*(0.5) p.p.*	*20%*	*30%*	*(9.5) p.p.*
EBITDA	**29.4**	**21.2**	*38.4%*	**60.1**	*(51.1%)*	**95.4**	**158.0**	*(39.6%)*
EBITDA margin	*20%*	*18%*	*2.1 p.p.*	*39%*	*(0.5) p.p.*	*19%*	*28%*	*(9.2) p.p.*
Amortization	(12.5)	(24.5)	*(49.3%)*	(14.0)	*(10.8%)*	(56.7)	(50.7)	*12.0%*
Forest depletion	(2.1)	(0.9)	*143.4%*	(0.7)	*179.8%*	(6.0)	(5.6)	*7.1%*
Impairment of and gains/(losses) on fixed-asset	1.2	18.5	*(93.6%)*	2.6	*(55.1%)*	20.2	5.9	*240.5%*
EBIT	**16.1**	**14.4**	*11.5%*	**48.1**	*(66.6%)*	**52.9**	**107.7**	*(50.9%)*
EBIT margin	*11%*	*12%*	*(1.2) p.p.*	*31%*	*(0.6) p.p.*	*10%*	*19%*	*(8.6) p.p.*
Net finance costs	(3.7)	(3.4)	*8.8%*	(23.4)	*(84.0%)*	(14.4)	(40.4)	*(64.4%)*
Hedging derivatives & other financial results	(4.3)	1.1	*n.s.*	(2.1)	*102.5%*	(1.6)	(1.5)	*4.2%*
Profit before tax	**8.0**	**12.1**	*(33.9%)*	**22.6**	*(64.7%)*	**37.0**	**65.7**	*(43.8%)*
Income tax	(2.0)	(2.3)	*(12.3%)*	(4.6)	*(57.0%)*	(8.7)	(16.4)	*(46.6%)*
Net profit	**6.0**	**9.8**	*(39.0%)*	**17.9**	*(66.6%)*	**28.2**	**49.4**	*(42.8%)*

Adjusted EBITDA totalled €104m in 2016, down 38.7% year-over-year, due mainly to the 14.9% decline in average pulp sales prices, partially mitigated by growth of 4.3% in sales volumes.

It is worth highlighting the 26.5% quarter-over-quarter improvement in adjusted EBITDA in the fourth quarter shaped by the aforementioned reduction in the cash cost, coupled with the recognition that quarter of the difference between the pool price estimated by the regulator and the actual pool price observed in 2016, which had the effect of boosting adjusted EBITDA by €3,6m.

Non-recurring charges totalled €8.6m in 2016, compared to €11.6m in 2015. In this respect it is worth flagging the charges related to the *ad-hoc* operating incidents of the first quarter, outlined above, coupled with consultancy fees and non-recurring staff expenses.

Depreciation charges were 12% higher in 2016 at €56.7m, due to the renewed depreciation of the assets at the Huelva industrial complex (€14.1m). These assets were reclassified from assets held for sale to property, plant and equipment during the third quarter.

This higher depreciation charge was partially offset by the reversal of the impairment provision recognised against these assets in the amount of €4.2m. In addition to the above provision reversal, 'Impairment of and gain/(losses) on fixed asset disposals' also includes €16.3m of gains on estate sales in 2016.

Note the 64.4% reduction in the Pulp business unit's net finance expense thanks to the refinancing of the corporate bond issue in 4Q15. That refinancing work led to the recognition of non-recurring finance costs that quarter of €23.2m, of which €17m were related to premiums paid to the holders of the refinanced bonds and €6.2m to the recognition in profit and loss of the costs of arranging the refinanced bonds. The restructuring exercise has not only reduced the associated borrowing cost by 26% but has also extended the bonds' maturity by two years until 2022.

'Other finance income/costs' reflects a net loss of €1.6m deriving from exchange differences and the fair value restatement (mark-to-market) of the exchange rate hedging programme implemented by the Company.

To mitigate its exposure to fluctuations in the euro-dollar exchange rate, Ence has arranged an ongoing hedging strategy consisting of tunnels which hedge a minimum of 50% of estimated pulp sales over the following 18 months, the exact amounts depending on the spot rate. As of the beginning of 2017, Ence had hedged its exchange rate exposure within a band marked by an average floor of $1.07 and an average ceiling of $1.15.

In all, the Pulp business reported a net profit of €28.2m in 2016, compared to €49.4m in 2015.

2.7. Cash flow

Net cash flows from operating activities totalled €75.4m in 2016, down just €10.7m from 2015 despite the €65.6m reduction in adjusted EBITDA, thanks to more favourable working capital trends and lower interest costs, which in 2015 included an outlay of €21m in connection with the refinancing of the corporate bond issue.

Figures in €Mn	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Adjusted EBITDA	**29.5**	**23.4**	*26.5%*	**60.8**	*(51.4%)*	**104.0**	**169.6**	*(38.7%)*
Non cash expenses / (incomes)	1.6	1.6	*(0.1%)*	(1.0)	*n.s.*	2.5	2.6	*(6.2%)*
Other incomes / (payments)	(3.1)	(2.2)	*40.8%*	(3.2)	*(4.0%)*	(9.7)	(9.5)	*1.6%*
Change in working capital	14.7	(6.7)	*n.s.*	3.9	*278.6%*	(0.8)	(29.0)	*(97.3%)*
Income tax received/(paid)	(6.6)	-	*n.s.*	(7.1)	*(6.6%)*	(7.2)	(7.8)	*(7.1%)*
Interest paid	(6.7)	0.3	*n.s.*	(20.9)	*(67.8%)*	(13.3)	(39.7)	*(66.5%)*
Net cash flow from operating activities	**29.5**	**16.4**	*79.5%*	**32.5**	*(9.3%)*	**75.4**	**86.1**	*(12.4%)*

The working capital maintains flat increasing by €0.8m in 2016 compared the €29.0m increase in 2015, shaped mainly by the 14.9% decline in average pulp sales prices which had the effect of reducing the trade and other receivables balance by €16.5m, in contrast to an increase in this heading of €15.2m in 2015.

Figures in €Mn	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Inventories	6.3	(5.8)	*n.s.*	(2.8)	*n.s.*	(1.4)	(2.9)	*(52.0%)*
Trade and other receivables	7.9	8.8	*(9.8%)*	0.9	*n.s.*	16.5	(15.2)	*n.s.*
Current financial and other assets	1.1	0.6	*n.s.*	(0.9)	*(0.6%)*	(0.9)	(0.2)	*437.2%*
Trade and other payables	(0.6)	(10.3)	*(94.0%)*	6.7	*n.s.*	(15.0)	(10.8)	*39.1%*
Change in working capital	**14.7**	**(6.7)**	*n.s.*	**3.9**	*278.6%*	**(0.8)**	**(29.0)**	*(97.3%)*

Net cash used in investing activities amounted to €26.3m: capital expenditure totalling €67.7m was partially offset by the collection of proceeds of €41.4m from asset sales.

Figures in €Mn	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Maintenance capex	(6.8)	(5.9)	*15.8%*	(8.3)	*(18.0%)*	(21.1)	(22.0)	*(4.2%)*
Environmental capex	(1.7)	(2.9)	*(40.5%)*	(0.4)	*319.5%*	(7.5)	(5.4)	*38.2%*
Efficiency and expansion capex	(6.1)	(9.3)	*(33.5%)*	(8.7)	*(29.0%)*	(35.8)	(26.4)	*35.3%*
Financial investments	(4.3)	0.0	*n.s.*	0.0	*n.s.*	(3.3)	(0.1)	*n.s.*
Investments	**(19.0)**	**(18.0)**	*5.5%*	**(17.4)**	*9.4%*	**(67.7)**	**(54.0)**	*25.4%*
Disposals	16.5	17.6	*(6.2%)*	24.4	*(32.4%)*	41.4	32.3	*28.4%*
Net cash flow from investing activities	**(2.5)**	**(0.4)**	*496.8%*	**7.0**	*n.s.*	**(26.3)**	**(21.7)**	*21.0%*

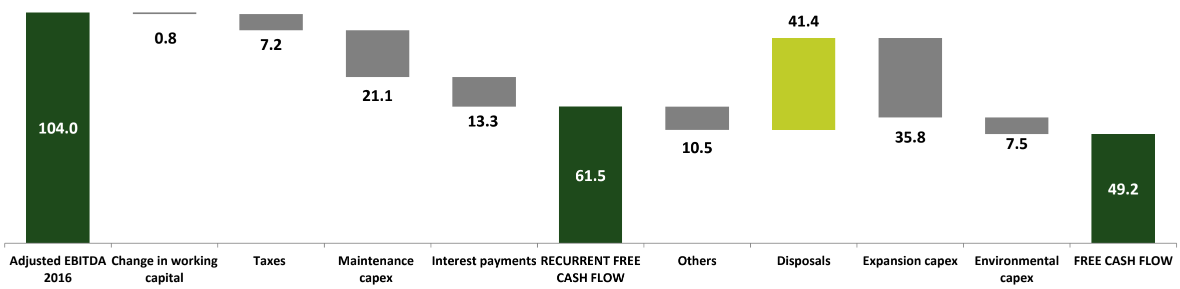
Maintenance capex amounted to €21.1m (in line with €22m in 2015), while environmental capex totalled €7.5m (vs. €5.4m in 2015), earmarked primarily to upgrade work at the Pontevedra complex.

Investments in efficiency and expansion work totalled €35.8m in 2016, mainly related to the successive efficiency improvements and 20,000-tonne capacity expansions carried out at Navia in each of June 2015 and June 2016.

This heading also includes financial investments of €3.3m, corresponding to the difference between the pool price estimated by the regulator and the actual pool price observed between 2014 and 2016 which will be collected over the facilities' remaining useful lives for regulatory remuneration purposes, capitalised at 7.4%.

Elsewhere, in 2016, the Group closed the sale of 1,736 hectares of estates; the proceeds, already collected, totalled €37.5m. This virtually completes the orderly sale of the forest land owned in Huelva, a process embarked on at the end of 2014 after pulp production at that complex was discontinued.

Besides, disposals include €1.2m related to other assets sale and €2.7m related to the internal transfer of certain industrial assets to the Energy business in the fourth quarter.



As a result, recurring free cash flow in the Pulp business amounted to €61.5m in 2016, while free cash flow net of efficiency, growth and environmental capex totalled €49.2m.

2.8. Change in net debt

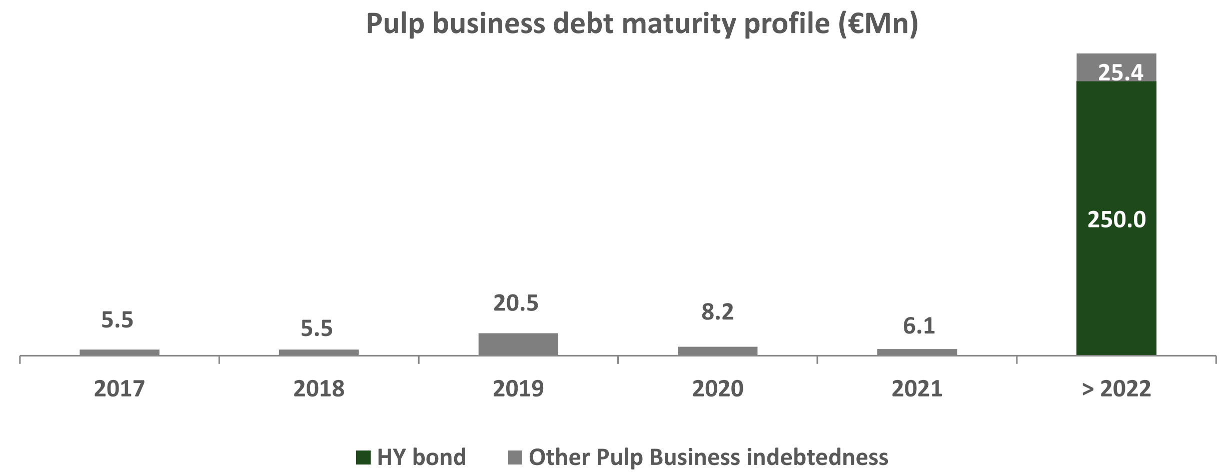
Net debt in this business increased by €13.8m from year-end 2015 to €195.1m following distribution of the final dividend from 2015 profits (€24.9m), execution of the share buyback programme (€8.6m) and payment of the interim dividend from 2016 profits (€7.8m).

In addition, movements between the Pulp and Energy businesses, related mainly to the segregation exercise carried out in the last quarter of 2015, had the effect of increasing the Pulp unit's net debt by €20.7m.

Figures in €Mn	Dec-16	sep-16	Δ%	Dec-15	Δ%
Long term financial debt	308.7	277.1	*11.4%*	279.8	*10.4%*
Short-term financial debt	8.0	9.2	*(12.7%)*	4.1	*94.2%*
Gross financial debt	**316.8**	**286.3**	*10.6%*	**283.9**	*11.6%*
Cash and cash equivalents	112.1	64.3	*74.3%*	93.9	*19.4%*
Short-term financial investments	9.6	10.7	*(10.1%)*	8.7	*10.1%*
Pulp business net financial debt	**195.1**	**211.4**	*(7.7%)*	**181.3**	*7.6%*

The gross debt of €316.8m at the December close corresponds mainly to the €250m corporate bonds due 2022, two separate €15m bilateral loans due in 2019 and 2020 taken on to finance the capacity expansion work undertaken in Navia, and a series of loans totalling nearly €40m 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; these loans fall due between 2021 and 2026.

At 31 December 2016, the Company had cash and cash equivalents of €121.7m in addition to an undrawn €90m credit facility.



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3. ENERGY BUSINESS

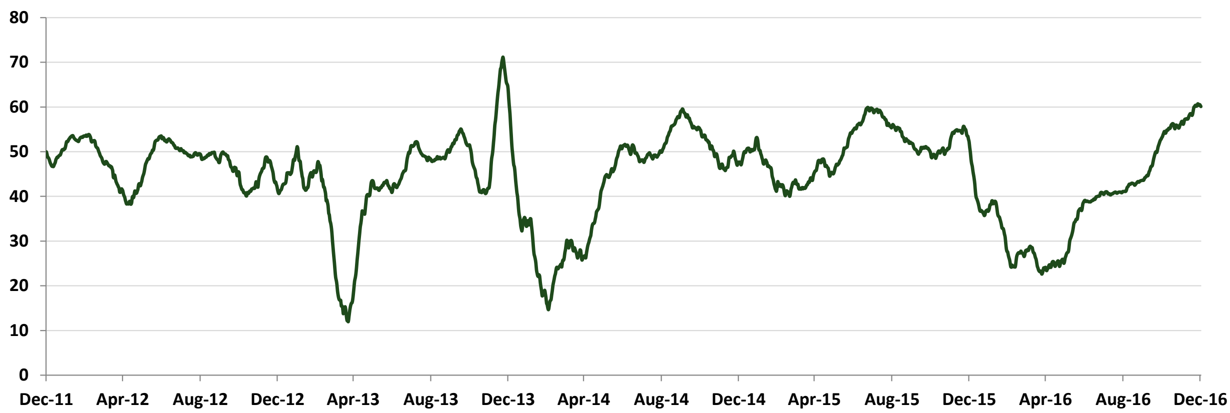
Ence's Energy business encompasses the generation of power from renewable sources - forestry and agricultural biomass - at plants that have no relation to the pulp production process.

In 2016, Ence operated three power plants: two in Huelva, one with capacity of 50 MW and the other with capacity of 41 MW, and a 20-MW power plant in Merida. In addition, at the end of December, Ence closed the acquisition of another two plants, each with capacity of 16 MW, located in Ciudad Real and Jaén.

3.1. Electricity market trends

	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Average pool price (€/MWh)	56.5	41.8	*35.3%*	51.2	*10.3%*	39.8	50.3	*(20.9%)*

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



In 2016, pool prices in mainland Spain averaged 20.9% less than in 2015. This in turn primarily reflects the 41.6% increase in generation at hydro power plants to the detriment of coal and gas-fired stations during the first half of the year. This situation partially reverted during the second half, favouring a recovery in pool prices.

During the fourth quarter, pool prices averaged €56.5/MWh, up 35.3% quarter-over-quarter and up 10.3% year-on-year.

3.2. Revenue from energy sales

	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Huelva 50 MW	100,850	99,128	*1.7%*	82,754	*21.9%*	337,194	324,982	*3.8%*
Huelva 41 MW	50,684	53,157	*(4.7%)*	46,126	*9.9%*	154,314	160,638	*(3.9%)*
Mérida 20 MW	43,330	43,036	*0.7%*	27,638	*56.8%*	136,878	129,777	*5.5%*
Energy sales (MWh)	**194,864**	**195,321**	*(0.2%)*	**156,518**	*24.5%*	**628,386**	**615,397**	*2.1%*
Average selling price - Pool + Ro (€/MWh)	105.5	96.1	*9.8%*	105.7	*(0.2%)*	96.9	104.3	*(7.1%)*
Investment remuneration (€Mn)	11.2	7.3	*53.4%*	7.8	*44.6%*	33.2	31.1	*6.8%*
Revenues (€Mn)	**31.8**	**26.2**	*21.6%*	**24.9**	*27.4%*	**96.0**	**97.0**	*(1.1%)*

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In light of the low pool prices prevailing during the first half of the year and the annual limit on operating hours of 6,500 hours for regulatory remuneration purposes, in the first half of the year, Ence decided to pare back generation at its biomass power plants from a quarterly average of 1,289 hours in 1H15 to a quarterly average of 1,084 hours.

However, during the second half of the year, the power plants operated at a quarterly average of 1,809 hours so that generation volumes rose 64% from first-half levels. In addition, the recovery in pool prices enabled output 19,080 MWh above the 6,500-hour threshold in the fourth quarter.

For the year as a whole, output was 2.1% higher than in 2015, partially mitigating the 7.1% drop in average sales prices on the back of lower pool prices.

Elsewhere, a €3.9m income was accounted in the fourth quarter related to the difference between the pool price estimated by the regulator and the actual pool price observed in 2016, countering the adverse impact (€1.8m) of the classification of the Huelva 41-MW plant as a hybrid plant (85%-biomass; 15%-black liquor) in the second quarter.

In all, revenue in the Energy business narrowed just 1.1% in 2016 to €96m.

During the year, Ence hedged 83% of output at an average price of €45.2/MWh, a strategy which reported a gain of €1.2 million.

3.3. Income statement

Figures in €Mn	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Total net revenue	**31.8**	**26.2**	*21.6%*	**24.9**	*27.4%*	**96.0**	**97.0**	*(1.1%)*
Adjusted EBITDA	**12.7**	**9.3**	*35.6%*	**(2.3)**	*n.s.*	**34.0**	**31.2**	*9.0%*
Adjusted EBITDA margin	*40%*	*36%*	*4.1 p.p.*	*-9%*	*49.2 p.p.*	*35%*	*32%*	*3.3 p.p.*
EBITDA	**12.8**	**8.9**	*42.6%*	**1.9**	*n.s.*	**30.2**	**35.1**	*(14.0%)*
EBITDA margin	*40%*	*34%*	*5.9 p.p.*	*8%*	*32.4 p.p.*	*31%*	*36%*	*(4.7) p.p.*
Amortization	(3.1)	(3.7)	*(16.4%)*	(2.1)	*50.6%*	(13.0)	(8.3)	*56.5%*
Forest depletion	(0.1)	(0.2)	*(76.1%)*	(1.0)	*(94.2%)*	(1.2)	(2.9)	*(59.0%)*
Impairment of and gains/(losses) on fixed-asset disposals	3.2	0.8	*318.2%*	1.9	*66.5%*	3.8	1.9	*98.4%*
EBIT	**12.8**	**5.7**	*123.3%*	**0.8**	*n.s.*	**19.8**	**25.8**	*(23.2%)*
EBIT margin	*40%*	*22%*	*18.3 p.p.*	*3%*	*37.2 p.p.*	*21%*	*27%*	*(6.0) p.p.*
Net finance costs	(1.5)	(1.4)	*6.0%*	(0.9)	*70.6%*	(5.7)	(9.7)	*(41.4%)*
Other financial results	0.0	-	*n.s.*	-	*n.s.*	0.0	(11.1)	*n.s.*
Profit before tax	**11.3**	**4.3**	*162.7%*	**(0.1)**	*n.s.*	**14.1**	**5.0**	*183.4%*
Income tax	(2.8)	(1.2)	*142.1%*	0.8	*n.s.*	(3.7)	(0.6)	*498.7%*
Net profit	**8.5**	**3.1**	*170.4%*	**0.7**	*n.s.*	**10.5**	**4.4**	*139.4%*

Adjusted EBITDA in this business amounted to €34m last year, up 9% from 2015, thanks to more diversified biomass supplies, which drove margin expansion despite lower pool prices and the aforementioned reduction in the remuneration for investment accruing to the Huelva 41-MW plant. The amount of agricultural biomass used last year averaged 40% of the total, compared to 14% in 2015.

The difference between the pool price estimated by the regulator and the actual pool price observed in 2016 was recognised for accounting purposes in the fourth quarter, boosting adjusted EBITDA by €3.6m.

Non-recurring charges totalled €3.8m, of which €2.8m corresponded to the restatement of the revenue recognised between 14 July 2013 and 31 December 2015 in respect of the Huelva 41-MW plant, as a result of the decision by Spain's Ministry of Industry, Energy and Tourism to classify this facility as a hybrid plant (85% biomass; 15% black liquor) in the official remuneration regime registry.

Depreciation and amortisation charges totalled €13m, compared to €8.3m in 2015, due mainly to the transfer of assets from the Pulp business following the separation of these businesses in 2015, coupled with the impact of the reclassification of the assets at the Huelva industrial complex from asset held for sale in the third quarter.

These higher depreciation charges were largely offset by the reversal of the impairment provision recognised against these same industrial assets in the amount of €4m.

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

In all, the Energy business reported a net profit of €10.5m in 2016, compared to €4.4m in 2015.

3.4. Cash flow

Net cash flow from operating activities increased from €24.5m in 2015 to €47.4m in 2016, driven by the growth in adjusted EBITDA and a lower working capital requirement.

Figures in €Mn	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Adjusted EBITDA	**12.7**	**9.3**	*35.6%*	**(2.3)**	*n.s.*	**34.0**	**31.2**	*9.0%*
Non cash expenses / (incomes)	(0.0)	0.4	*n.s.*	(0.0)	*(21.3%)*	(0.1)	(0.6)	*(84.9%)*
Other incomes / (payments)	(0.4)	(1.0)	*(58.6%)*	(0.7)	*(38.2%)*	(3.2)	(0.7)	*379.0%*
Change in working capital	14.4	16.3	*(11.6%)*	(0.7)	*n.s.*	26.3	(6.5)	*n.s.*
Income tax received/(paid)	(0.9)	-	*n.s.*	(1.5)	*(35.9%)*	(1.1)	8.5	*n.s.*
Interest paid	(3.6)	(0.6)	*n.s.*	(1.9)	*85.6%*	(8.6)	(7.5)	*15.3%*
Net cash flow from operating activities	**22.1**	**24.5**	*(10.0%)*	**(7.1)**	*n.s.*	**47.4**	**24.5**	*93.1%*

The change in working capital implied a cash inflow of €26.3m in 2016, compared to a cash outflow of €6.5m in 2015, thanks to the collection of balances due from the Spanish electricity system in the amount of €28.8m, as anticipated, in 2016.

Figures in €Mn	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Inventories	1.5	0.5	*188.0%*	(0.6)	*n.s.*	2.2	(1.2)	*n.s.*
Trade and other receivables	12.0	13.5	*(11.2%)*	3.4	*255.9%*	20.6	(6.8)	*n.s.*
Trade and other payables	0.9	2.3	*(58.9%)*	(3.4)	*n.s.*	3.6	1.6	*128.1%*
Change in working capital	**14.4**	**16.3**	*(11.6%)*	**(0.7)**	*n.s.*	**26.3**	**(6.5)**	*n.s.*

Net cash flows used in investing activities amounted to €32.7m, marking year-on-year growth of 29%. This figure includes a payment of €22.5m in December 2016 to acquire interests of 68.4% and 64.1% in two biomass power plants located in Ciudad Real and Jaén, respectively, each with installed capacity of 16 MW, which means an increase of 29%.

Figures in €Mn	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Maintenance capex	(3.4)	(1.3)	*161.8%*	(1.1)	*204.9%*	(5.9)	(5.3)	*11.7%*
Efficiency and expansion capex	(22.5)	-	*n.s.*	-	*n.s.*	(22.5)	-	*n.s.*
Financial investments	(4.4)	-	*n.s.*	-	*n.s.*	(4.3)	-	*n.s.*
Investments	**(30.3)**	**(1.3)**	*n.s.*	**(1.1)**	*n.s.*	**(32.7)**	**(5.3)**	*n.s.*
Disposals	-	-	*n.s.*	-	*n.s.*	-	-	*n.s.*
Net cash flow from investing activities	**(30.3)**	**(1.3)**	*n.s.*	**(1.1)**	*n.s.*	**(32.7)**	**(5.3)**	*n.s.*

Maintenance capex totalled €5.9m, compared to €5.3m in 2015, and includes €2.7m from the Pulp business in the fourth quarter.

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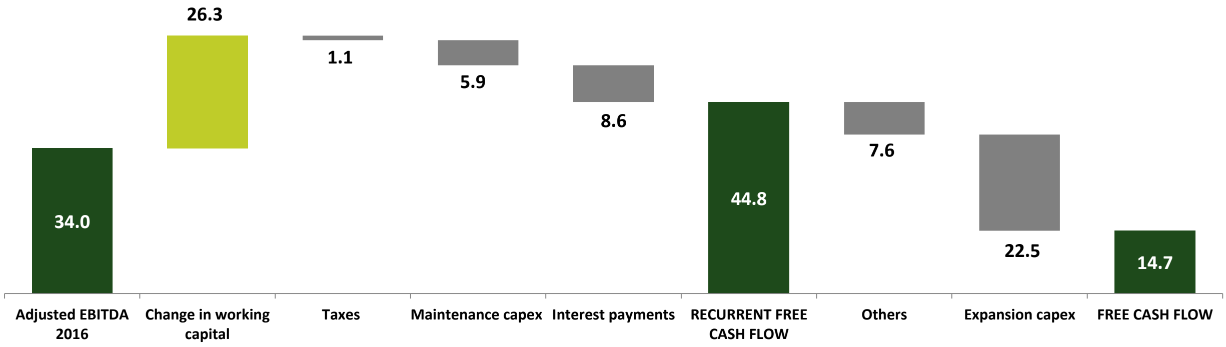
This heading also includes financial investments of €4.3m, corresponding to the difference between the pool price estimated by the regulator and the actual pool price observed between 2014 and 2016, which will be collected over the facilities' remaining useful lives for regulatory remuneration purposes, capitalised at 7.4%.



As a result, recurring free cash flow in the Energy business amounted to €44.8m in 2016, while free cash flow net of efficiency, growth and environmental capex totalled €14.7m.

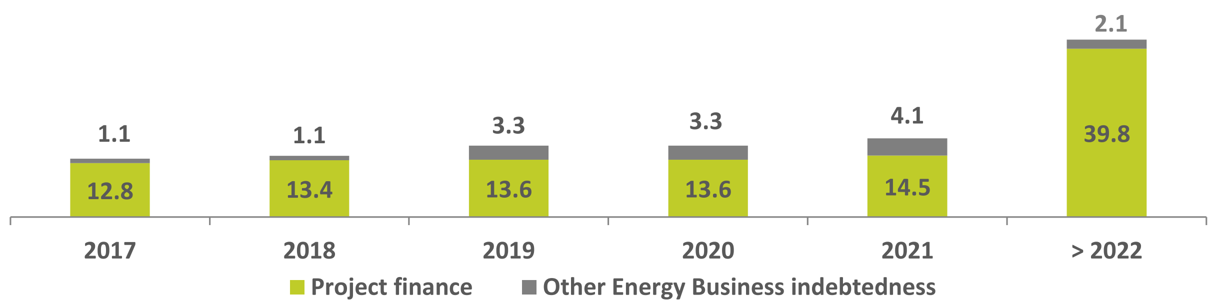
3.5. Change in net debt

Net debt in the Energy business decreased by €36.7m from year-end 2015 to €23.2m, thanks to the generation of €14.7m of free cash flow during the year, as well as movements between the Pulp and Energy businesses related to the segregation exercise carried out in the last quarter of 2015, which had the effect of decreasing this unit's net debt by €20.7m.

Figures in €Mn	**Dec-16**	Sep-16	Δ%	Dec-15	Δ%
Long term financial debt	107.2	99.5	*7.8%*	113.5	*(5.6%)*
Short-term financial debt	13.8	13.1	*4.8%*	12.0	*14.2%*
Gross financial debt	**121.0**	**112.6**	*7.4%*	**125.6**	*(3.7%)*
Cash and cash equivalents	97.8	90.4	*8.1%*	65.7	*48.9%*
Short-term financial investments	0.0	0.0	*25.0%*	0.0	*25.0%*
Energy business net financial debt	**23.2**	**22.2**	*4.6%*	**59.9**	*(61.3%)*

The €121m of gross debt at year-end corresponds mainly to the outstanding balance on the project finance facility arranged to fund construction of the Huelva 50-MW and Mérida 20-MW plants (€106m) and two €7.5m loans taken out to finance the acquisition last December of 68.4% and 64.1% of two separate 16-MW biomass plants for €22.5m in total.

Energy debt maturity profile (€Mn)



Cash at the close stood at €98m.

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4. CONSOLIDATED FINANCIAL STATEMENTS

4.1. Income statement

	2016				2015			
Figures in €Mn	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Total net revenue	**514.3**	**96.0**	**(4.8)**	**605.4**	**569.8**	**97.0**	**(2.9)**	**663.9**
Other income	21.7	2.5	(13.5)	10.7	18.4	4.1	(7.8)	14.7
Change in inventories of finished products	1.1	-	-	1.1	4.8	-	-	4.8
Cost of sales	(243.8)	(29.3)	4.8	(268.3)	(251.6)	(23.4)	2.0	(273.0)
Personnel expenses	(62.3)	(3.6)	0.0	(66.0)	(58.8)	-	-	(58.8)
Other operating expenses	(127.0)	(31.5)	13.5	(145.0)	(113.0)	(46.5)	7.5	(152.1)
Adjusted EBITDA	**104.0**	**34.0**	**0.0**	**138.0**	**169.6**	**31.2**	**(1.3)**	**199.5**
Adjusted EBITDA margin	*20%*	*35%*		*23%*	***30%***	***32%***		***30%***
Variations in trading provisions	0.3	(0.0)	0.0	0.2	(0.9)	0.4	-	(0.5)
Other non recurrent personnel expenses	(2.0)	(0.5)	-	(2.5)	(3.7)	-	-	(3.7)
Income / (expenses)	(6.9)	(3.3)	-	(10.2)	(7.0)	3.5	0.0	(3.5)
EBITDA	**95.4**	**30.2**	**0.0**	**125.6**	**158.0**	**35.1**	**(1.3)**	**191.8**
EBITDA margin	*19%*	*31%*		*21%*	*28%*	*36%*		*29%*
Amortization	(56.7)	(13.0)	-	(69.7)	(50.7)	(8.3)	(0.0)	(59.0)
Forest depletion	(6.0)	(1.2)	-	(7.2)	(5.6)	(2.9)	0.3	(8.2)
Impairment of and gains/(losses) on fixed-asset disposals(a)	20.2	3.8	-	24.0	5.9	1.9	0.7	8.6
EBIT	**52.9**	**19.8**	**-**	**72.7**	**107.7**	**25.8**	**(0.3)**	**133.2**
EBIT margin	*10%*	21%		12%	*19%*	27%		*20%*
Net finance costs	(14.4)	(5.7)	(0.0)	(20.1)	(40.4)	(9.7)	(3.4)	(53.6)
Other financial results	(1.6)	0.0	(0.0)	(1.5)	(1.5)	(11.1)	0.0	(12.6)
Profit before tax	**37.0**	**14.1**	**(0.0)**	**51.1**	**65.7**	**5.0**	**(3.7)**	**67.0**
Income tax	(8.7)	(3.7)	0.0	(12.4)	(16.4)	(0.6)	(0.2)	(17.2)
Net profit	**28.2**	**10.5**	**(0.0)**	**38.7**	**49.4**	**4.4**	**(3.9)**	**49.9**

4.2. Balance sheet

	Dec-16				Dec-15			
Figures in €Mn	Pulp	Energy	Adjustments	Consolidated	Pulp	Energy	Adjustments	Consolidated
Intangible assets	15.2	2.7	-	17.9	12.6	0.0	(0.0)	12.6
Property, plant and equipment	451.4	234.9	0.0	686.3	457.7	184.2	(0.0)	641.9
Biological assets	79.0	4.4	0.0	83.4	83.7	4.2	-	87.9
Intercompany long term participation	198.6	-	(198.6)	-	170.5	-	(170.5)	-
Intercompany long term loan	71.8	-	(71.8)	-	63.3	27.4	(90.8)	-
Non-current financial assets	5.6	6.0	(0.0)	11.6	2.7	0.3	(0.0)	3.0
Assets for deferred tax	57.2	11.3	(0.0)	68.5	61.1	9.7	0.0	70.8
Total fixed assets	**878.8**	**259.3**	**(270.4)**	**867.7**	**851.6**	**226.0**	**(261.3)**	**816.3**
Non-current assets held for sale	6.5	0.4	-	6.9	48.1	2.2	(0.0)	50.3
Inventories	35.4	8.2	0.0	43.6	34.5	5.7	(0.0)	40.2
Trade other accounts receivable	93.7	27.8	(32.5)	89.0	115.6	49.8	(34.4)	131.0
Income tax	0.9	0.5	-	1.5	1.0	-	-	1.0
Other current assets	3.5	0.1	(0.0)	3.6	0.6	(0.1)	-	0.5
Hedging derivatives	0.0	-	-	-	0.1	0.1	(0.0)	0.2
Short-term financial assets	9.6	0.0	(0.0)	9.6	8.7	0.0	(0.0)	8.7
Cash and cash equivalents	112.1	97.8	-	209.9	93.9	65.7	-	159.6
Total current assets	**261.7**	**134.8**	**(32.5)**	**364.0**	**302.5**	**123.4**	**(34.4)**	**391.5**
TOTAL ASSETS	**1,140.5**	**394.2**	**(302.9)**	**1,231.7**	**1,154.1**	**349.4**	**(295.7)**	**1,207.8**
Equity	**609.2**	**151.0**	**(198.6)**	**561.6**	**630.3**	**108.5**	**(170.5)**	**568.2**
Non-current borrowings	308.7	107.2	0.0	416.0	279.8	113.5	-	393.3
Long term intercompany debt	0.0	71.8	(71.8)	-	27.4	63.2	(90.7)	-
Non-current derivatives	4.0	7.8	-	11.7	0.7	7.0	-	7.6
Liabilities for deferred tax	17.3	3.2	-	20.5	20.3	0.3	-	20.6
Non-current provisions	5.8	0.3	(0.0)	6.2	8.5	0.8	-	9.3
Other non-current liabilities	8.5	1.2	0.0	9.7	11.2	0.0	(0.0)	11.3
Total non-current liabilities	**344.4**	**191.5**	**(71.8)**	**464.1**	**347.9**	**184.8**	**(90.7)**	**442.0**
Liabilities linked to non-current assets held for sale	-	-	-	-	-	-	-	-
Current borrowings	8.0	13.8	0.0	21.8	4.1	12.1	(0.0)	16.2
Current derivatives	11.7	3.1	(0.0)	14.7	3.0	2.9	-	5.9
Trade payables and other	159.9	34.8	(32.5)	162.2	162.5	41.1	(34.4)	169.1
Income tax	0.1	(0.0)	0.0	0.1	0.1	-	-	0.1
Current provisions	7.2	0.0	-	7.3	6.3	0.1	(0.1)	6.3
Total current liabilities	**186.9**	**51.7**	**(32.5)**	**206.1**	**175.9**	**56.1**	**(34.5)**	**197.5**
TOTAL EQUITY AND LIABILITIES	**1,140.5**	**394.2**	**(302.9)**	**1,231.7**	**1,154.1**	**349.4**	**(295.7)**	**1,207.8**

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4.3. Cash flow statement

Figures in €Mn	2016 Pulp	2016 Energy	2016 Adjustments	2016 Consolidated	2015 Pulp	2015 Energy	2015 Adjustments	2015 Consolidated
Consolidated profit/(loss) for the period before tax	**37.0**	**14.1**	**(0.0)**	**51.1**	**65.7**	**5.0**	**(3.7)**	**67.0**
Depreciation	64.8	12.1	-	76.9	56.3	11.2	(0.3)	67.2
Changes in provisions and other deferred expense	3.0	2.7	-	5.7	9.1	(6.3)	0.0	2.8
Impairment of gains/(losses) on disposals intangible asset	(20.2)	(3.8)	-	(24.0)	(12.1)	(0.8)	4.0	(9.0)
Net finance costs	15.9	5.7	-	21.6	45.7	20.8	0.0	66.6
Government grants taken to income	(1.6)	(0.1)	-	(1.7)	(2.0)	-	-	(2.0)
Adjustments to profit	**61.9**	**16.5**	**-**	**78.4**	**96.9**	**24.9**	**3.7**	**125.6**
Inventories	(1.4)	2.2	(0.0)	0.8	(2.9)	(1.2)	-	(4.1)
Trade and other receivables	16.5	20.6	-	37.1	(15.2)	(6.8)	-	(22.1)
Current financial and other assets	(0.9)	-	-	(0.9)	(0.2)	-	-	(0.2)
Trade and other payables	(15.0)	3.6	-	(11.4)	(10.8)	1.6	-	(9.2)
Changes in working capital	**(0.8)**	**26.3**	**(0.0)**	**25.5**	**(29.1)**	**(6.5)**	**-**	**(35.5)**
Interest paid	(14.7)	(8.9)	1.4	(22.2)	(44.3)	(11.8)	8.6	(47.5)
Interest received	1.4	0.3	(1.4)	0.3	4.6	4.3	(8.6)	0.3
Income tax received/(paid)	(7.2)	(1.1)	-	(8.3)	(7.8)	8.5	0.0	0.7
Payment of variable remuneration	(2.1)	-	-	(2.1)	-	-	-	-
Other cash flows from operating activities	**(22.6)**	**(9.7)**	**0.0**	**(32.3)**	**(47.5)**	**1.1**	**(0.0)**	**(46.4)**
Net cash flow from operating activities	**75.4**	**47.4**	**0.0**	**122.8**	**86.1**	**24.5**	**0.0**	**110.6**
Property, plant and equipment	(58.0)	(5.8)	-	(63.8)	(49.0)	(5.0)	-	(54.0)
Intangible assets	(6.4)	(0.0)	0.0	(6.5)	(4.9)	(0.3)	0.0	(5.2)
Other financial assets	(3.3)	(26.8)	-	(30.1)	(0.1)	-	-	(0.1)
Disposals	**41.4**	**-**	**-**	**41.4**	**32.3**	**-**	**-**	**32.3**
Net cash flow from investing activities	**(26.3)**	**(32.6)**	**-**	**(58.9)**	**(21.7)**	**(5.3)**	**-**	**(27.0)**
Free cash flow	**49.2**	**14.7**	**0.0**	**63.9**	**64.4**	**19.3**	**0.0**	**83.7**
Buyback/(disposal) of own equity instruments	(9.0)	-	-	(9.0)	(91.6)	95.5	(0.0)	3.9
Proceeds from and repayments of financial liabilities	31.5	(5.1)	(0.0)	26.4	18.3	16.0	0.0	34.3
Dividends payments	(32.7)	-	-	(32.7)	(35.8)	-	-	(35.8)
Translation differences	-	-	-	-	0.1	-	-	0.1
Group and Associated companies	(20.7)	20.7	0.0	-	65.4	(65.4)	0.0	-
Net cash flow from financing activities	**(31.0)**	**15.7**	**-**	**(15.3)**	**(43.6)**	**46.1**	**0.0**	**2.5**
Net increase/(decrease) in cash and cash equivalents	**18.2**	**30.4**	**0.0**	**48.6**	**20.8**	**65.3**	**(0.0)**	**86.1**

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5. 4Q16 MILESTONES

Proposed distribution of dividends from 2016 profits

Ence's Board of Directors, at a meeting held on 27 February 2017, resolved to submit a motion for the payment of a final cash dividend of €0.0473 per share (before withholdings) from 2016 profits to its shareholders for approval at its upcoming Annual General Meeting.

This dividend, coupled with the interim dividend of €0.032 per share paid out on 1 December, implies a total dividend from 2016 profits of €0.0793 per share (before withholdings).

In addition, during 2016 Ence has executed a buyback program up to 4 million of own shares, equivalent to 1.6% of the share capital, in order to remunerate shareholders by the subsequent capital reduction of the Company in the same amount.

Acquisition of 32 MW of biomass power generation capacity

Last December, Ence closed the acquisition of Italian utility Enel's 68.4% and 64.1% shareholdings in the biomass-fuelled renewable power plants located in Enemasa (Ciudad Real) and La Loma (Jaén), respectively. Each facility has installed capacity of 16 MW.

The transaction, which entailed an outlay of €22.5m, marks an important milestone in the execution of the 2016-2020 Business Plan, enabling Ence to increase installed capacity in its Energy business by 29% to 143 MW.

Sale agreements covering 100% of pulp production in 2017

In early 2017, Ence secured sale agreements covering 975,100 tonnes of pulp production.

As a result, the Company has locked in the sale of up to 100% of its annual production target (a higher percentage than it locked in in 2016).

Moody's affirms Ence's credit rating

On 30 November 2016, Moody's affirmed Ence Energía y Celulosa's Ba3 rating with a stable outlook.

APPENDIX 1: REPORTED WORKING CAPITAL AND CAPEX

Figures in €Mn	Dec-16	Sep-16	Δ%	Dec-15	Δ%
Inventories	43.6	47.2	*(7.6%)*	40.2	*8.4%*
Trade and other receivables	89.0	102.7	*(13.3%)*	131.0	*(32.0%)*
Other current assets	3.6	5.6	*(36.6%)*	0.5	*n.s.*
Trade and other payables	(162.2)	(165.7)	*(2.1%)*	(169.1)	*(4.1%)*
Income tax	1.3	(2.5)	*n.s.*	0.9	*48.8%*
Current provisions	(7.3)	(7.1)	*2.6%*	(6.3)	*15.3%*
Working Capital	**(31.9)**	**(19.7)**	***62.0%***	**(2.8)**	***n.s.***

Reported working capital declined by €29.1m in 2016 from year-end 2015, due mainly to the €42m reduction in trade and other accounts receivable following collection by the Energy business of balances due from the electricity system and the impact on the Pulp business of the 14.9% drop in average sales prices.

Figures in €Mn	4Q16	3Q16	Δ%	4Q15	Δ%	2016	2015	Δ%
Maintenance capex	1.9	4.3	*(54.8%)*	4.0	*(51.8%)*	18.4	19.5	*(5.4%)*
Environmental capex	2.2	1.9	*15.8%*	1.0	*126.3%*	8.4	4.6	*82.5%*
Efficiency and expansion capex	1.9	11.0	*(82.4%)*	9.6	*(79.8%)*	35.0	36.6	*(4.3%)*
Pulp business capex	**6.1**	**17.1**	*(64.6%)*	**14.6**	*(58.4%)*	**61.9**	**60.7**	*2.0%*
Maintenance and environmental capex	3.7	1.0	*270.4%*	1.6	*132.6%*	6.4	5.8	*11.7%*
Efficiency and expansion capex	22.5	-	*n.s.*	-	*n.s.*	22.5	-	*n.s.*
Energy business capex	**26.2**	**1.0**	*n.s.*	**1.6**	*n.s.*	**28.9**	**5.8**	*401.4%*
Total capex	**32.3**	**18.1**	***78.0%***	**16.2**	***99.7%***	**90.8**	**66.5**	***36.7%***

Capitalised capex amounted to €90.8m in 2016, €61.9m of which corresponded to the Pulp business and €28.9m to the Energy business.

In the Pulp business, investments in efficiency and expansion work totalled €35m in 2016, mostly driven by efficiency upgrade work and the expansion of 20,000 tonnes of capacity at the Navia mill. Maintenance capex amounted to €18.4m, while environmental capex totalled €8.4m and was earmarked primarily to environmental upgrade work at the Pontevedra complex.

In the Energy business, growth capex amounted to €22.5m due to the acquisition in December of shareholdings of 68.4% and 64.1% in two biomass power plants located in Ciudad Real and Jaén, respectively, each with installed capacity of 16 MW. Maintenance capex in this business unit totalled €6.4m.

APPENDIX 2: REMUNERATION PARAMETERS IN GROUP'S FACILITIES

Facility	Type of facility	MW	Remuneration to investment 2016 (Ri; €/MW)	Type of fuel	Remuneration to operation 2016 (Ro; €/MW)	Maximum of sale hours per MW under tariff
Navia	Biomass co-generation	40.3	35,231	Black liquor	30.030	-
	Biomass generation	36.7	265,438	Forestry waste	54.870	6,500
Pontevedra	Biomass co-generation (a)	34.6	26,162	Black liquor	30.170	-
			64,319	Forestry waste	54.079	6,500
Huelva 41MW	Biomass generation	41.0	281,497	Forestry waste	60.254	6,500
Huelva 50MW	Biomass generation	50.0	301,684	Forestry waste	51.279	6,500
Mérida 20MW	Biomass generation	20.0	328,805	Forestry waste	48.904	6,500

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

Power plants that are 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:

- The **remuneration on investment (Ri)** guarantees an annual return of 7.4% on the estimated cost of building a 'standard' plant. 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

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

  Income from operations = (Ro + pool) * MWh

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 (€49.7/MWh for 2016) are compensated for by means of an increase in the 'Ri' component.

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.

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

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

APPENDIX 3: ENVIRONMENTAL PLEDGE

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

However, the Company's environmental management strategy seeks to go beyond mere compliance with prevailing legislation: Ence wants to be a sector benchmark in terms of its environmental management and record. To this end it has implemented a total quality management (TQM) programme focused on maximising efficiency and competitiveness by addressing matters related to quality, health and safety, environmental protection and pollution prevention as one. Against this backdrop, the Group has established targets with a clear environmental focus aimed specifically at:

- Reducing odour pollution
- Improving the quality of wastewater
- Boosting energy efficiency
- Reducing the consumption of raw materials
- Cutting waste generation

The integrated management system in place at the Huelva, Navia and Pontevedra Operations Centres is certified by an accredited organisation which carries out the pertinent annual audits. The system complies with the following international standards:

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

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

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

The fruits of this policy are evident in the gradual increase in the percentages of incoming timber that is certified, which have risen from 42% and 6% at Navia and Pontevedra, respectively, in 2011 to levels of 95% and 80%, at year-end 2016.

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.

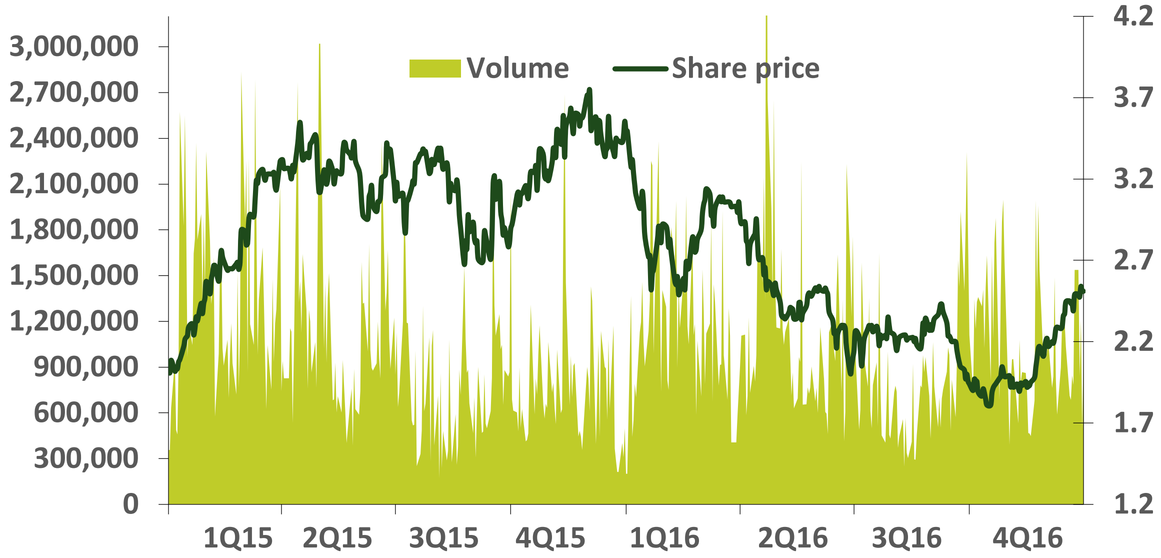
APPENDIX 4: SHARE PRICE PERFORMANCE

Ence's share capital consists of 250,272,500 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 Small Cap, Ibex Top Dividendo and FTSE4Good stock indices.

Ence's share price corrected by 28.2% in 2016, affected by the drop in pulp prices, ending the year at €2.51, down from €3.495 at year-end 2015.

During the same period, the Company's sector peers saw their share prices correct by 22.0% on average(*).



Source: Thomson Reuters

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
Share price at the end of the period	3.32	3.07	2.90	3.50	2.97	2.15	1.94	2.51
Market capitalization at the end of the peri	830.4	767.1	724.5	874.7	742.1	538.1	485.5	628.2
Ence quarterly evolution	65.2%	(7.6%)	(5.5%)	20.7%	(15.2%)	(27.5%)	(9.8%)	29.4%
Daily average volume (shares)	1,350,917	1,115,543	805,633	772,161	1,147,192	1,185,453	834,452	1,081,146
Peers quarterly evolution *	41.4%	(6.9%)	10.9%	12.2%	(26.1%)	(19.1%)	2.1%	31.5%

(*) Altri, Navigator, Fibria and Suzano.

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Earnings Report
4Q16

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