



Q1 2018 Results

April 25th 2018

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Highlights

Highlights Q1 2018 Results

Increasing pulp prices with a tight demand & supply balance

- Additional **pulp price increases** up to \$ 1,050 / t for April
- Strong global demand
- Low inventories across the value chain
- No new large capacity announced in the industry

Strong 1Q18 results following pulp price increases

- **54% EBITDA** growth and **115% Net Income** growth vs.Q1 2017
- **Pulp business: 80% EBITDA** growth despite cash cost increase
- **Energy** business: €9 Mn EBITDA in Q1 2018 with lower energy prices and optimization of the annual 6,500 hour production limit. **€55 Mn EBITDA target** maintained

Strategic Plan's investments on track

- **Successful** execution of Pontevedra's **capacity increase** of **30k t** during Q1 2018
- **Navia's** annual maintenance advanced to May 2018 aiming at **80k t capacity increase** in April 2019
- **New Huelva 40 Mw** biomass power plant on track
- Analyzing further acquisition opportunities in the Energy business

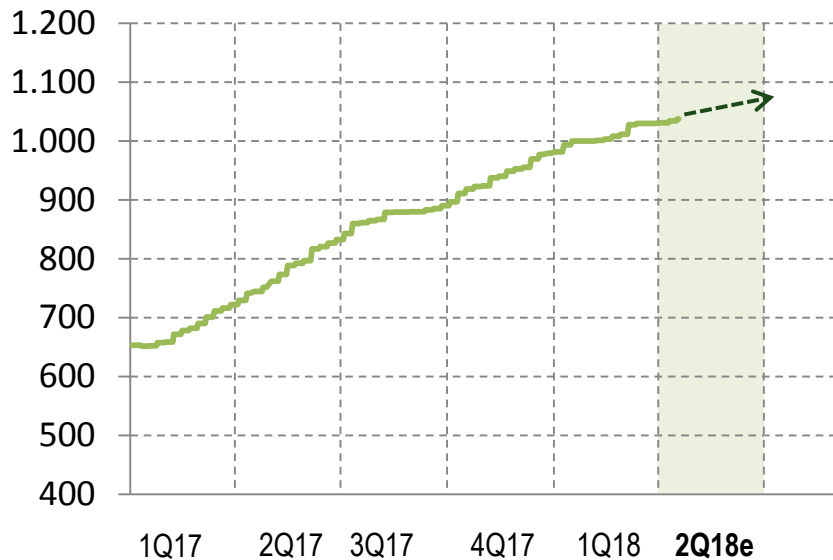
Lower leverage and attractive shareholder remuneration

- **€28 Mn Net debt** reduction
- Leverage ratio down to **0.5 x Net Debt / LTM EBITDA**
- Pulp business refinancing **saving €11 Mn interest payment** as from 2019
- Final **dividend of €16 Mn** (0,066 €/share) paid in April

Increasing pulp prices

With a tighter supply and demand balance

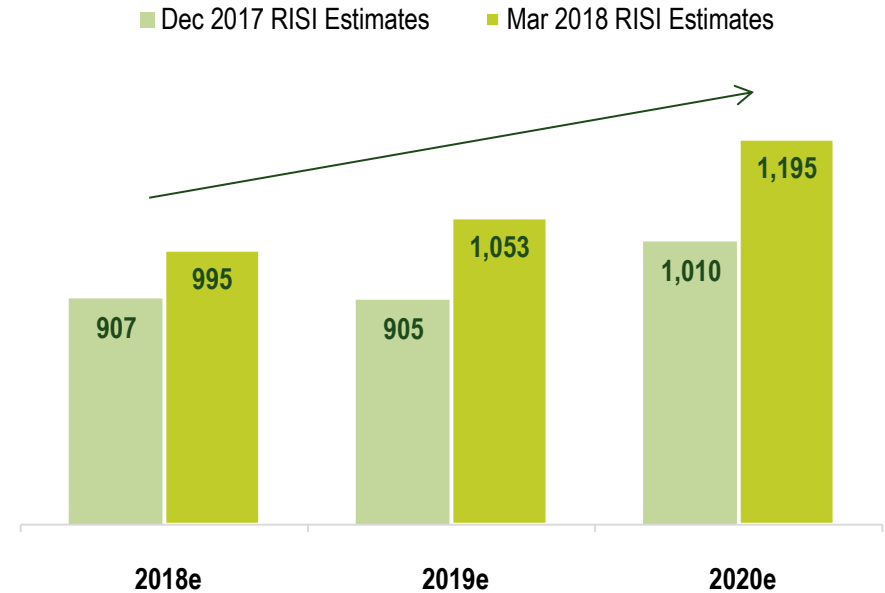
European Hardwood (BHKP) Pulp Prices (\$/t)



Additional pulp price increases up to 1,050 \$/t for April

- Low pulp inventories across the value chain
- Price gap between hardwood and softwood above 120 \$/t

RISI's Estimates for European Annual Average BHKP (\$/t)



Increasing pulp price forecast short and long term

- Widespread global demand growth
- No large capacity increases confirmed in the industry

No large capacity increases announced in the industry

Implies a tighter market during at least the next three years

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

Mn t	2017	2018	2017-18	2019	2017-19	2020	2017-20
ESTIMATED BHKP DEMAND INCREASE	1.6	2.0	3.6	1.4	5.0	1.4	6.4
CHINA	1.0	1.0	2.0	1.0	3.0	1.0	4.0
Stricter Environmental Protection Impact	0.4	0.5	0.9	0.0	0.9	0.0	0.9
OTHER ASIA / AFRICA / OCEANIA / MIDDLE EAST	0.2	0.2	0.4	0.2	0.6	0.2	0.8
EUROPE	0.0	0.1	0.1	0.1	0.2	0.1	0.3
NORTH AMERICA	0.0	0.1	0.1	0.0	0.1	0.0	0.1
LATIN AMERICA	0.0	0.1	0.1	0.1	0.2	0.1	0.3
ESTIMATED BHKP SUPPLY INCREASE	0.2	1.4	1.6	0.4	2.0	(0.7)	1.3
APP (OKI)	1.0	0.6	1.6	0.4	2.0	0.2	2.2
FIBRIA (TRES LAGOAS)	0.5	1.3	1.8	0.1	1.9		1.9
FIBRIA (ARACRUZ)	-0.1	-0.3	-0.4		-0.4		-0.4
KLABIN (PUMA)	0.5		0.5		0.5		0.5
SUZANO (IMPERATRIZ. MUCURI & MARANHÃO)	-0.1		-0.1	0.3	0.2		0.2
ENCE (NAVIA & PONTEVEDRA)			0.0	0.1	0.1	0.1	0.2
METSA (AANEKOSKI)	0.1		0.1		0.1		0.1
UPM (KYMI)		0.1	0.1		0.1		0.1
SVETLOGORSK (BELARUS)		0.1	0.1		0.1		0.1
CMPC (GUAIBA)	-0.6	0.6	0		0		0
TAIWAN P&P and RFP (Calhoun)	-0.1		-0.1		-0.1		-0.1
ARAUCO (VALDIVIA)			0	-0.1	-0.1	-0.1	-0.2
APRIL (KERINCI)	-0.2	-0.4	-0.6	0.2	-0.4	-0.2	-0.6
APRIL (RIZHAO)	-0.6	-0.4	-1.0	-0.4	-1.4	-0.4	-1.8
OTHER UNEXPECTED CLOSURES / CONVERSIONS	-0.2	-0.2	-0.4	-0.2	-0.6	-0.2	-0.8
SURPLUS / (DEFICIT)	(1.4)	(0.6)	(2.0)	(1.0)	(3.0)	(2.1)	(5.1)

Source: ENCE estimates

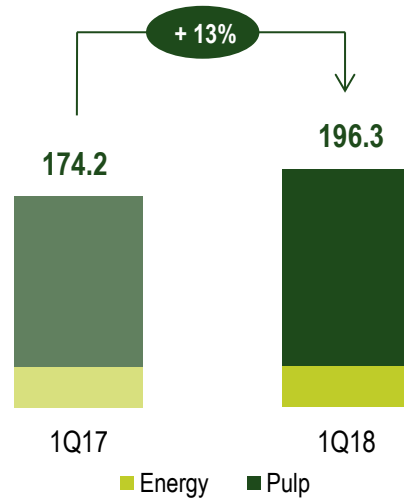
- Strong global demand growth reinforced by increasing environmental protection in China
- Lead time for new projects close to 3 years
- Higher industry concentration post Suzano - Fibria and APP - Eldorado deals
- Limited supply from Indonesian pulp mills
- Ongoing capacity conversions to Dissolving Pulp
- Recurring unplanned production outages in an industry operating above 90% of its capacity

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

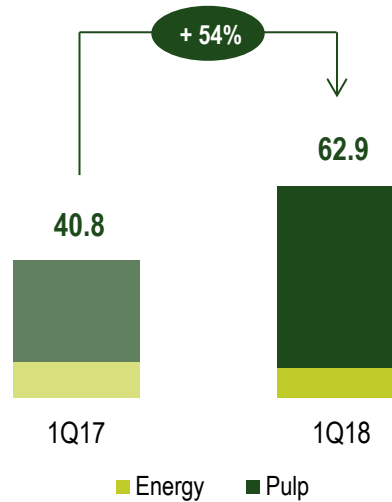
Strong Q1 2018 Results

Following pulp price increases

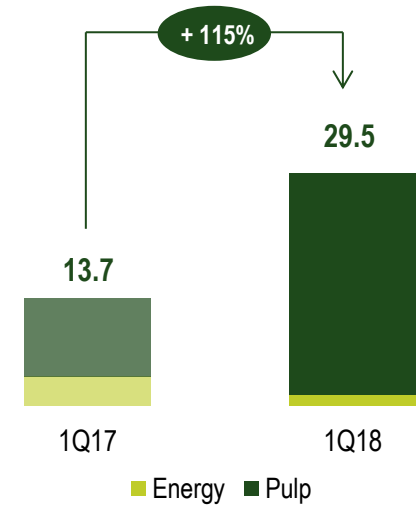
Group Revenues (€ Mn)



Group EBITDA (€ Mn)



Group Net Income (€ Mn)



Pulp business: 15% revenue growth

- 29% rise in pulp net selling price
- 5% decrease in pulp volume sold

Energy business: 1% revenue growth

- 9% decrease in energy net selling price
- 8% increase in energy volume sold

Pulp business: 80% EBITDA growth

- Despite higher Cash Cost due to wood & soda price increases

Energy business: 18% EBITDA decline

- Active management of the annual 6,500 hour production limit
- €55 Mn EBITDA guidance maintained

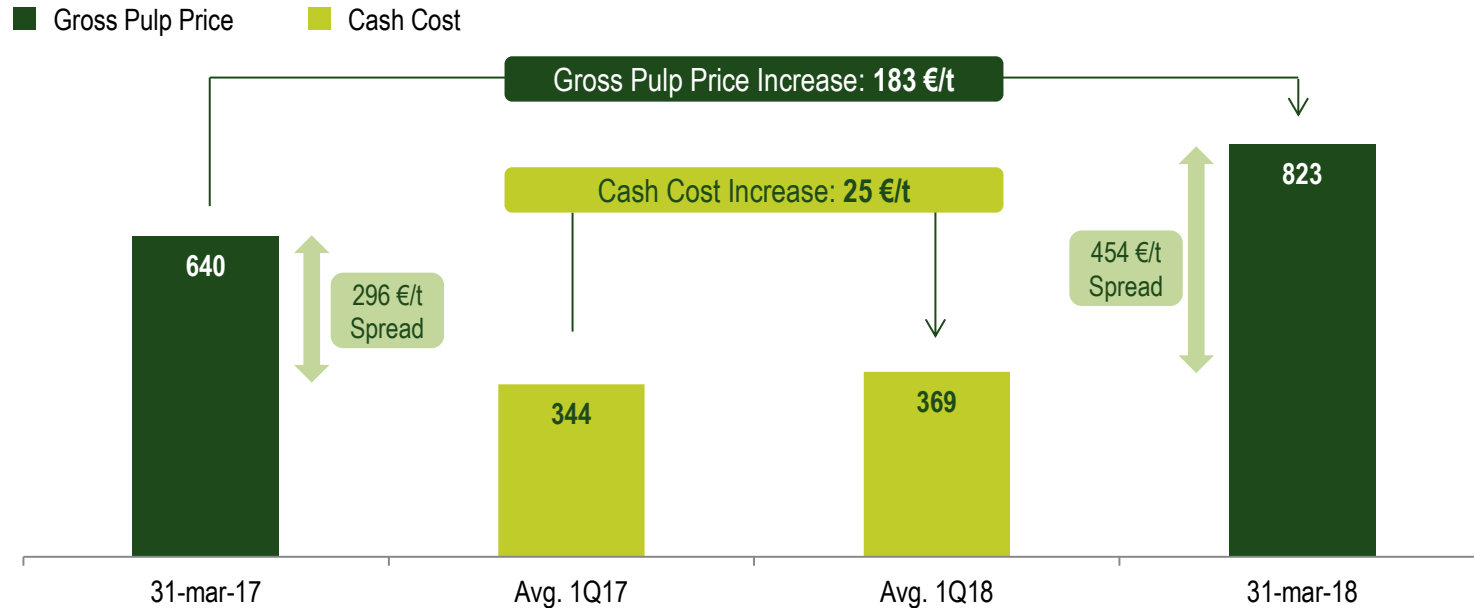
115% Net income growth

- **EPS** increase from 0.05 to 0.12 €/share, **118% growth**, including the amortization of 4 million shares in 2017

Increasing margins in the Pulp Business

Despite higher cash cost

Gross Pulp Price (€/t) & Cash Cost (€/t)



9 €/t Cash Cost increase to wood price linkage to increasing pulp prices

- 12 €/t cash cost increase following 4 wood price hikes implemented during LTM due its linkage to increasing pulp prices
- Partially offset by other wood cost saving initiatives

8 €/t Cash Cost increase due to doubling soda prices (768 €/t vs 367 €/t in 1Q17)

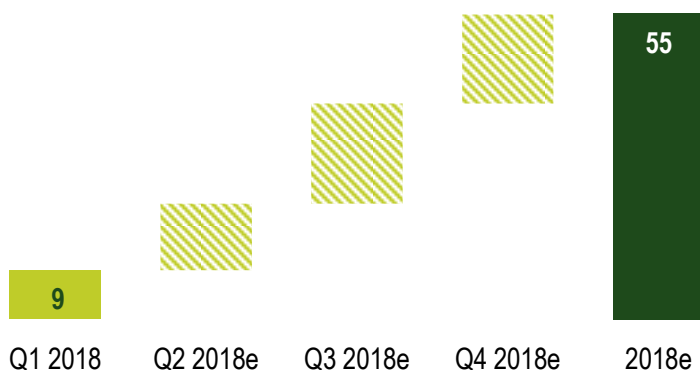
8 €/t Higher corporate and selling expenses

- Affected by lower pulp sales in the quarter and headcount growth

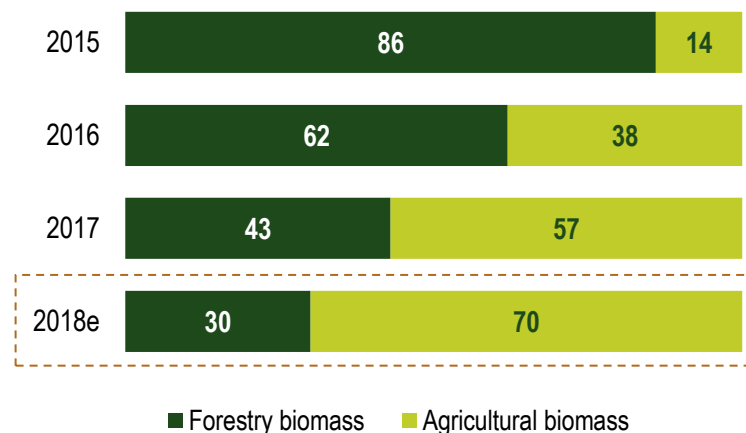
Active management of Energy production limit

€55 Mn EBITDA guidance maintained

Energy Business Expected EBITDA (€ Mn)



Ongoing Biomass Diversification



Lower EBITDA in 1Q18 vs. 1Q17 due to:

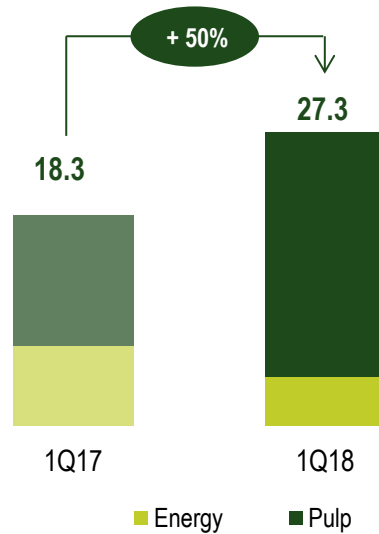
- 9% lower energy net selling price
- Active management of the annual 6,500 hour production limit
- Several one offs related to heavy rains

Ongoing diversification to agricultural byproducts aiming at **€ 4 Mn cost savings in 2018**

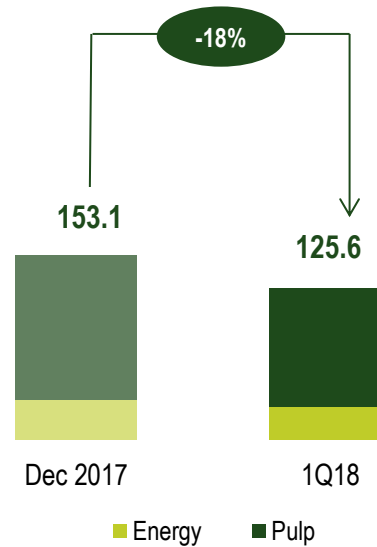
Strong Free Cash Flow and Net Debt reduction

Reducing financial leverage to 0.5 x LTM EBITDA

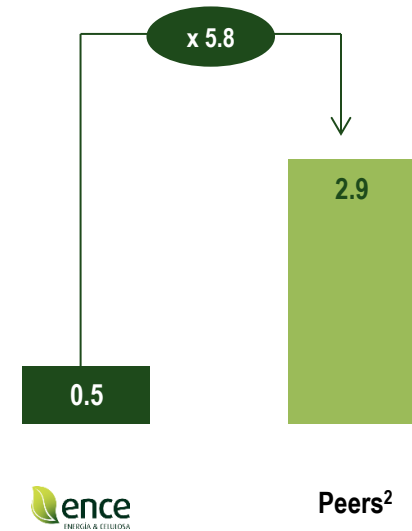
Normalized FCF¹ (€ Mn)



Net Debt Reduction in 1Q18



Lower Leverage than Peers



Strong Normalized Free Cash Flow generation of €27.3 Mn

- High EBITDA conversion into FCF: 43% including lower factoring for €15 Mn

€27.5Mn Net debt reduction after

- €16.5 Mn Strategic Plan Investments
- Convertible bond accounting

Further reducing leverage multiple

- Financial leverage down to **0.5 x Net Debt / LTM EBITDA**
- 5.8 x less than peer average

1. FCF before Strategic Plan investments, divestments & dividend payment

2. Average from Altri (Dec 17), Fibria (Dec 17), Suzano (Dec 17), Klabin (Dec 17), El Dorado (Dec 17) and CMPC (Dec 17)

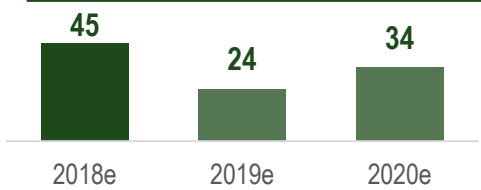
Strategic Plan investments on track

Pontevedra 30,000 tons capacity expansion successfully executed

Pulp

Pontevedra

Investment Plan (€ Mn)



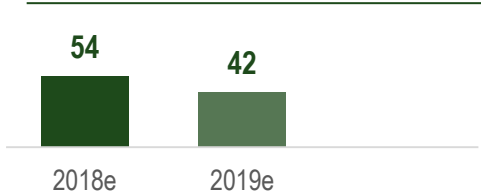
Capacity Increase
30,000 t in March 2018

6 months rump up

40,000 t in 2019

Navia

Investment Plan (€ Mn)

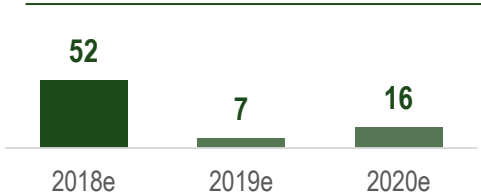


Capacity Increase
80,000 t in April 2019

2018 Annual maintenance
shutdown in May

Huelva

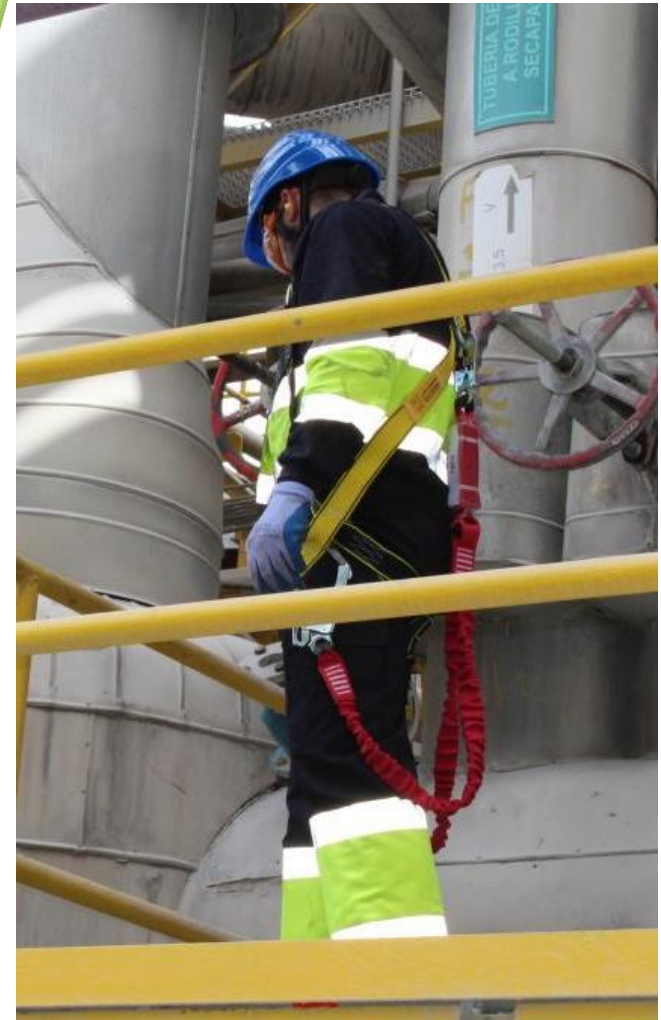
Investment Plan (€ Mn)



New Power Plant
40 Mw in December 2019

€11 Mn Exp. EBITDA in 2020

Analyzing further acquisition opportunities to reach an **EBITDA target of €78 Mn by 2020**

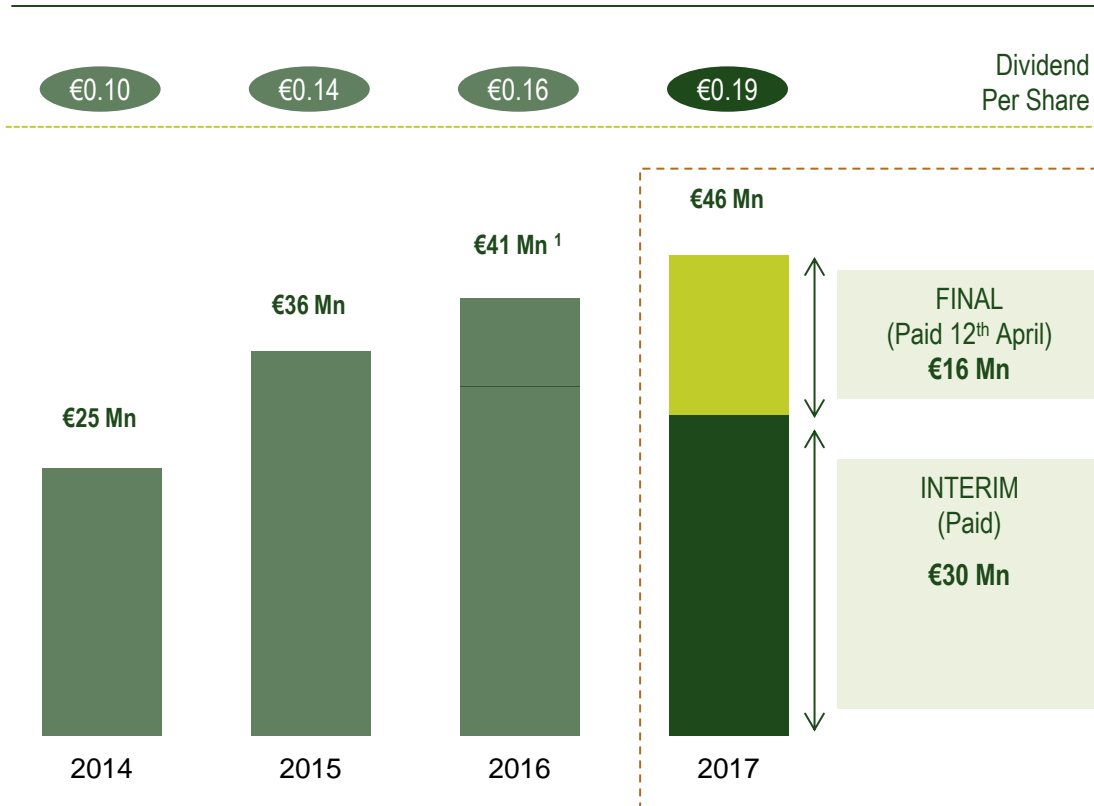


Energy

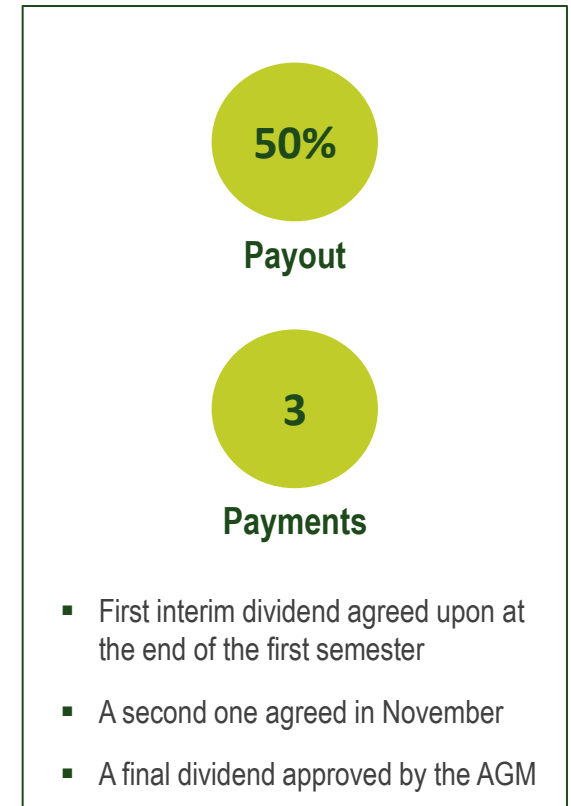
Maintaining an attractive shareholder remuneration

Final dividend of €16 Mn paid in April

Annual Accrued Dividends (€ Mn)



Dividend Policy



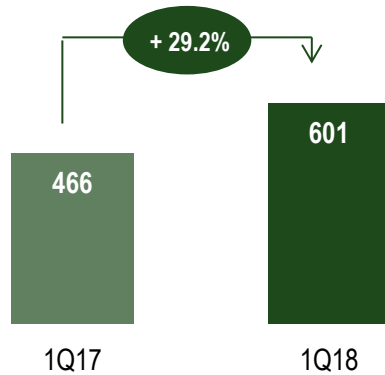
Final dividend of 0.066 €/share, equivalent to €16 Mn, paid on 12th April

1. Includes share buyback program

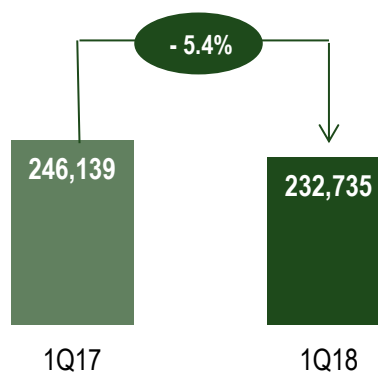


Q1 2018 Results by Business

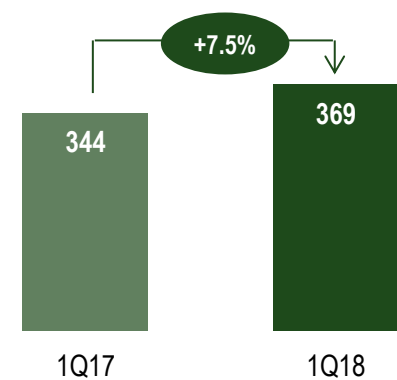
Avg. Net Pulp Price (€/t)



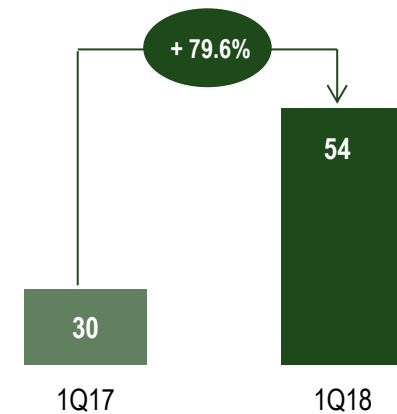
Pulp Sales Volume (t)



Avg. Cash Cost (€/t)



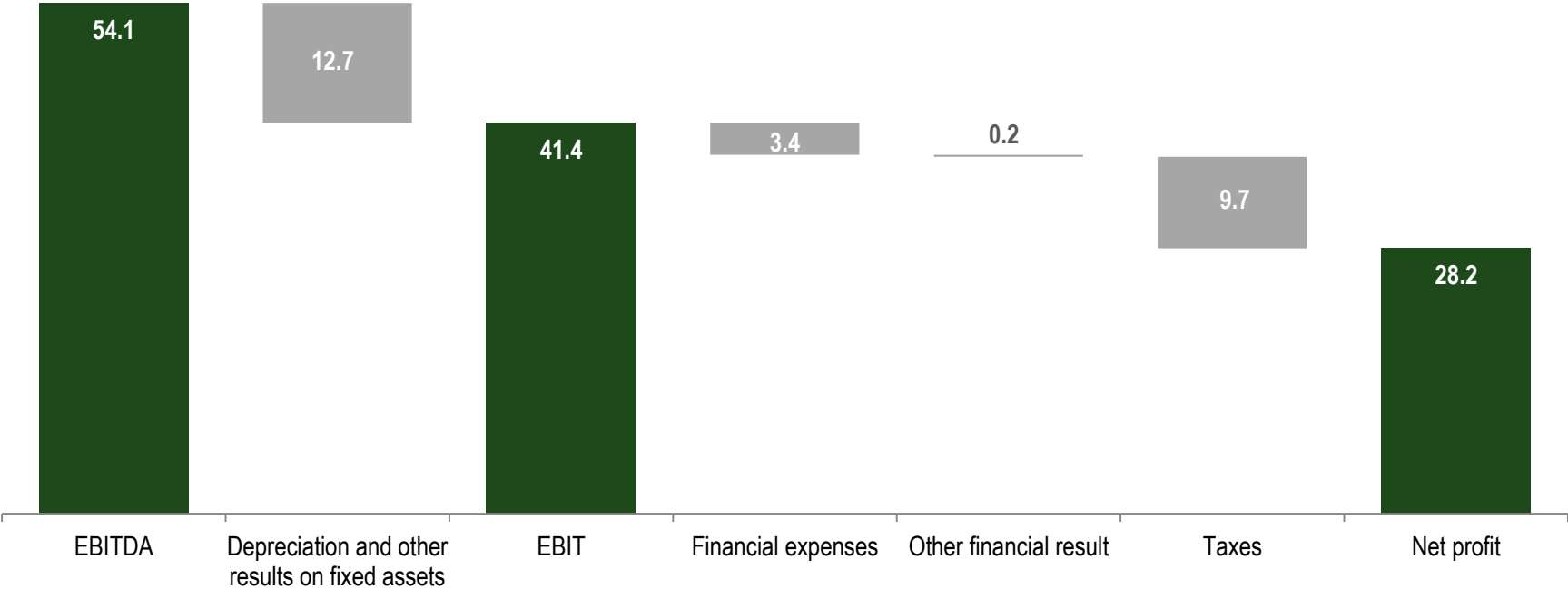
EBITDA (€ Mn)



80% EBITDA growth up to €54 Mn

- 29.2% net pulp price increase
- 5.4% decrease in pulp sales volume due to lower stocks
- 7.5% cash cost increase due to wood cost link to pulp price performance, doubling soda prices and lower fixed cost dilution

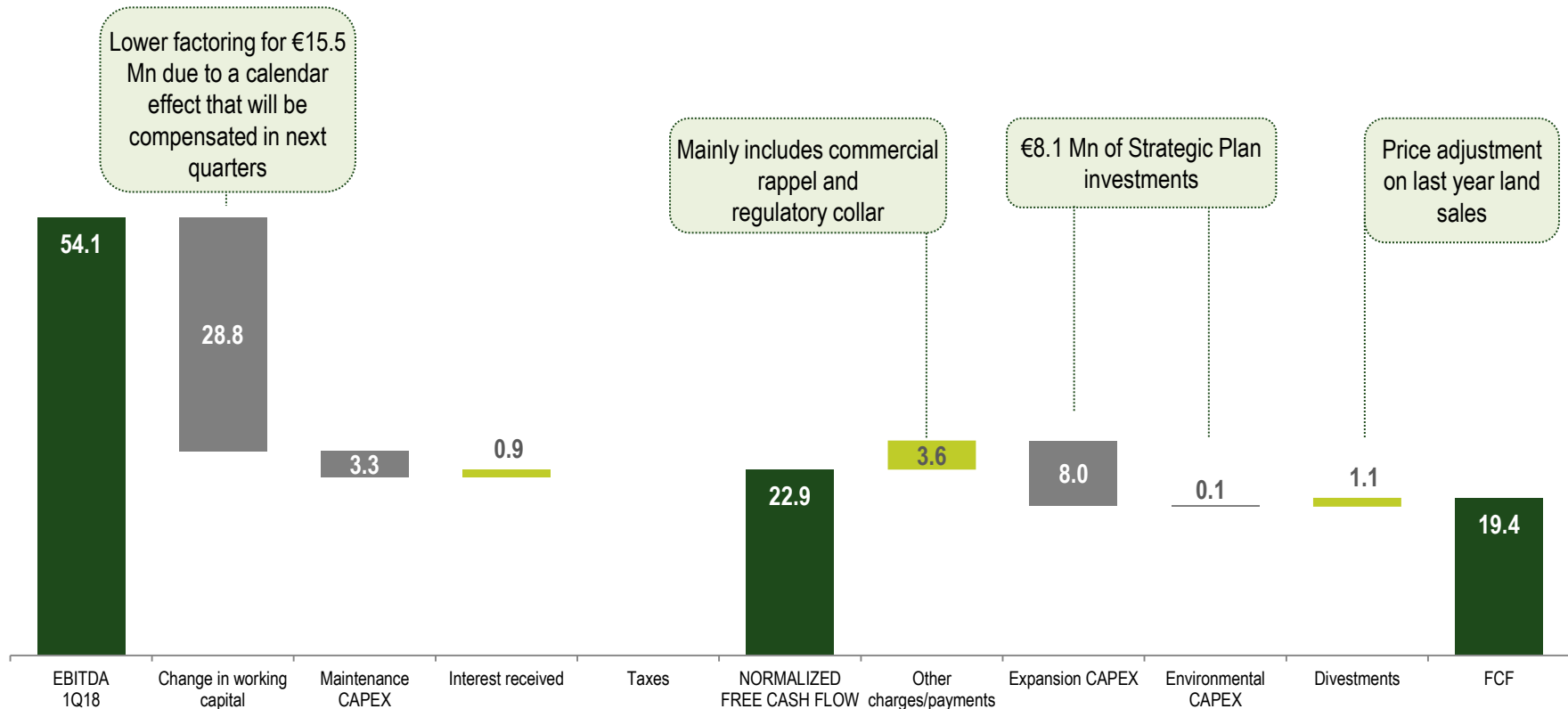
1Q18 P&L Bridge (€ Mn)



Pulp Business

Cash Flow generation

1Q18 Cash Flow Bridge (€ Mn)



1. Rappel: Commercial discount conditioned to reaching a certain annual pulp volume already included in the P&L

2. Regulatory collar: Adjustment derived from the deviation between the electricity price limits set by the Regulator and the real electricity price already included in the P&L

Ongoing FX hedging program

To mitigate FX volatility in the Pulp Business

Dollar/Euro Exchange Rate Evolution



Current Hedges

Q2 18: 50% revenues

- Avg. cap: \$ 1.16€
- Avg. floor: \$ 1.08 €

H2 18: 50% revenues

- Avg. cap: \$ 1.16 €
- Avg. floor: \$ 1.11 €

H1 19: 50% revenues

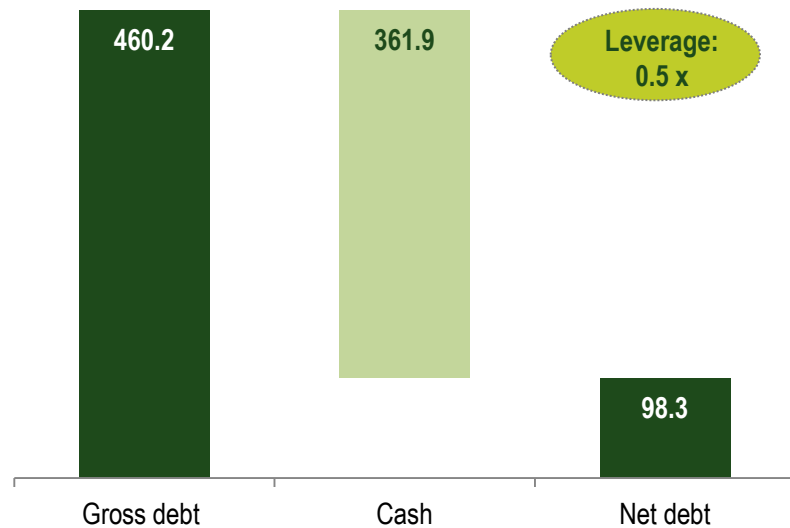
- Avg. cap: \$ 1.26 €
- Avg. floor: \$ 1.19 €

Ence has secured an average cap of \$1.16/€ for 50% of its dollar exposure until Dec. 2018

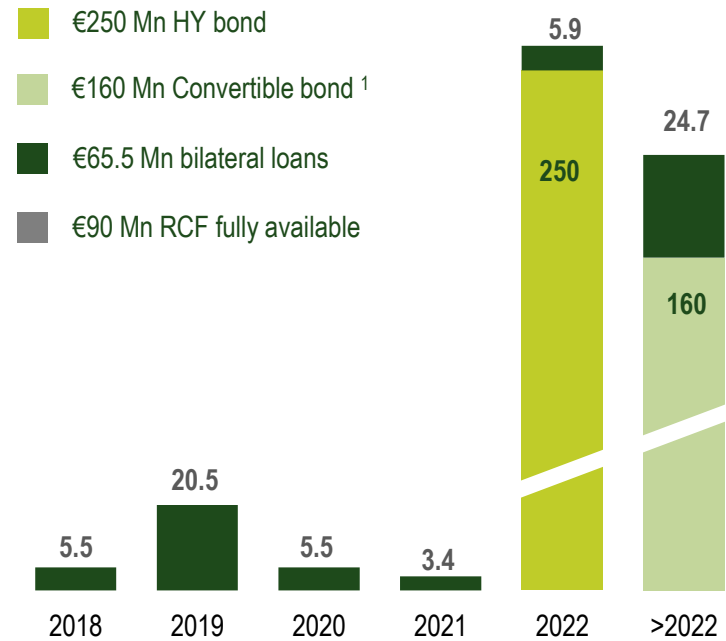
Pulp Business

Solid balance sheet and strong liquidity

Leverage as of March 2018 (€ Mn)



Debt Maturity Calendar (€ Mn)



Pulp business leverage at 0.5x Net Debt / LTM EBITDA as of March 2018.

1. €145 Mn accounted as gross debt and €15 Mn accounted as equity, according to IAS 32

Pulp business refinancing

To save €11 Mn interest payment as from 2019

Old High Yield Bond

5.375%
Interest Rate

€250 Mn



- €11.4 Mn
Annual Interest
Payment

New Convertible Bond

1.25%
Interest Rate

€160 Mn



Accounted as Equity ¹
€14.5 Mn

Accounted as Debt ¹
€145.5 Mn

Conversion Price
7.2635 €/share

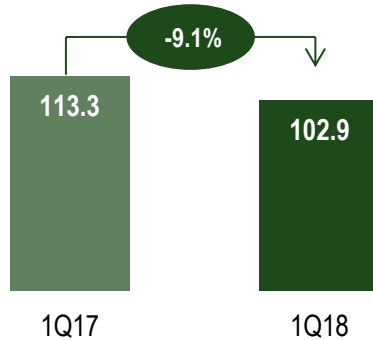
Maturity Date
5 March 2023

€250 Mn High Yield Bond redemption forecasted for 2Q18

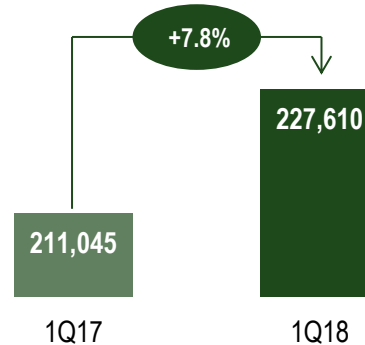
Energy Business

Operating performance

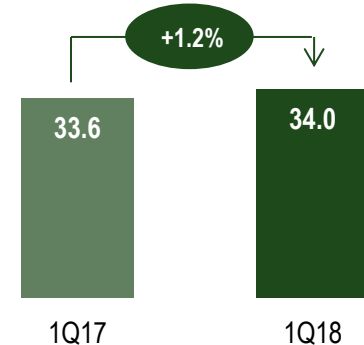
Avg. Selling Price (€/MWh)



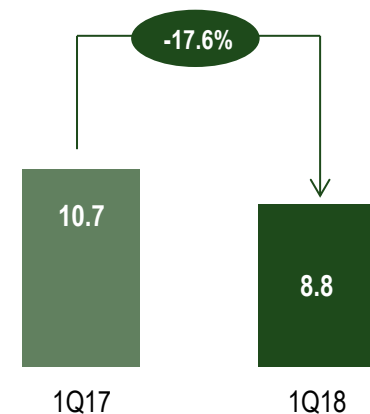
Energy Volume (MWh)



Revenues (€ Mn)



EBITDA (€ Mn)

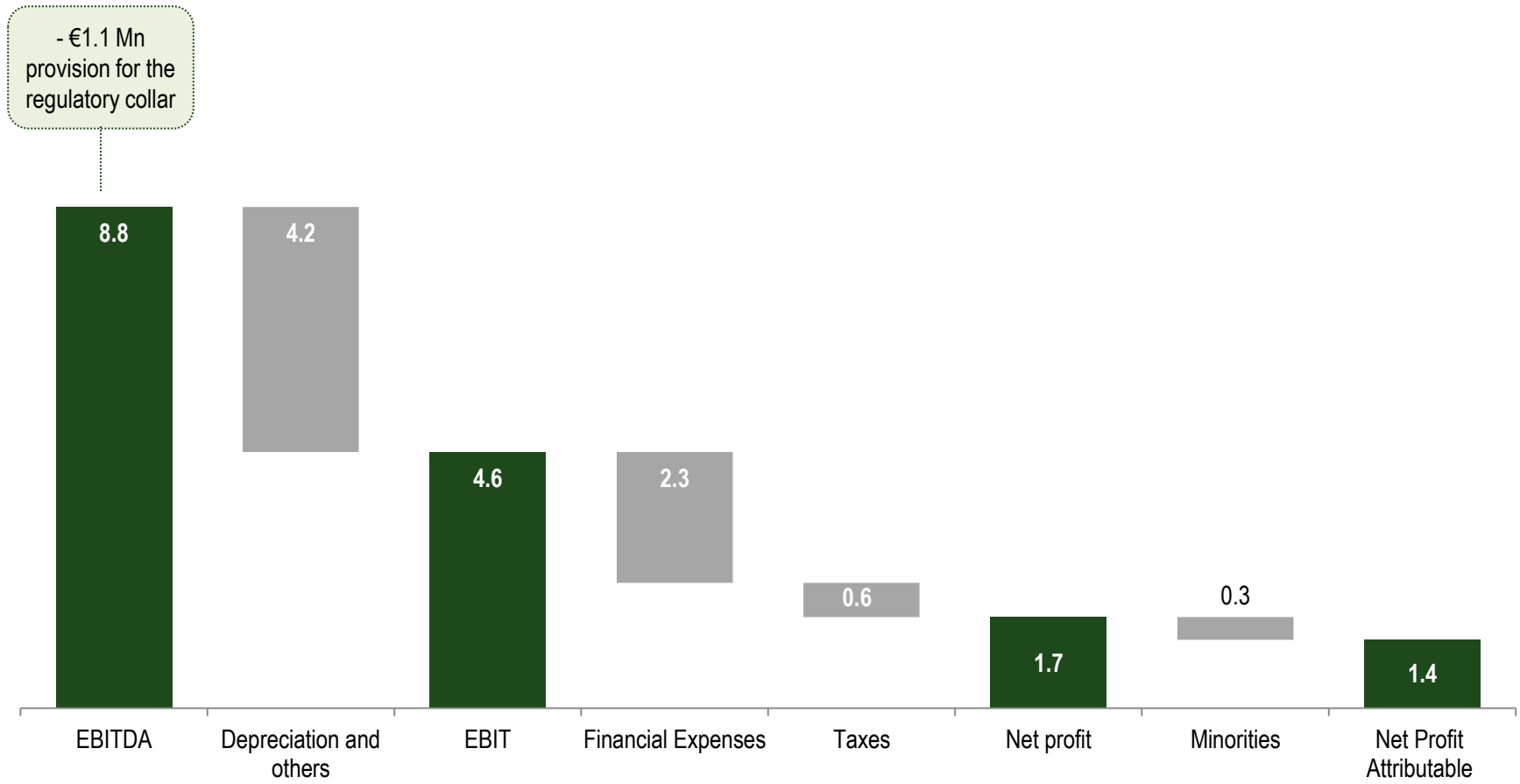


18% EBITDA decline

- 9.1% average selling price reduction
- 7.8% increase in energy volume sold
 - Increasing contribution from Cordoba 27 Mw plan acquired last August
 - Optimization of the annual 6,500 hour production limit
- **One-off costs** related to heavy rains in the quarter

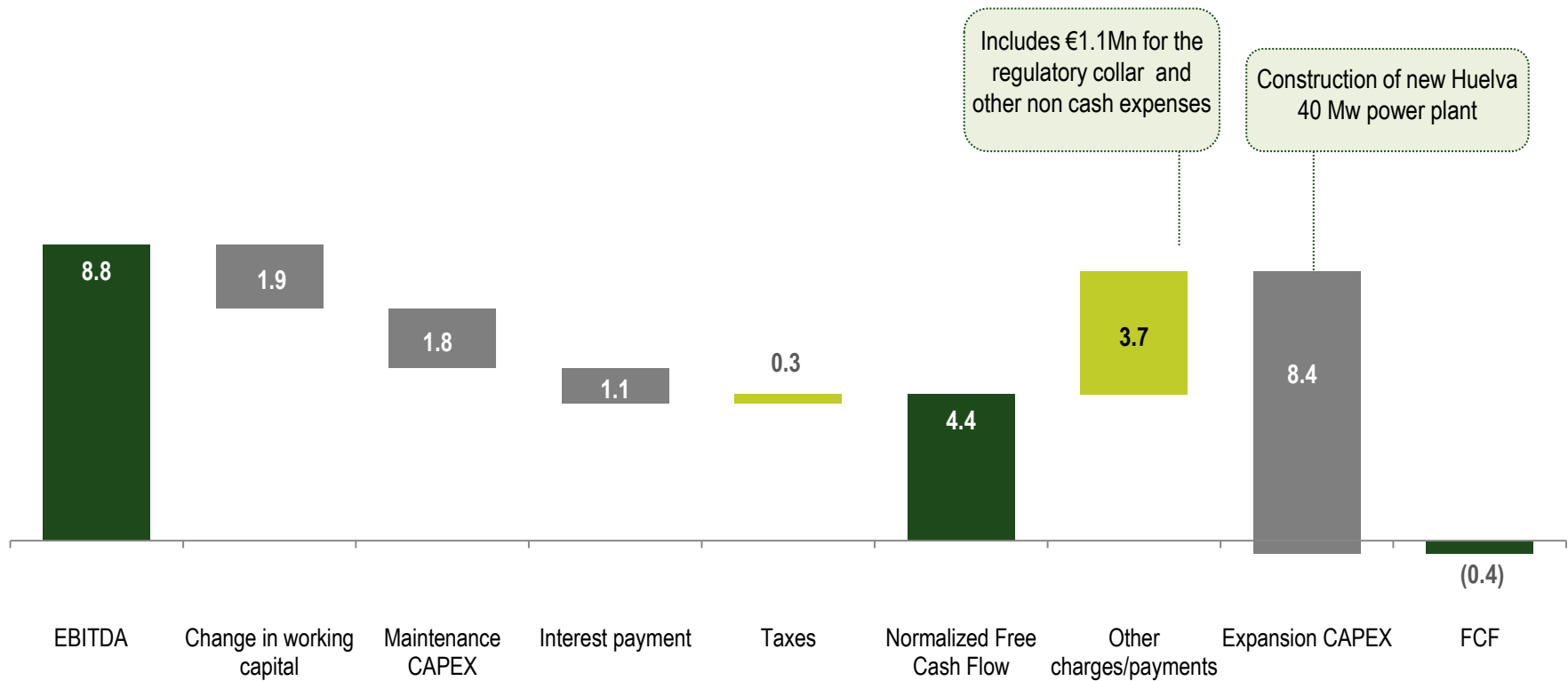
€55 Mn EBITDA target for 2018 maintained

1Q18 P&L Bridge (€ Mn)



1. Regulatory collar: Adjustment derived from the deviation between the electricity price limits set by the Regulator and the real electricity price

1Q18 Cash Flow Bridge (€ Mn)

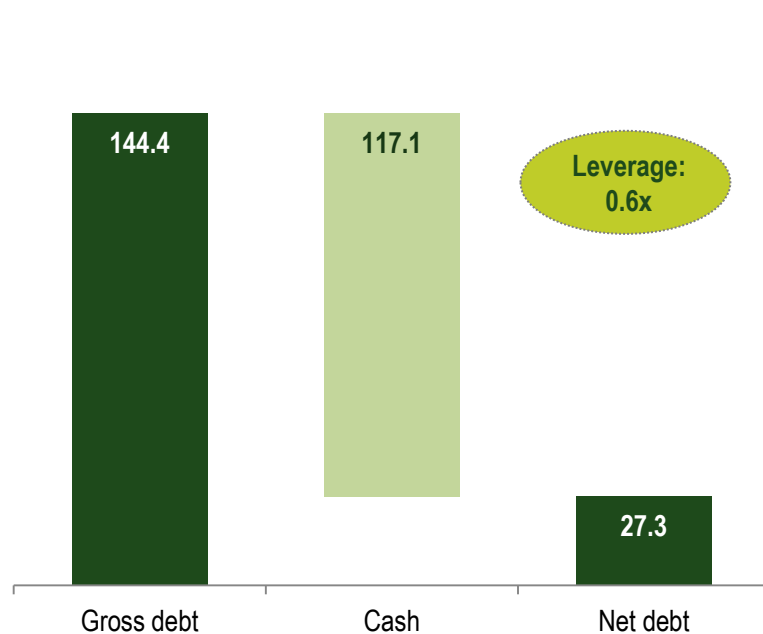


1. Regulatory collar: Adjustment derived from the deviation between the electricity price limits set by the Regulator and the real electricity price.

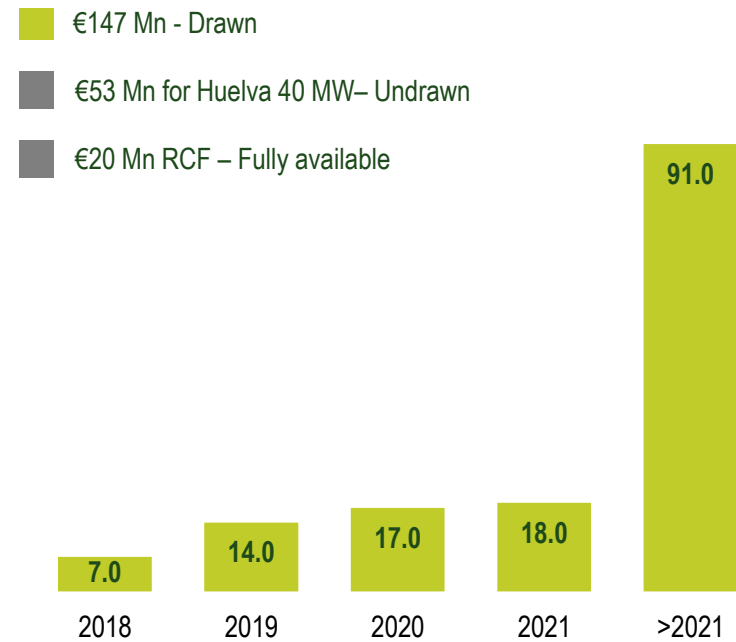
Energy Business

Solid balance sheet and strong liquidity

Leverage as of March 2018 (€ Mn)



Debt Maturity Calendar (€ Mn)



Energy business leverage at 0.6x Net Debt / LTM EBITDA as of March 2018



Closing Remarks

Closing Remarks



Increasing pulp prices

Tight supply and demand balance expected for the next 3 years

2018 EBITDA above €300 Mn, at current market conditions

Maintaining an attractive shareholder remuneration (50% dividend pay-out) and a low leverage ratio to ensure Strategic Plan pending investments

New Strategic Plan to be announced before year end

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 forest depletion charges, non-current asset impairment charges and gains or losses on non-current assets.

It provides an initial approximation of the cash generated by the company's 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.

Alternative Performance Measures (APMs) Pg.2

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