1H 2019 Results

July 31st, 2019

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Highlights

Highlights
1H 2019

Pulp price stabilization before increasing

- **Pulp prices** in China are already **below higher cash cost producers**
- **Lower pulp supply** during **2H 2019** will contribute to reduce producers inventories
- **No new capacity** confirmed until **2H 2021**

Pulp business

- **42% EBITDA decline vs. 1H 2018,** driven by **FX hedging settlements**, **higher spot sales** and **inventory increases**
- **Navia** bio-mill **80k t capacity expansion** to be implemented in **October 2019**

Renewable Energy Business

- **30% EBITDA growth** in **Renewable Energy business**
- **€New biomass power plants** in Huelva and Ciudad Real **on track** to start in **December**, improving annualized EBITDA by about **€30 Mn,** up to **€95 - 100 Mn**

€157 Mn Strategic Plan capex in 1H 2019

- **€87 Mn capex** in the **Renewable Energy** business and **€70 Mn** in the **Pulp business**

Cost optimization program launch in 3Q19

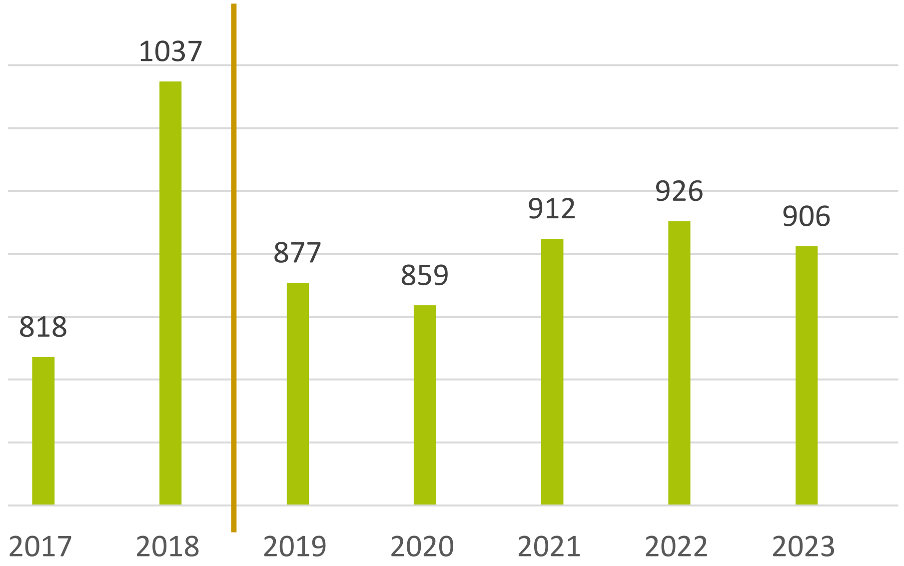
- **18 month** cost optimization program with advice from **external consultants** has been launched to **secure** the achievement of the **Strategic Plan annual cash cost targets**

Pulp price stabilization expected before increasing

Pulp prices in China below the cost of less efficient producers

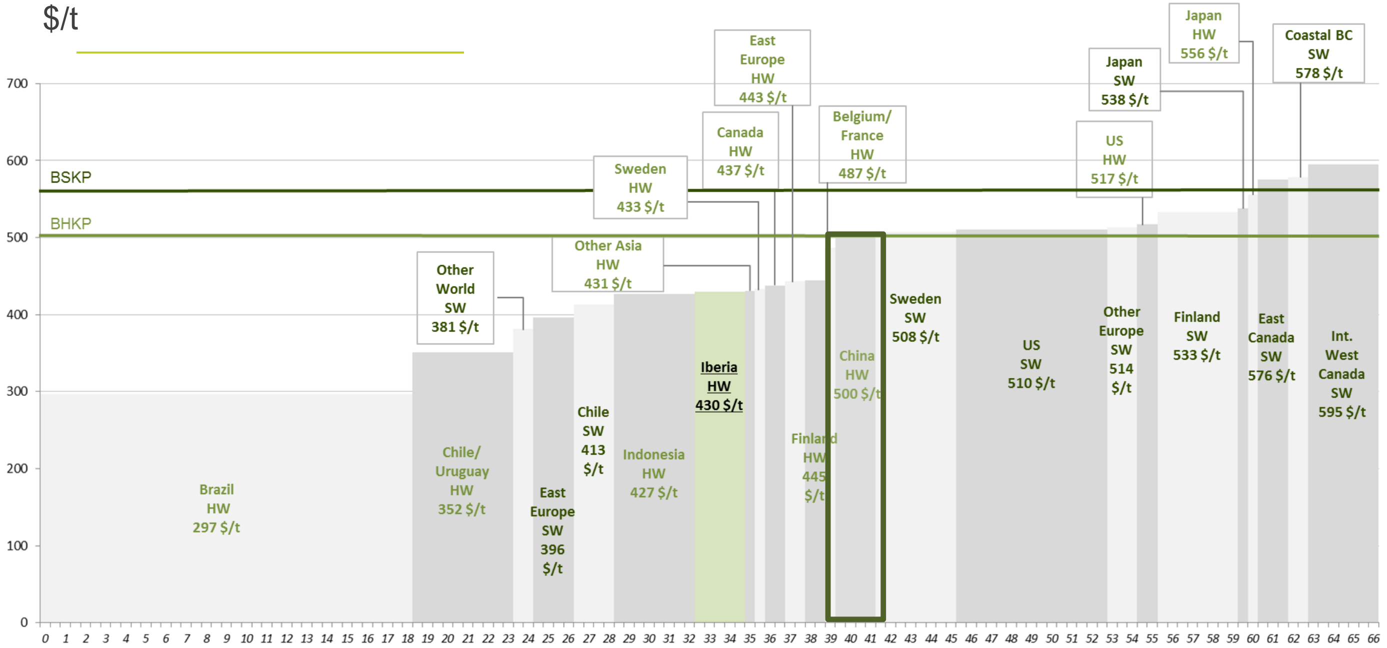
European Hardwood (BHKP) Pulp Price Consensus as of July 2019

(RISI, Hawkins Wright, Brian McClay) $/t



Cash Cost (CIF China) not including overhead & financial costs[1]

$/t



- Unexpected paper industry destocking process during 4Q18 and 1Q19 resulted in the contraction of hardwood pulp demand and in the increase of producers inventories by about **2 Mn t**
- Normalization of pulp inventories in the paper industry could bring back by about **1 Mn t** of market pulp demand in 2H19 – 1H20

- **Pulp prices in China** already **below the cost of less efficient producers**, incentivizing lower pulp supply and higher demand
- **Announced market related downtime** during **2H 2019** will contribute to reduce producers inventories and stabilize pulp price

1. Source: "Outlook for Market Pulp report April 2019". **Hawkins Wright** . It includes an estimated timber cost of $50/t in Brazil to make it comparable with other geographies as they source it from their own plantations.

Market related downtime announced for over 1 Mn t in 2H19

Only one large capacity increase confirmed for 2H 2021

Expected Annual Increase for Global Market Hardwood Supply and Demand (Mn t)[1]

Mn t	2019	2020	2019-20	2021	2019-21	2022	2019-22	2023	2019-23	2024	2019-24
ESTIMATED BHKP DEMAND CHANGE	0.5	1.0	1.5	1.0	2.5	1.0	3.5	1.0	4.5	1.0	5.5
CHINA	0.3	0.6	0.9	0.6	1.5	0.6	2.1	0.6	2.7	0.6	3.3
OTHER ASIA / AFRICA / OCEANIA / MIDDLE EAST	0.1	0.2	0.3	0.2	0.5	0.2	0.7	0.2	0.9	0.2	1.1
EUROPE	-0.1	0.1	0.0	0.1	0.1	0.1	0.2	0.1	0.3	0.1	0.4
NORTH AMERICA	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1
LATIN AMERICA	0.1	0.1	0.2	0.1	0.3	0.1	0.4	0.1	0.5	0.1	0.6
ESTIMATED BHKP SUPPLY CHANGE (CONFIRMED)	-0.6	0.2	-0.4	0.7	0.3	1.3	1.6	0.6	2.2	0.1	2.3
SUZANO (PRODUCTION CURTAILMENT)	-1.0	0.5	-0.5	0.5	0.0		0.0		0.0		0.0
SUZANO (IMPERATRIZ, MUCURI & MARANHAO)				0.3	0.3		0.3		0.3		0.3
ARAUCO (VALDIVIA)	0.2	-0.4	-0.2		-0.2		-0.2		-0.2		-0.2
ARAUCO (HORCONES)				0.4	0.4	0.8	1.2		1.2		1.2
APP (OKI)	0.4	0.1	0.5		0.5		0.5		0.5		0.5
APRIL (KERINCI)	0.1	-0.1	0.0	-0.2	-0.2	-0.2	-0.4	-0.2	-0.6	-0.2	-0.8
APRIL (RIZHAO)	-0.3	-0.1	-0.4	-0.2	-0.6	-0.2	-0.8	-0.2	-1.0	-0.2	-1.2
ENCE (NAVIA & PONTEVEDRA)		0.1	0.1		0.1	0.2	0.3		0.3		0.3
ILIM (BRATSK)						0.2	0.2		0.2		0.2
PHOENIX PAPER (WICKLIFFE)	0.1		0.1		0.1		0.1		0.1		0.1
MONDI (RUZOMBEROK)		0.1	0.1	-0.1	0.0		0.0		0.0		0.0
GEORGIA PACIFIC (ALABAMA RIVER)	-0.1		-0.1		-0.1		-0.1		-0.1		-0.1
UPM (PASO DE LOS TOROS)						0.5	0.5	1.0	1.5	0.5	2.0
POTENTIAL BHKP SUPPLY CHANGE (NOT CONFIRMED)						0.3	0.3	0.9	1.2	1.6	2.8
ELDORADO (BRAZIL)								0.5	0.5	1.5	2.0
LWARCEL (BRAZIL)						0.3	0.3	0.4	0.7	0.1	0.8
PRODUCERS STOCKS REDUCTION	1.1	0.8	1.9	0.1	2.0		2.0		2.0		2.0
SURPLUS / DEFICIT	0.0	0.0	0.0	-0.2	-0.2	0.6	0.4	0.5	0.9	0.7	1.6

Source:

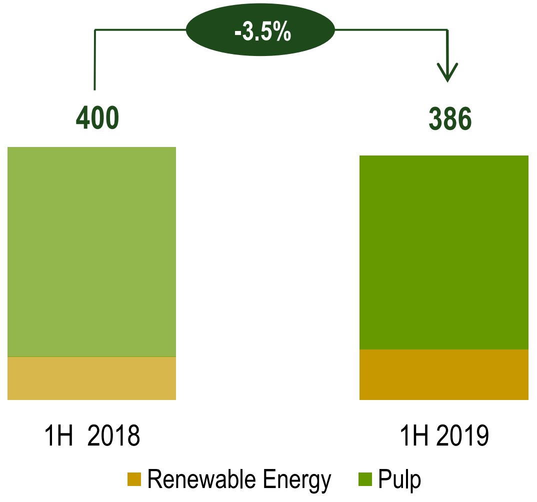
ENCE estimates

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

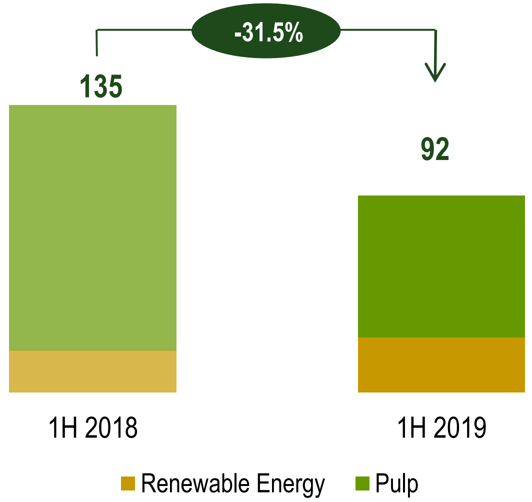
1H 2019 Results

Driven by FX hedging settlements, spot sales and inventory increases

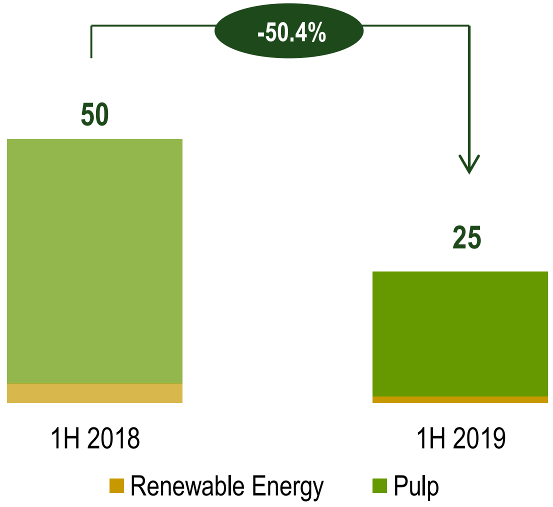
Group Revenues (€ Mn)



Group EBITDA (€ Mn)



Group Net Income (€ Mn)



Pulp business: 7.6% lower revenues

- 5.4% decrease in pulp volume sold due to a 27k inventory increase prior to the October shutdown
- 4.5% lower average selling price due to higher spot sales outside Europe

Renewable Energy business: 18% revenue growth

- 7.8% increase in energy volume sold due to the contribution of the solar thermal plant acquired in Dec.18

Pulp business: 42.1% EBITDA decrease

- €14.7 Mn negative settlements from FX hedging program vs. positive €5.2 Mn in 1H18
- 5.9% cash cost increase

Renewable Energy business: 30.5% EBITDA growth

- Contribution of the new solar thermal plant

50.4% Net income decrease

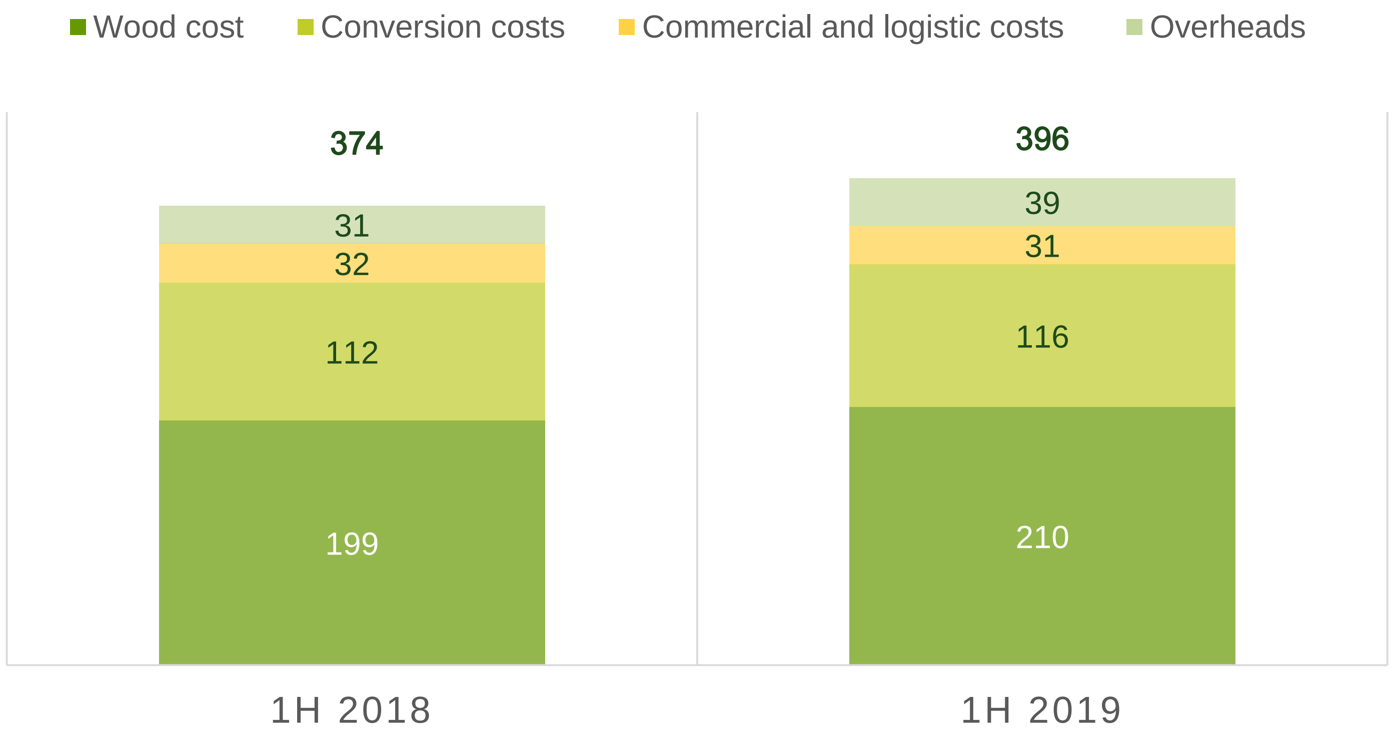
- Marked by a weaker 1H19 in the Pulp business, as anticipated
- Final dividend of 0.054 €/share paid in April 2019
- First interim dividend of 0.051 €/share to be paid in September 2019

1H19 Pulp business cash cost of 396 €/t

An increase of 22 €/t vs. 1H18

Cash Cost breakdown

€/t



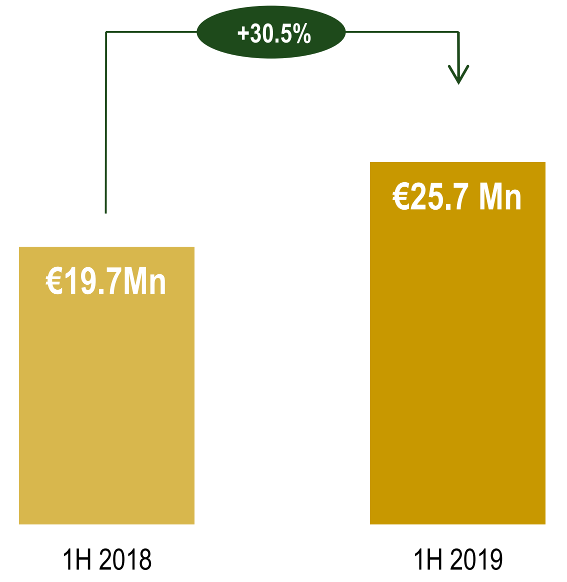
€22 Cash Cost increase vs. 1H 2018 mainly due to:

- **11 €/t** wood cost increase
- **8 €/t** overhead cost increase due to incremental resources to achieve 2019-2023 Strategic Plan and their lower dilution over less tons sold vs.1H18
- **4 €/t** higher conversion costs

18 month cost optimization program with **external consultants** advice has been launched in 3Q19, in order to **secure** the achievement of **Strategic Plan annual cash cost targets**

Renewable Energy business EBITDA growth
EBITDA target of around €65 Mn for 2019

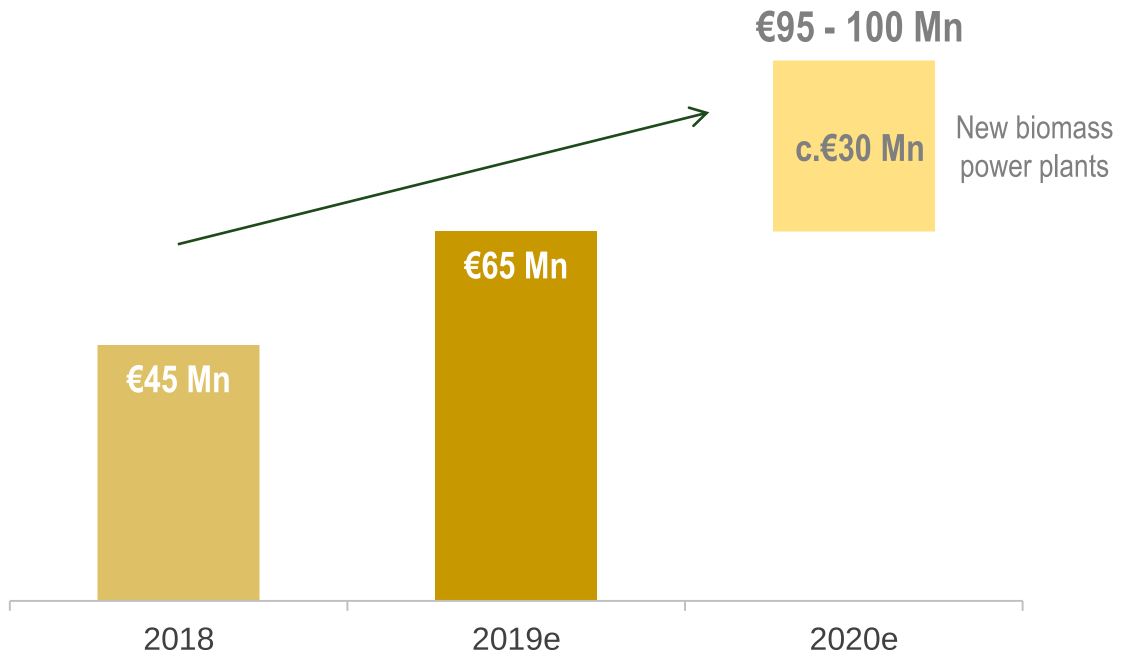
Renewable Energy Business EBITDA



30% EBITDA growth driven by:

- Puertollano 50 MW solar thermal plant acquired in December 2018

Expected Renewable Energy EBITDA in 2019 & 2020

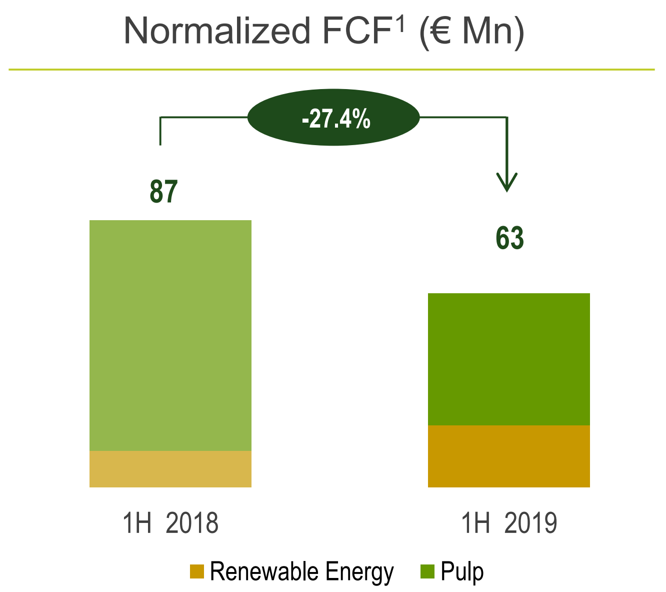


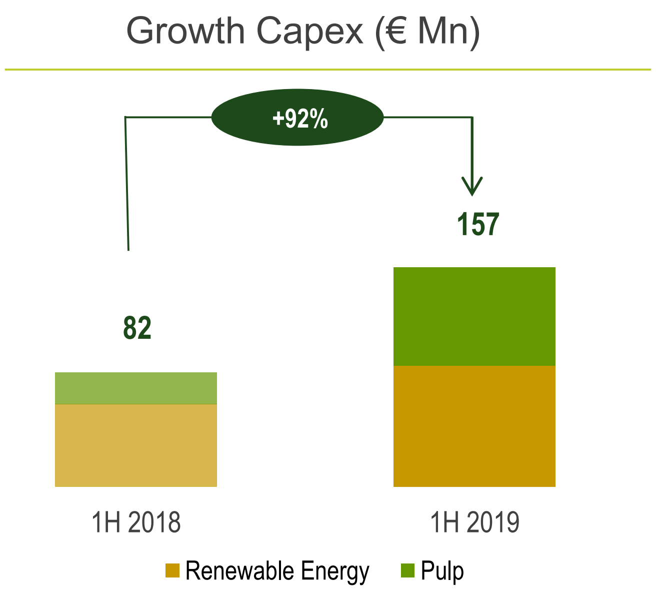
EBITDA target of c.€65 Mn for 2019

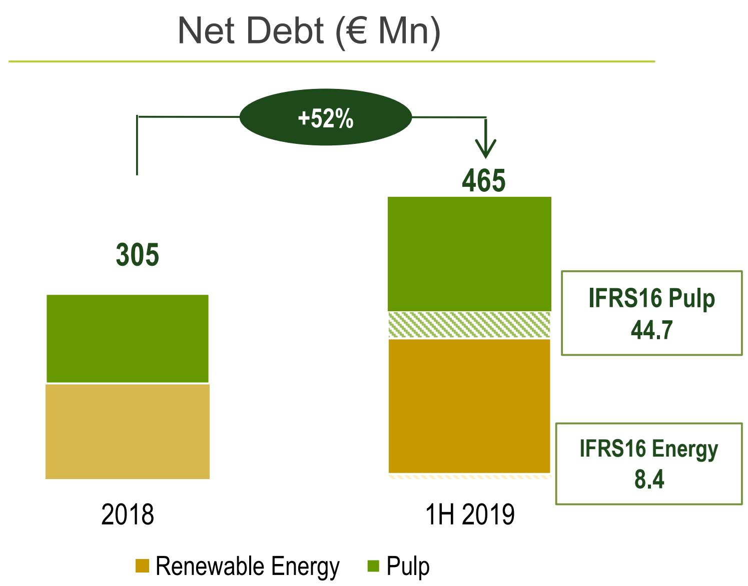
- Additional EBITDA of around €30 Mn from new biomass power plants to start operations in December 2019

Normalized Free Cash Flow & Capex growth

Financial leverage of 1.8x EBITDA after Strategic Plan investments







Normalized Free Cash Flow generation of €62.8 Mn

- Lower EBITDA partially offset by lower financial expenses vs. 1H18

Higher growth capex according to Strategic Plan:

- €70.3 Mn in the Pulp business
- €86.8 Mn in the Renewable Energy business

Leverage of 1.8x Net Debt / LTM EBITDA

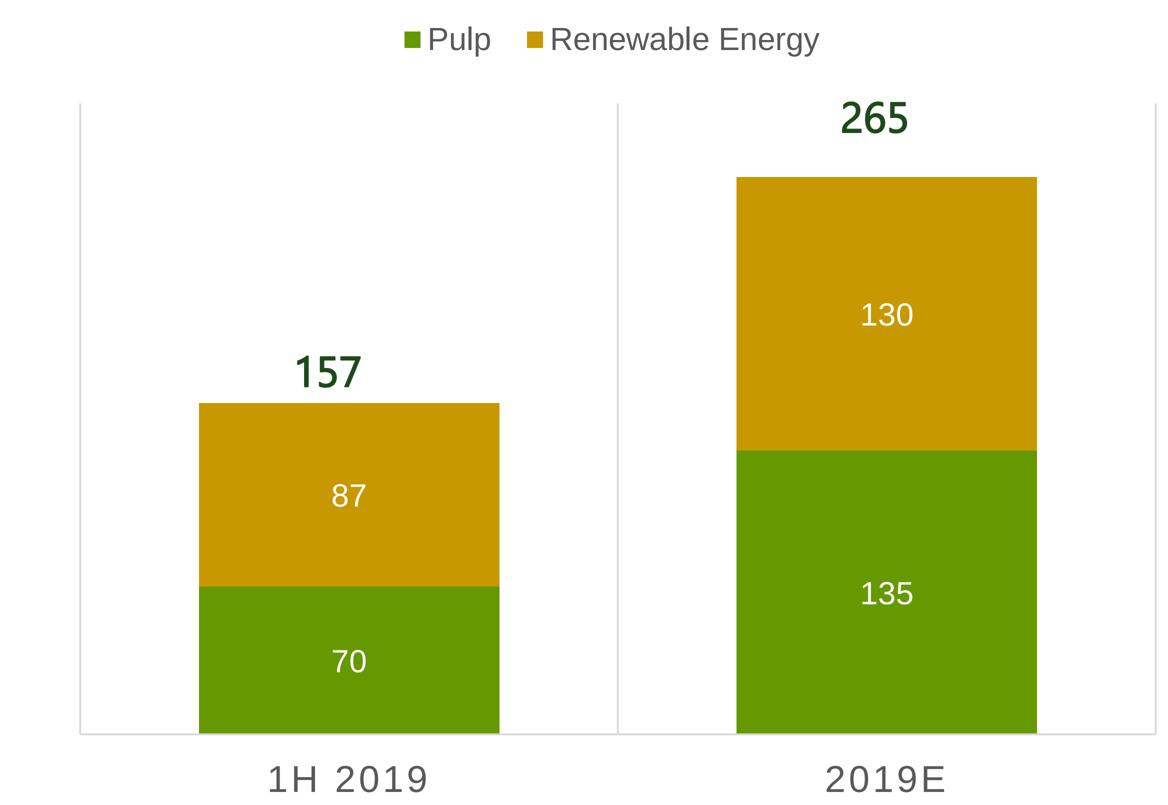
- Pulp business: 1.2 Net Debt / LTM EBITDA
- Energy business: 3.9 Net Debt / LTM EBITDA [2]
- **€53.1 Mn** IFRS16 effect included (from January 2019)

1. FCF before Strategic Plan investments, divestments & dividend payment
2. Considering full year contribution of the Ciudad Real 50 MW solar thermal plant

Strategic Plan investments

Lower than anticipated capex in 2019, with Navia's expansion in October

Investments



Pontevedra

Capacity Increase
20,000 t ramp-up phase

Navia

Capacity Increase
80,000 t to be implemented in October 2019

New biomass capacity

Two new biomass power plants with 96MW of installed capacity to start in December 2019

Navia 340k t Swing-Line project - Board decision in 1Q 2020

Execution depending on pulp market and leverage expectations

New Swing-Line Navia

Flexible production

€450 Mn capex

Up to **200,000 t** **Dissolving Pulp** for viscose fiber products ← **or** → Up to **340,000 t** Hardwood Paper Grade Pulp (**BHKP**)

1.7 Ratio between Dissolving Pulp and BHKP Production

4Q 2019	1Q 2020		4Q 2021
Permitting, EPC completed	Board Decision		Strategic Plan Initial Start-up Date

The **Board** will decide on the project execution timing in **1Q 2020** according to **pulp market conditions** and in order to comply with our self-imposed **leverage limits**

Pontevedra's Biomill legal status

Ence is defending the legality of the concession extension granted until 2073

On January 2016 the National Directorate of Coasts granted the extension of Pontevedra´s concession until 2073	▪ The 1958 biomill's original concession was extended for 60 years (starting November 8th 2013) by the National Directorate of Coasts via a resolution dated January 20th 2016 by virtue of: (i) Law 2/2013, on coastal protection and sustainability and amending the Coastal Act (22/1988); & (ii) General Coast Regulations enacted (Royal Decree 876/2014)
Although we expect a first resolution from the National Court before year end, the 3 court cases against the extension could last for up to 4 years, including any appeals before higher courts	▪ 3 court cases initiated by Pontevedra's City Council and two environmental associations (Asociación Pola Defensa da Ría de Pontevedra and Green Peace Spain) before the National Court´s Chamber for Contentious Administrative Proceedings, appealing Jan. 20th 2016's resolution ▪ On March 8th 2019, the National Directorate of Coasts conceded in all three lawsuits, i.e., it requested to have the claims upheld, despite having previously argued throughout all of the proceedings that the Ministerial Order Resolution of January 20th 2016 was totally legal ▪ On April 10th 2019, the National Court´s Chamber for Contentious Administrative allowed Ence to defend the case
An eventual change in the current Coastal Law would allow the concession to run until 2033	▪ On March 19th, 2019, the National Directorate of coasts began to process draft legislation amending the General Coast Regulations (Royal Decree 876/2014), holding the interpretation that the maximum concession term of 75 years must encompass both the initial term of the concession and any extension thereof. If such interpretation were applicable to Ence, the concession could run until 2033
€130 Mn invested in the biomill since the extension of the concession in 2016	▪ The investments carried out or committed since the extension of the concession for the period of 2016 – 2019 amount to approximately €130 Mn ▪ In the unlikely event that operations have to be discontinued, it would have a cash impact of €74 Mn
Given the uncertainty, the Board of Directors has decided to concentrate the investments of the Business Plan in Navia's biomill	▪ Investments of €250 Mn initially planned to increase capacity in Pontevedra will be reallocated to Navia's biomill, in order to double the new swing line up to 200,000 t of dissolving pulp or 340,000 t of BHKP.

Excellence in sustainability

A strategic priority for Ence

Promoting sustainable forestry

Certified wood entries

- **92.4%** Navia.
- **73.5%** Pontevedra.

Dynamization of rural areas

- **Value creation for suppliers**: c.**€176 Mn** in wood purchases and c. **€23 Mn** in biomass purchases in 1H 2019.
- **94%** of Ence's wood suppliers in Pontevedra and **86%** in Navia are **small suppliers.**

Caring for communities

- **Odour reduction: >99%** odour impact reduction since the beginning of the "Olor Cer0" project.
- **Noise reduction:** acoustic impact reduction plans.
- **Stakeholder engagement:** new relationship plans with the local communities of Navia, Pontevedra & Huelva.

Water footprint reduction

- **Analysis of water cycle** in the biofactories and the energy generation plants to minimize consumption and boost reuse.
- Reduction of **>12%** of water consumption per pulp ton produced in 1H 2019 vs 2018.

Circular economy promotion

- **99.4%** of waste produced in 1H 2019 has been valorised, avoiding its shipment to landfill.
- Pontevedra biofactory obtained certification **"Residuo Cero"** (0 residues) from AENOR.
- In 1H 2019, Ence mobilized **c.686,000 t** of biomass.

Renewable & sustainable energy generation

- Use of **local biomass**, minimizing emissions derived from transport.
- Ence contributes to **forest fires risk reduction** and **prevents CO2** and **particle emissions** from **uncontrolled burning of agro-waste.**

Commitment to health and safety

- **"0 accidents"** goal.
- All units **lowered its frequency and severity rates**, vs. Q4 2018.

Promotion of equality and diversity

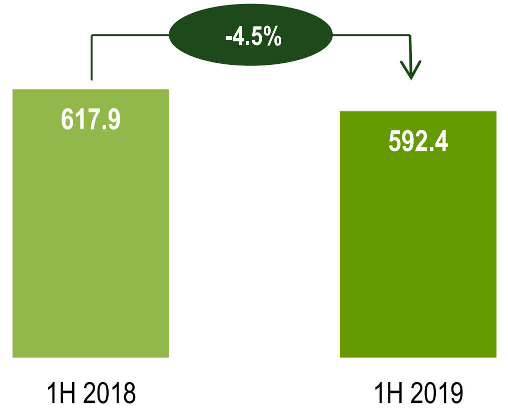
- **+16% of women** vs 2018.
- **58% of women** in **new hires.**
- **29%** of women in the Board of Directors.

1H 2019 Results by Business

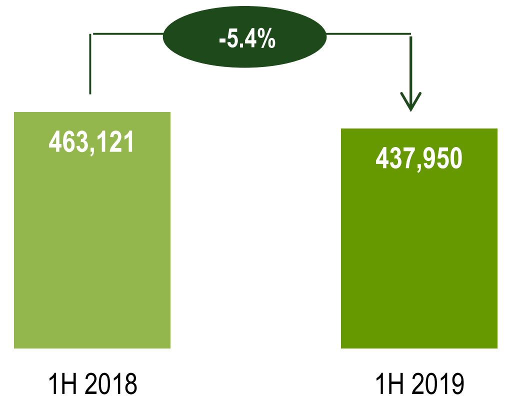
Pulp Business

1H19 impacted by pulp prices, volumes & FX hedges, as anticipated

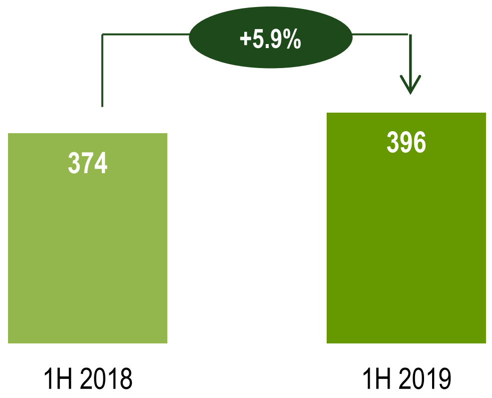
Avg. Net Pulp Price (€/t)



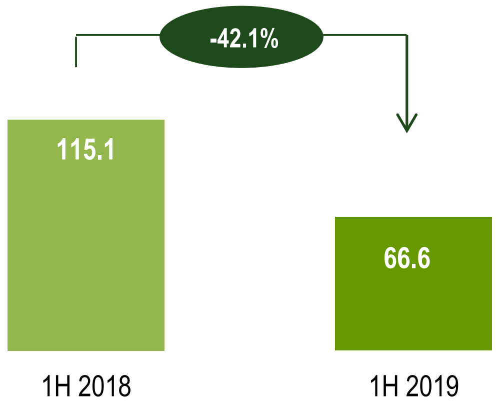
Pulp Sales Volume (t)



Avg. Cash Cost (€/t)



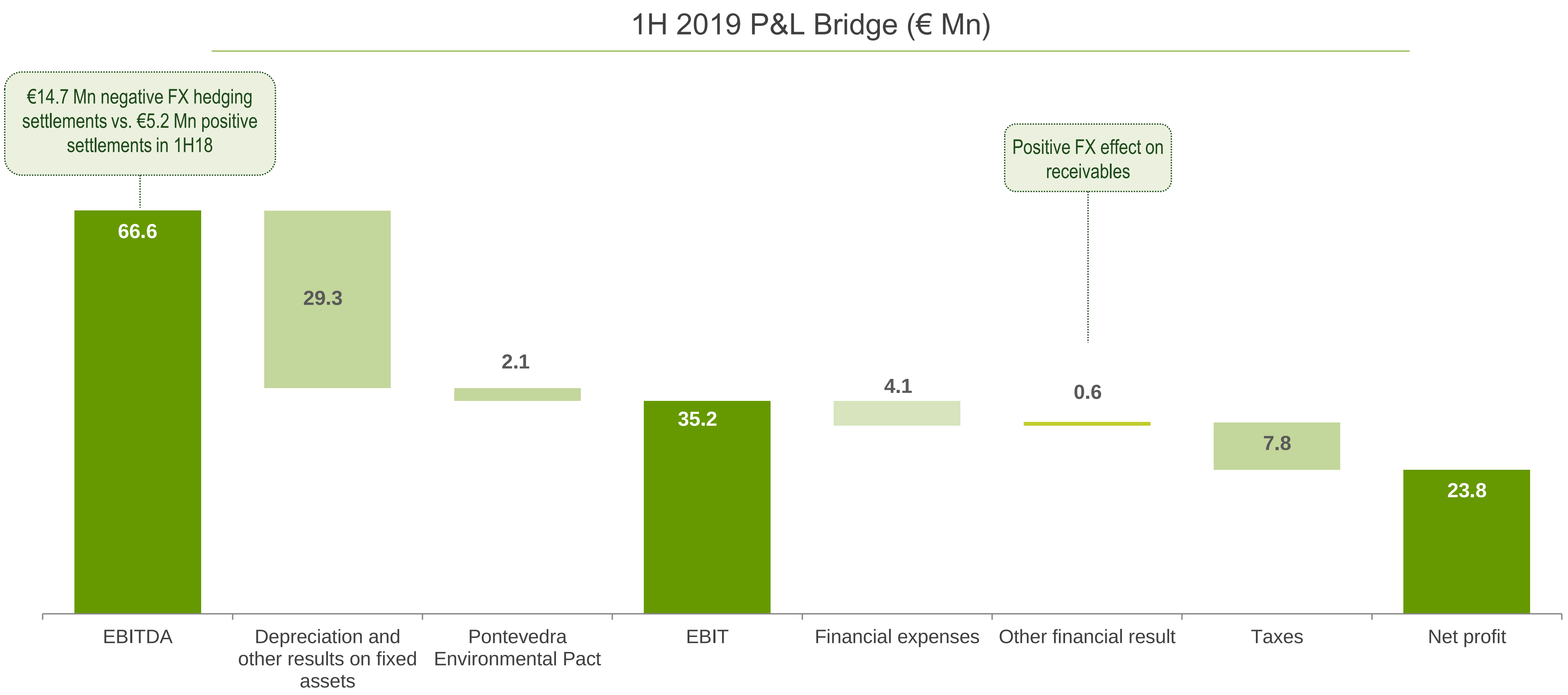
EBITDA (€ Mn)



EBITDA decreased to €66.6 Mn due to:

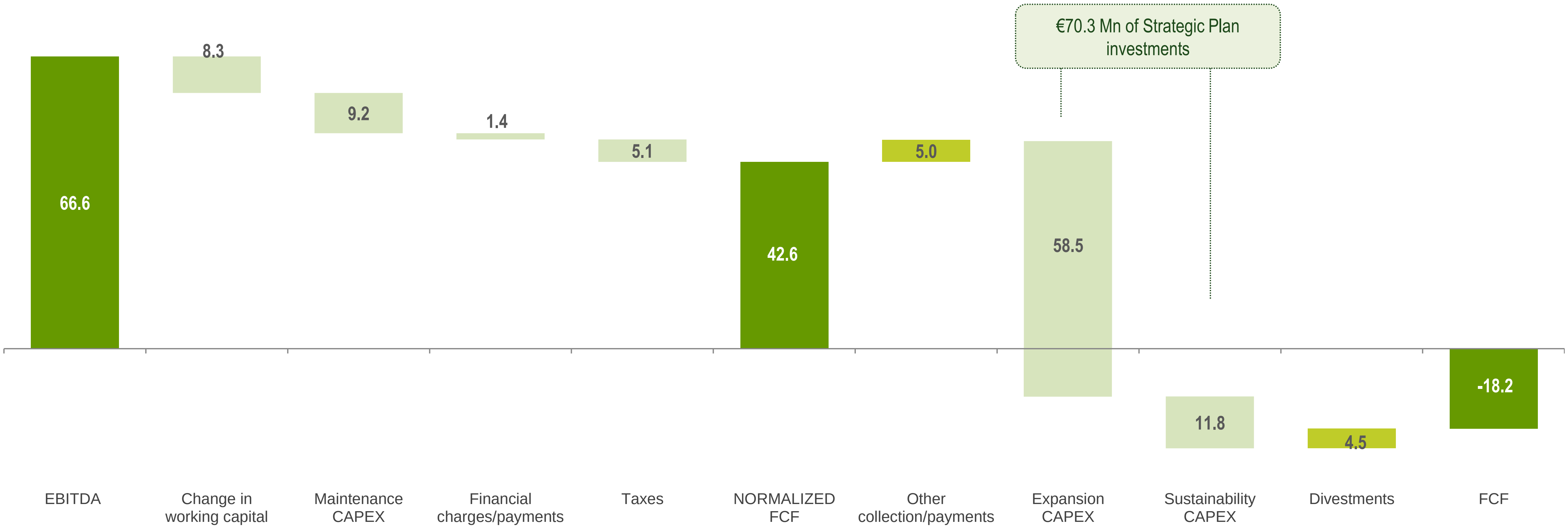
- **€14.7 Mn** negative settlements from **FX hedging** program vs. positive €5.2 Mn in 1H18
- Lower than expected net prices with **24% of sales outside Europe at spot prices**
- **5.4%** decrease in pulp sales volume due to the announced **restocking process (27k tons)**
- **5.9% cash cost increase** related to:
  - 5.5% wood cost increase
  - 3.8% higher conversion costs (higher personnel and fuel costs)
  - 25.8% higher overheads, to be diluted with planned capacity expansions and more tons sold

Pulp Business
P&L



Pulp Business
Cash flow generation

1H 2019 Cash Flow Bridge (€ Mn)



Ongoing FX hedging program

To mitigate FX volatility in the Pulp Business

Dollar/Euro Exchange Rate Evolution

Current Hedges

H2 19: 91% revenues
- Avg. cap: $ 1.26 €
- Avg. floor: $ 1.19 €

H1 20: 66% revenues
- Avg. cap: $ 1.22 €
- Avg. floor: $ 1.16 €

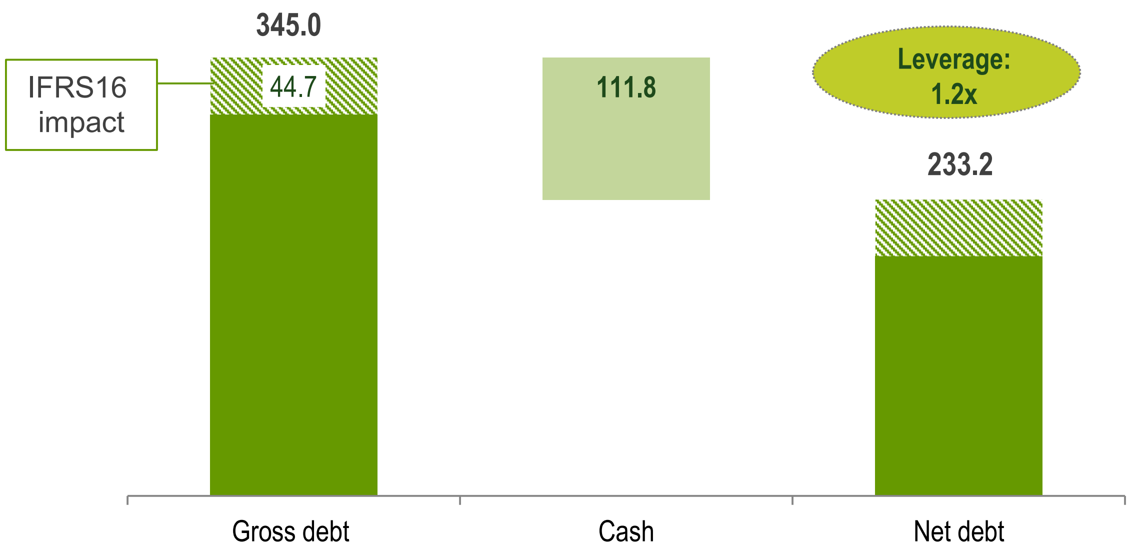
Q3 20: 39% revenues
- Avg. cap: $ 1.19 €
- Avg. floor: $ 1.14 €

Ence has secured an average cap of $1.26/€ and an average floor of $1.19/€ for 91% of its dollar exposure until December 2019

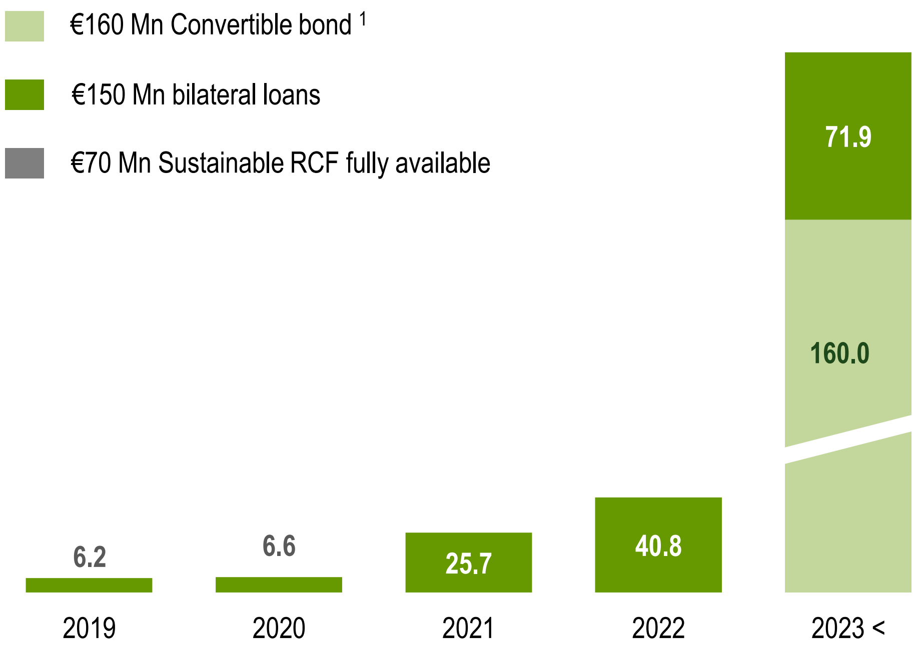
Assuming 1.13 $/€ in 2H19, full year FX impact would be €25 Mn

Pulp Business
Solid balance sheet and strong liquidity

Leverage as of 30th June 2019 (€ Mn)



Debt Maturity Calendar (€ Mn)



Pulp business leverage at 1.2x Net Debt / LTM EBITDA as of end of June 2019

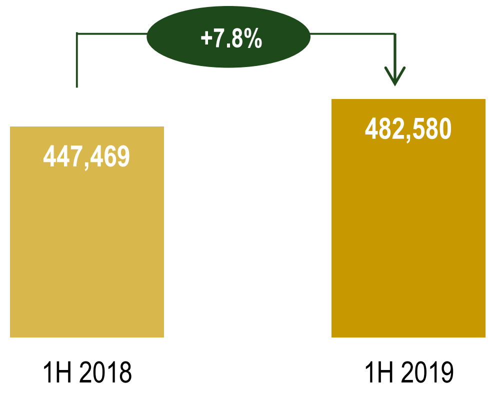
The application of IFRS16 on leases (from January 1st) led to the recognition of a financial liability of €44.7 Mn in the Pulp business

1. €149 Mn accounted as gross debt and €11 Mn accounted as equity as of 30 June 2019, according to IAS 32

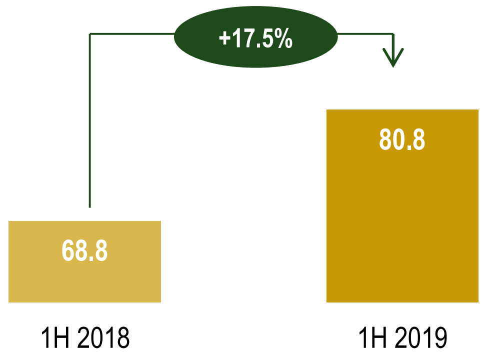
Renewable Energy Business

Including the contribution of Ciudad Real 50 MW solar thermal plant

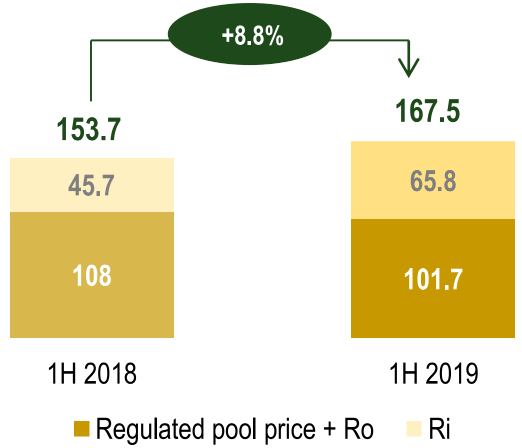
Energy Volume (MWh)



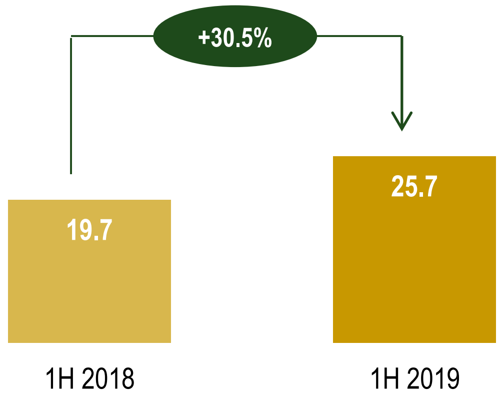
Revenues (€ Mn)



Revenue per MWh (€)



EBITDA (€ Mn)

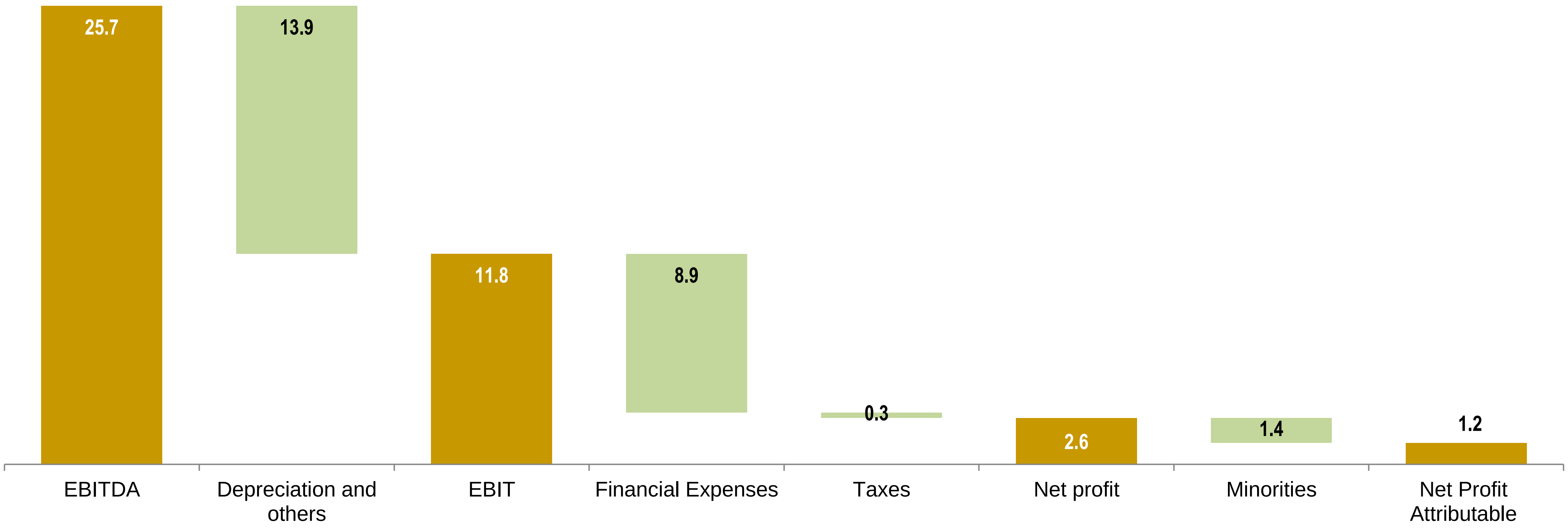


30.5% EBITDA growth driven by:

- **7.8%** increase in energy volume sold
  - Increasing contribution from the 50 MW solar thermal plant acquired in December 2018
- **8.8%** increase in revenue per MWh due to the addition of the 50 MW solar thermal plant regulated return on investment

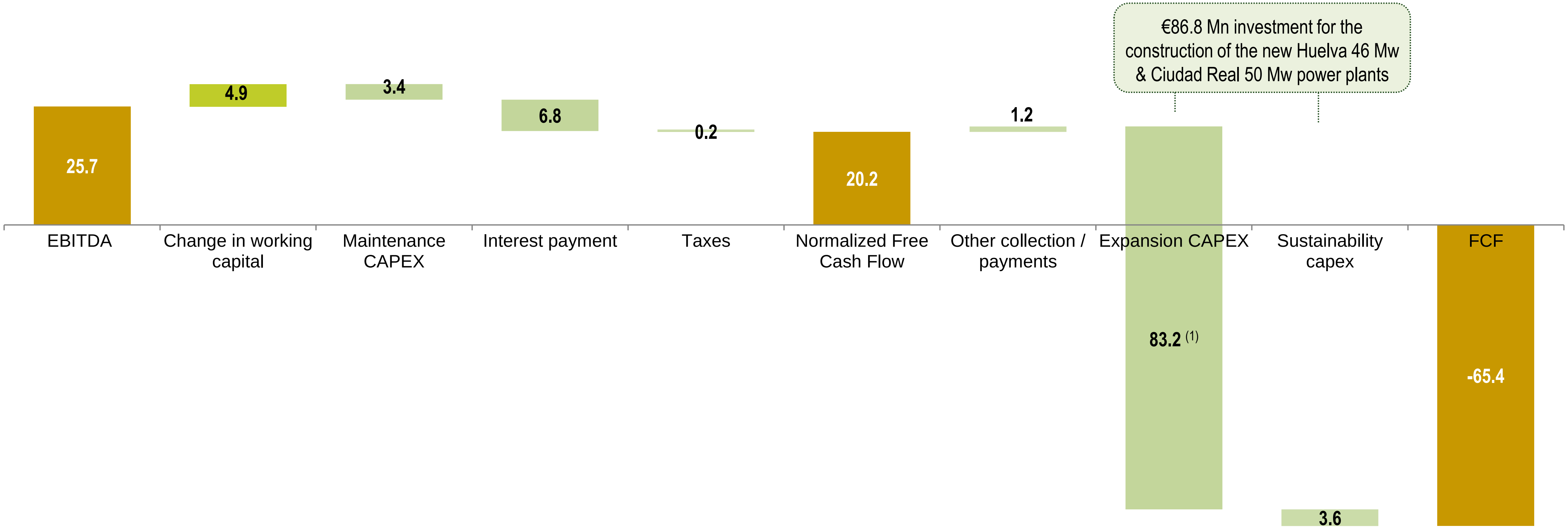
Renewable Energy Business
P&L

1H 2019 P&L Bridge (€ Mn)



Renewable Energy Business
Cash flow generation

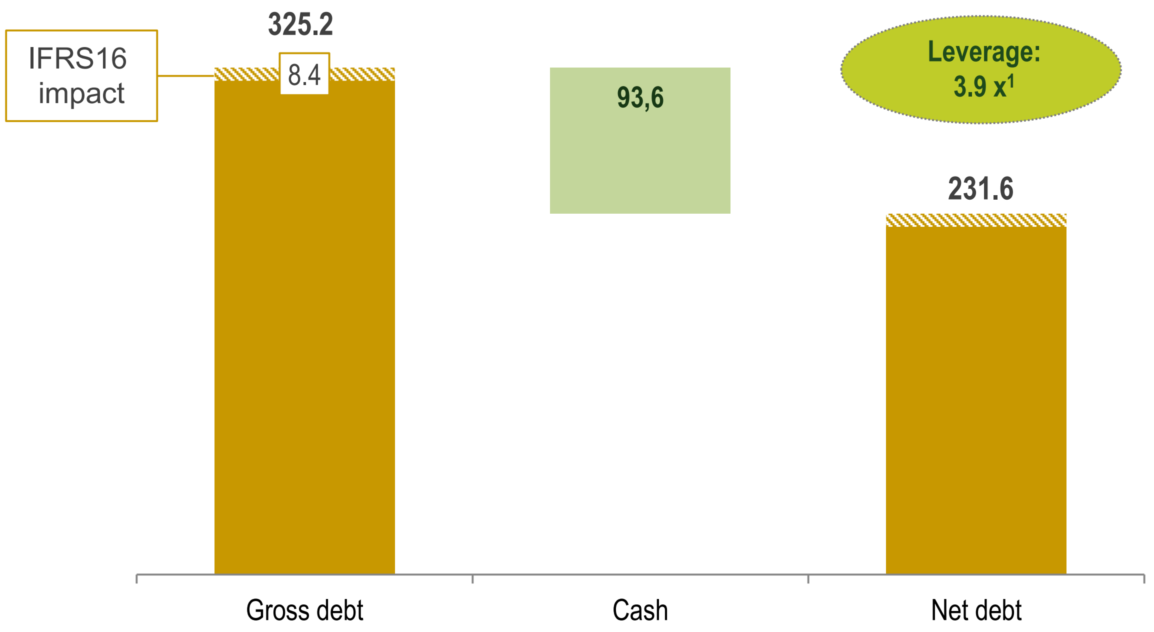
1H 2019 Cash Flow Bridge (€ Mn)



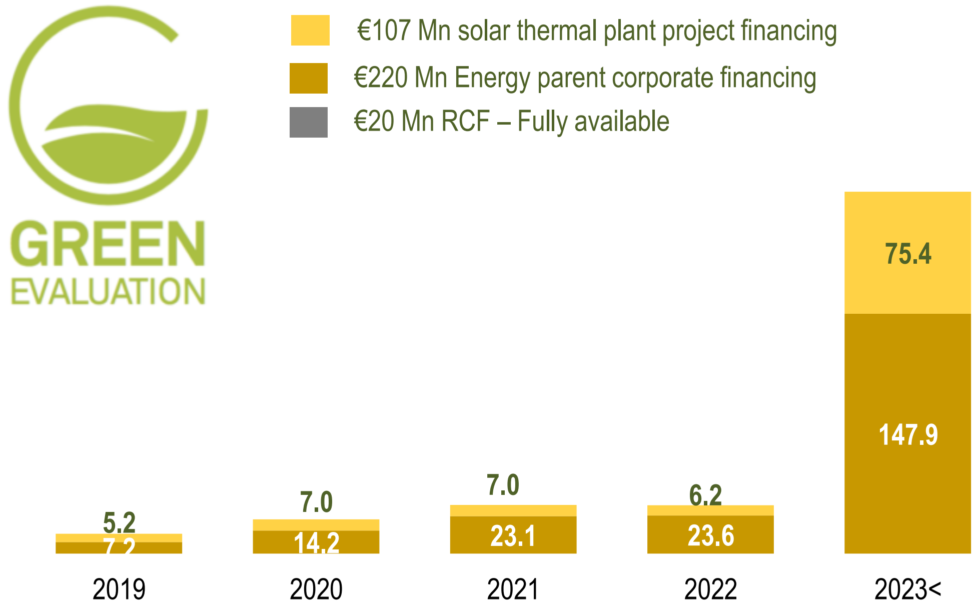
1. Growth capex adjusted for the internal transfer of power generation rights amounting to € 14.4 Mn

Renewable Energy Business
Asset growth upon Strategic Plan execution

Leverage as of June 30th 2019 (€ Mn)



Debt Maturity Calendar (€ Mn)



Energy business leverage at 3.9x[1] Net Debt / LTM EBITDA as of end of June 2019

The application of IFRS16 on leases (from January 1st) led to the recognition of a financial liability of €8.4 Mn in the Renewable Energy business

1. Considering full year contribution of the Ciudad Real 50 MW solar thermal plant

Closing Remarks

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Pulp price stabilization expected, before increasing

Tight supply and demand balance expected until at least 2022

Renewable Energy Business will start up its two new biomass power plants in December, improving annualized EBITDA by around €30 Mn and up to €95 - 100 Mn

Pulp Business main operating figures expected for 2019:

Pulp Sales 2019E	Cash Cost 2019E (€/t)	$/€ 2H 2019E (Including FX Hedges)
970,000	385	1.19

80k t Navia capacity expansion in October, to improve 2020 pulp volumes

Board will decide on the execution of **Navia´s 340,000 t** swing project **in 1Q 2020**, according to pulp market conditions and our self-imposed leverage limit of **2.5 times Net Debt / EBITDA** (actual and forecasted)

Cost optimization program launched to **secure the achievement** of the **Strategic Plan annual cash cost targets**

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.

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 SUSTAINABILITY 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 sustainability 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, sustainability capex covers investments made to enhance quality standards, occupational health and safety, to improve the environment and to prevent contamination.

Ence's 2019-2023 Business Plan includes a schedule of the amounts it expects to invest annually in efficiency & growth and sustainability 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.

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