

# 2019 - 2023 Strategic Plan Summary

November 2018

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# 2019-2023 Targets



## GROWTH: ALMOST DOUBLE EBITDA<sup>1</sup>

Almost doubles the Group's EBITDA at constant prices<sup>1</sup> and reduces its cyclicalities with a minimum base of €150 Mn from the Renewable Energy business.



## DIVERSIFICATION

To capture growth opportunities and increase business resilience.



## STEPWISE INVESTMENT PLAN

Stepwise investments up to €625 Mn - €725 Mn in the Pulp business & €615 Mn in the Renewable Energy business. Each investment decision will be confirmed by the Board to ensure low leverage and 50% pay-out.



## EXCELLENCE IN SUSTAINABILITY

Reinforce the reliability, environmental excellence and safety of our facilities.



## LOW LEVERAGE & 50% PAY-OUT

Maintain our shareholder remuneration policy while keeping a Net Debt/EBITDA ratio below 2.5x in the Pulp business & 4.5x in the Renewable Energy business.

1. At constant BHKP prices of 1,050 \$/t and 1.20 \$/€ exchange rate





# 1 Pulp Business

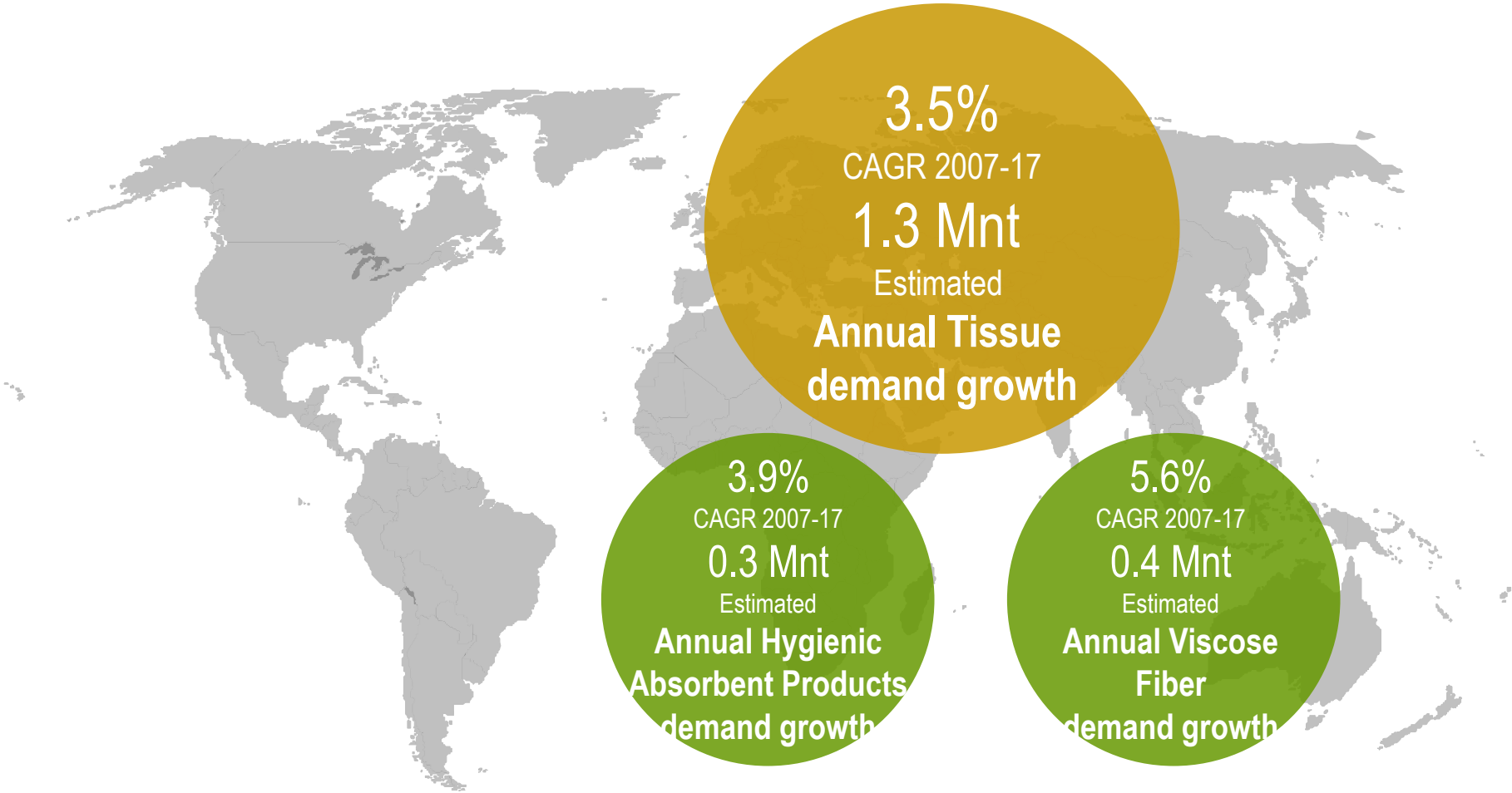
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# Continued global demand growth for wood pulp

Driven by increasing living standards in emerging countries

Urban population growth and increasing living standards in emerging countries are driving continued demand growth for hygienic and viscose pulp based products



Source: RISI, ENCE

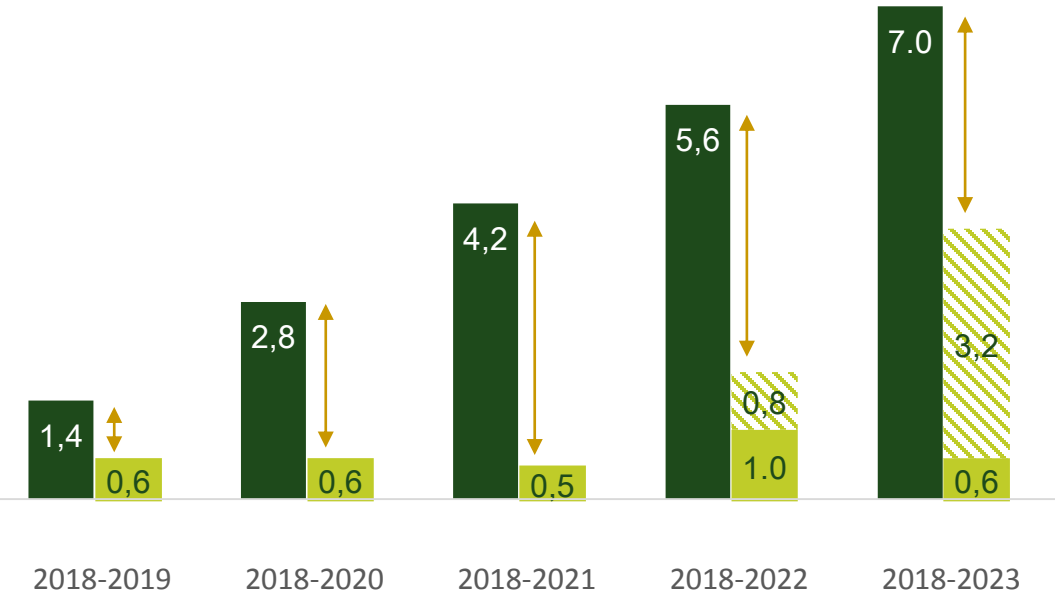


# Lack of large capacity increases for the coming years

## Lead time for new projects close to 3 years

Expected Annual Increase for Global Market  
Hardwood Supply and Demand <sup>1</sup>

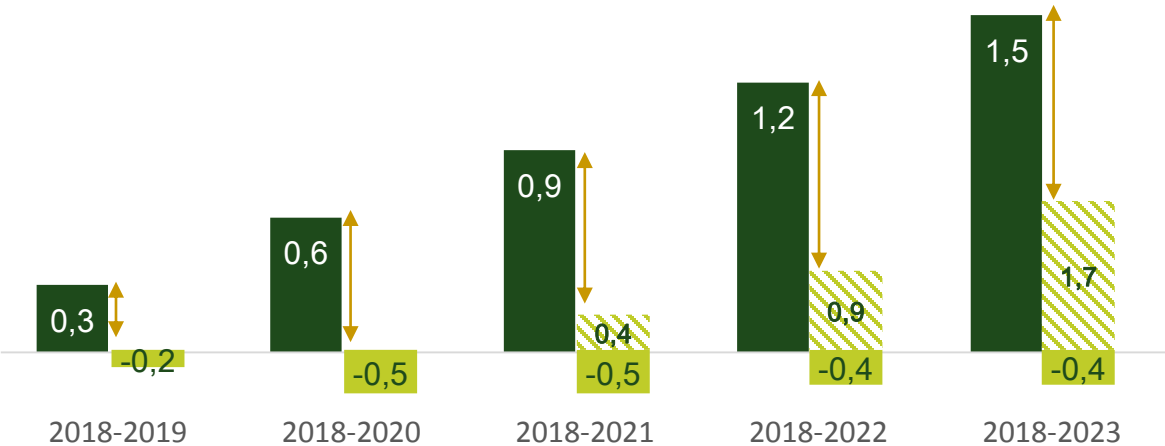
Mn t



■ DEMAND GROWTH  
■ CONFIRMED SUPPLY GROWTH  
▨ UNCONFIRMED SUPPLY GROWTH

Expected Annual Increase for Global Market  
Softwood Supply and Demand <sup>1</sup>

Mn t



■ DEMAND GROWTH  
■ CONFIRMED SUPPLY GROWTH  
▨ UNCONFIRMED SUPPLY GROWTH

Source: ENCE estimates

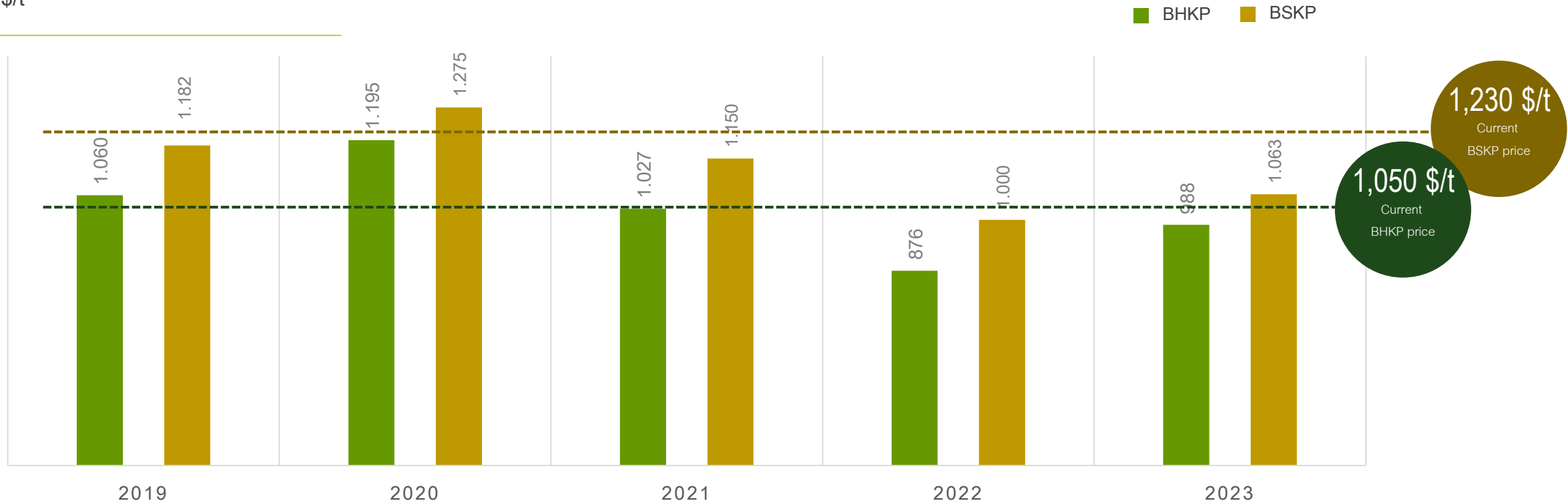
1. Estimates correspond to the expected increase in supply and demand of market pulp for paper production. It excludes therefore the production of integrated pulp and other pulp grades such as Dissolving Pulp or Fluff



# Positive pulp price scenario

For the coming years

RISI's Estimates for European Annual Average BHKP and BSKP prices  
\$/t



We have used a constant pulp price of **1,050 \$/t** and a constant exchange rate of **1.20 \$/€** for our Strategic Plan forecasts

Source: RISI October 2018 Estimates





# Ence's competitive advantages

## In the pulp business



### Access to eucalyptus plantations around our pulp biofactories

They also have access to pine

Eucalyptus only grows under very specific climatic conditions



### Eucalyptus Pulp is cheaper to produce than softwood Pulp

80% of Softwood products can be produced with Hardwood pulp

Technical team dedicated to pulp usage transformation



### High quality pulp and differentiated offering

Totally chlorine free

7 de-commoditized products, not easy to replicate with commodity pulp



### Privileged access to the European market

Just in time service

(5-7 days delivery vs. 40 days for Latam deliveries)

Lower logistics costs

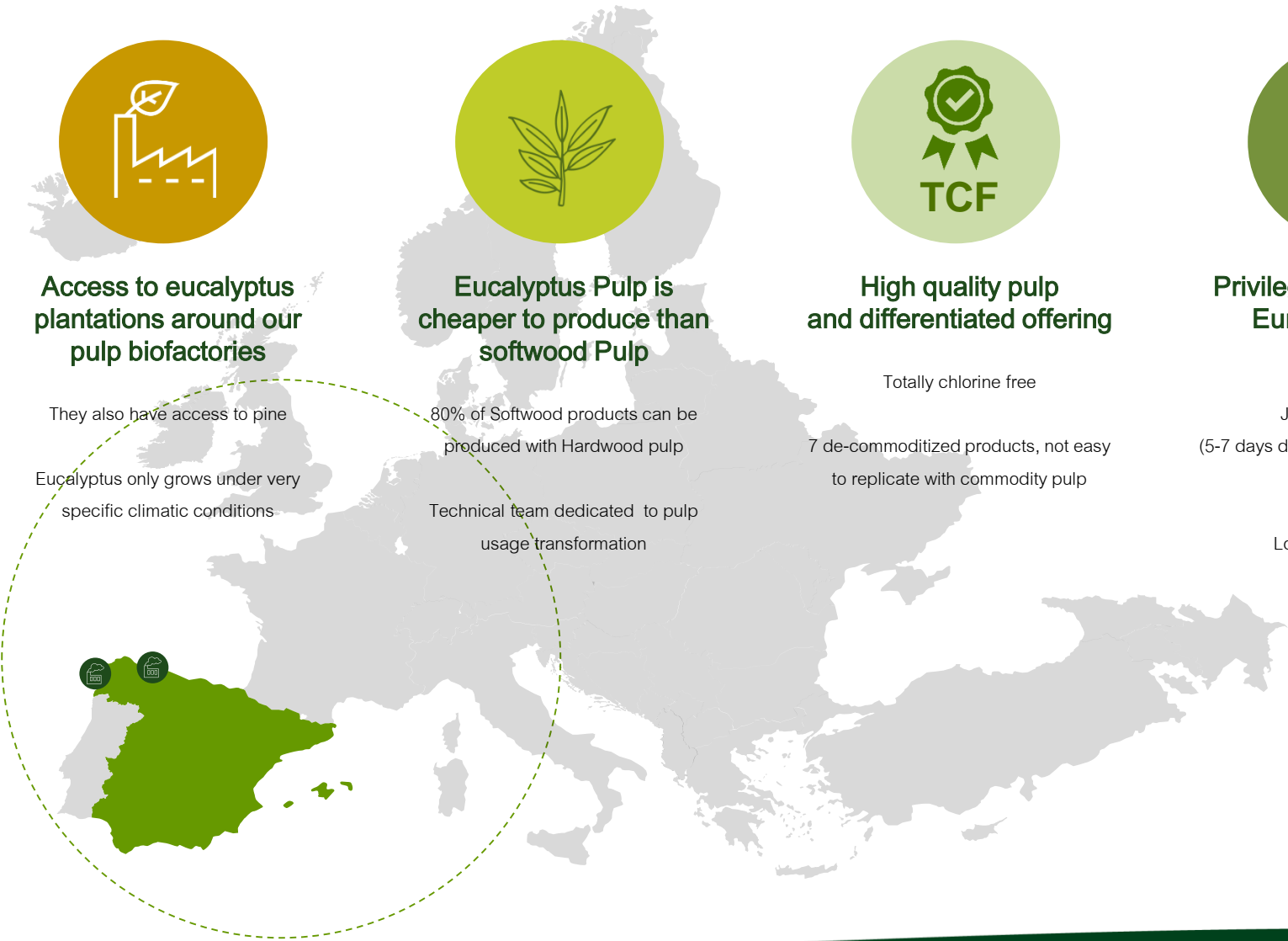


### High client diversification

Sales force capillarity

>100 customers

Top customer service





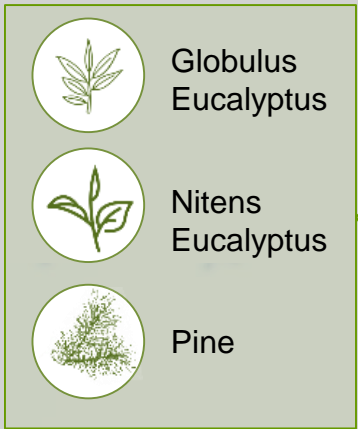


# Diversification

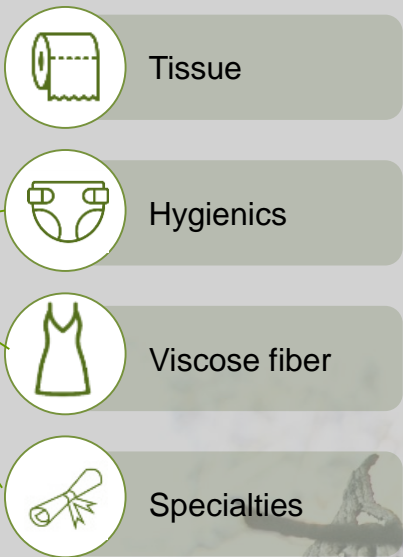
To capture growth opportunities and increase business resiliency

## DIVERSIFICATION

### SOURCES

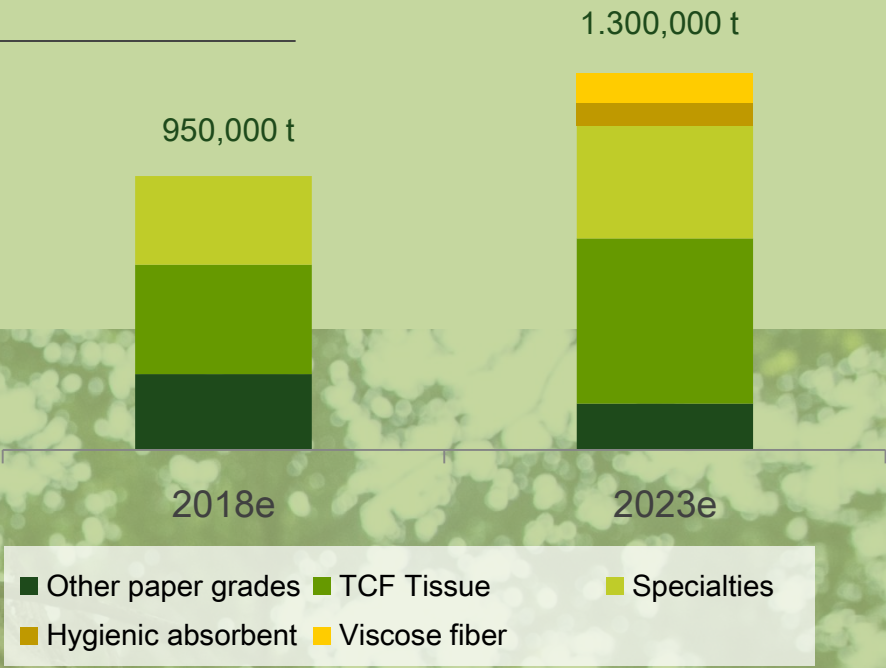


### FINAL PRODUCTS



## GROWTH

Pulp sales by end use  
t

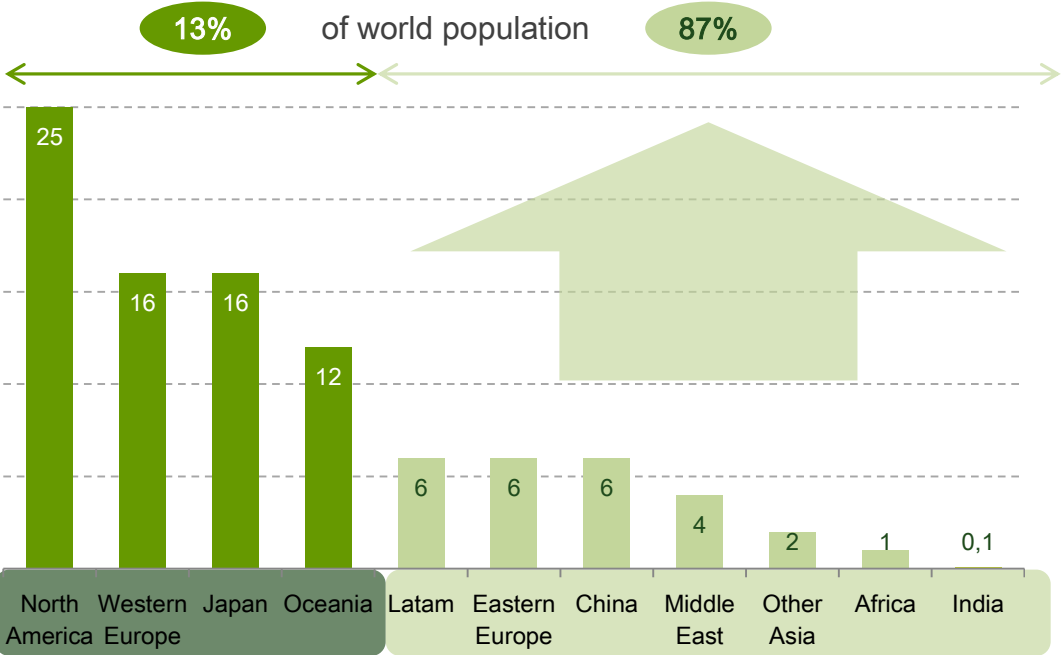




# >50% of Ence's pulp sales are in the growing tissue market

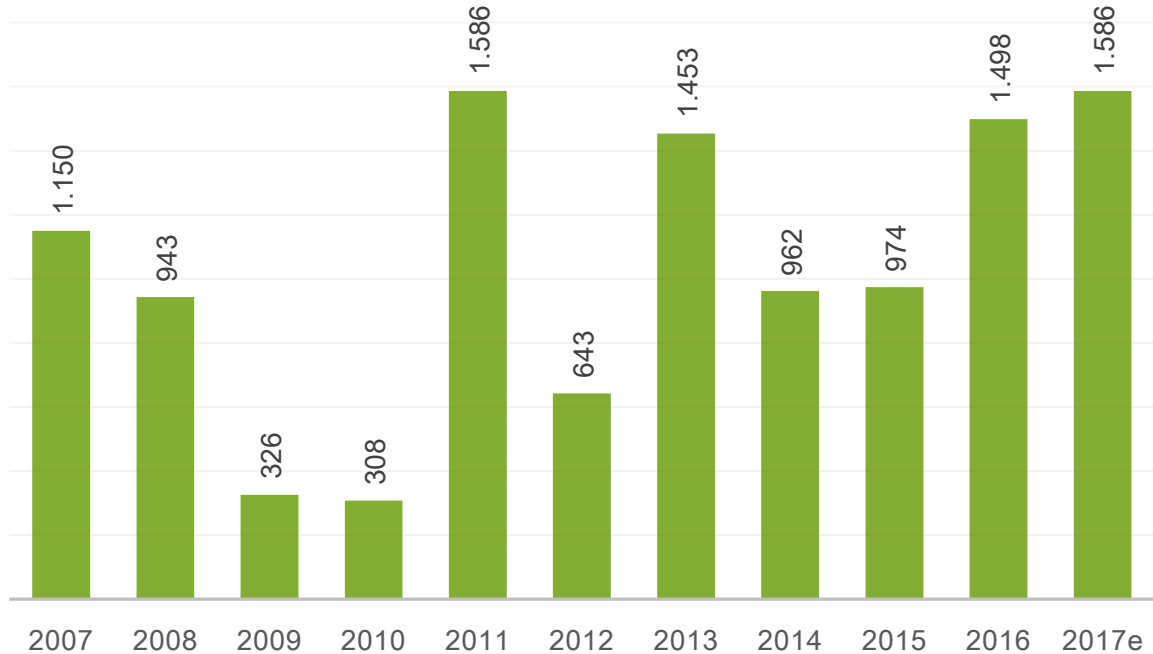
Driven by increasing living standards in emerging countries

Tissue paper per-capita consumption  
Kg/year



Source: RISI

BHKP annual consumption growth  
'000 t



Source: PPPC

**3.7%**  
**BHKP**  
CAGR  
2007-17



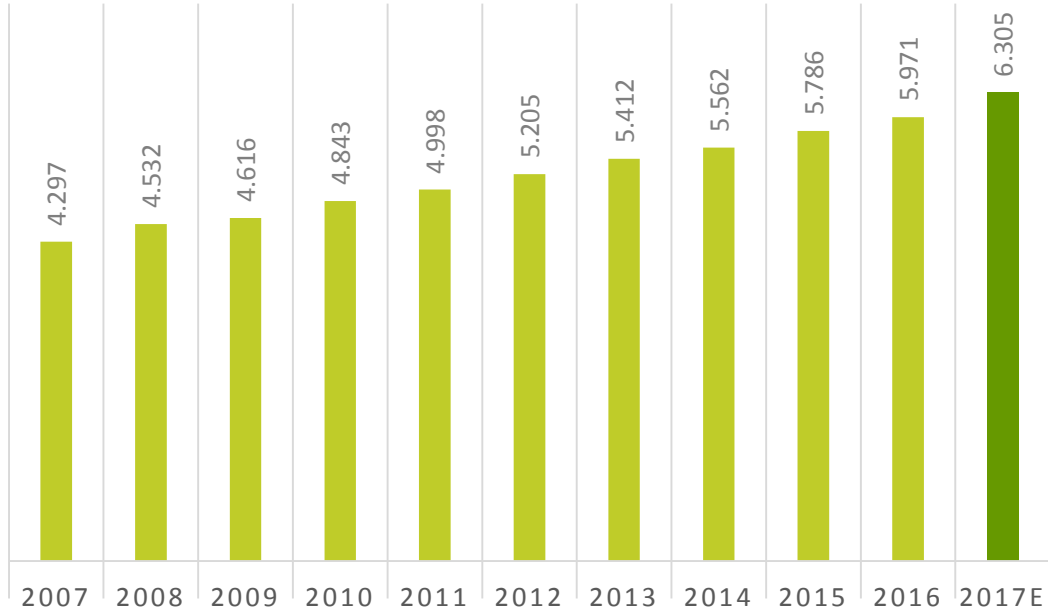
# Growing opportunities to diversify into new products...

Supported by the same long-term dynamics

Hygienic products annual consumption  
'000 t



**3.9%**  
Hygienic products  
CAGR 2007-17

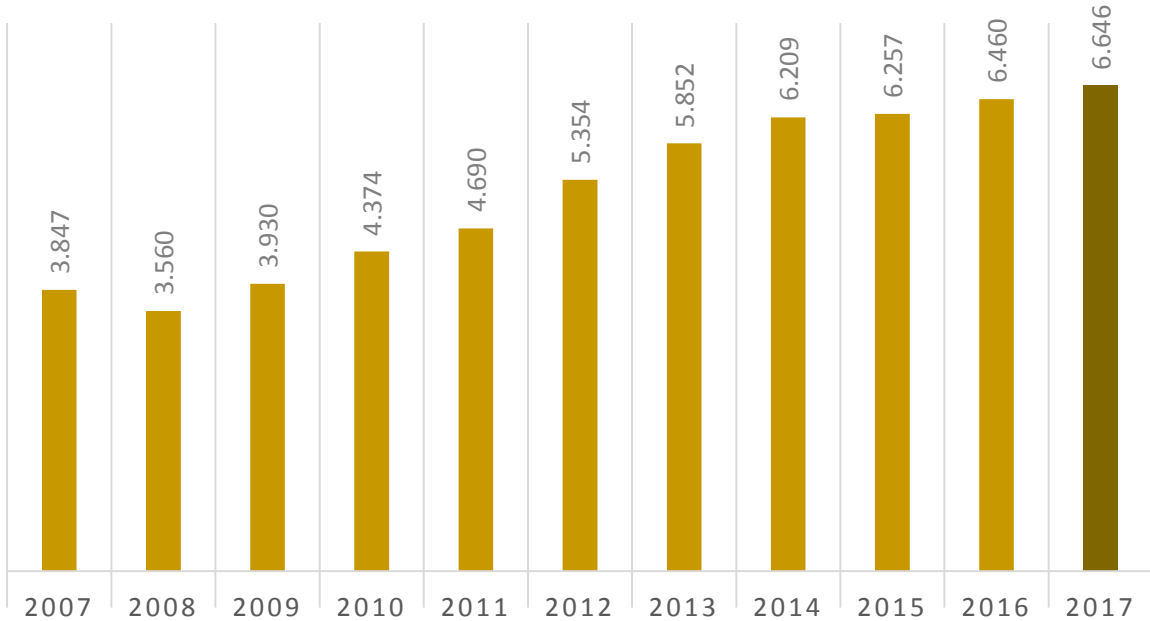


Source: RISI

Viscose fiber annual consumption  
'000 t



**5.6%**  
viscose fiber  
CAGR 2007-17



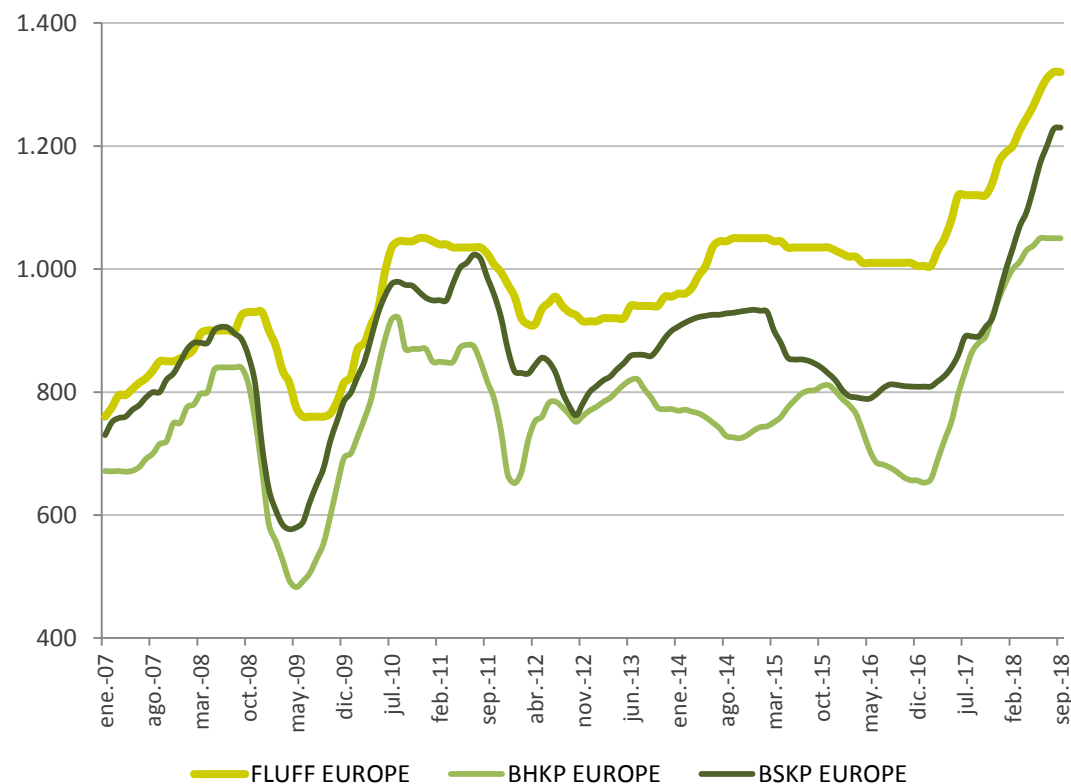
Source: Hawkins Wright



# ...with better prices linked to softwood pulp and cotton prices

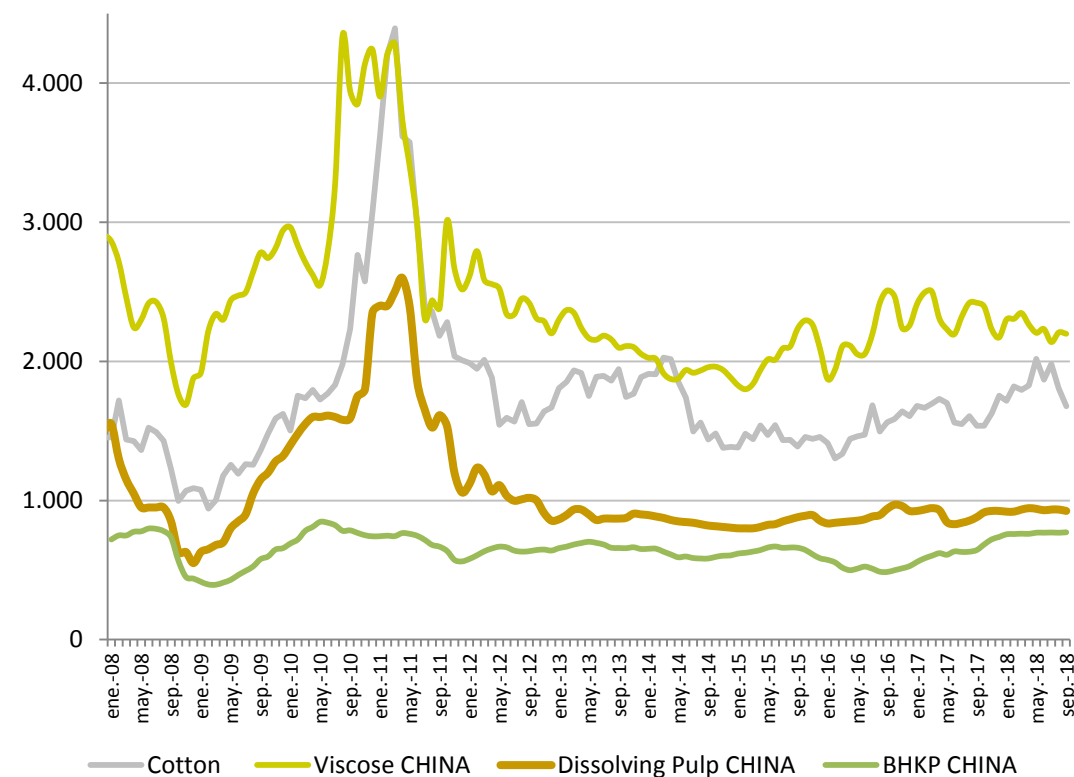
## Where Ence has cost advantages

Fluff, Softwood and Hardwood pulp prices  
In Europe (\$/t)



Source: RISI

Cotton, viscose, dissolving pulp and Hardwood pulp prices  
In China (\$/t)



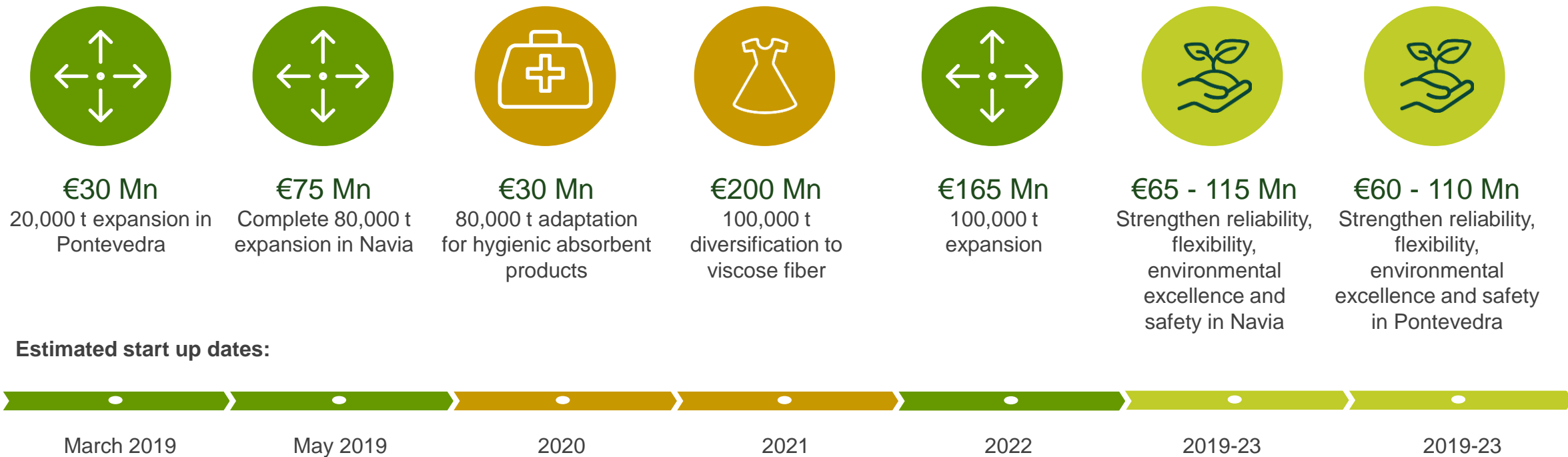
Source: Hawkins Wright



# Stepwise investment plan up to €625 - 725 Mn

To increase EBITDA by €150 Mn up to €400 Mn at constant pulp prices

## Stepwise implementation of a total of €625 Mn to €725 Mn investments



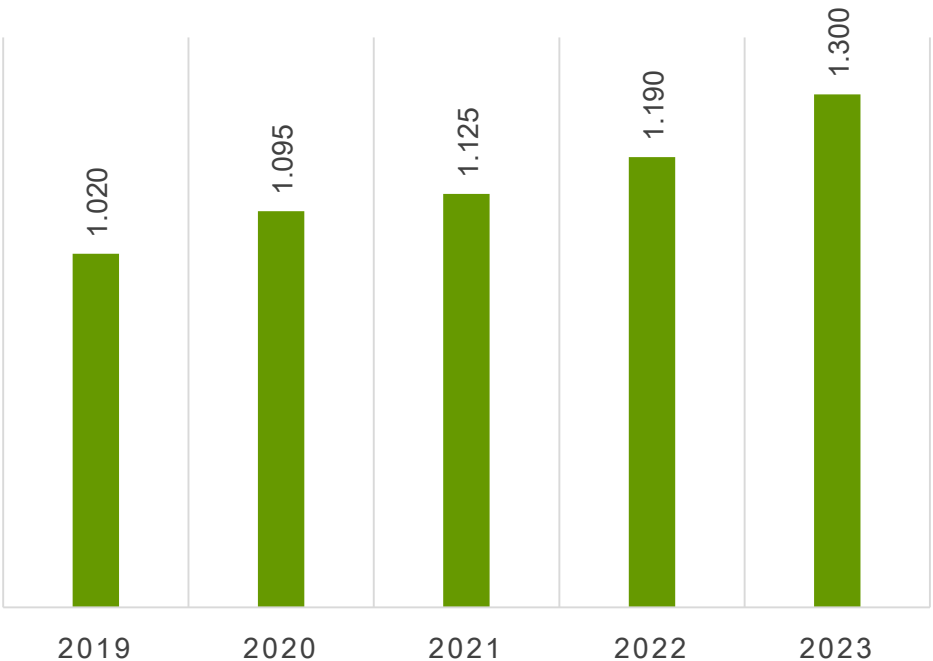
Each investment decision will be confirmed by the Board to ensure Net Debt / EBITDA < 2.5x after 50% Pay-Out Dividend



# 2023 operating targets

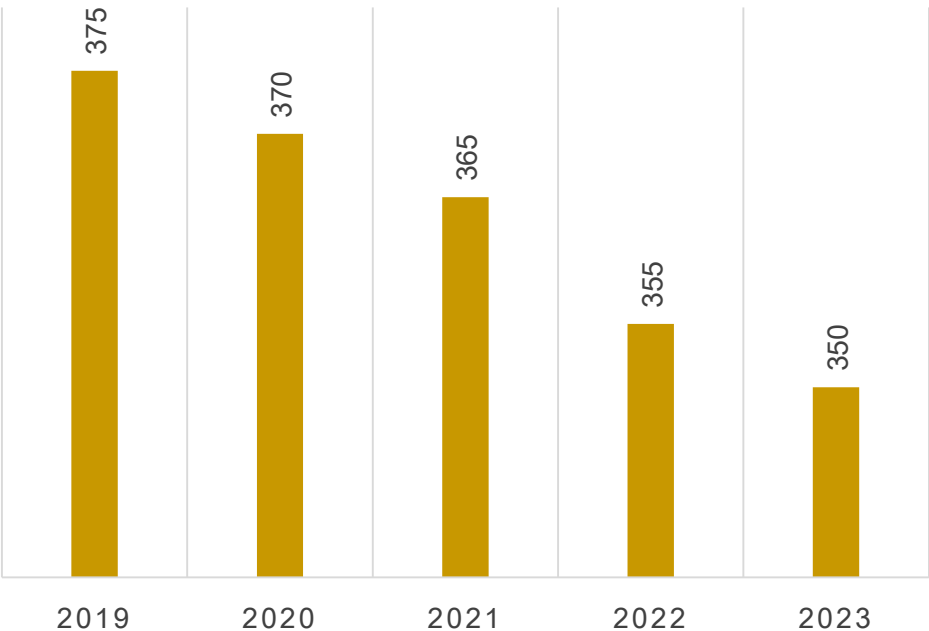
1.3 Mn T pulp sales with a cash cost of 350 €/t (BHKP)

Gradual growth of pulp sales  
'000 t



Fixed costs dilution due to sales volume growth will improve the cash cost

Gradual reduction of the cash cost (BHKP)  
€/t



New products will have higher sale prices and margins, although a higher cash cost



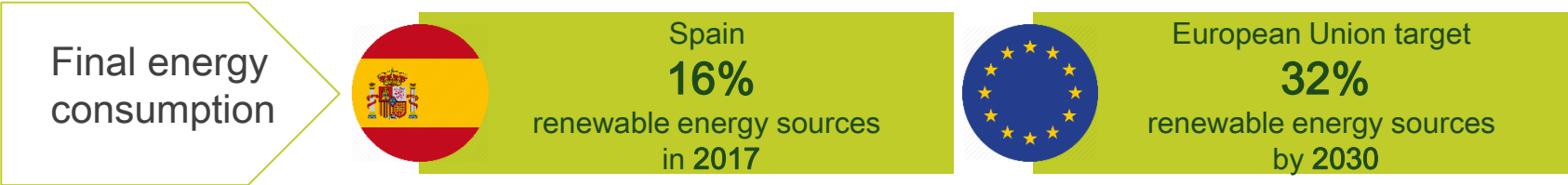


# 2. Renewable Energy Business

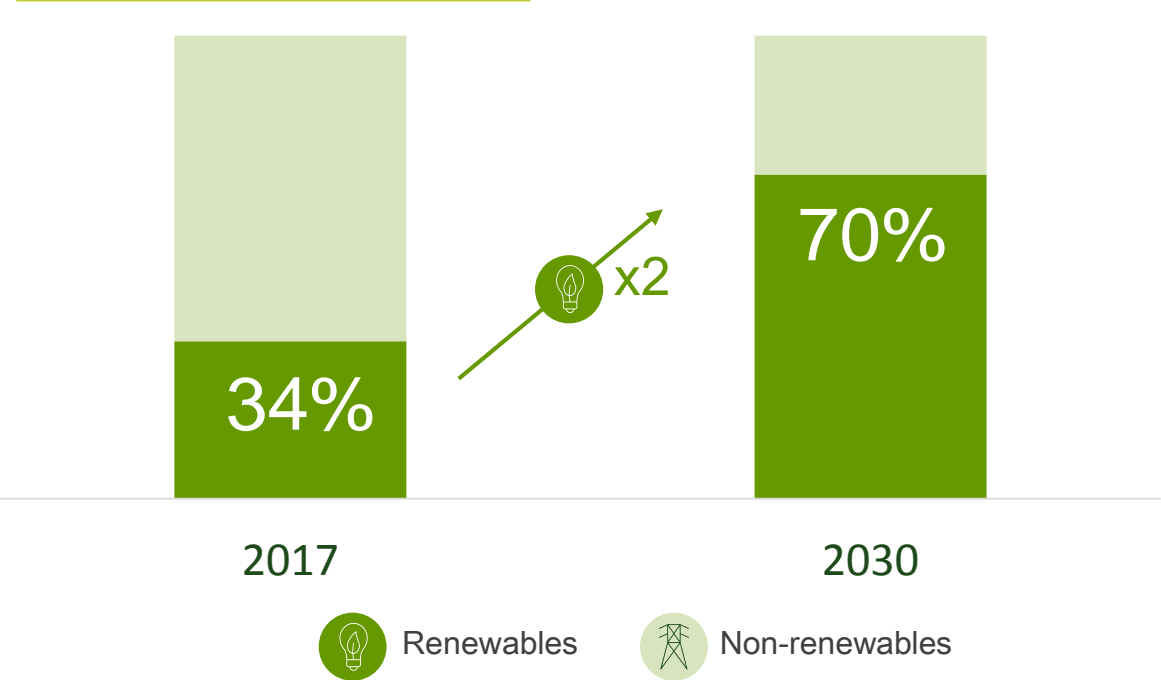


# Spain should double its primary renewable output up to 70% by 2030

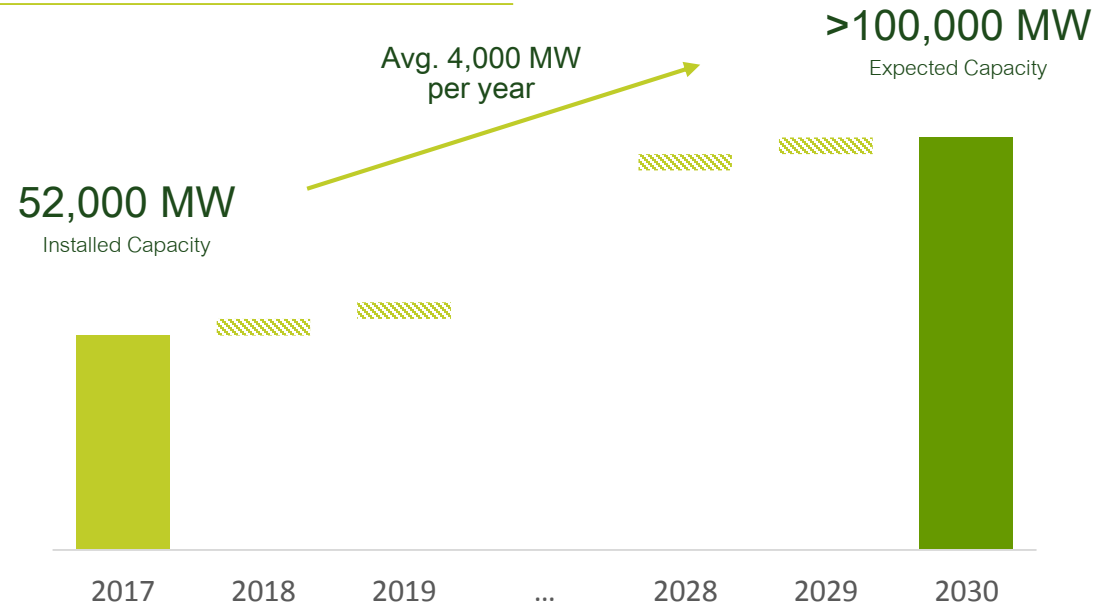
In order to comply with the 32% EU target for final energy consumption



By 2030, Spain should double its primary renewable energy output  
In % of total MW



Expected renewable energy capacity evolution  
MW





## Competitive advantages of Biomass Energy

A fully manageable renewable technology with capacity to grow in Spain



Fully  
manageable

Biomass energy is fully manageable, compared to other renewables, such as solar or wind



Abundant  
resource

Biomass is an abundant and local resource in Spain



Fire  
prevention

Solves the problem of biomass uncontrolled burning and prevents fire risk



Rural  
development

Is the renewable energy that contributes the most to rural development



CO<sub>2</sub>  
Neutral

Biomass is neutral in carbon emissions and avoids diffuse emissions of forest and agricultural byproducts





# Diversification

To capture growth opportunities and improve business resiliency



## DIVERSIFICATION

### BIOMASS SOURCES



Multiagricultural byproducts



Forestry biomass

### TECHNOLOGIES



Biomass



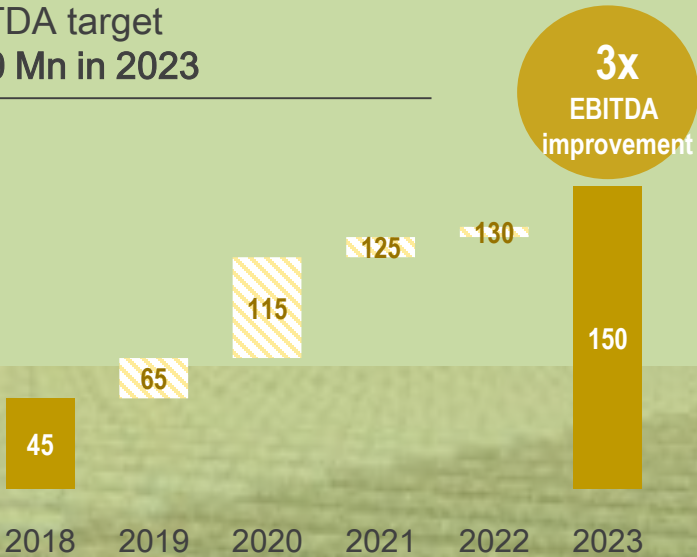
Thermosolar



PV

## GROWTH

EBITDA target  
€150 Mn in 2023

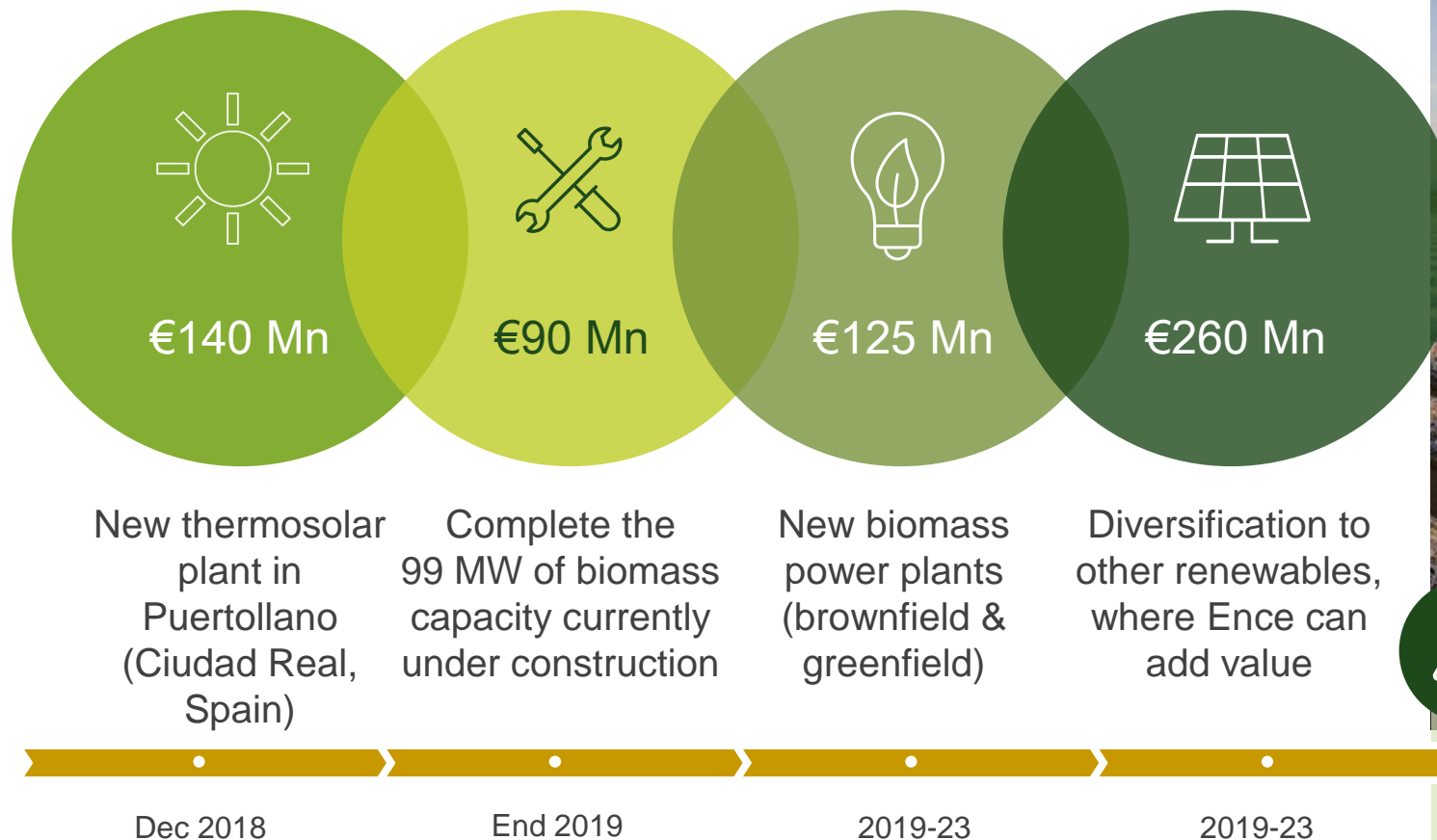


Growth in renewables increases the Group's minimum EBITDA at each stage of the pulp cycle, providing stability and predictability to cash flows



## Stepwise investment plan

To reach a minimum EBITDA of €150 Mn in 2023

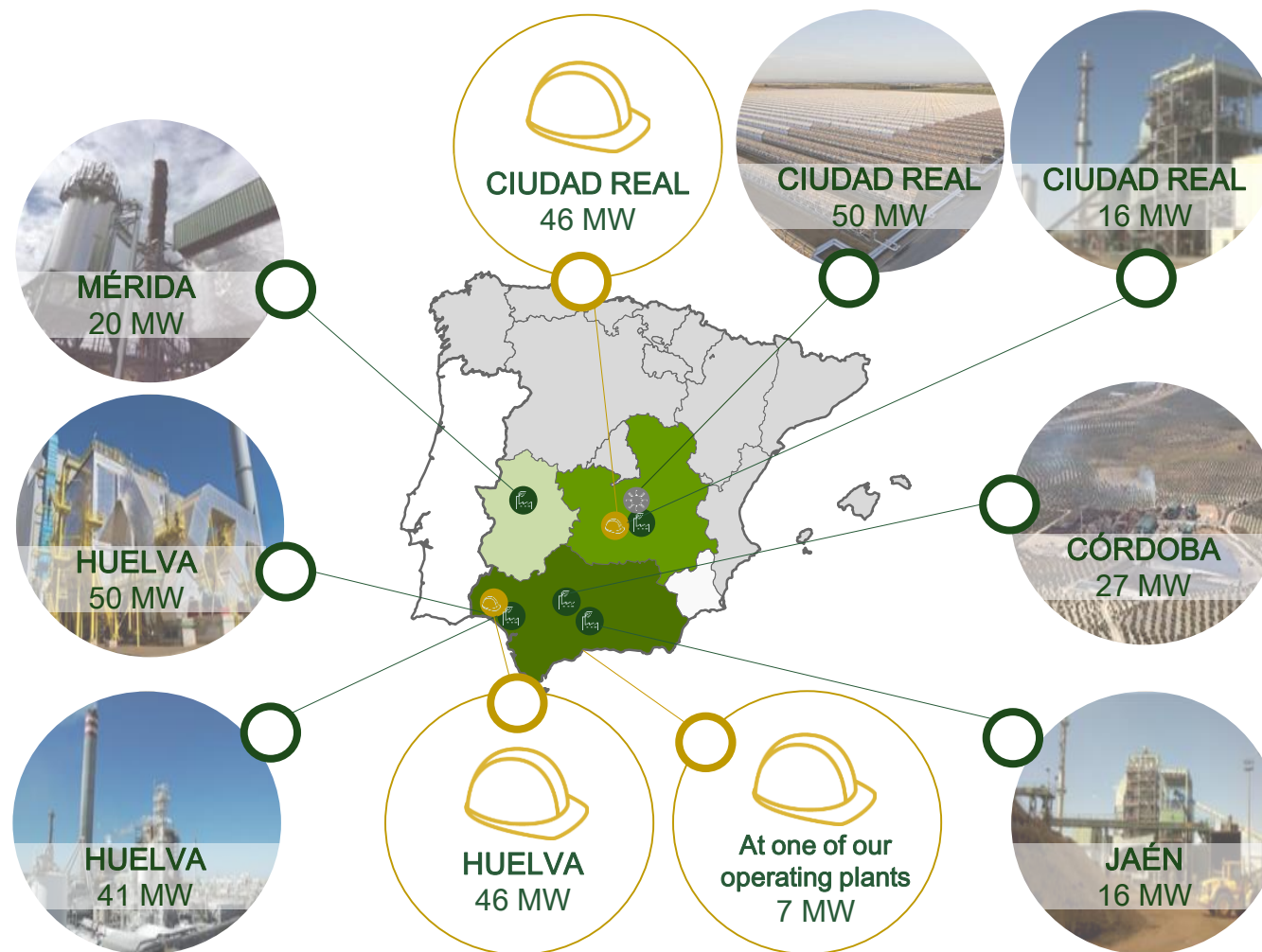


Each investment decision will be confirmed by the Board to ensure Net Debt / EBITDA < 4.5x



## Biomass power plants of 99MW developments on track

To add €30 Mn of stable annual EBITDA from 2019



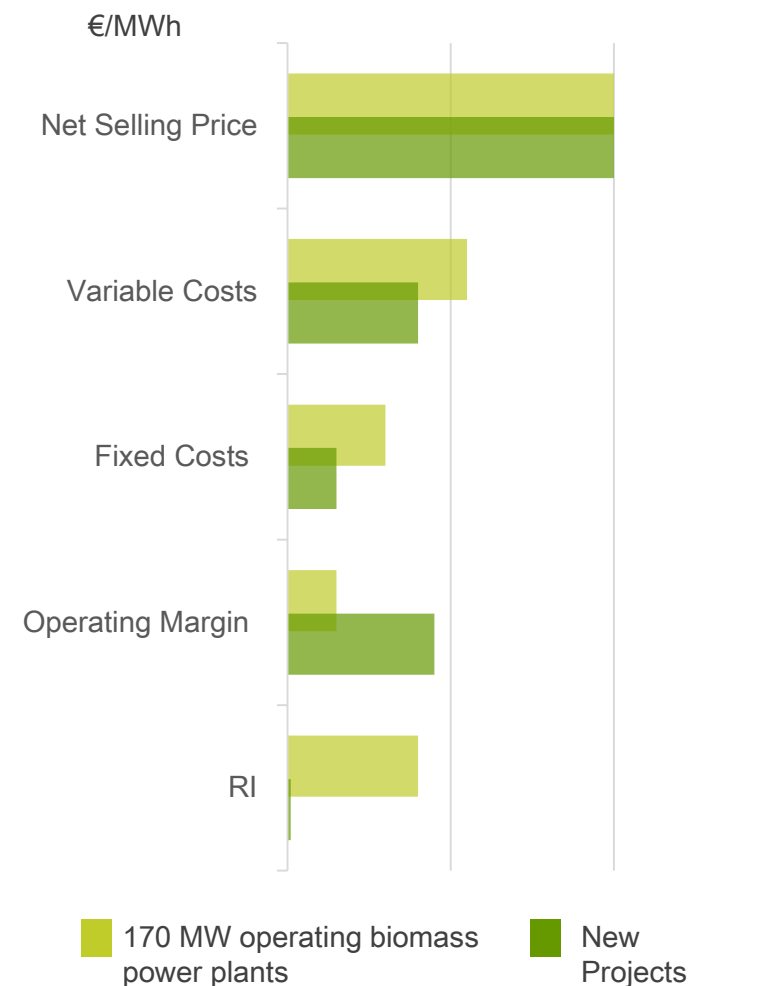




## New biomass power plants are more efficient

Due to fuel flexibility, higher efficiency factor and fixed costs dilution

	Biomass power plant location	Capacity MW	Start-up year	Construction Capex € Mn / MW	Boiler technology	Efficiency factor	Fuel flexibility
OPERATING BIOMASS POWER PLANTS	Huelva	41	2000		Fluidized bed	26%	Limited
	Ciudad Real	16	2002		Pulverized fuel boiler + stoker grate	24%	Inflexible
	Jaén	16	2002		Pulverized fuel boiler + stoker grate	24%	Inflexible
	Córdoba	14	2006		Reciprocating grate	26%	Inflexible
	Huelva	50	2012	2.6	Fluidized bed	30%	Limited
	Mérida	20	2014	3.3	Vibrating grate	32%	Flexible
NEW PROJECTS	Huelva	46	2019	2.2	Vibrating grate	35%	Full Flexibility
	Ciudad Real	46	2019		Vibrating grate	35%	Full Flexibility

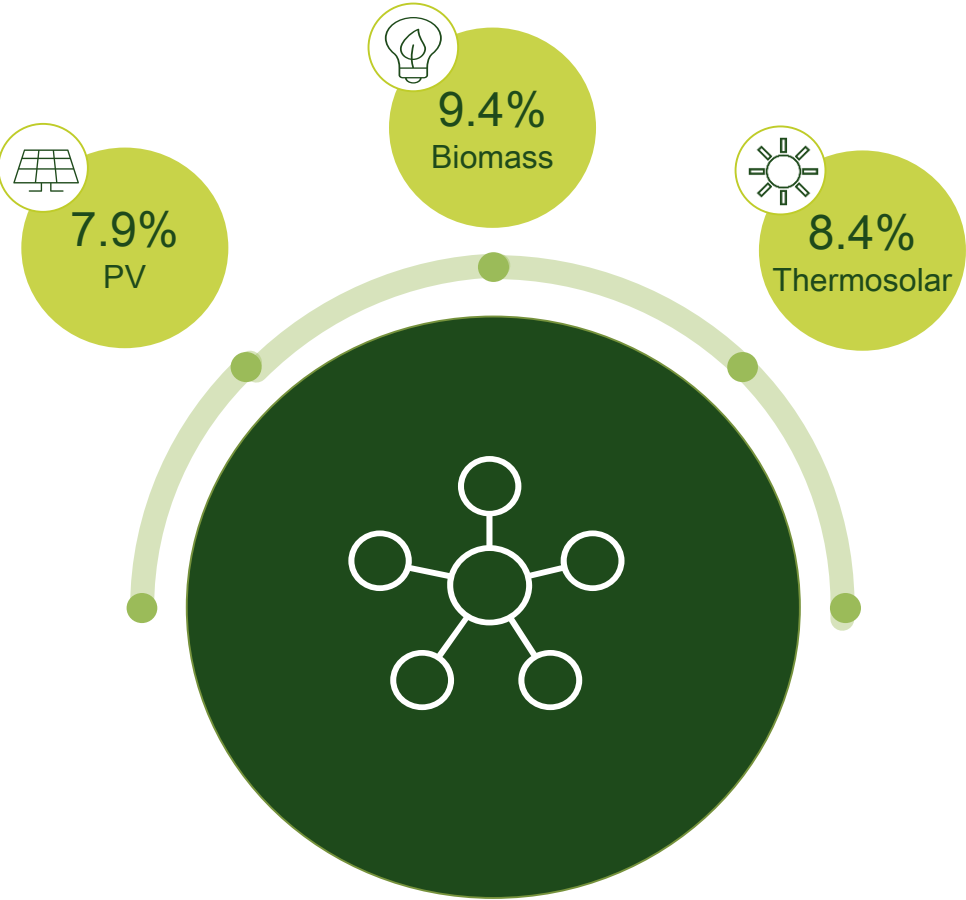




# Diversification to other renewable technologies

## Where Ence can add value

Minimum IRR required



50 Mw Puertollano Thermosolar plant

### THERMOSOLAR PLANT

Capex (€ Mn)	140
Capacity (Mw)	50
Annual Production (Mw/h)	70,000
Equivalent hours	1,400
Annual EBITDA (€ Mn)	18

### POTENTIAL HYBRIDIZATION

Capex (€ Mn)	30
Annual Production (Mw/h)	190,000
Equivalent hours	3,800



# 3 - Supply Chain

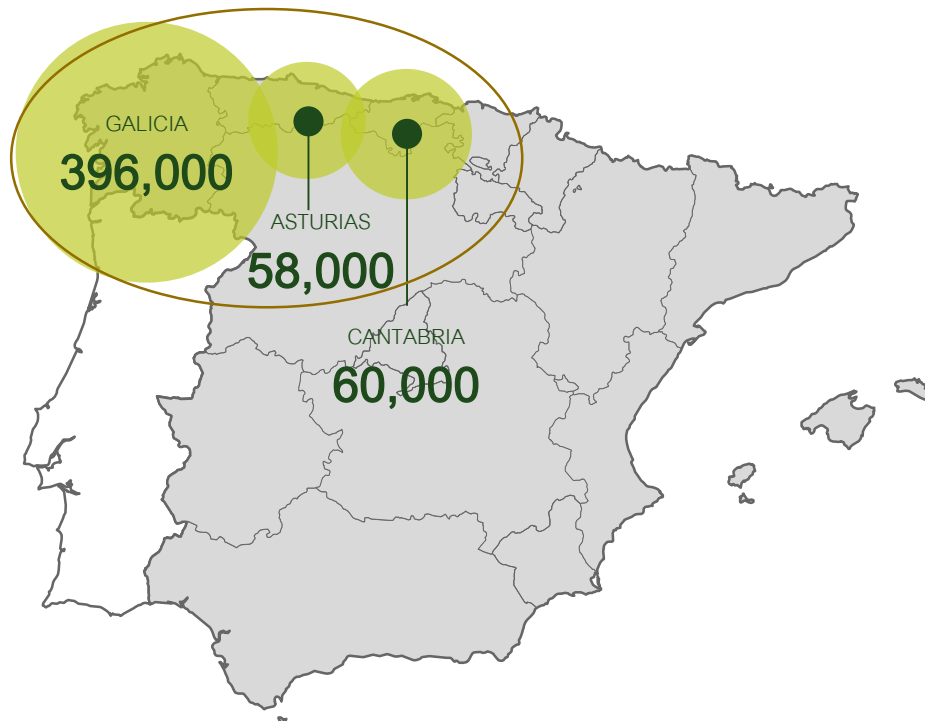


# Eucalyptus availability around Ence's pulp biofactories

## Both globulus & nitens wood annual growth increasing

Eucalyptus (globulus & nitens) plantations surface  
in N.W. Spain

Hectares

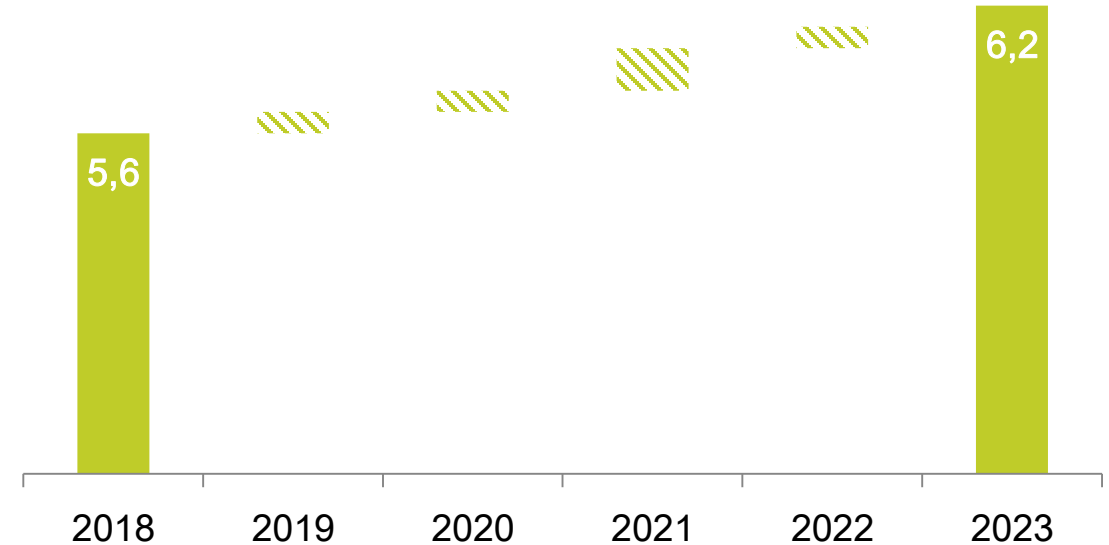


Eucalyptus plantations grew in the last 10 years

Source: Ence

Estimated eucalyptus (globulus & nitens) wood  
annual growth in N.W. Spain

Mn m<sup>3</sup>



Enough wood available for our pulp capacity expansions

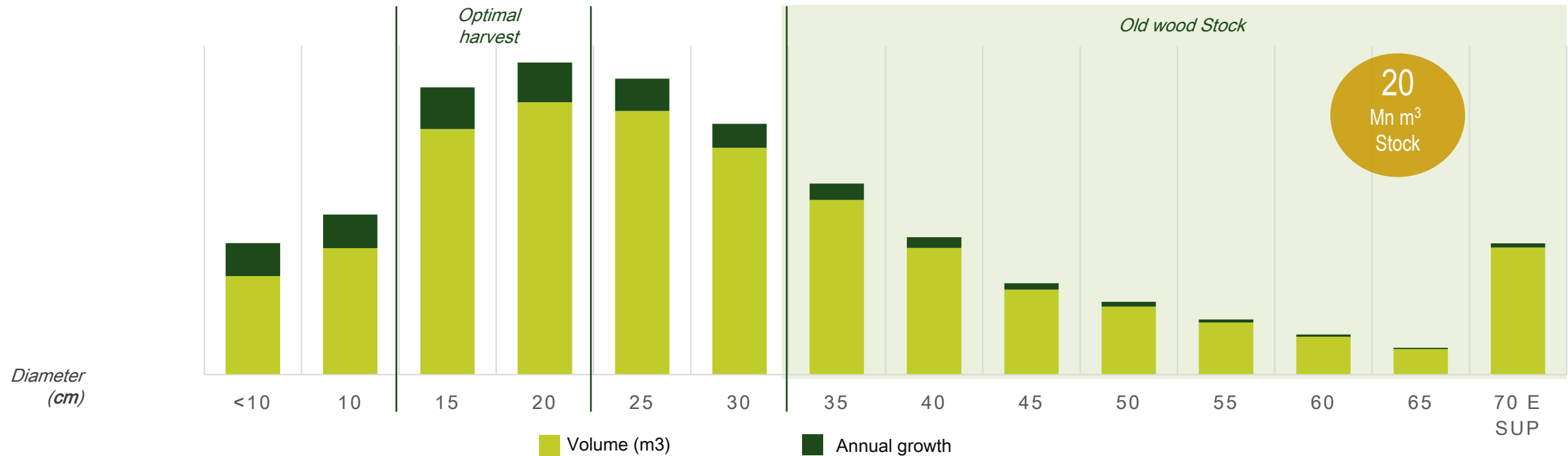
Source: Ence



# 20 Mn m<sup>3</sup> of standing old wood stock

## Dedicated team to harvest it

### Eucalyptus wood stocks in northwestern Spain m<sup>3</sup>

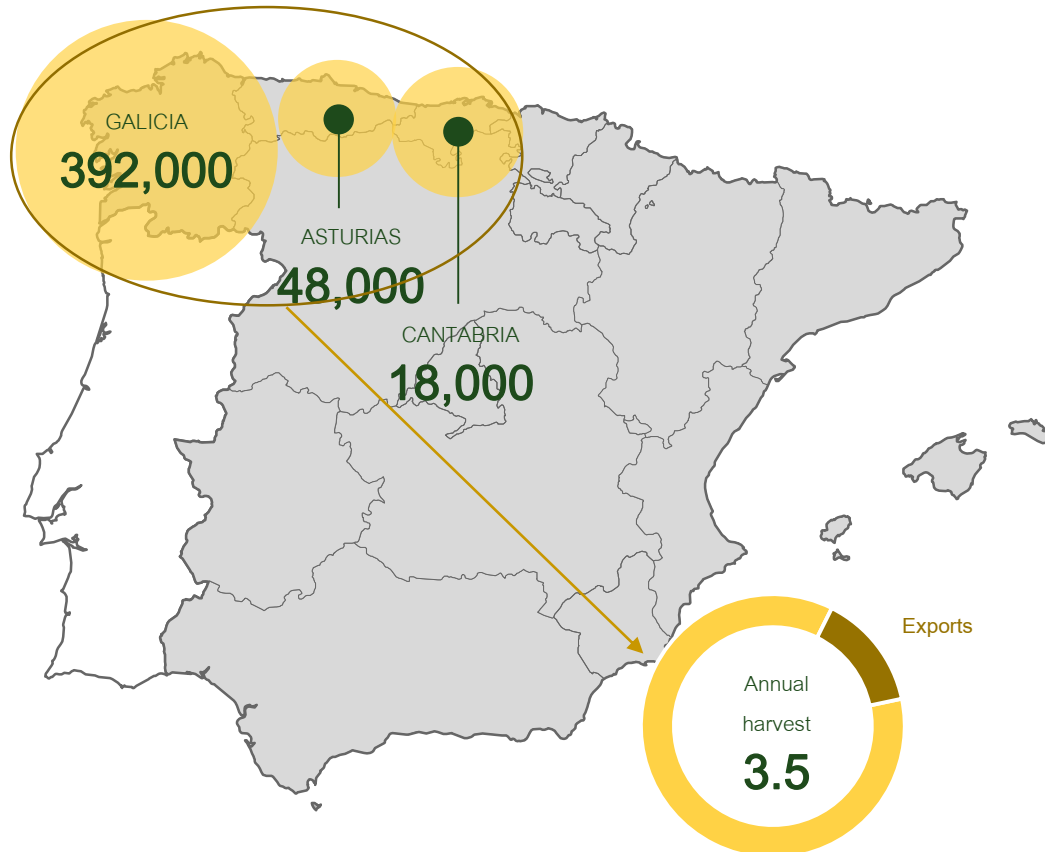


Cutting old wood stock will increase wood availability for our Strategic Plan while improving plantation yields up to **20%** by optimizing its harvesting cycle

# Potential diversification of wood sources

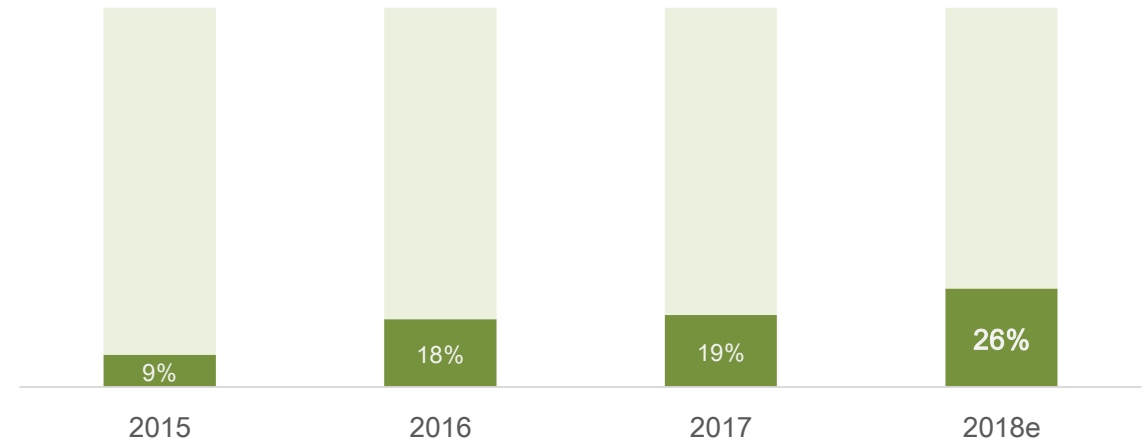
## Strong track-record in the use of nitens

Pine plantations surface in N.W. Spain  
Hectares



Source: MFE 25, Forest Map Spain

Eucalyptus nitens purchases evolution  
%



Replicating nitens track-record in our pulp production to diversify into other woods species, such as pine

# Unique supply chain

75% direct purchases to small suppliers & landowners

Wood purchases  
2017



NAVIA  
93%

PONTEVEDRA  
79%



Plantations location  
& tracking  
technology

Online portal and  
call center

APPS for  
Landowners,  
suppliers & carriers

Customized  
logistics and  
commercial CRM

GPS tech for  
transport routing &  
wood origin control

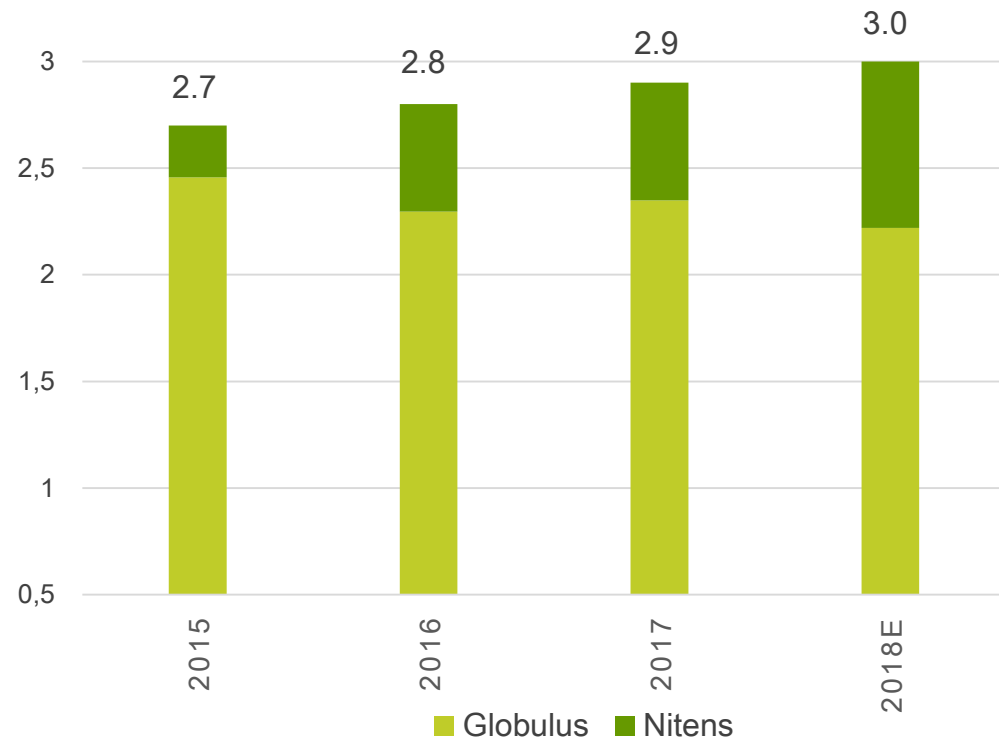
Loyalty  
programs

## Successful track record

Increasing annual wood purchases at a shorter supply distance

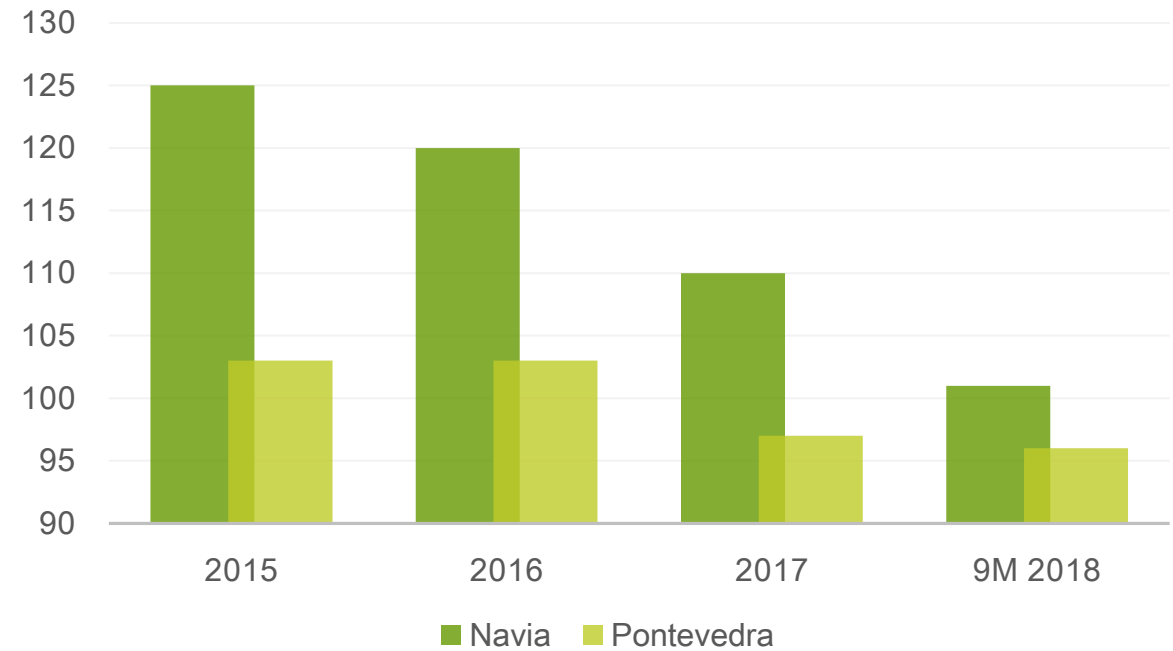
Annual eucalyptus purchases

Mn m3



Average supply distance

Km





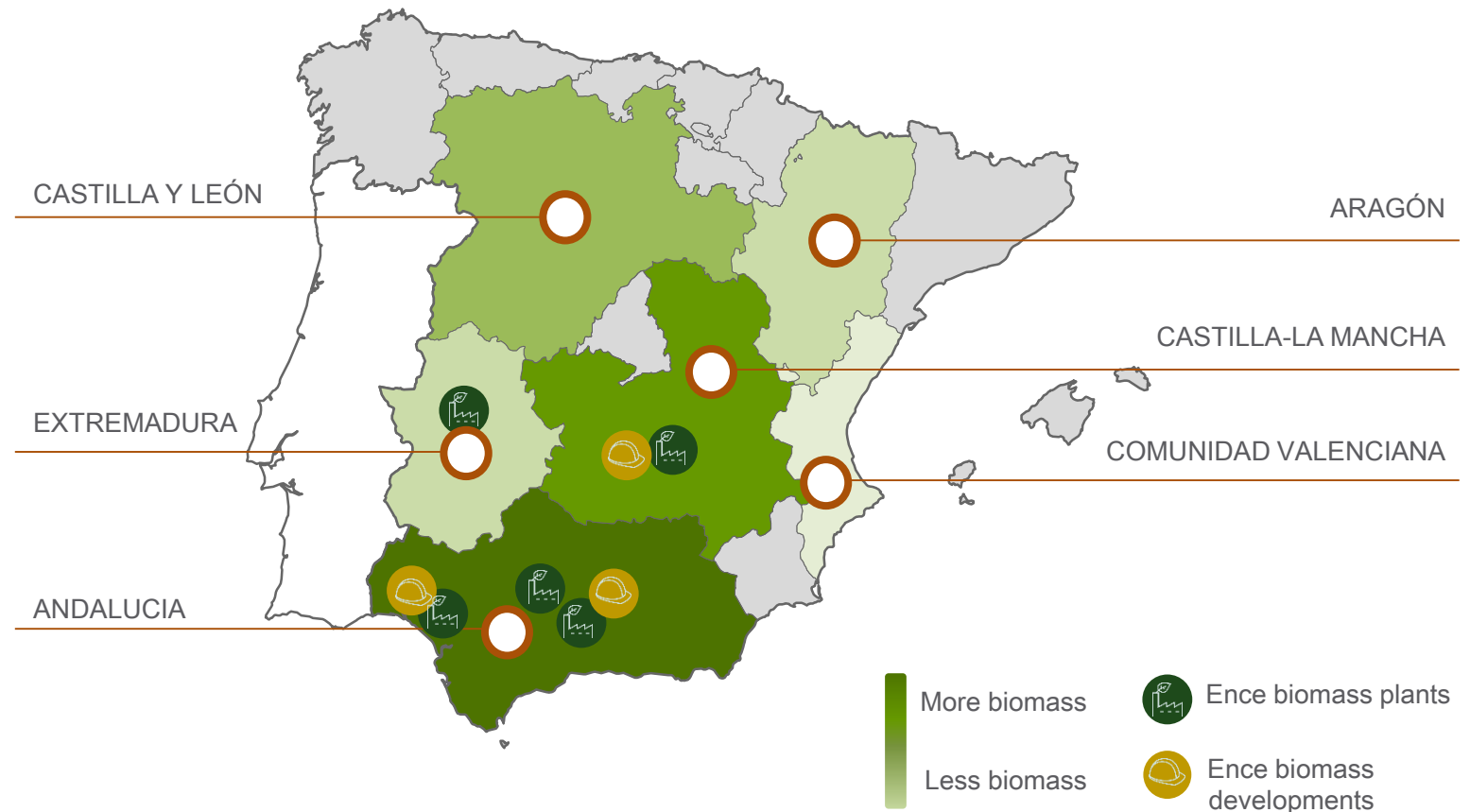
# Biomass is an abundant and renewable resource in Spain

## 25 Mn t of annual biomass surplus

### Ence's Biomass Power Plants consumption

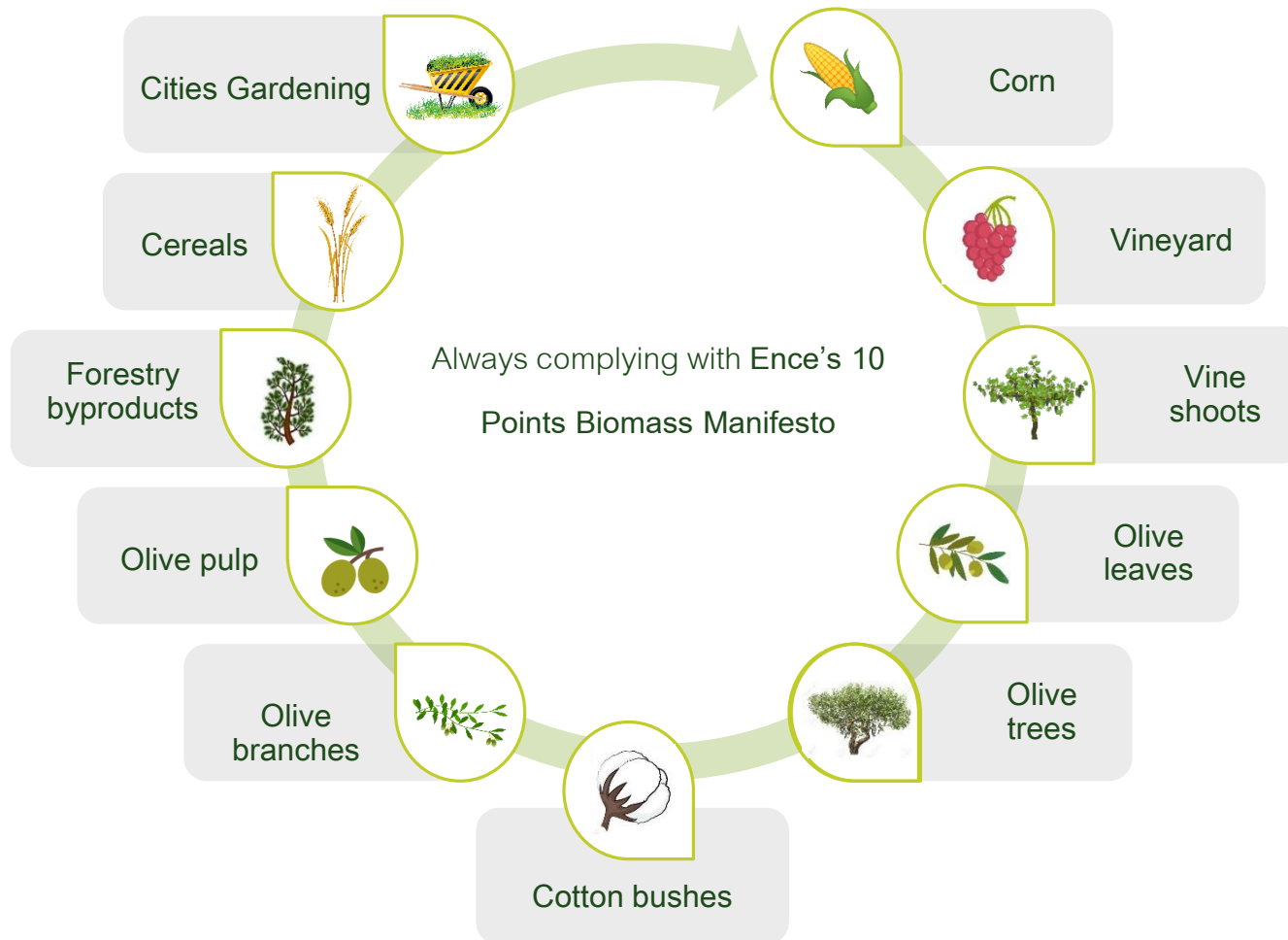
	Biomass Consumption 2018 ('000 t)	Biomass Consumption 2020 ('000 t)
Huelva 50 Mw	440	415
Huelva 41 Mw	240	260
Mérida 20 Mw	170	145
Ciudad Real 16 Mw	95	95
Jaen 16 Mw	90	90
Córdoba 27 Mw	100	100
Huelva 46 Mw		280
Puertollano 46 Mw		270
<b>Total</b>	<b>1,135</b>	<b>1,655</b>

### Regions with highest agro-forestry biomass potential

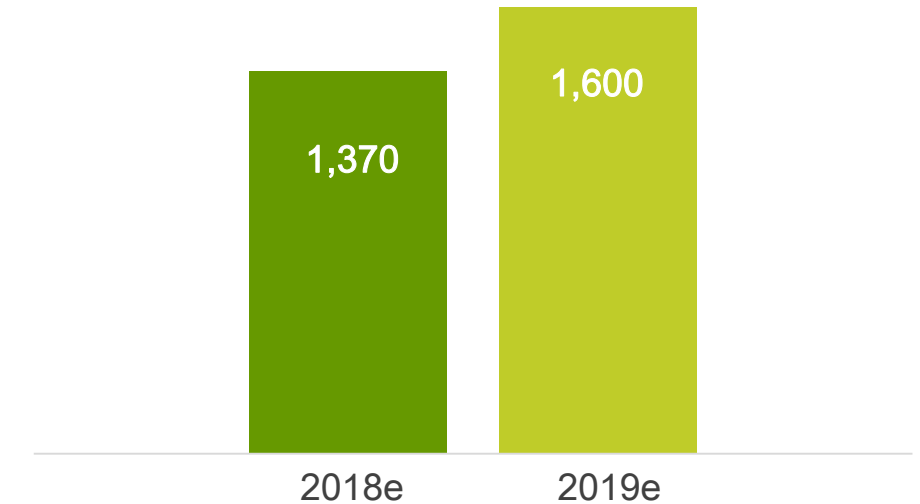


# Biomass diversification strategy

Ence's new biomass plants designed to use a wider biomass spectrum



Olive pulp production  
'000 t



Olive pulp is cheap and abundant,  
which makes it an excellent biomass  
source for our plants



# 4. Excellence in sustainability

# Excellence in sustainability

## A strategic priority for Ence



**Capex of €125 Mn to €225 Mn**

To strengthen reliability, flexibility, environmental excellence, sustainability and safety in Navia & Pontevedra

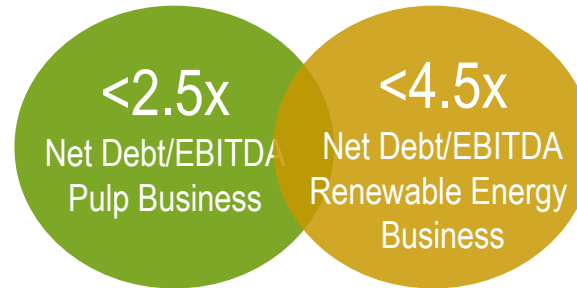


# 5 - Financials

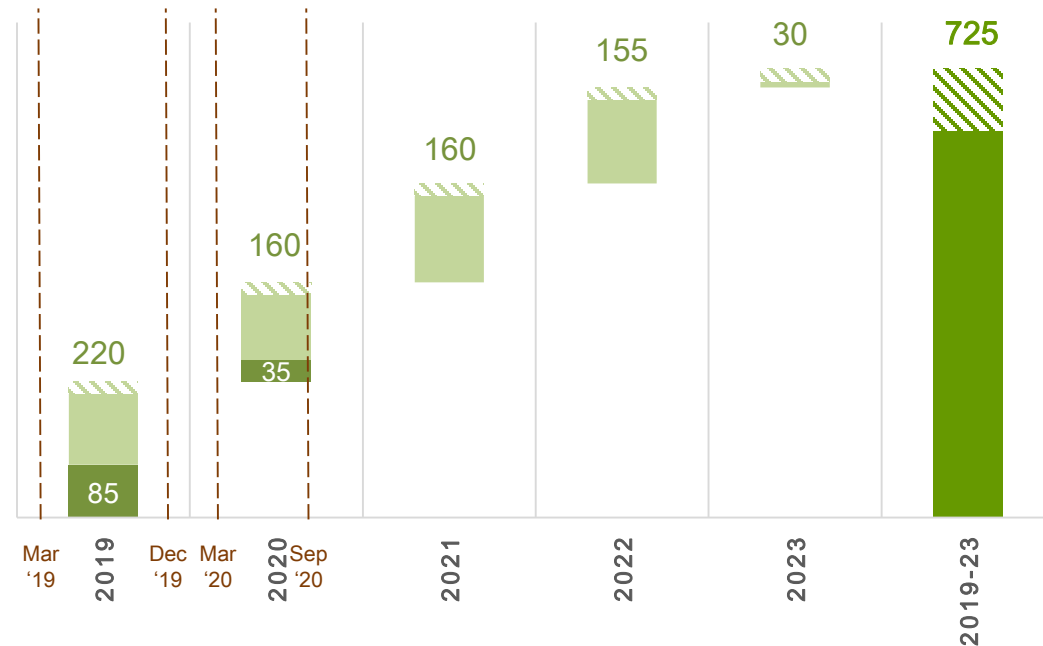


# Stepwise investment plan

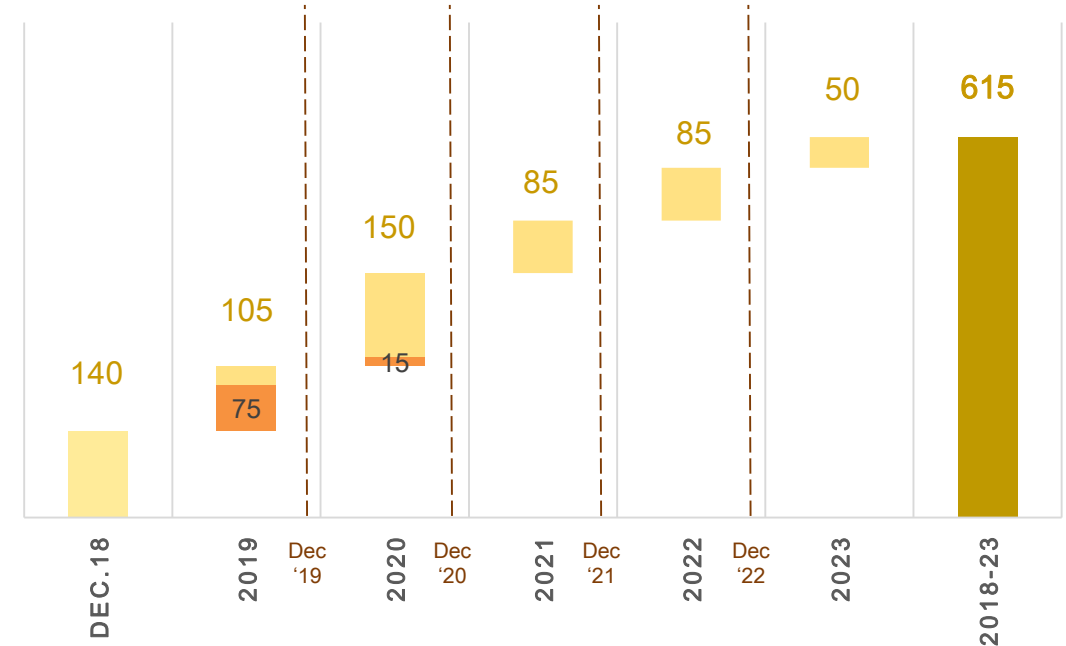
The Board will confirm each investment subject to leverage ratios



€625- €725 Mn Pulp Business Investment  
€ Mn



€615 Mn Renewable Business Investment  
€ Mn



■ FORMER INVESTMENT PLAN ■ NEW INVESTMENT PLAN - - - REVIEW POINT




■ FORMER INVESTMENT PLAN ■ NEW INVESTMENT PLAN - - - REVIEW POINT

# Minimum equity return required for our shareholders

## Of any investment approved by the Board

### Pulp Business






		Cost reduction	Growth
	Iberia	13.7%	15.2%
	Europe	15.7%	16.7%
	Latam	16.6%	18.6%

### Renewable Energy

#### Business



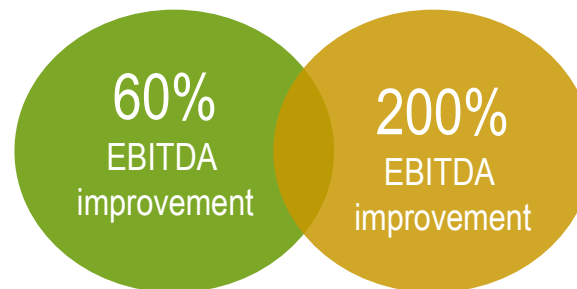
	Biomass	9.4%
	Thermosolar	8.4%
	PV	7.9%

Assuming a leverage ratio of 50% for the Pulp business and 60% for the Renewable Energy business

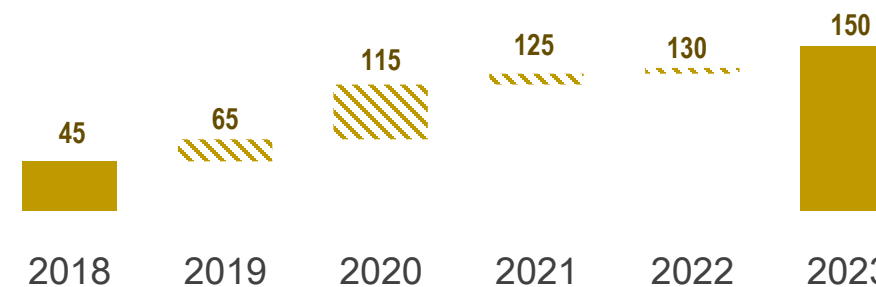
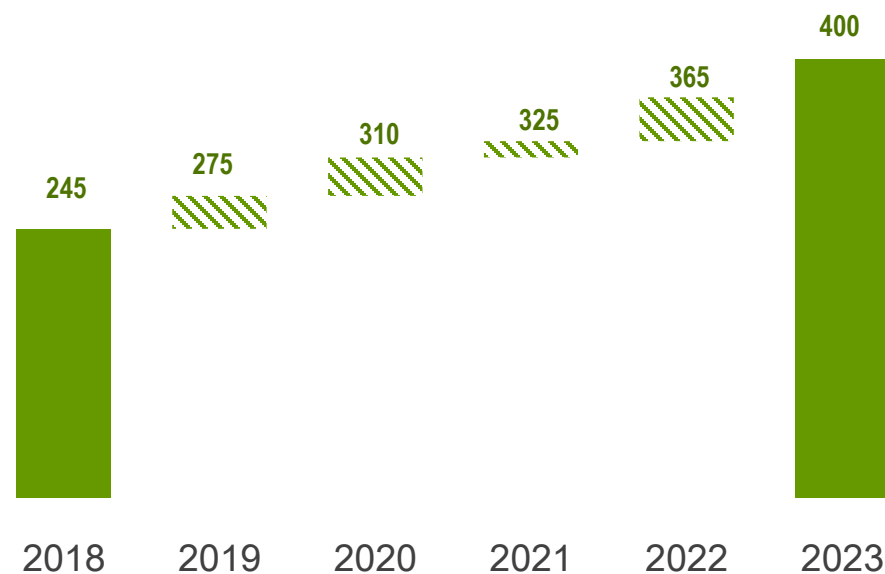
# Almost double the Group's EBITDA<sup>1</sup>

With a minimum base of €150 Mn from the Renewable Energy Business

Pulp Business EBITDA target  
€400 Mn<sup>1</sup> in 2023



Renewable Energy Business EBITDA target  
€150 Mn in 2023



1. At constant BHKP prices of 1,050 \$/t and 1.20 \$/€ exchange rate



# Plan for Southern Spain plantations

## Monetization of 53,300 Ha.

	Size	Use	Contribution
High-yield plantations	40,000 Ha.	Third party wood sale & maintaining land ownership	€10 Mn Annual EBITDA
Upgrade to irrigated land	1,500 Ha.	Divestment	€5 Mn in 2021 €15 Mn in 2022
Rest of properties	11,800 Ha.	Opportunistic Divestment	€10 Mn in 2022 €10 Mn in 2023

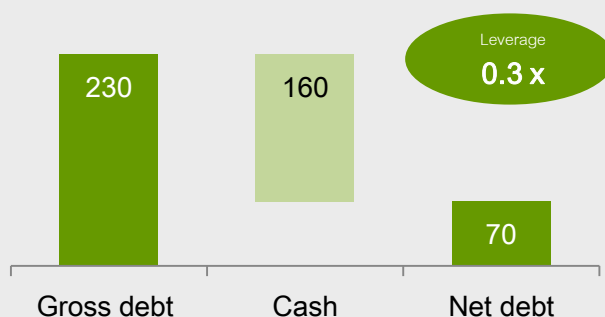
# Solid balance sheet & high liquidity as starting point

## To support the new investment cycle

### Pulp Business



#### Estimated leverage for Dec 2018 € Mn



#### Debt Maturity Calendar € Mn

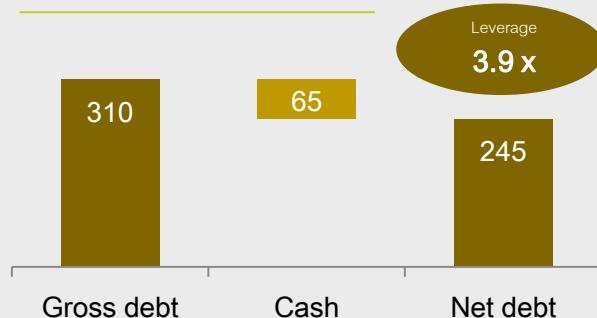
- €160 Mn Convertible bond
- €84 Mn bilateral loans
- €70 Mn Sustainable RCF fully available



### Renewable Energy Business

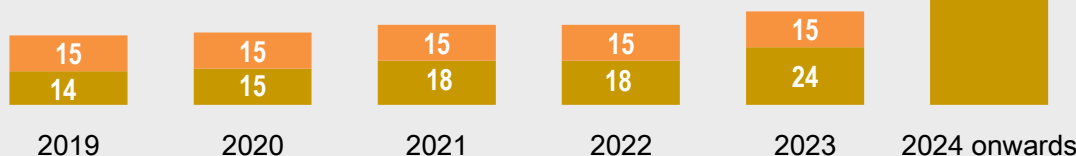


#### Estimated leverage for Dec 2018 € Mn



#### Debt Maturity Calendar € Mn

- €158 Mn Green Loan & Note (S&P) – Drawn amount
- €20 Mn RCF – Fully available
- €150 Mn Estimated new financing facility to be closed before Year-End



# Strategic Plan 2019 - 2023

## Assumptions & forecasts

### PULP

	2018	2019	2020	2021	2022	2023
BHKP price (\$/t)	1,040	1,050	1,050	1,050	1,050	1,050
Exchange rate (\$/€)	1.19	1.20	1.20	1.20	1.20	1.20
Commercial discount (%)	27%	27%	27%	27%	27%	27%
Pulp sales ('000 t)	950	1,020	1,095	1,125	1,190	1,300
Cash cost (€/t)	380	375	370	365	355	350
<b>EBITDA (€ Mn)</b>	<b>245</b>	<b>275</b>	<b>310</b>	<b>325</b>	<b>365</b>	<b>400</b>
<b>Net Profit (€ Mn)</b>	<b>120</b>	<b>130</b>	<b>160</b>	<b>170</b>	<b>190</b>	<b>210</b>

### RENEWABLE ENERGY

	2018	2019	2020	2021	2022	2023
Energy sales (MWh)	1,000,000	1,135,000	1,830,000	2,045,000	2,060,000	2,330,000
Pool price (€/MWh)	48	48	48	48	48	48
<b>EBITDA (€ Mn)</b>	<b>45</b>	<b>65</b>	<b>115</b>	<b>125</b>	<b>130</b>	<b>150</b>
<b>Net Profit (€ Mn)</b>	<b>10</b>	<b>20</b>	<b>40</b>	<b>50</b>	<b>50</b>	<b>60</b>

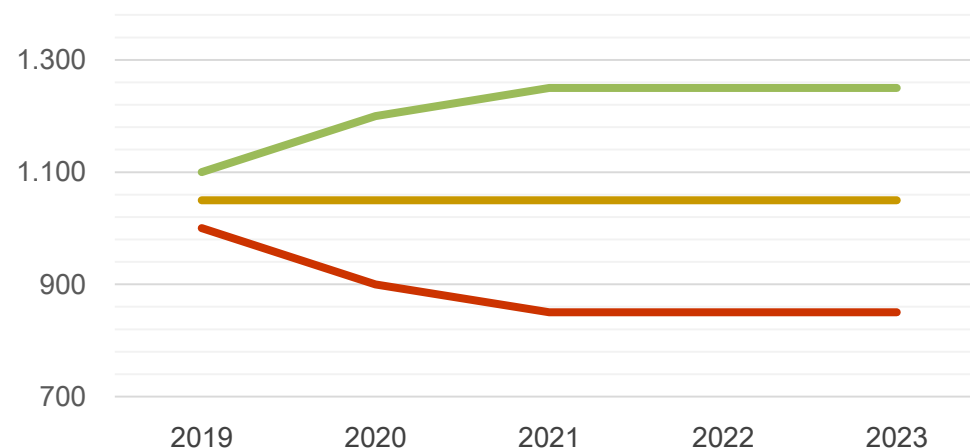
### ENCE GROUP

	2018	2019	2020	2021	2022	2023
<b>EBITDA (€ Mn)</b>	<b>290</b>	<b>340</b>	<b>425</b>	<b>450</b>	<b>495</b>	<b>550</b>
<b>Net Profit (€ Mn)</b>	<b>130</b>	<b>150</b>	<b>200</b>	<b>220</b>	<b>240</b>	<b>270</b>

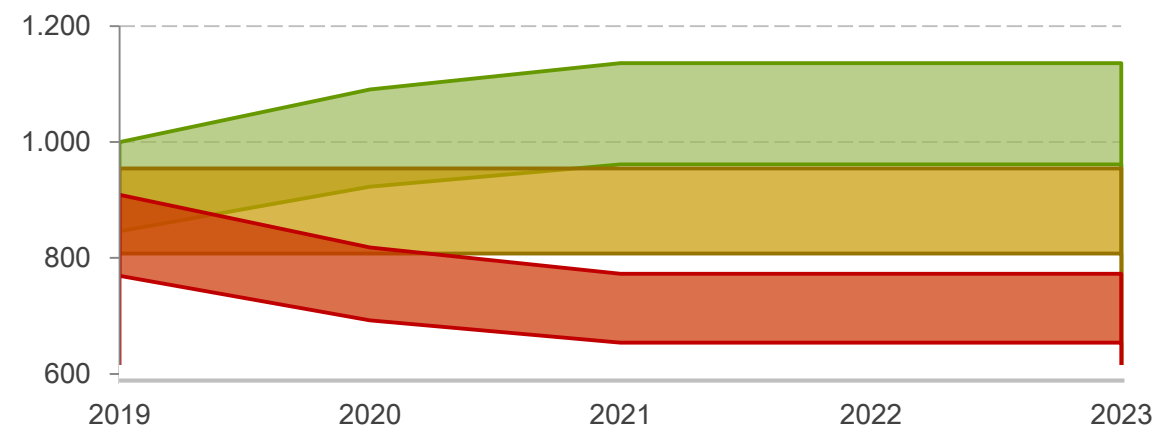
# Solid Strategic Plan at different pulp prices

## 2019-2023 sensitivity scenarios

Pulp Price Sensitivity  
\$/t



Pulp Price & Forex Sensitivity  
€/t



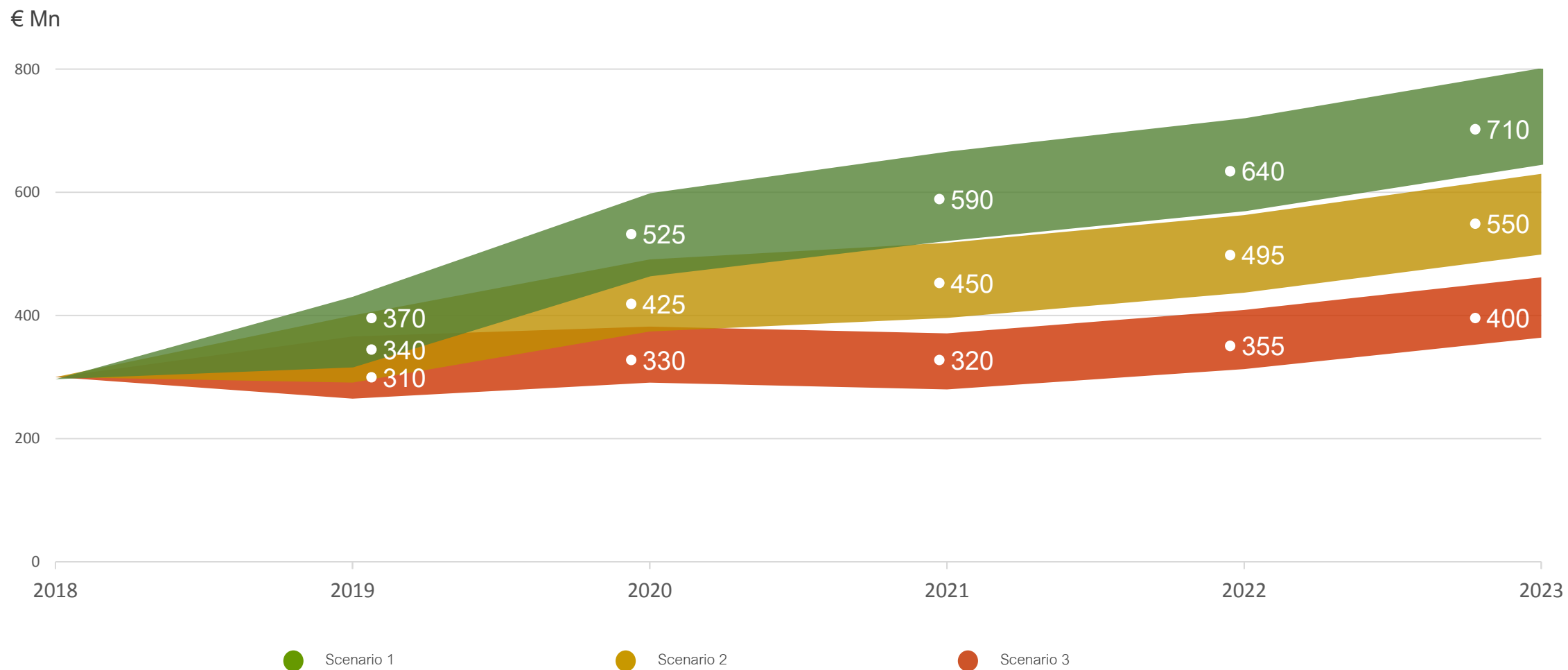
	2019	2020	2021	2022	2023
Scenario 1	1,100	1,200	1,250	1,250	1,250
Scenario 2	1,050	1,050	1,050	1,050	1,050
Scenario 3	1,000	900	850	850	850

- Scenario 1 @1.1-1.3 \$/€ range
- Scenario 2 @1.1-1.3 \$/€ range
- Scenario 3 @1.1-1.3 \$/€ range

These are the scenarios used to analyse the sensitivity of the main financial figures

# Solid Strategic Plan at different pulp prices

## EBITDA sensitivity 2019-2023

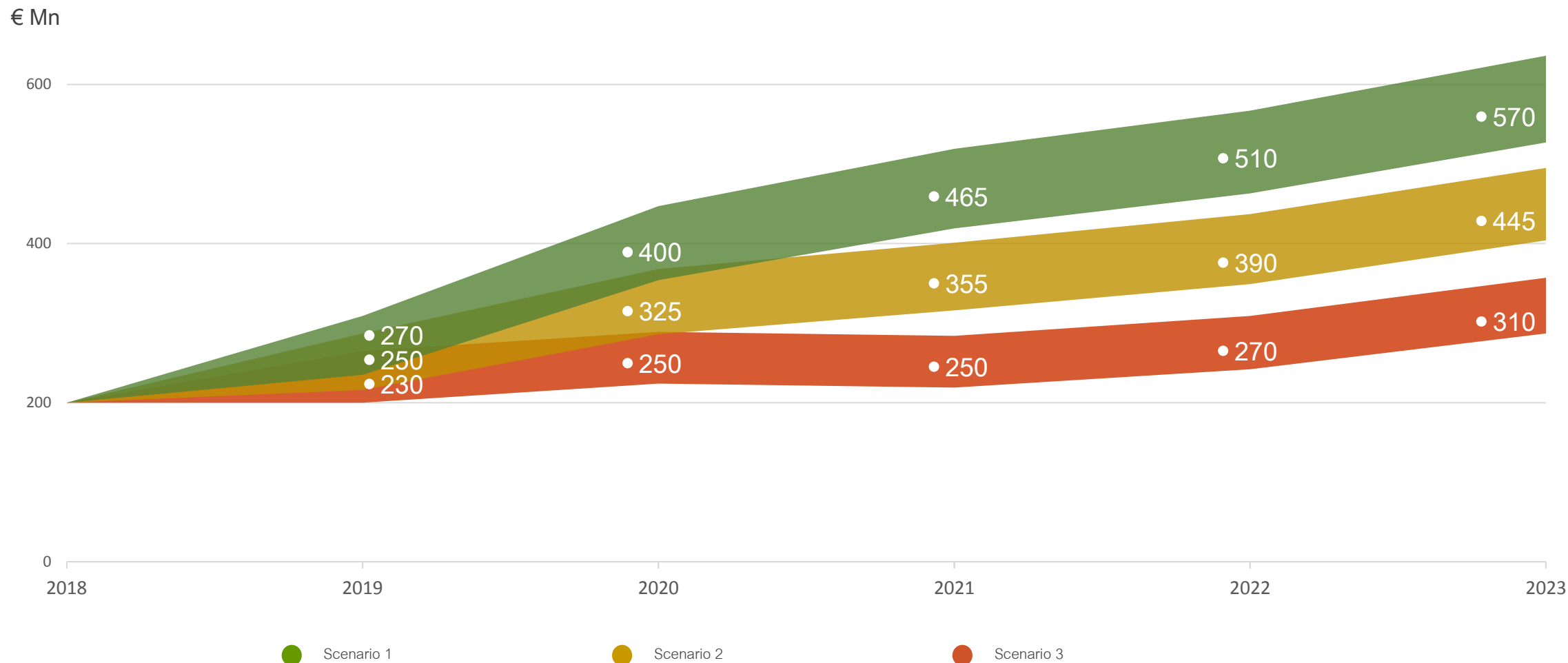


Based on the scenarios described in page 40



# Solid Strategic Plan at different pulp prices

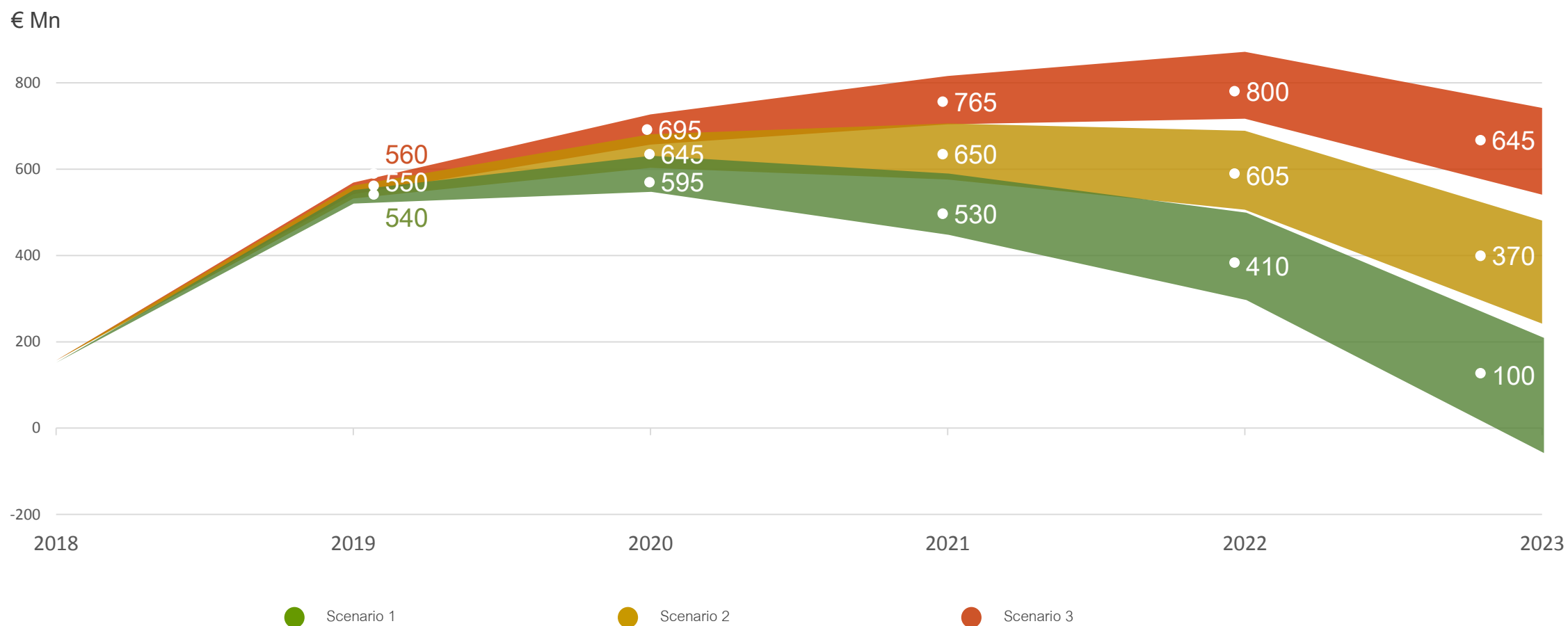
## Normalized FCF sensitivity 2019-2023



Based on the scenarios described in page 40

# Solid Strategic Plan at different pulp prices

## Net Debt sensitivity 2019-2023



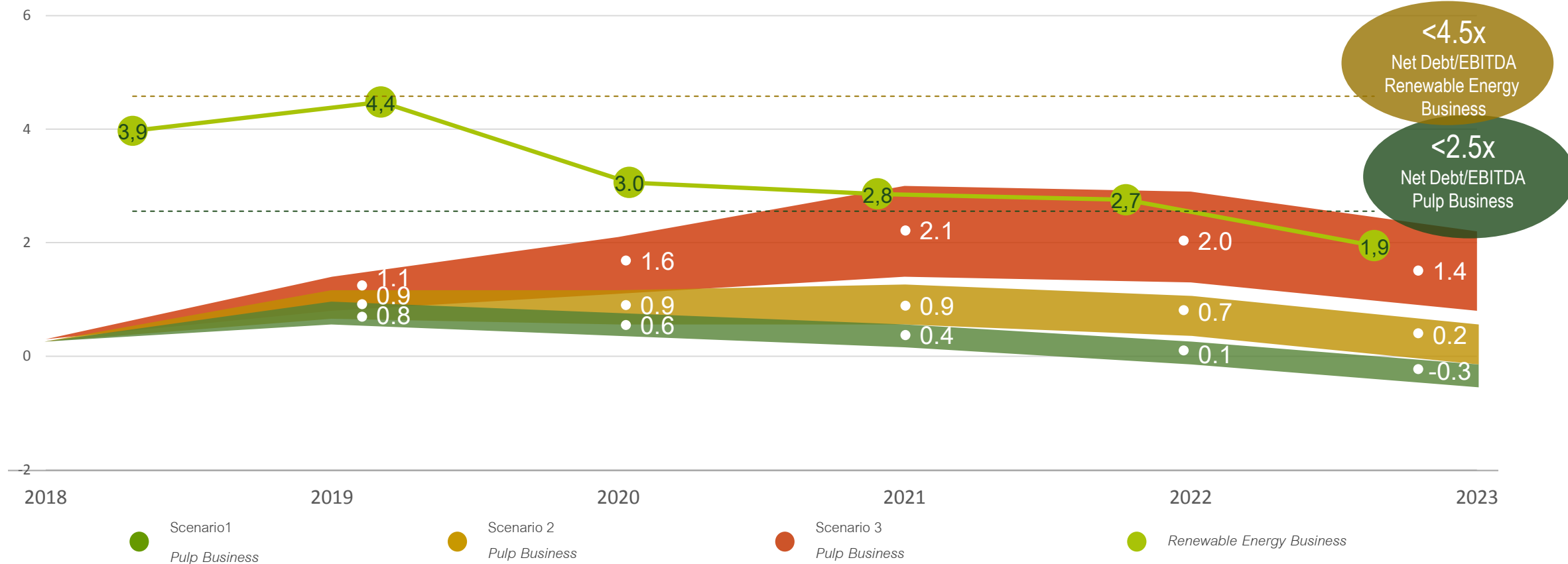
Includes IFRS16 impact of €40 Mn starting 2019

Based on the scenarios described in page 40

# Solid Strategic Plan at different pulp prices

## Financial leverage sensitivity 2019-2023

Net Debt/EBITDA



<4.5x

Net Debt/EBITDA  
Renewable Energy  
Business

<2.5x

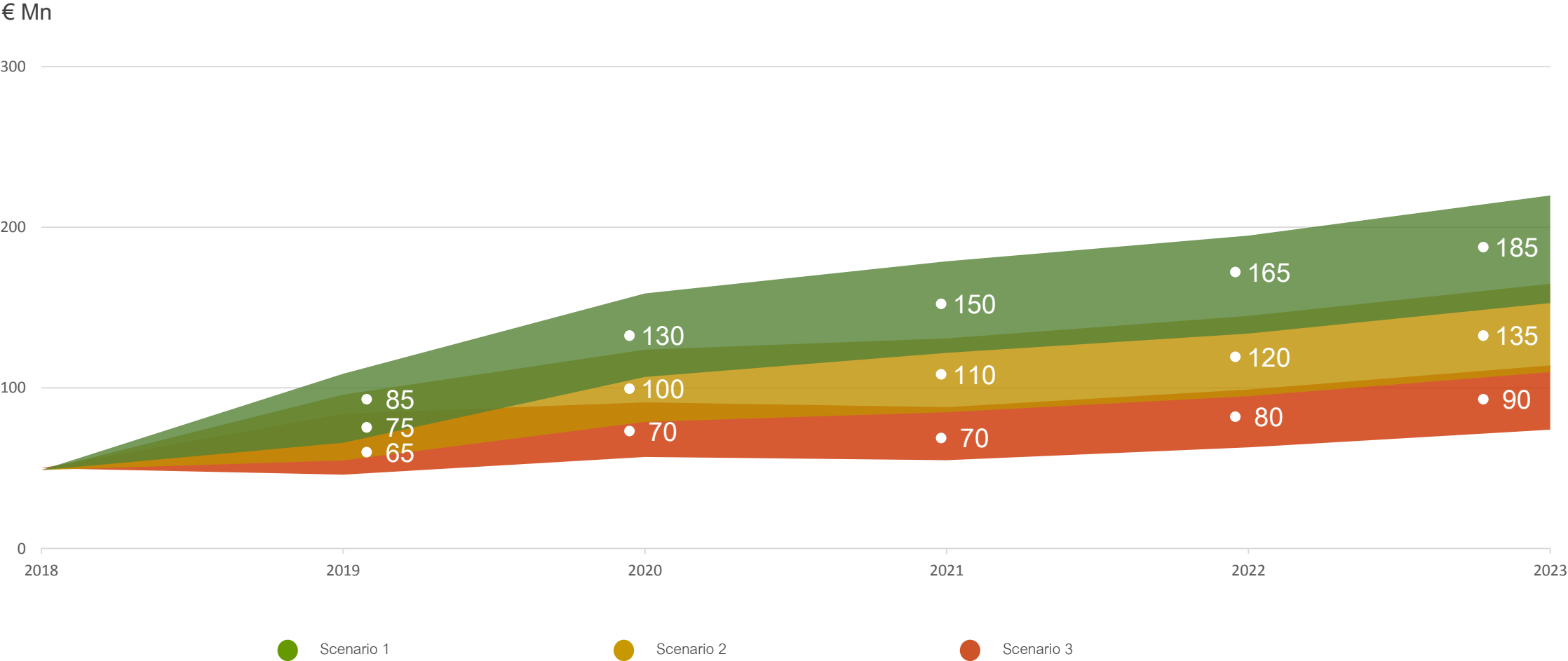
Net Debt/EBITDA  
Pulp Business

Investment of at least €15 Mn from the Pulp Business to the Renewable Energy Business to reinforce equity in 2019  
Additional investments could be made if the best pulp scenario is confirmed and additional renewable growth opportunities arise

Based on the scenarios described in page 40

# Solid Strategic Plan at different pulp prices

## Dividends sensitivity 2019-2023



Based on the scenarios described in page 40

# Alternative Performance Measures (APMs)

Pg.1

Ence presents its results in accordance with generally accepted accounting principles, specifically IFRS. In addition, its quarterly earnings 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 presentation are defined, reconciled and explained in the corresponding quarterly earnings report publicly available through the investor section of our web page [www.ence.es](http://www.ence.es).

## 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 cost includes 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 or certain social expenses.

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 of operating profit before depreciation, amortization and forestry depletion charges, non-current asset impairment charges, gains or losses on non-current assets and specific non-ordinary income and expenses unrelated to the ordinary operating activities of the company, which alter their comparability in different periods.

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

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

## NORMALISED FREE CASH FLOW

Ence reports normalised free cash flow within the cash flow metrics for each of its two business units in its quarterly earnings report. Normalised FCF is the sum of EBITDA, the change in working capital, maintenance capital expenditure, net interest payments and income tax payments.



# Alternative Performance Measures (APMs)

Pg.2

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

## MAINTENANCE, EFFICIENCY & GROWTH AND ENVIRONMENTAL CAPEX

Ence provides the breakdown of its capital expenditure related cash outflows for each of its business units in its quarterly earnings report, distinguishing between maintenance, efficiency & growth and environmental capex.

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

Ence's 2016-2020 Business Plan includes a schedule of the amounts it expects to invest annually in efficiency & growth and environmental capex in order to attain the strategic targets set. The disclosure of capex cash flows broken down by area of investment facilitates oversight of execution of the published 2016-2020 Business Plan.

## FREE CASH FLOW

Ence reports free cash flow as the sum of its net cash flows from operating activities and its net cash flows from investing activities of its quarterly earnings 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 recognized on the balance sheet, as detailed in its quarterly earnings report, include bonds and other marketable securities, bank borrowings and other financial liabilities. They do not however include the measurement of financial derivatives.

Net debt is calculated as the difference between current and non-current borrowings on the liability side of the balance sheet and the sum of cash and cash equivalents and short-term financial investments on the asset side.

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.

# Delivering value Delivering commitments