



9M 2019 Results

October 30th, 2019



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Highlights

Highlights

9M 2019

Stronger operating performance of the Pulp business in 3Q19

- **22 €/t cash cost reduction** in **3Q19** vs. 2Q19
- **8.2% Pontevedra's pulp production** improvement vs. 2Q19, after 20k t capacity increase in March 2019
- **80,000 t annual capacity expansion** at **Navia** biomill in **October 2019**
- **Cost optimization** program launched to achieve the **Strategic Plan annual cash cost targets**
- **53% EBITDA decline** vs. 9M 2018, driven by **lower pulp prices** and **FX hedging** settlements

Net BHKP prices in China are 180 \$/t below last 10 year average

- **19% YoY pulp demand growth** in **China** during July and August
- Pulp producers **inventories reduction** in **9** days for **BSKP** and **7** days for **BHKP** during July and August
- **c.1 Mn t market related downtime** announced for **2H 2019**

Expected Energy business EBITDA improvement of c. €30 Mn in 2020

- **28% EBITDA growth** vs. 9M18
- **New biomass power plants** in Huelva and Ciudad Real to start operating by January 2020

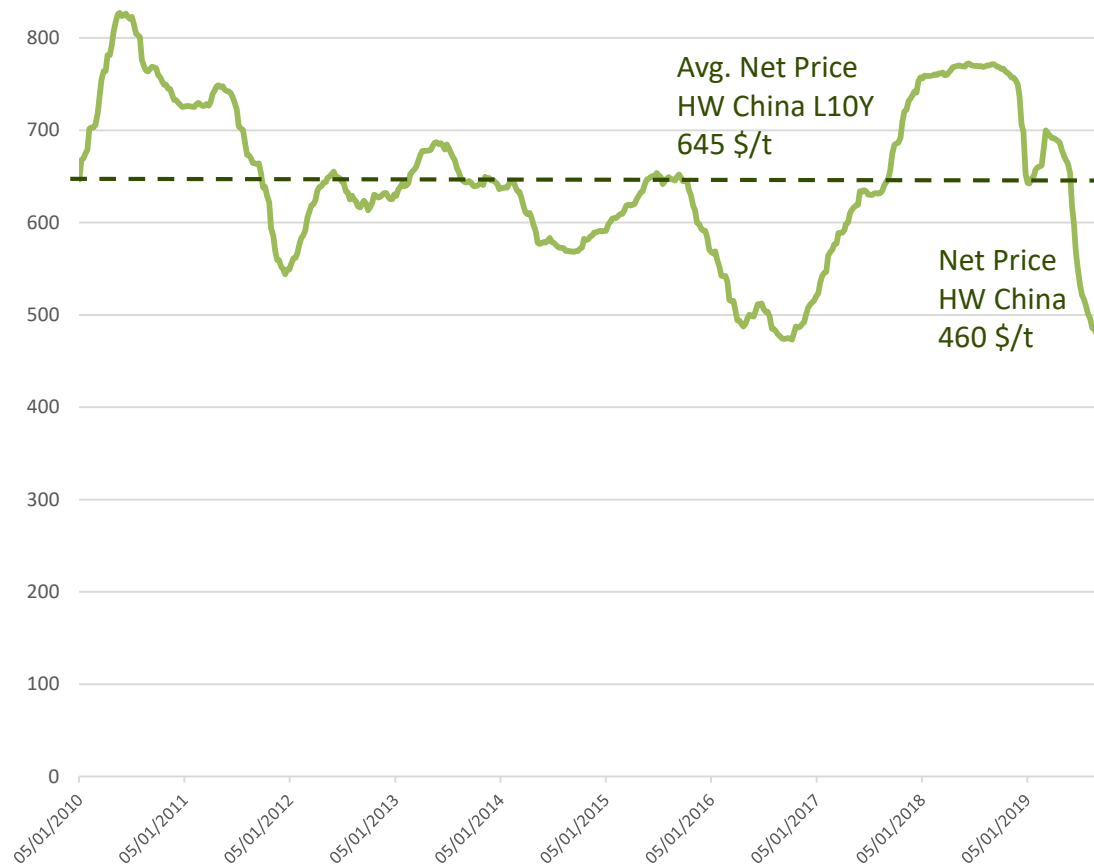
Renewable projects pipeline: 2.1 GW

- **280 MW in PV** with access to the grid and high irradiation locations secured, and environmental authorizations in progress
- **81 MW in biomass** with access to the grid, location secured, environmental authorizations in progress and waiting for the implementation of the European and Spanish Renewable Energy Plan
- **25 MW in solar thermal hybridization using biomass**, waiting for the implementation of the European and Spanish Renewable Energy Plan
- **Under development: 1,670 MW** in PV at an early stage and **75 MW** in solar thermal hybridization using biomass

Net BHKP price in China 180\$ below last 10 year average

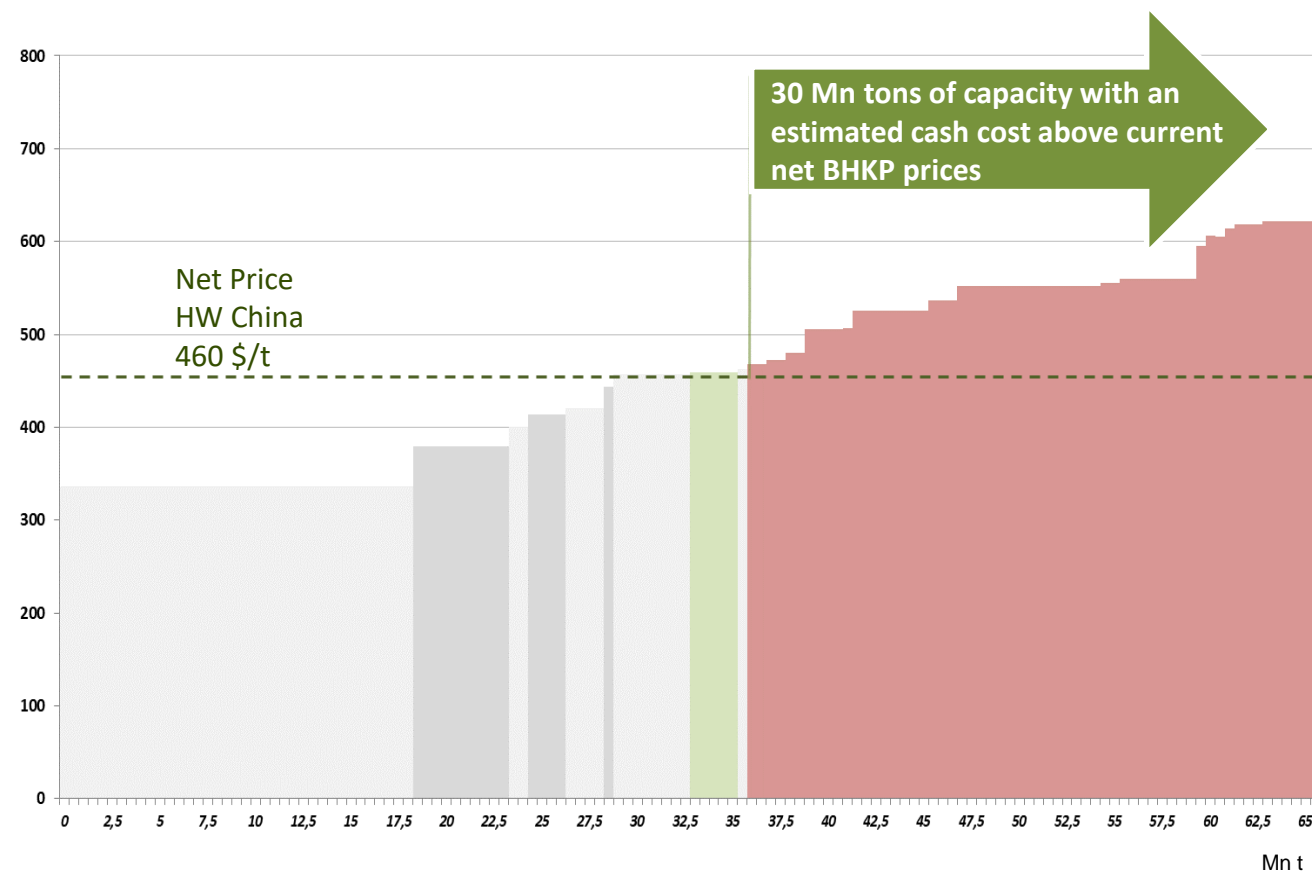
45% of global industry cash cost above current net BHKP prices in China

Net BHKP Prices China
\$/t



Source: FOEX

Global Pulp Industry Cash Cost (BHKP & BSKP)
\$/t



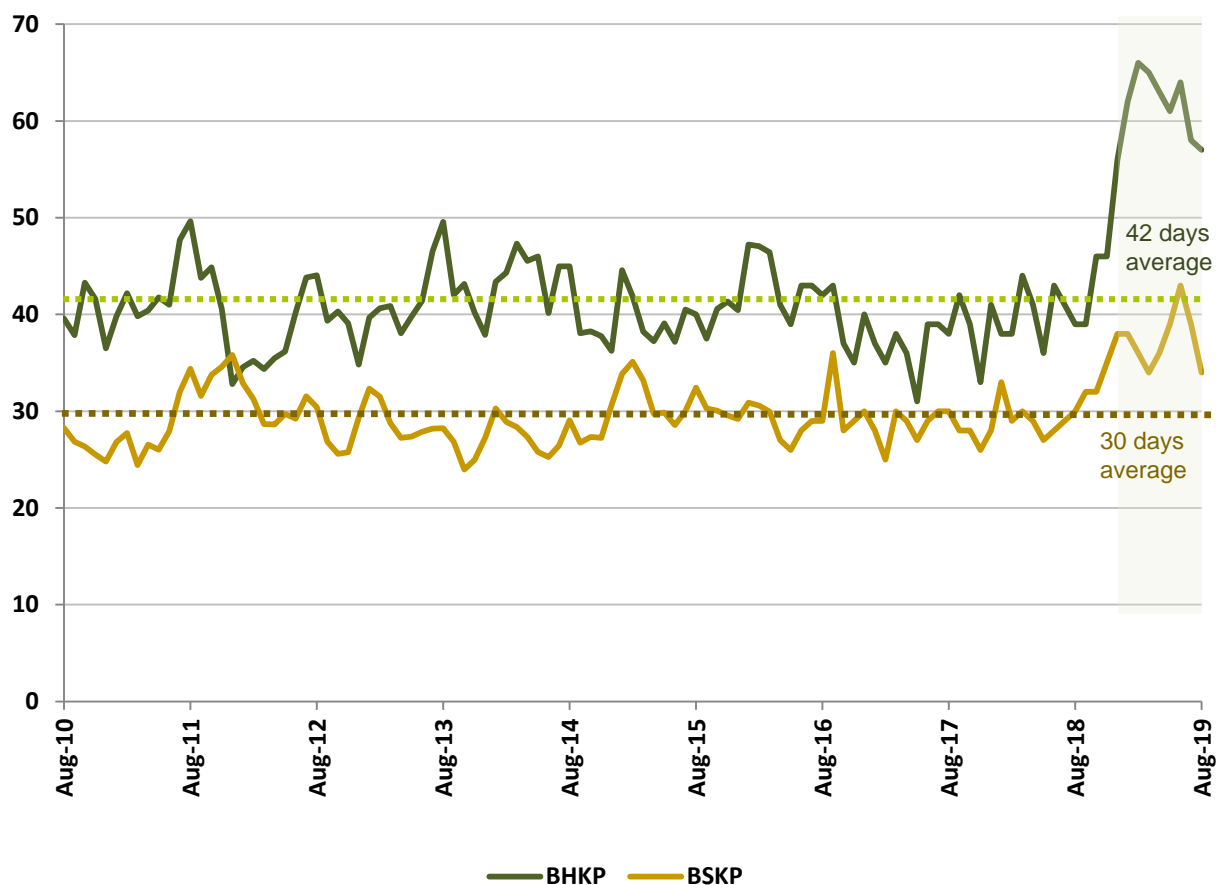
Source: Outlook for Market Pulp report August 2019", Hawkins Wright.
It includes 30\$ of estimated overhead costs.

19% yoy pulp demand growth in China during July and August

Inventories reduction in July and August: 9 days for BSKP and 7 days for BHKP

Producers Inventories BHKP & BSKP

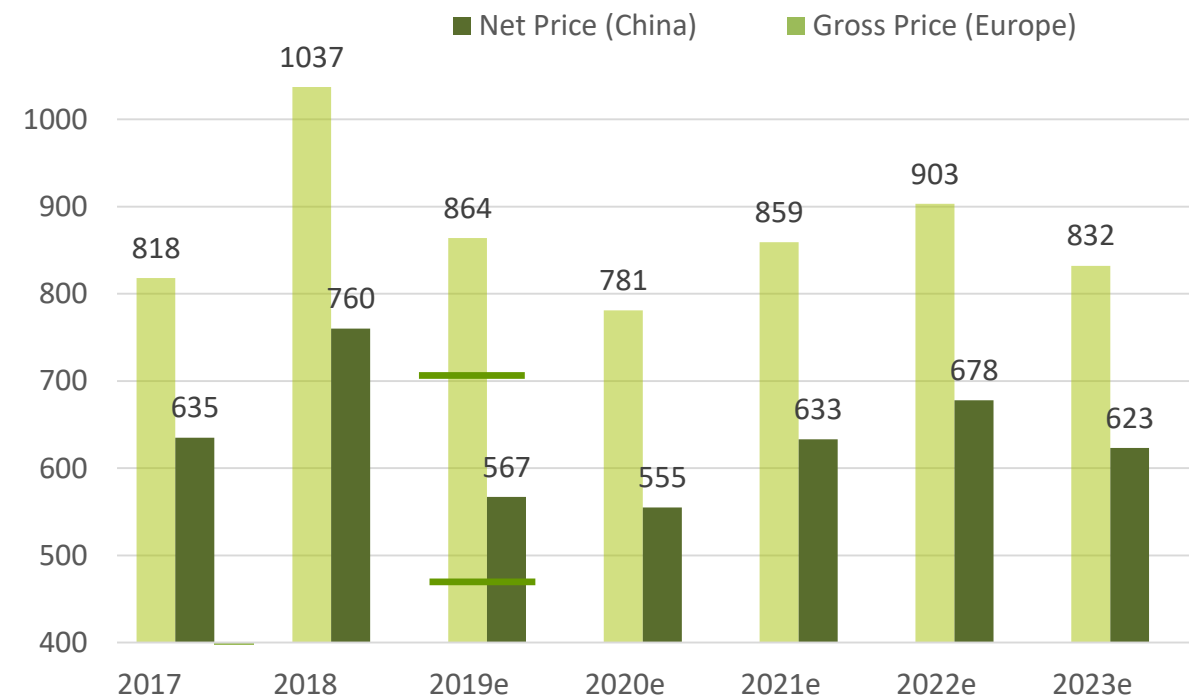
Days



Source: PPPC G-100 Report

European & Chinese BHKP Pulp Price Consensus (October 19)

\$/t



BHKP Prices at 29/10/2019: **460 \$/t**, Net (China); **700 \$/t** Gross (Europe)

Source: RISI, Hawkins Wright, Brian McClay

Market related downtime announced for c.1 Mn t in 2H19

No large capacity increase confirmed until 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	1,5	2,0	1,0	3,0	1,0	4,0	1,0	5,0	1,0	6,0
CHINA	0,2	0,6	0,8	0,6	1,4	0,6	2,0	0,6	2,6	0,6	3,2
OTHER ASIA / AFRICA / OCEANIA / MIDDLE EAST	0,0	0,2	0,2	0,2	0,4	0,2	0,6	0,2	0,8	0,2	1,0
EUROPE	-0,4	0,1	-0,3	0,1	-0,2	0,1	-0,1	0,1	0,0	0,1	0,1
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
PAPER SUPPLY CHAIN PULP RESTOCKING	0,5	0,5	1,0		1,0		1,0		1,0		1,0
ESTIMATED BHKP SUPPLY CHANGE (CONFIRMED)	0,5	1,2	1,5	0,8	2,3	1,0	3,3	0,6	3,9	0,1	4,0
SUZANO (PRODUCTION CURTAILMENT)	-1,0	0,3	-0,7	0,7	0,0		0,0		0,0		0,0
SUZANO (IMPERATRIZ, MUCURI & MARANHÃO)				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)				0,3	0,3	0,9	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		0,1		0,1		0,1
ILIM (BRATSK)		0,2					0,0		0,0		0,0
PHOENIX PAPER (WICKLIFFE)	0,2		0,2		0,2		0,2		0,2		0,2
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
PULP PRODUCERS INVENTORIES REDUCTION	1,0	1,0	2,0		2,0		2,0		2,0		2,0
SURPLUS / DEFICIT	0,0	-0,3	-0,5	-0,2	-0,7	0,0	-0,7	-0,4	-1,1	-0,9	-2,0
POTENTIAL BHKP SUPPLY CHANGE (NOT CONFIRMED)								0,5	0,5	1,5	2,0
ELDORADO (BRAZIL)								0,5	0,5	1,5	2,0

Source:

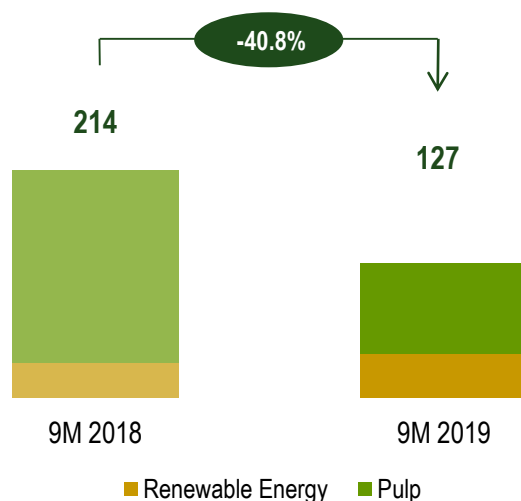
ENCE estimates

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

9M 2019 Results

Driven by lower pulp prices and FX hedging settlements

Group EBITDA (€ Mn)

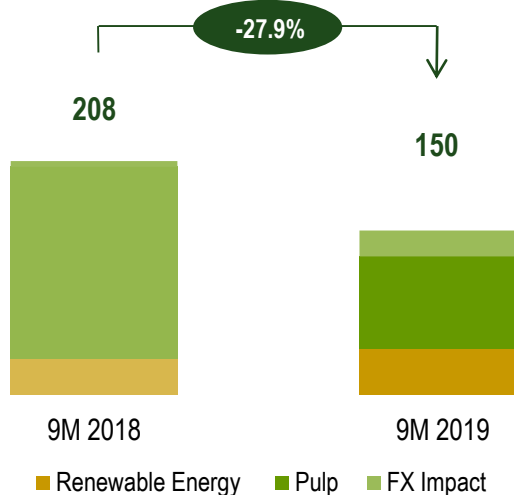


Pulp business: 53.1% EBITDA decrease, of which:

- 32% is explained by lower average selling price due to PIX evolution and higher commercial discounts
- 16% is explained by the negative settlements of our hedging program (€28.8 Mn effect) and,
- 5% due to higher costs

Renewable Energy business: 27.7% EBITDA growth, including the new solar thermal plant

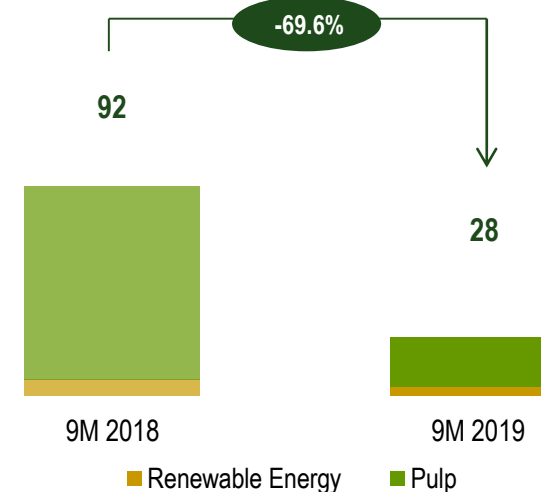
Group EBITDA Ex – FX Hedges (€ Mn)



Pulp business EBITDA ex FX settlements: -37% vs. 9M18

- Without the effect of the FX hedges in 9M19, our EBITDA would have reached €150 Mn
- The effect of the negative settlements from the FX hedges amounts to €28.8 Mn, €23.5 Mn negative impact in 9M19 vs. a positive impact of €5.3 Mn in 9M18

Group Net Income (€ Mn)



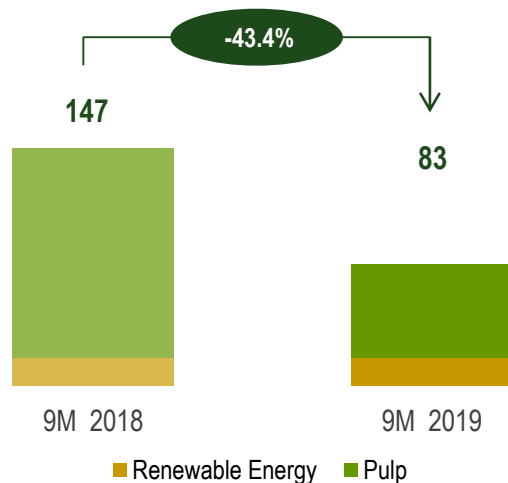
69.6% Net income decrease

- First interim dividend of 0.051 €/share paid in September 2019
- No second interim dividend due in 2019. Final dividend subject to our 50% payout policy.

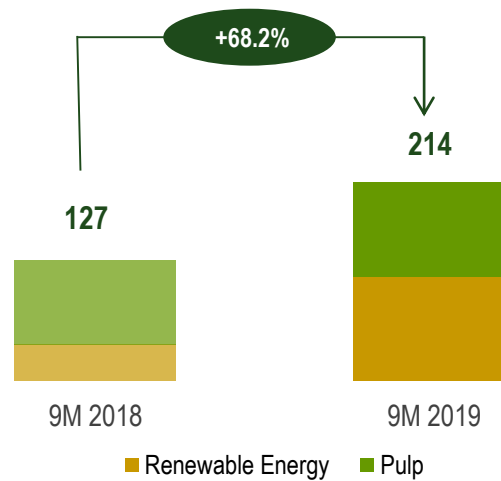
€83 Mn normalized Free Cash Flow & €214 Mn growth capex

Financial leverage of 2.5x EBITDA after Strategic Plan investments

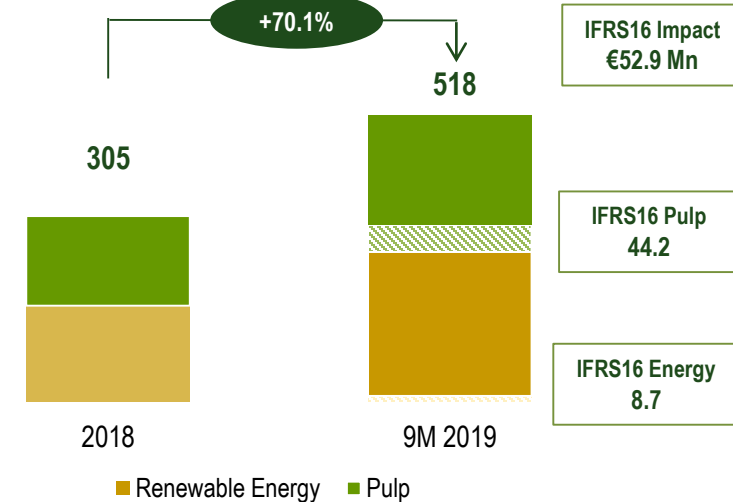
Normalized FCF¹ (€ Mn)



Growth Capex (€ Mn)



Net Debt (€ Mn)



Normalized Free Cash Flow generation of €83.3 Mn

- Lower EBITDA partially offset by lower financial expenses vs. 9M18 and
- Better working capital performance vs. 9M18

€213.5 Mn Strategic Plan investments :

- €111.9 Mn in the Pulp business
- €101.6 Mn in the Renewable Energy business
- 2019 is an extraordinary year for investments, including 100k t capacity expansions and 96 MW new power plants

Leverage of 2.5x Net Debt / LTM EBITDA²

- Pulp business: 1.8 Net Debt / LTM EBITDA
- Energy business: 4.3 Net Debt / LTM EBITDA²

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

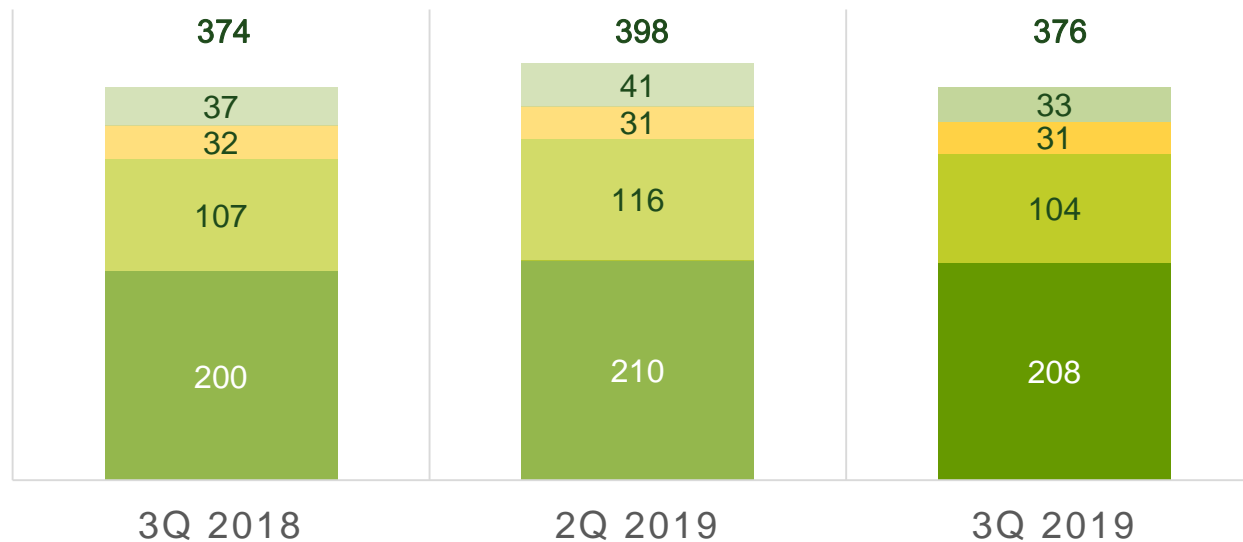
Stronger operating performance of the Pulp business in 3Q19

22 €/t Cash Cost reduction vs. 2Q19

Cash Cost breakdown

€/t

■ Wood cost ■ Conversion costs ■ Commercial and logistic costs ■ Overheads

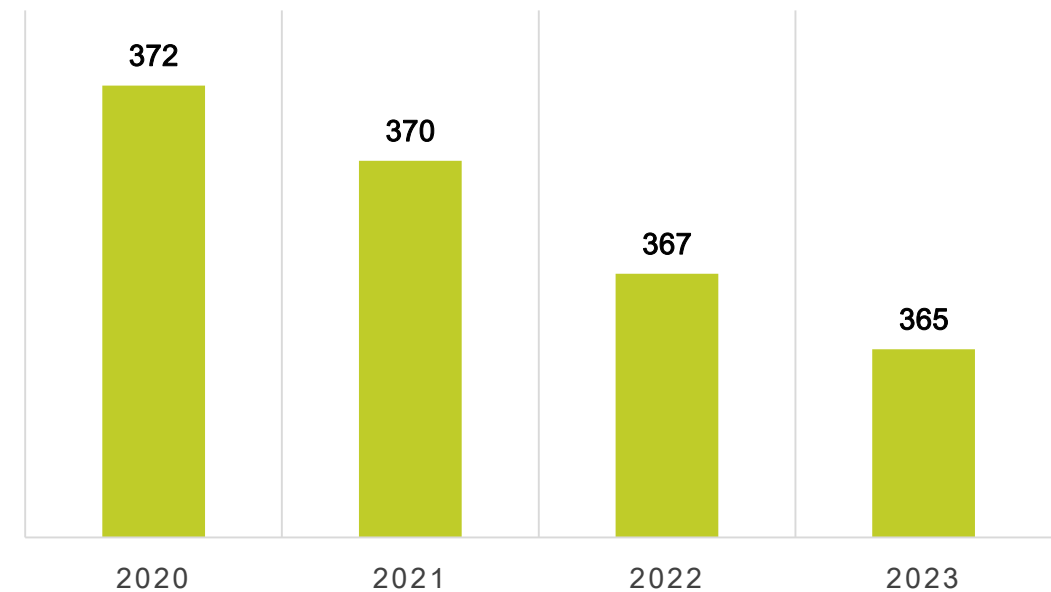


22€/t Cash Cost reduction vs. 2Q 2019

- 12 €/t conversion costs improvement
- 8 €/t overhead cost decrease
- 2 €/t lower wood cost

Gradual reduction of BHKP cash cost of our Strategic Plan

€/t



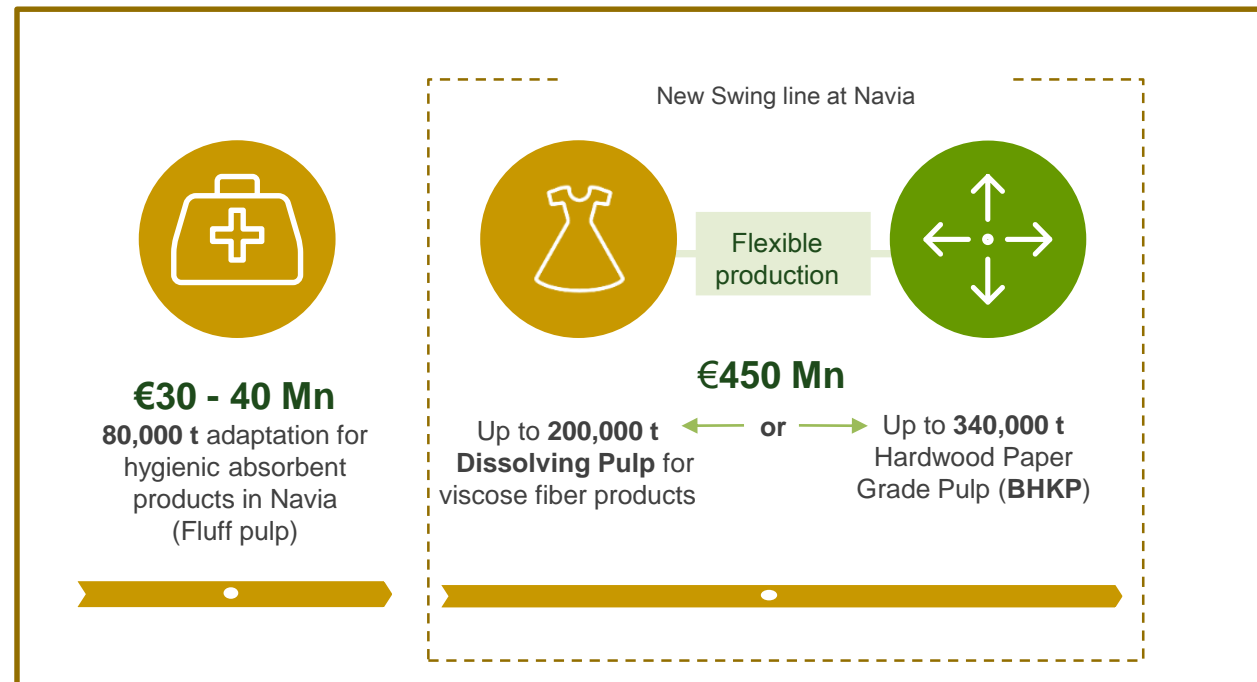
Cost optimization program launched in 3Q19, in order to achieve the Strategic Plan's annual cash cost targets

New Strategic Plan investments in Pulp subject to financial discipline

Board decision in 1Q 2020

Investment plan to be decided by the board
€ Mn

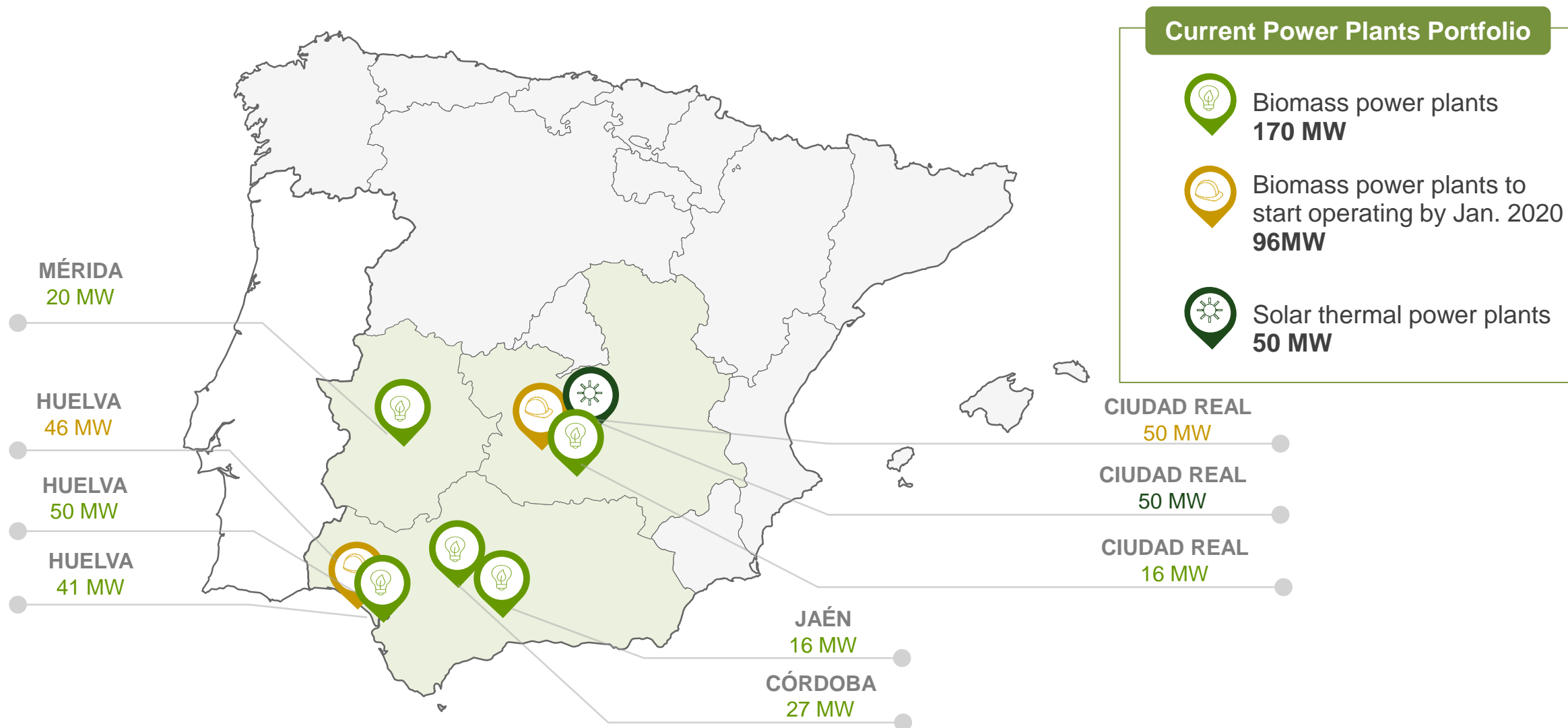
- The **Board** will decide on the project execution timing in **1Q 2020**, according to **pulp market conditions** and in order to comply with our self-imposed **leverage limits**.
- EPC and authorizations to be ready by 1Q 2020



A delay could be expected, considering our willingness to maintain Pulp business Net Debt to EBITDA ratio below 2.5 times at average cycle prices and our priority to reduce costs

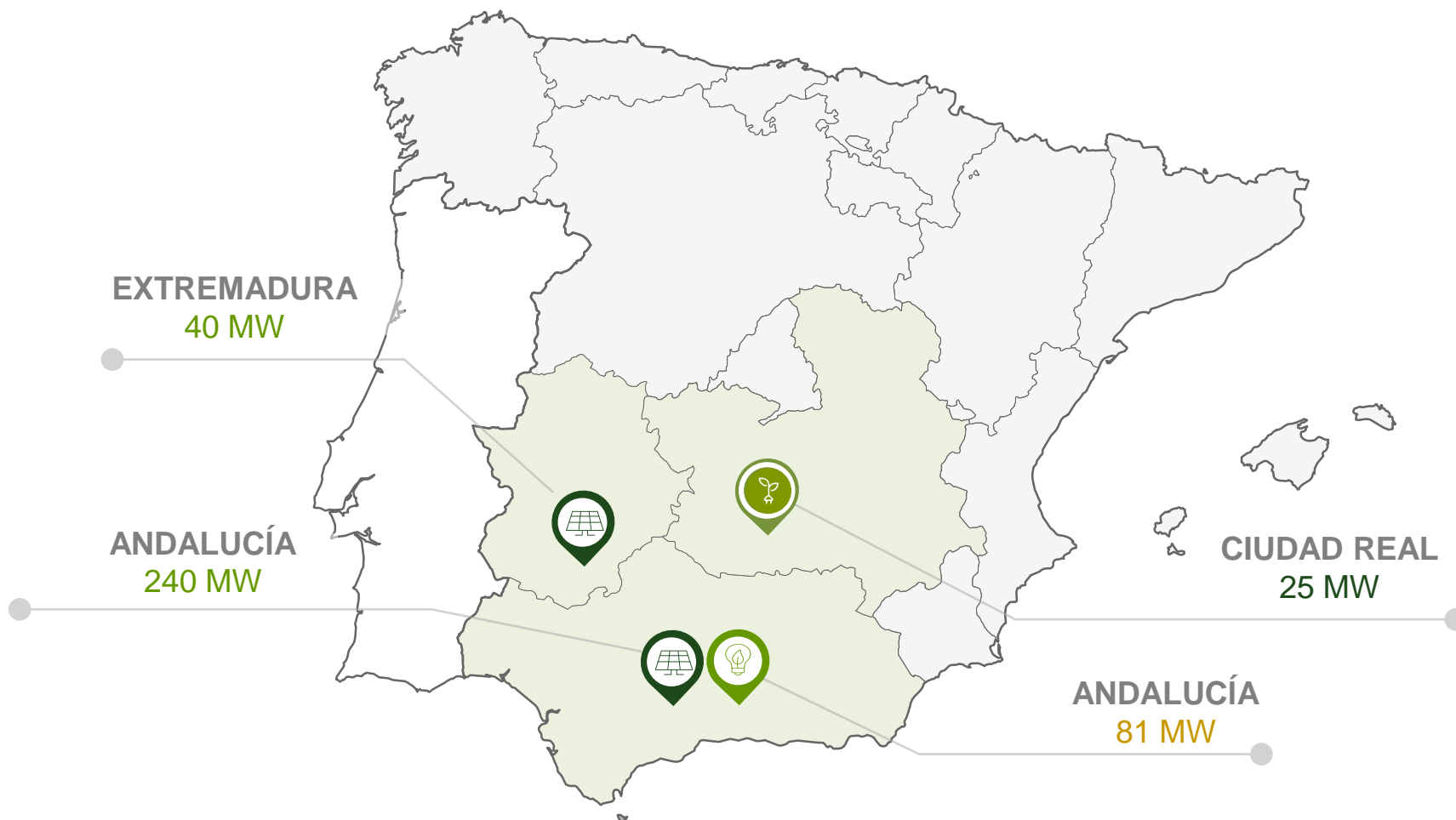
Energy business short term: current asset base and new biomass plants

c.30 Mn € expected EBITDA improvement in 2020



Energy business medium term: 2.1 GW project pipeline

386 MW with access to the grid



Pipeline



280 MW in PV

- ✓ Access to the grid secured
- ✓ High irradiation location secured
- ✓ Environmental authorizations in progress



81 MW in Biomass

- ✓ Access to the grid secured
- ✓ Location secured
- ✓ Awaiting European and Spanish Renewable Energy Plan



25 MW in Hybridization

- ✓ Access to the grid secured
- ✓ Location secured
- ✓ Awaiting European and Spanish Renewable Energy Plan



1,745 MW under development

- ✓ 1,670 MW in PV
- ✓ 75 MW in Hybridization

Pontevedra's Biomill legal status

Waiting for a first resolution from the National Court in the coming months



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 in the coming months, the legal case 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 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 3 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
- The evidence phase concluded in June and Ence has requested to unify the ruling of the three court cases into a single one, which is expected in the coming months

€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 approx. €130 Mn
- In the unlikely event that operations have to be discontinued, it would have a cash impact of €74 Mn (€43 Mn correspond to dismantling actions, €15 Mn to the cost of employment regulation of total extinction and €16 Mn to the cancellation of existing contracts)

Given the uncertainty, the Board of Directors 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.



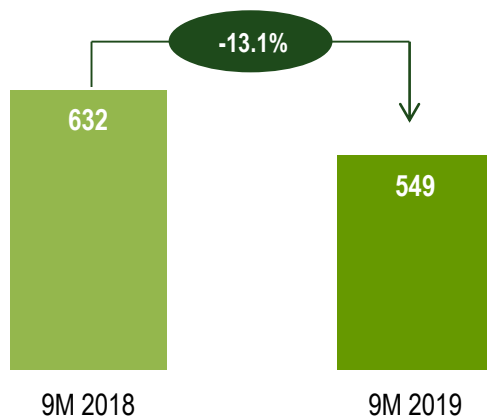
9M 2019 Results by Business



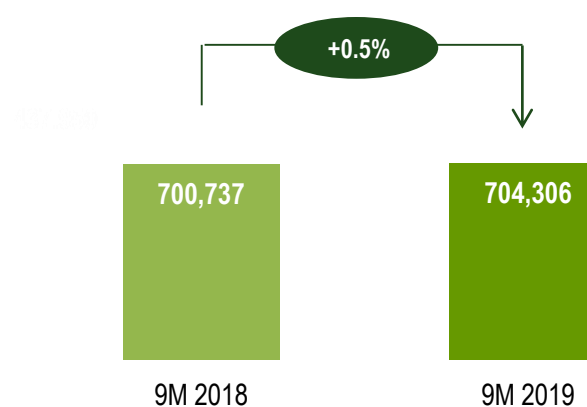
Pulp Business

9M 2019 impacted by pulp prices and FX hedges

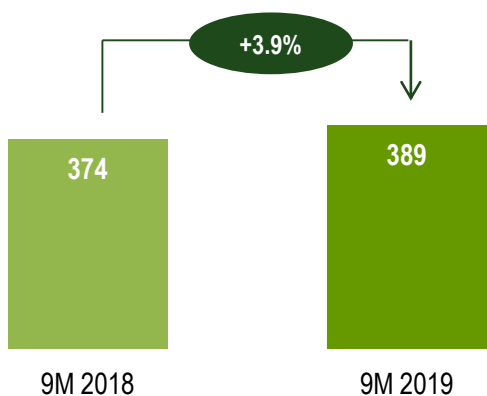
Avg. Net Pulp Price (€/t)



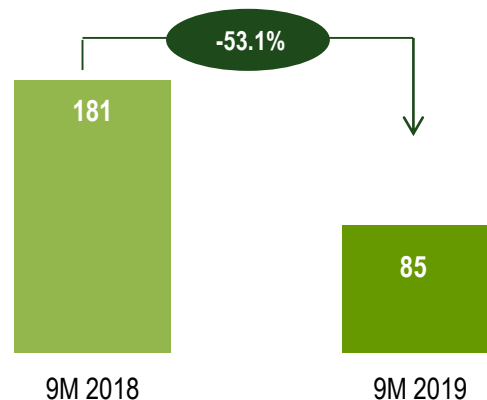
Pulp Sales Volume (t)



Avg. Cash Cost (€/t)



EBITDA (€ Mn)



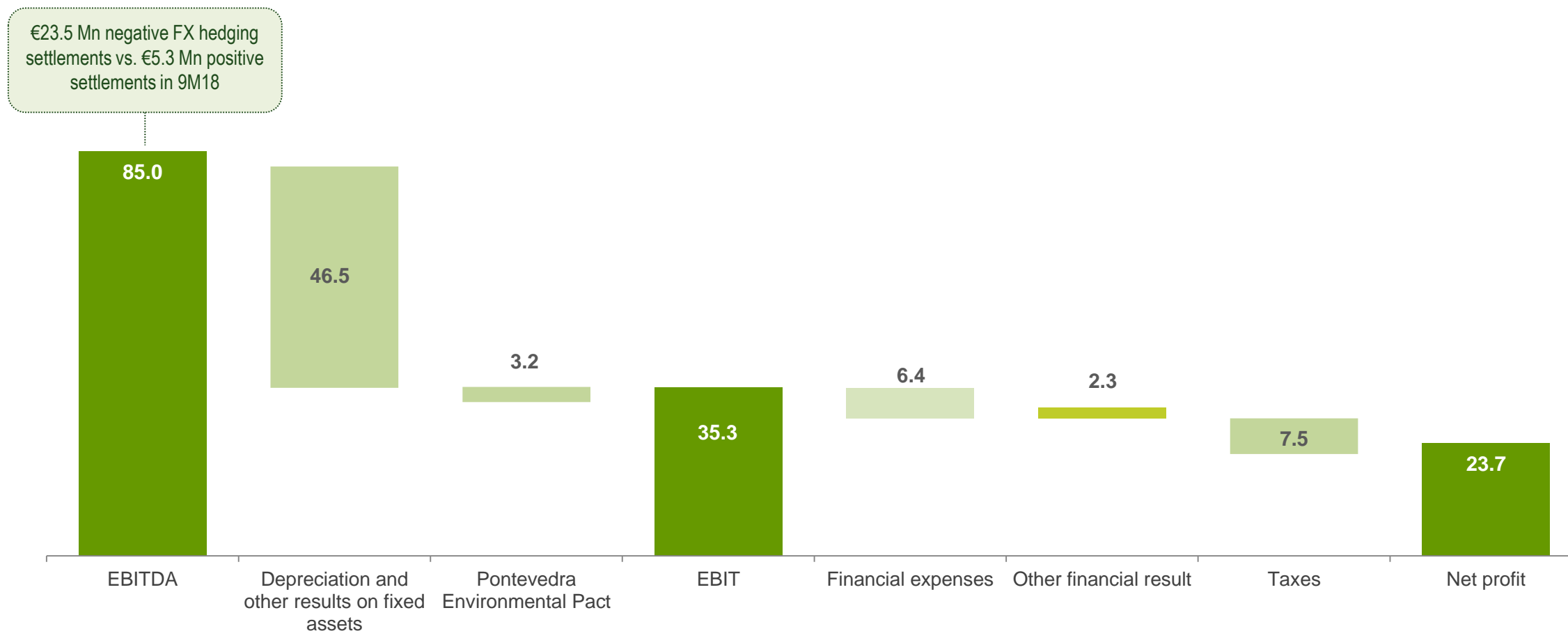
EBITDA decreased to €85 Mn due to:

- 13% lower net prices with 20% of sales outside Europe at spot prices
- €23.5 Mn negative settlements from FX hedging program vs. positive €5.3 Mn in 9M18
- 0.5% increase in pulp sales volume
- 3.9% cash cost increase

22€/t Cash Cost reduction vs. 2Q 2019



9M 2019 P&L Bridge (€ Mn)





Pulp Business

Cash flow generation



9M 2019 Cash Flow Bridge (€ Mn)





Ongoing FX hedging program

To mitigate FX volatility in the Pulp Business

Dollar/Euro Exchange Rate Evolution



Current Hedges

Q4 2019: 93% revenues

- Avg. cap: \$ 1.26 €
- Avg. floor: \$ 1.18 €

H1 2020: 76% revenues

- Avg. cap: \$ 1.22 €
- Avg. floor: \$ 1.16 €

H2 2020: 65% revenues

- Avg. cap: \$ 1.19 €
- Avg. floor: \$ 1.14 €

Ence has secured an average cap of \$1.26/€ and an average floor of \$1.18/€ for 93% of its dollar exposure until December 2019

Assuming 1.12 \$/€ in 4Q19, full year FX impact would be €28 Mn

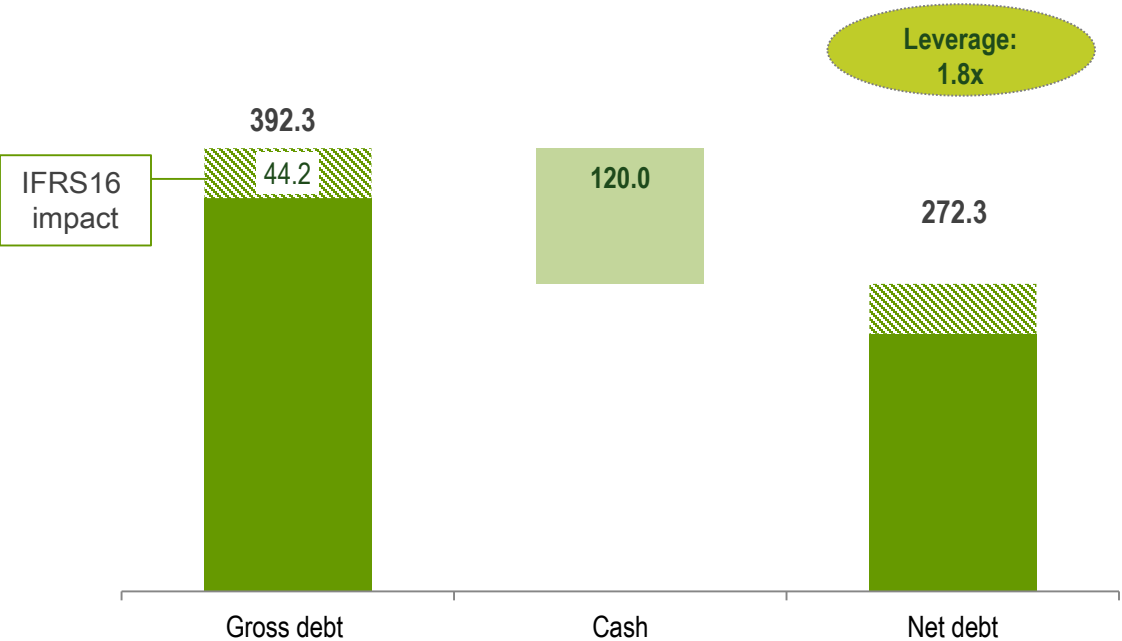


Pulp Business

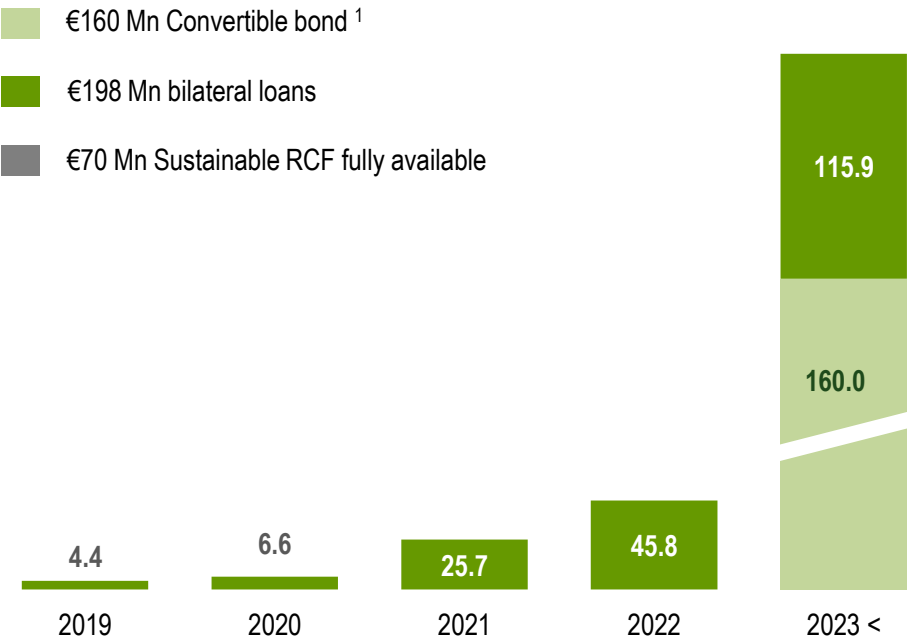
Financial debt and liquidity



Leverage as of September, 30th (€ Mn)



Debt Maturity Calendar (€ Mn)



Pulp business leverage at 1.8x Net Debt / LTM EBITDA as of September 2019

The application of IFRS16 on leases (from January 1st) led to the recognition of a financial liability of €44.2 Mn in the Pulp business

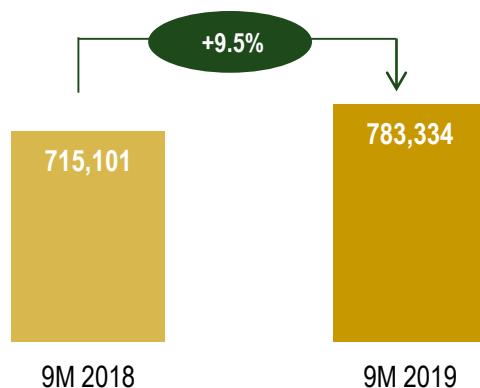
1. €148 Mn accounted as gross debt and €12 Mn accounted as equity as of September 30th 2019, according to IAS 32



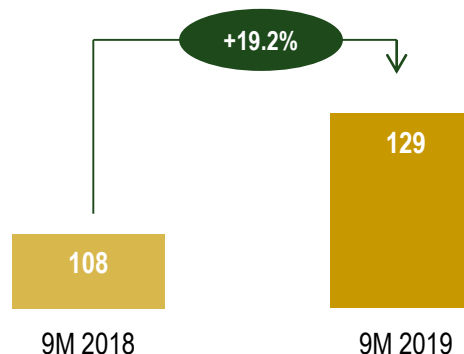
Renewable Energy Business

Including the contribution of Ciudad Real 50 MW solar thermal plant

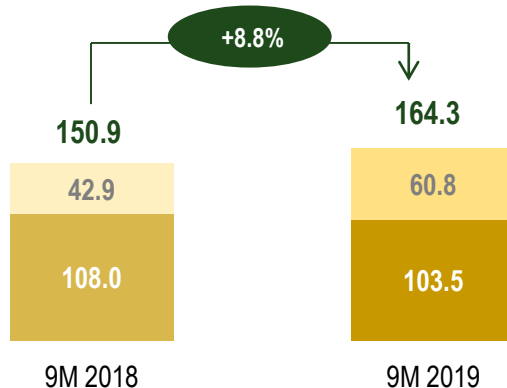
Energy Volume (MWh)



Revenues (€ Mn)

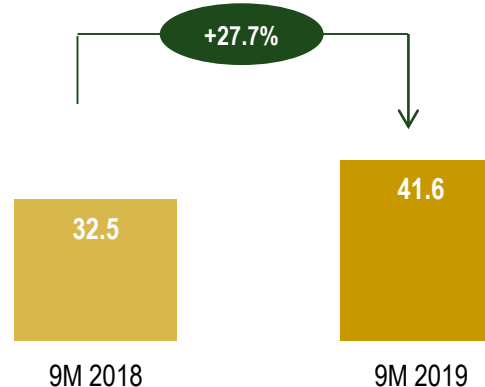


Revenue per MWh (€)



■ Precio Regulado pool + Ro ■ Ri

EBITDA (€ Mn)



27.7% EBITDA growth driven by:

Increasing contribution from the 50 MW solar thermal plant acquired in December 2018

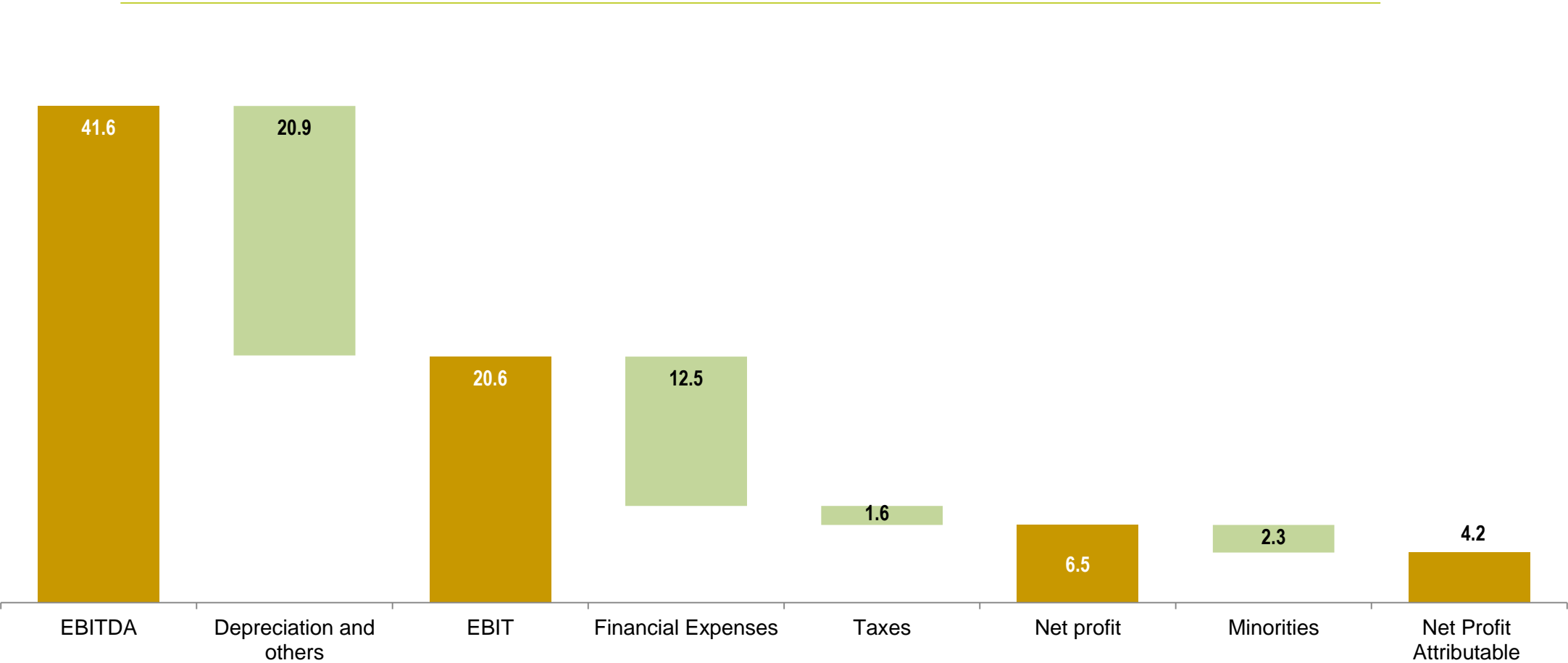
- 9.5 % increase in energy volume sold
- 8.8% increase in revenue per MWh



Renewable Energy Business

P&L

9M 2019 P&L Bridge (€ Mn)

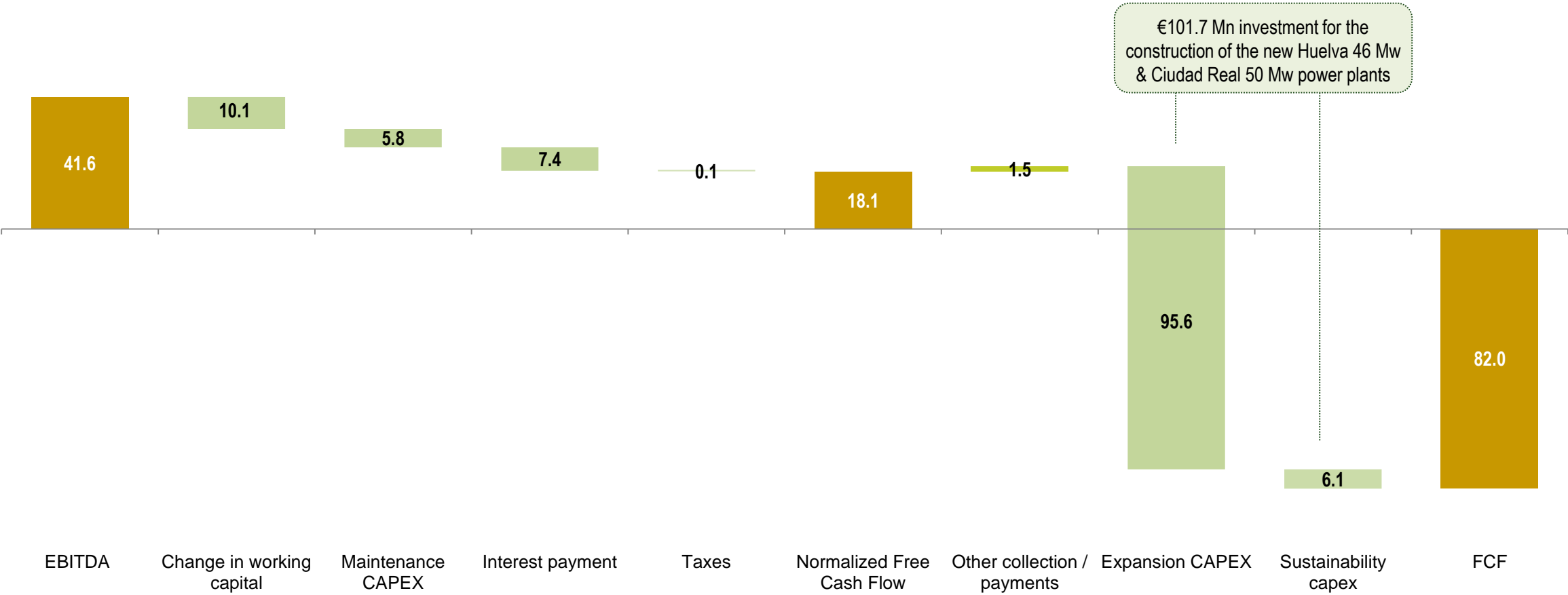




Renewable Energy Business

Cash flow generation

9M 2019 Cash Flow Bridge (€ Mn)



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

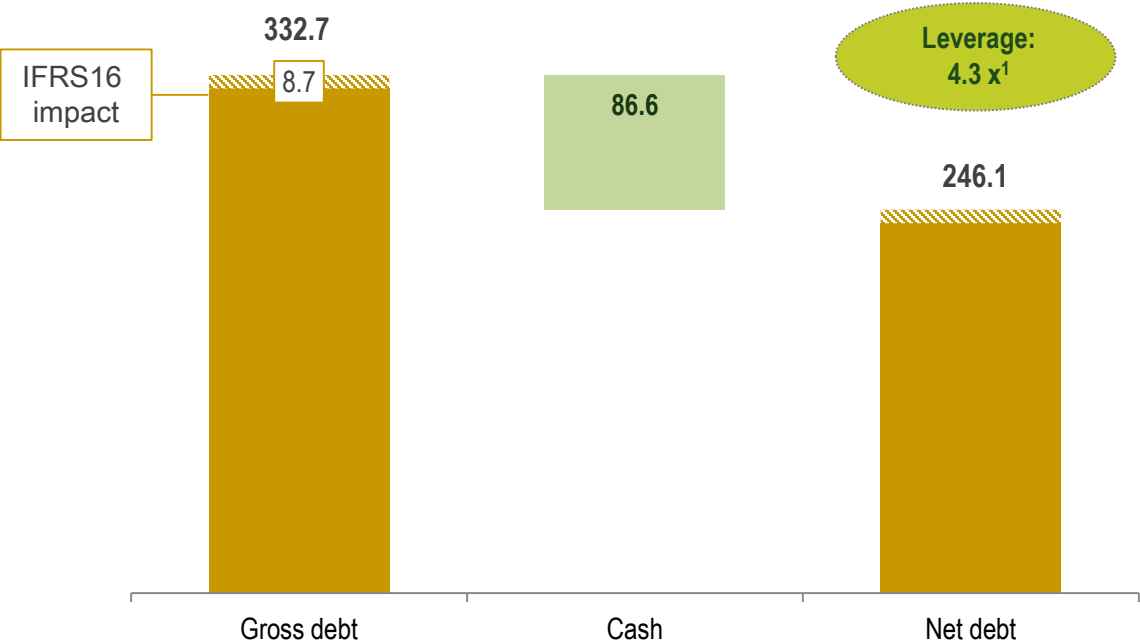


Renewable Energy Business

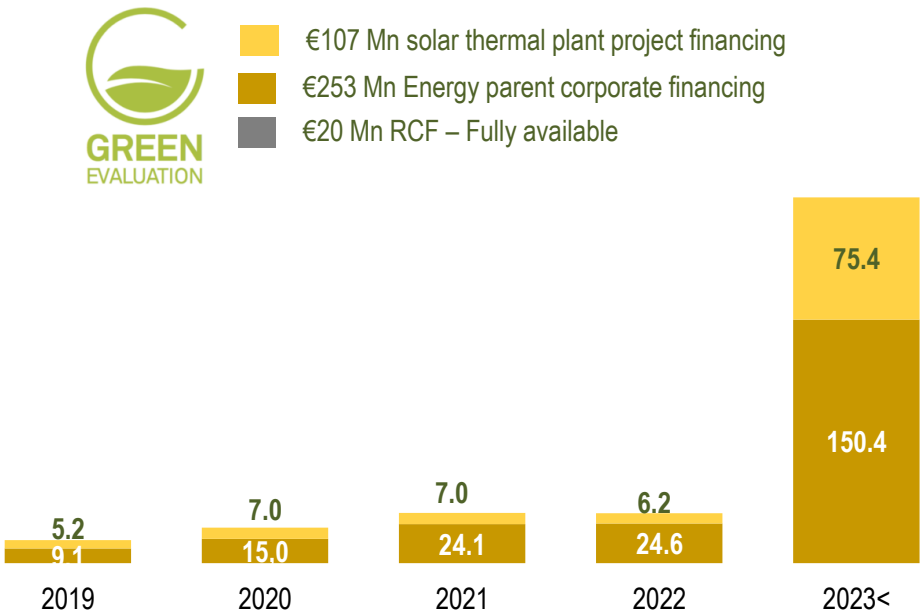
Asset growth upon Strategic Plan execution



Leverage as of September 30th, 2019 (€ Mn)



Debt Maturity Calendar (€ Mn)



Energy business leverage at 4.3x¹ Net Debt / LTM EBITDA as of September 2019

The application of IFRS16 on leases (from January 1st) led to the recognition of a financial liability of €8.7 Mn in the Renewable Energy business

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



Closing Remarks

Closing Remarks



Stronger operating performance of the Pulp business in Q3

Focus on cost reduction

Pulp Business 2019 operating targets:

Pulp Sales 2019E	Cash Cost 2019E (€/t)	\$/€ 2H 2019E (Including FX Hedges)
970,000	388	1.19

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

New Strategic Plan investments in Pulp: a delay could be expected, considering our willingness to maintain a Net Debt to EBITDA ratio below 2.5 times in this business

New biomass power plants to start operating in January 2020

Expected EBITDA improvement of c. €30 Mn in 2020

2.1 GW renewable projects pipeline with 280 MW in PV ready to build

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.

EBITDA is a measure used by the Ence's management to compare the ordinary results of the company over time. 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.

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.

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.



Delivering value Delivering commitments