

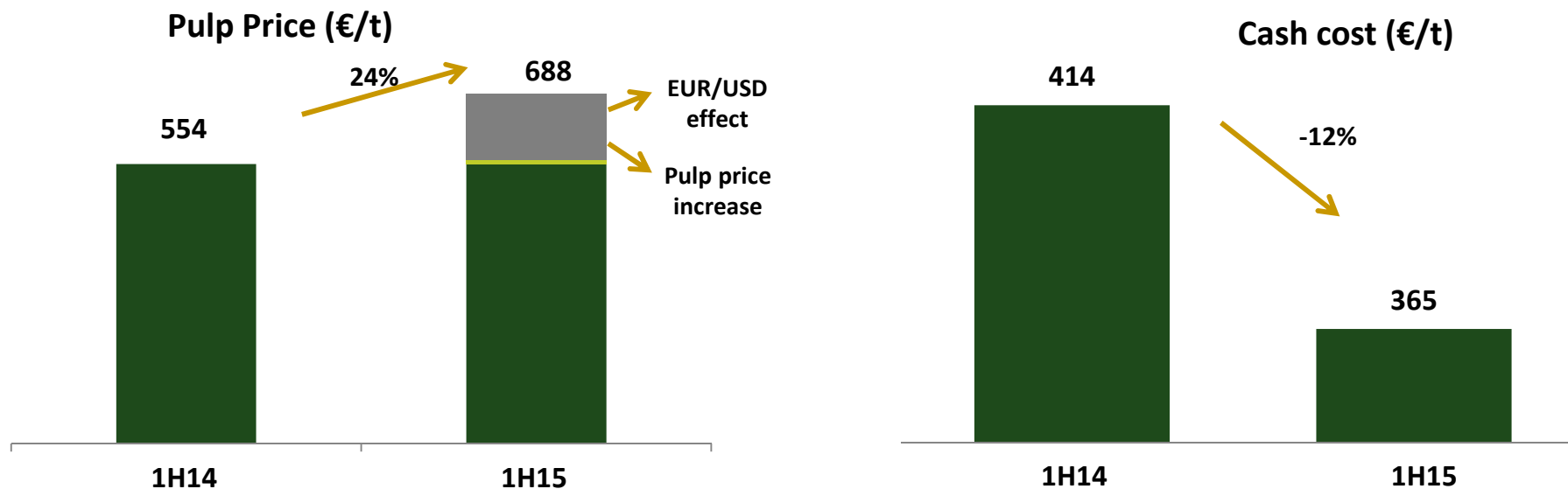
# Ence Energía y Celulosa 1H15 Earnings

July 22<sup>nd</sup>, 2015



# EBITDA & CASH GENERATION grow thanks to management efforts on cash cost reduction and a positive price environment

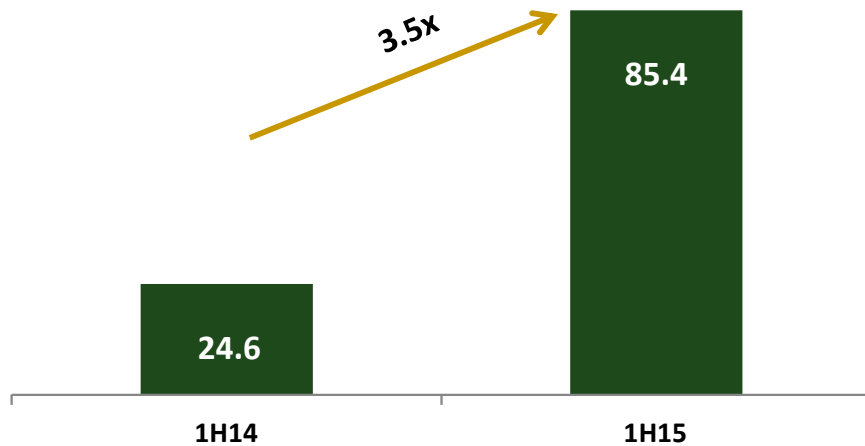
Strong conversion of €77 M EBITDA into €78 M Unleveraged Cash Flow from Operations in 1H15 compared to the weak conversion of €6 M EBITDA into €0.3 M Unleveraged Cash Flow from Operations in 1H14



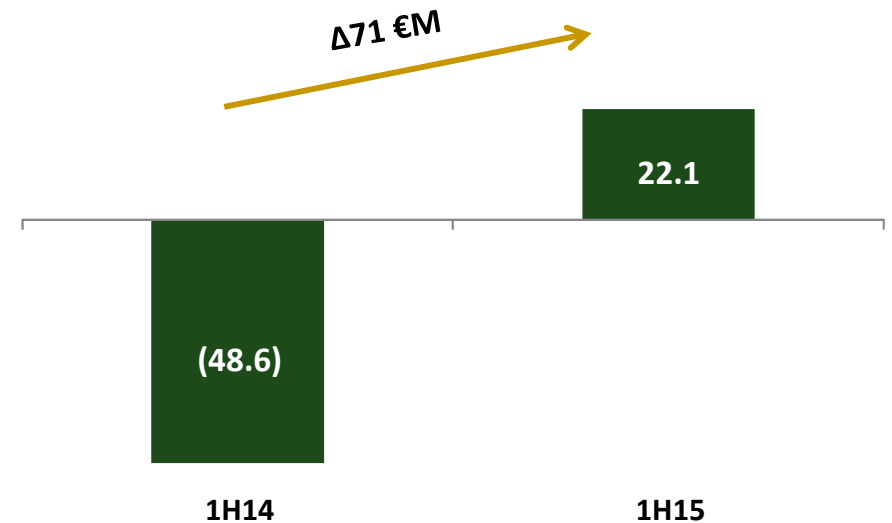
- ✓ Ence has the intention to distribute an **interim gross dividend** against 2015 earnings of €0.044/share in October
- ✓ Annual **EBITDA target heading €200 M**
- ✓ **Cash Cost reduction and Cash Flow Generation**
- ✓ **Capex:** focus on reducing costs and **40,000 t/y capacity increase**. Phase I of 20,000 t successfully executed in June along with the PB4 Efficiency Program
- ✓ **Prices:** \$810/t announced for May and ensuring the benefit of the exchange rate through an on-going USD dollar hedging program
- ✓ **Pontevedra's concession renewal** on track

# Earnings continue improving as expected...

### Adjusted EBITDA (€M)



### Net Profit (€M)

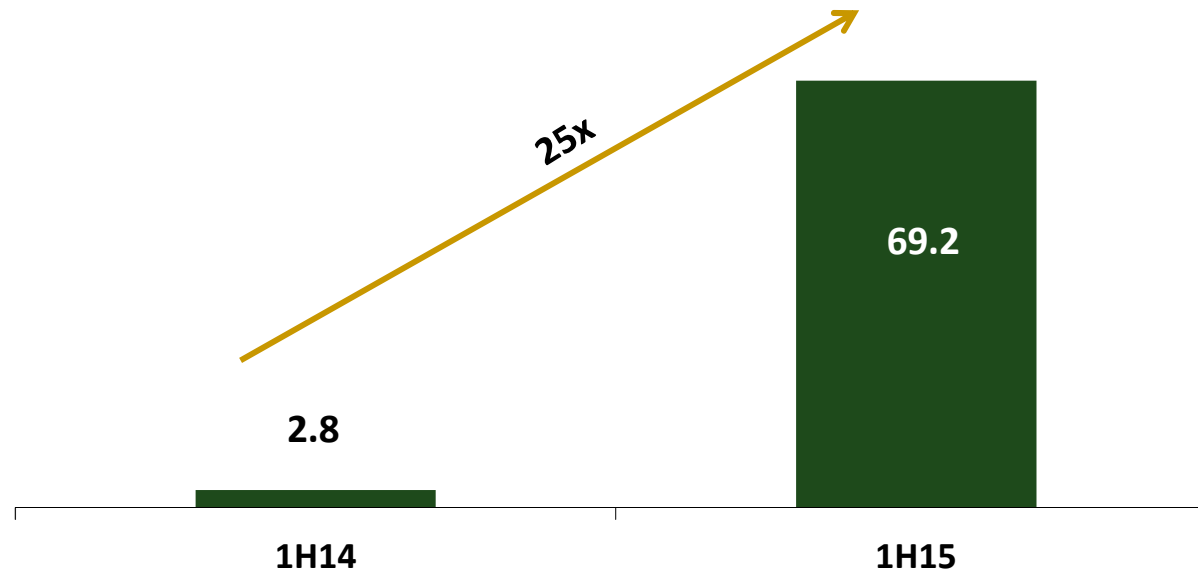


Note: Adjusted Ebitda includes mainly provisions for management long term bonus plan and payments to consultancy firms

- Ence's **earnings** continue its **positive evolution** during 2015
- Competitiveness Program** supports the strong **Adjusted EBITDA** improvement up to **€85.4 M** from **€24.6 M** in 1H14
- Net profit** reached at **€22 M** levels in 1H15

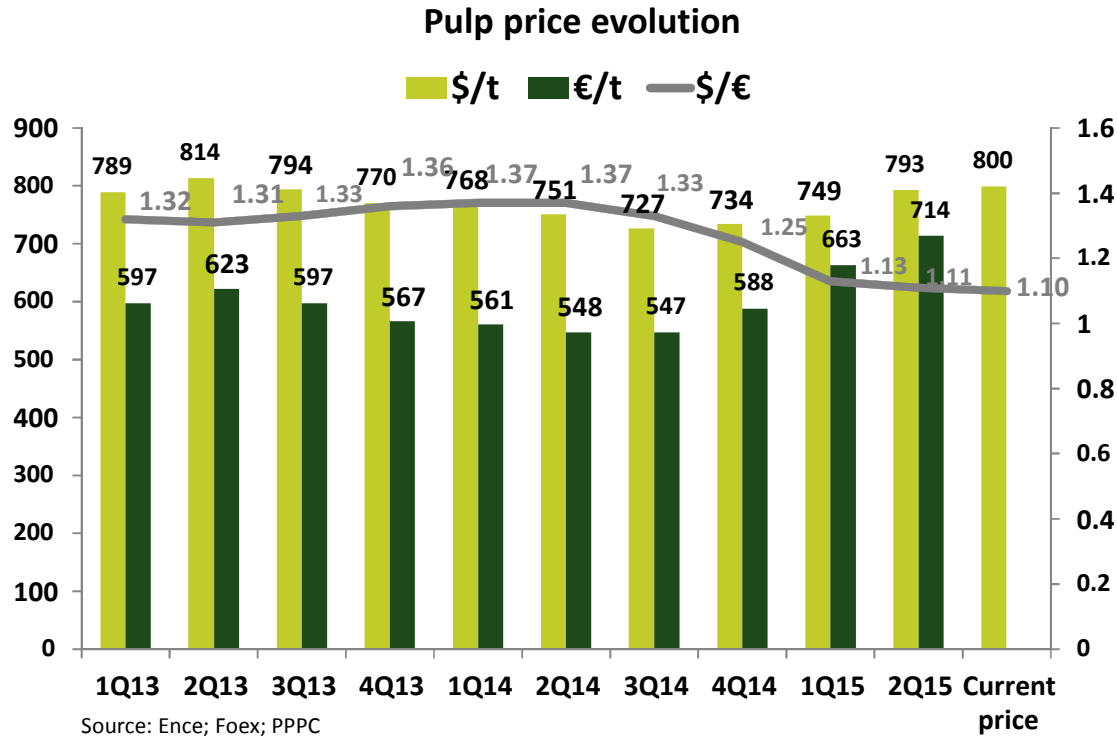
... reflecting an increasingly strong cash flow generation...

### Net Operating Cash Flow (€M)



Strong net operating cash flow generation, to be **complemented** by the **cash flow** arising from the **asset disposal program** expected in **2H15**

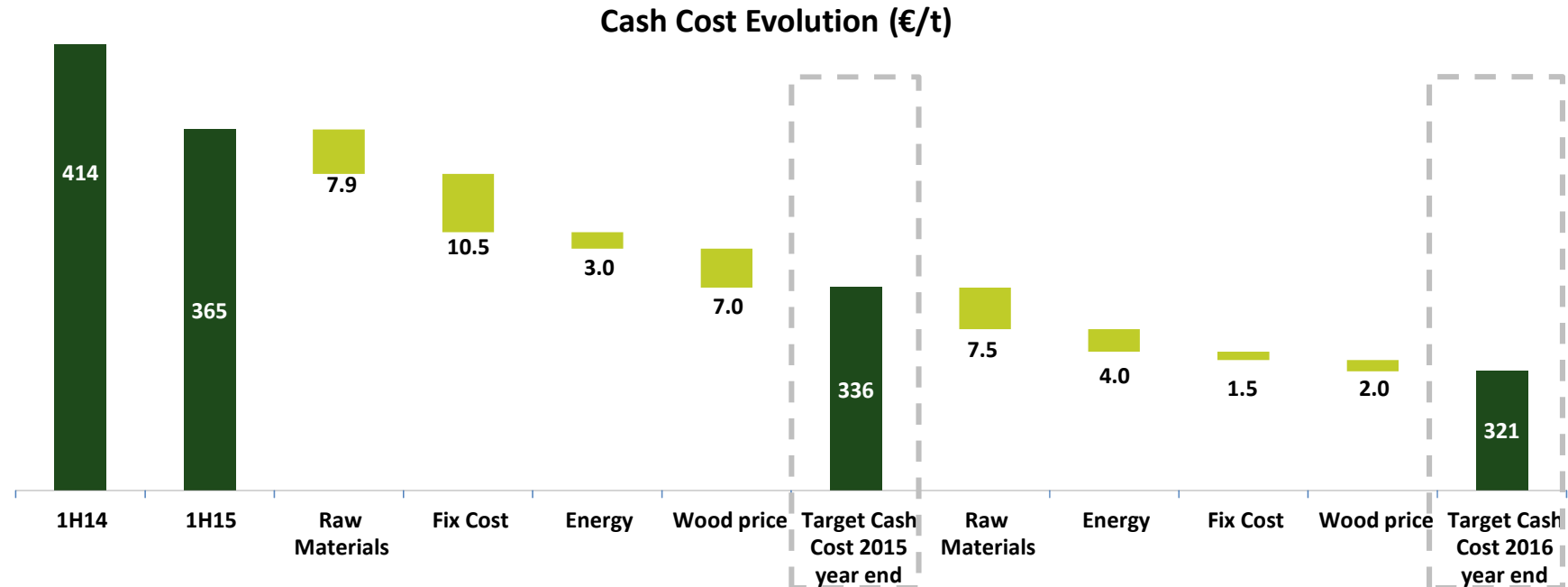
# ... and benefitting from the exchange rate appreciation and higher pulp prices...



- BEKP prices (\$/t) improved up to \$800/t at the end of June recovering after bottoming down to \$724/t last September 2014
  - ✓ Consumer stocks continue at 19 days historical lows
  - ✓ Spread between softwood and hardwood prices stands at \$50/t
  - ✓ Chinese demand increasing up to 11.5% as of April
  - ✓ Pulp price continues increasing up to \$810/t levels, pushed by strong demand
- Ence is implementing a hedging program, currently covering up to 40% of its USD dollar exposure for the coming 12 months, using a tunnel structure at 1.15/1.06 levels

**A 5% US\$ appreciation or a 5% pulp price increase would have a €20 M positive impact on ENCE's EBITDA**

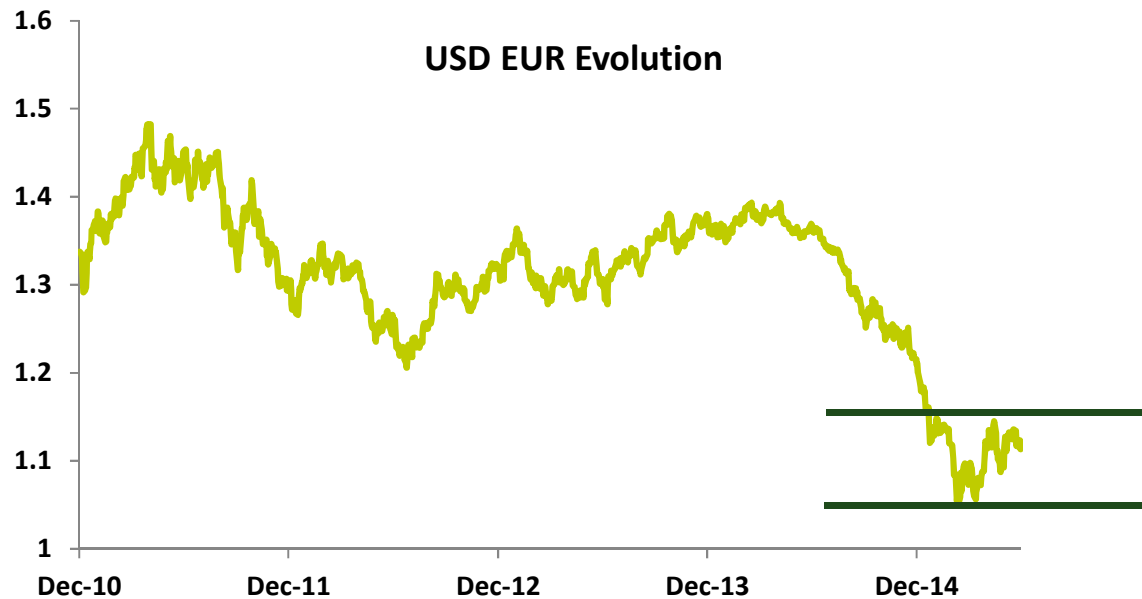
## ... and expected further reductions in the cash cost for year-end after maintenance shutdowns and implemented investments



- ✓ **Cash cost** maintained at the **€365/t** level
- ✓ **Further reductions** will be achieved once the Efficiency and Production Increase investments, just executed in June in Navia, ramps up. Down trend speed will depend on this ramp up.
- ✓ **€321/t** remains as a **final target for year-end 2016**
- ✓ Implementation of these plans are **supported by top sector technologists**, ensuring its success
- ✓ **New pricing structure for wood suppliers** will be linked to pulp prices, introducing **flexibility** which will benefit the company in the future. **Price reduction on wood** could be delayed owing to this implementation

# Hedging policy

- ❑ Ence has been actively managing its currency exposure during the quarter
- ❑ The Company is implementing a **hedging program**, currently **covering up to 40% of its USD dollar exposure** for the coming 12 months



Tunnel structures are being used to still benefit from any strengthening of the USD dollar from the current levels down to 1.06 and up to 1.15 in the amount hedged

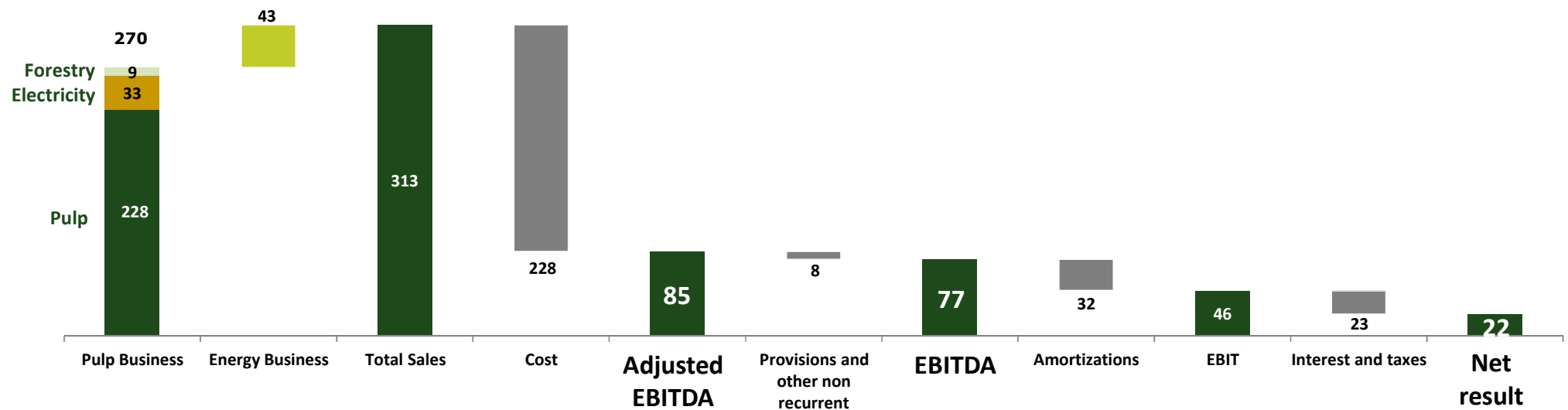
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  - 1.1 Pulp Business
  - 1.2 Energy business
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- 4** Solid market pulp fundamentals



# 1H15 Consolidated Results (€M)



- **1H15 Adjusted EBITDA reached €85 M** compared to €25 M in 1H14 and €36 M in 2H14
- **Net profit for 1H15 stands at €22 M**, against the -€49 M and -€92 M losses from 1H14 and 2H14, respectively

# Managing two ring-fenced business divisions

## Ence manages two businesses, **Pulp and Energy**

- ✓ The **Pulp Business** (Navia & Pontevedra), includes the revenue coming from the cellulose, the electricity production linked to the pulp process as well as forestry
- ✓ The **Energy Business** (Huelva & Mérida) comprises the generation produced at stand-alone biomass plants not linked to the pulp business



## Ence's strategy is to manage these businesses, according to its different specific necessities, on a **ring-fenced basis**

- First step of the implementation of this strategy has been achieved through the **restructuring of the project finance facilities** related to the Energy Business, ensuring a full **non-recourse situation to the Pulp Business** and creating an Energy Sub-holding Structure

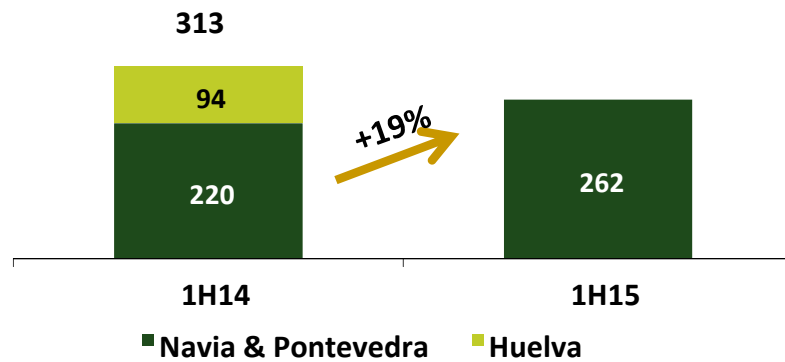
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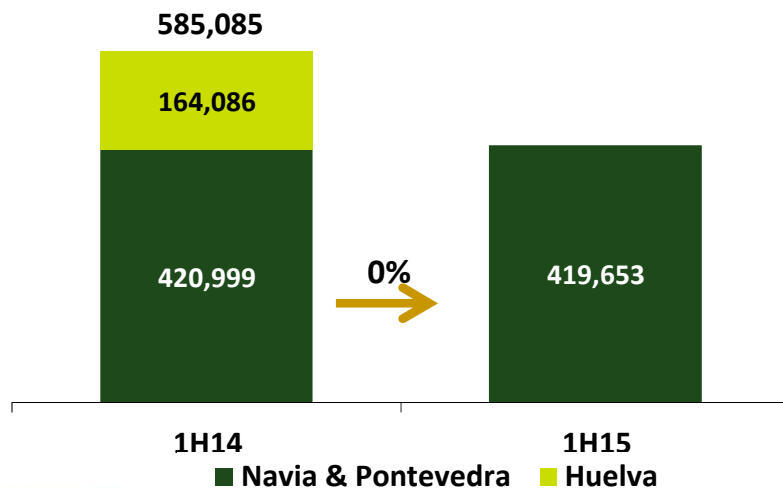
# Pulp mills increased sales due to higher pulp prices ...

Pulp & Electricity sales at pulp mills (€ M)

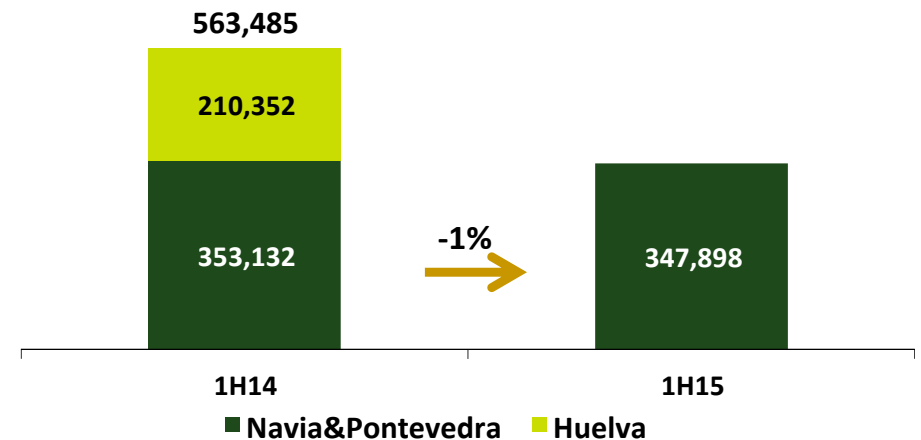


- ✓ Our current **Northern mills sales** increased by 19% from €220 M in 1H14 up to **€262 M in 1H15**, mainly due to higher pulp prices as well as a more favourable exchange rate
- ✓ Pulp **Production was penalized** by a longer **maintenance stop** (21 days in 2015 vs 12 days in 2014) in order to execute the investments for efficiency and capacity increase, leading to a loss of **15,000 t and 10,000 MWh**. Adjusting for this impact, growth for pulp and energy production would have stayed at **+3%**

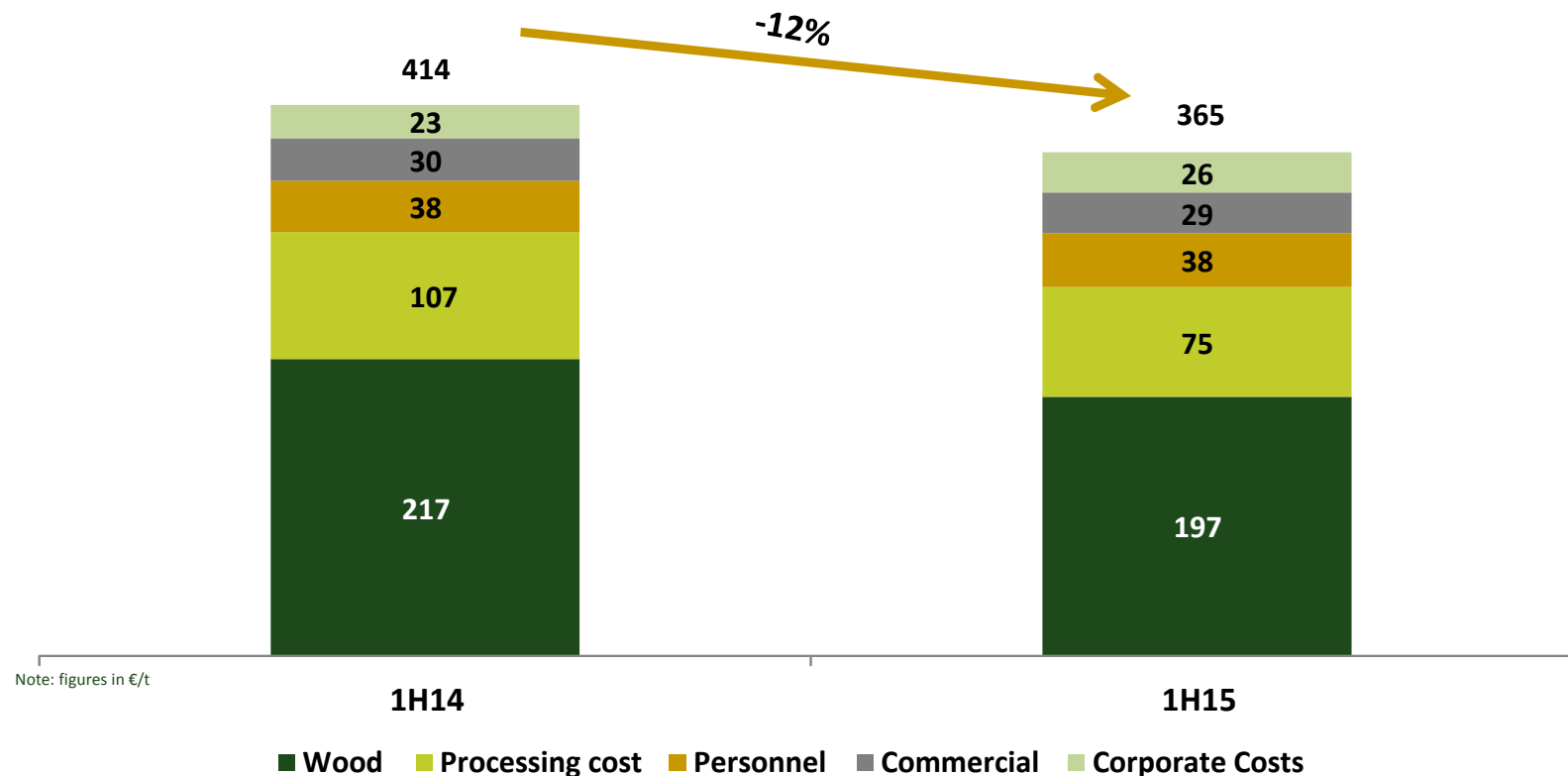
Pulp production per plant (tons)



Electricity production at pulp mills (MWh)



## ...and reduced average cash cost levels.



- ✓ Cash cost reductions are mainly due to **better wood and processing costs**
- ✓ **Corporate and personnel costs still to be diluted** under our cost cutting program to fully absorb the Huelva Mill shutdown
- ✓ **Cash cost will continue its reduction during 2H15** once investments on the Efficiency and Increased capacity programs have been done in June
- ✓ Further **reductions on the wood price might be impacted** by the strategic negotiations to automatically **link the wood price to the pulp price evolution**

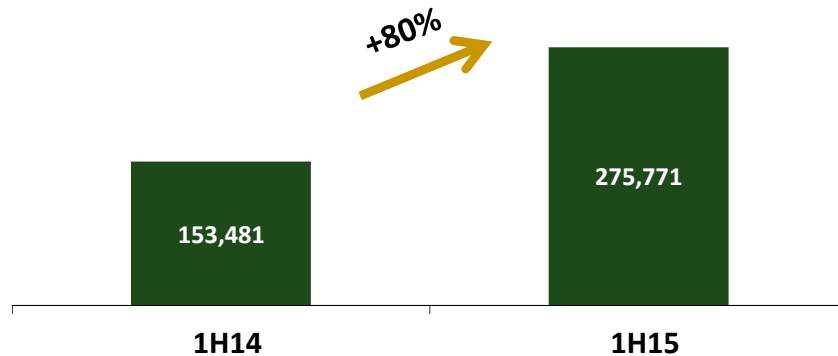
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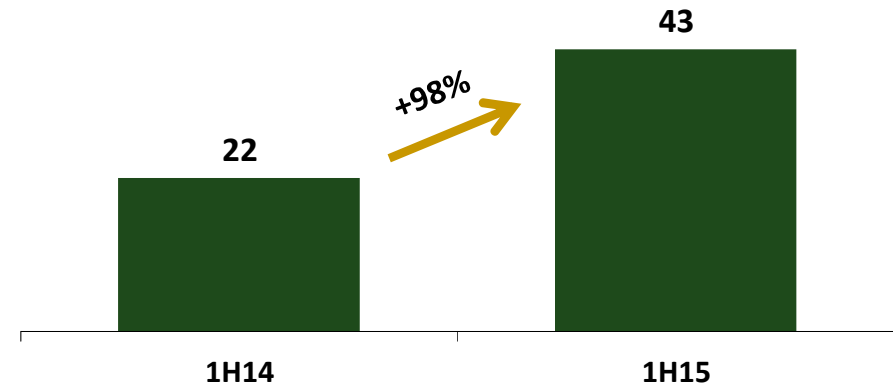
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# Energy business continues to significantly increase sales after additions of new biomass power plants...

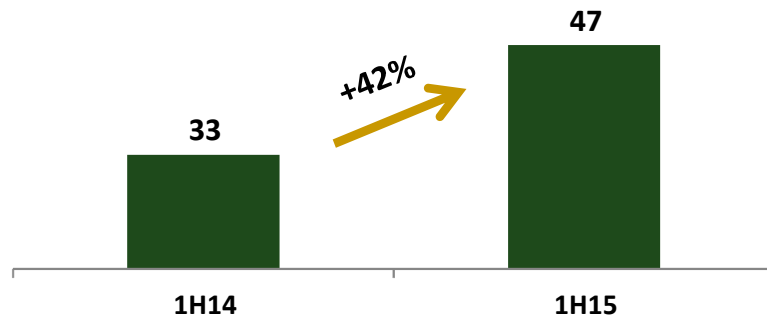
Energy production (MWh)



Energy Sales (€M)

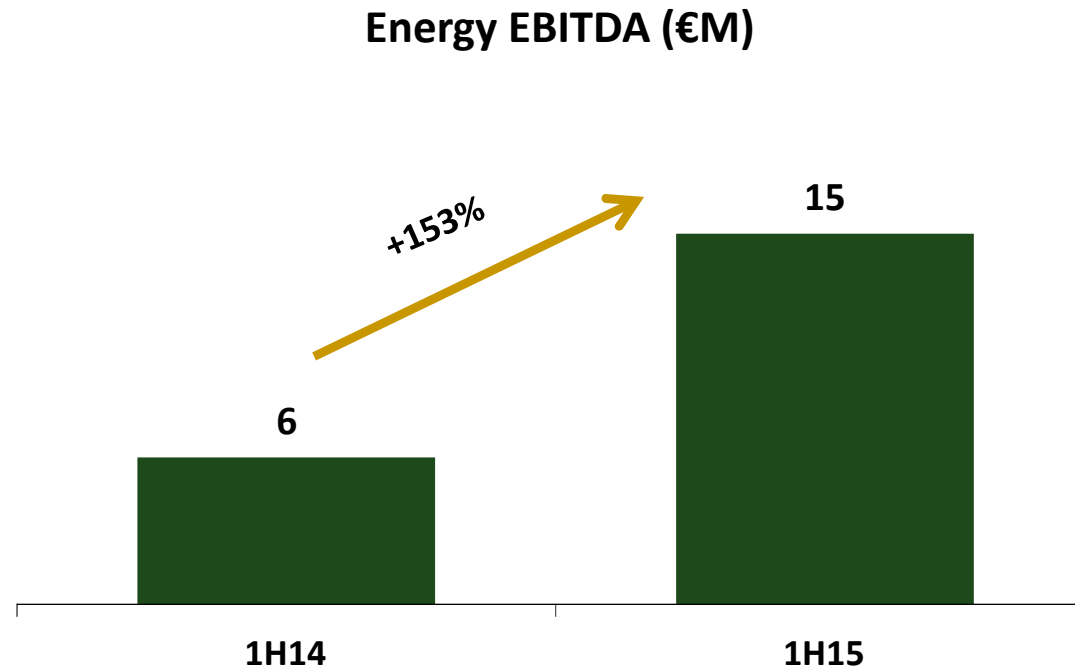


Average pool price (€/MWh)



- ✓ **Energy production increased by 80%** from 1H14 to 1H15 due to the contribution of the new Mérida 20MW and Huelva 41 MW plants
- ✓ **Sales increased by 98% or €21 M** also pushed by higher electricity prices
- ✓ **Pool prices** remained at **€47/MWh** in 1H15, 42% above 1H14 levels
- ✓ Ence has implemented a **hedging program over pool prices** for 75% of the production of the 2H15 at **€51/MWh**

## ...reflecting a higher EBITDA contribution



- ✓ **Energy EBITDA strongly increased after new plant additions** compared to 1H14, pushed by a 10% increased of the average income from **€141/MWh to €156/MWh**
- ✓ **2H15 EBITDA should improve** since 1H15 is penalized by a **40 day-stop to comply with the regulatory limitations**, set at 6,500 hours maximum yearly generation, decided to take benefit from the seasonal weaker pool markets performance during 2Q15



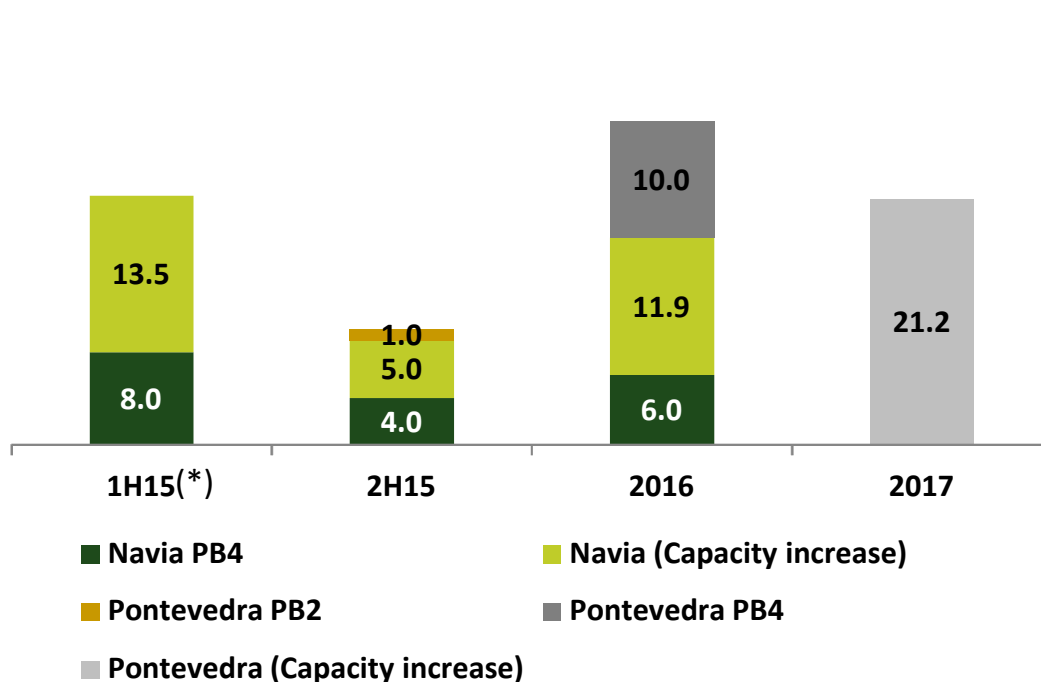
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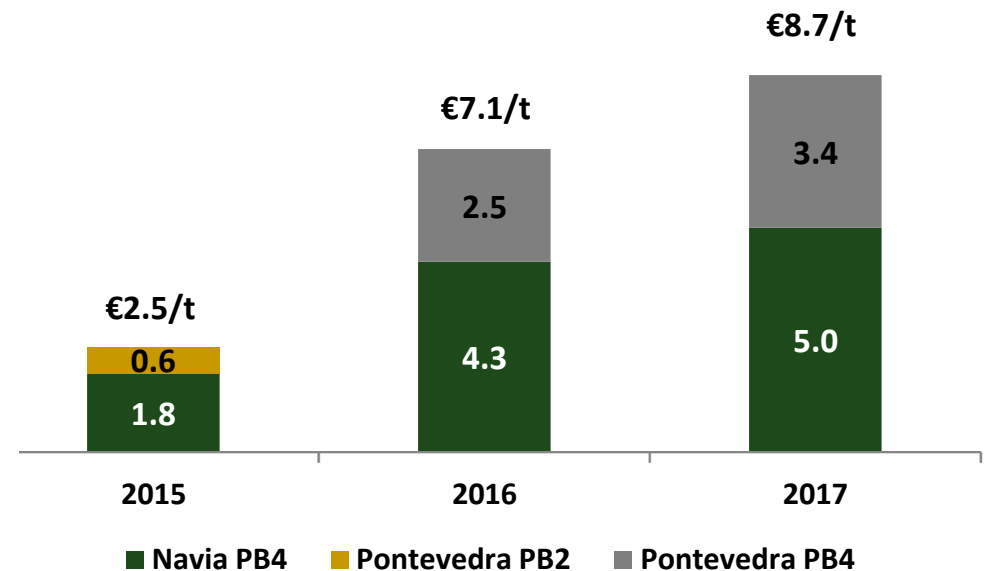
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# Successful execution of efficiency investments and capacity increase in Navia

## Northern Mills Investment Program (€M)



## Annual Expected Savings (€M)



(\*) Only €7 M has been accounted in 1H15 financial statements

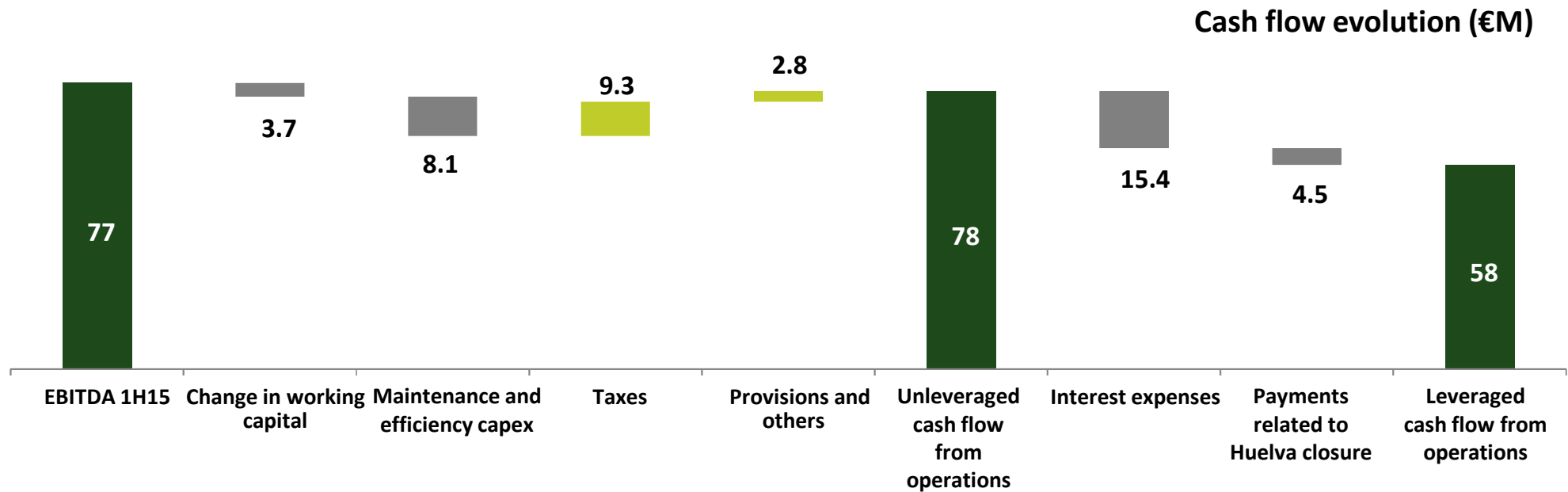
- ✓ 4 year pay back investments (PB4) implemented in Navia during maintenance stop in June
- ✓ **Phase I of the capacity increase for 20,000 tons** in Navia also executed in June
- ✓ **€8.7/t cash cost reduction or €8.4 M annual estimated EBITDA**
- ✓ Poyry, Andritz and Falconi consultants hired to achieve cash cost targets

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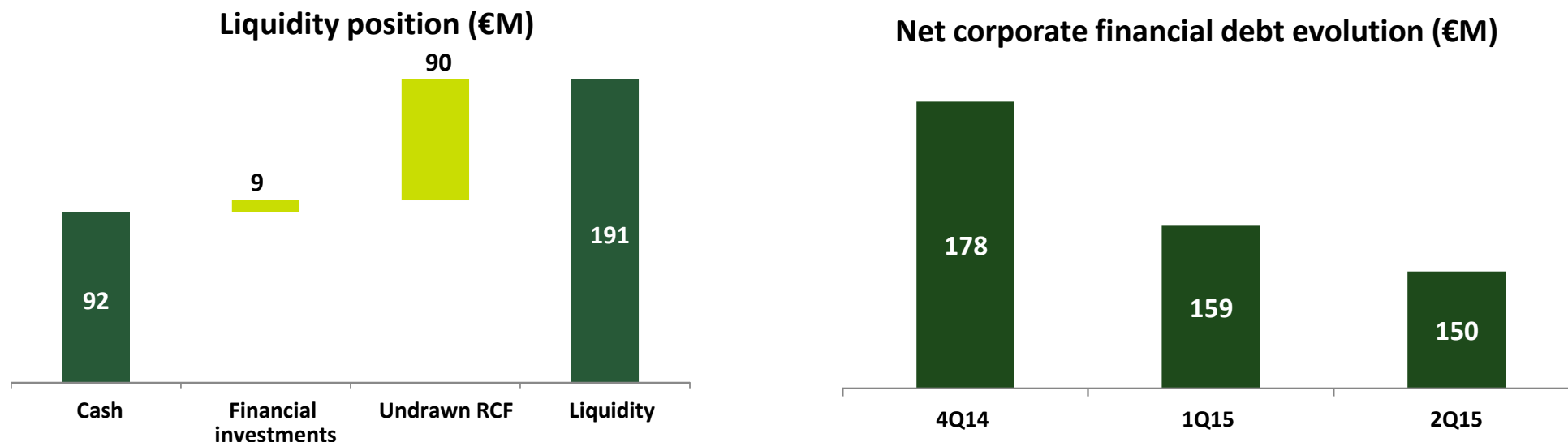
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# Solid Cash flow generation recouping turn-around proceeds...



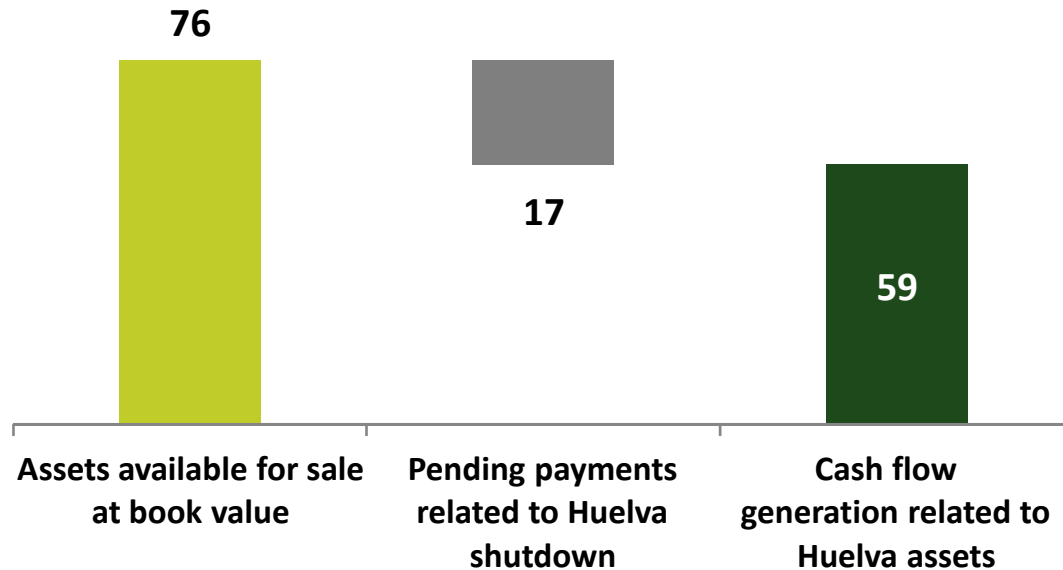
**High conversion of €77 M EBITDA into €78 M Unleveraged Cash Flow from operations**

## ...positively enhancing the liquidity position and reducing its net debt...



- Ence maintains a **strong liquidity**, reducing its net corporate debt position by **€28 M** during 1H15, after a **€25 M dividend payment** and a **€25 M early redemption** of 10 % of the bond
- **Maintaining its long term profile:**
  - **€225 M Bond maturing in 2020** – Exercised 10% redemption of the notes in June
  - **€90 M RCF fully undrawn, maturing in 2018**
  - **€102 M Project Finance Facilities maturing in 2027**, currently implementing its restructuring to achieve the company's ring-fence strategy

## ... through an asset disposal program



- ✓ Ence has **sold 64 hectares of former irrigated energy crops for €2.0 M** and has signed **promissory contracts for additional 393 irrigated hectares** for a total consideration of **€11.9 M**. Additionally, the Company has **also signed promissory contracts for 124 surrounding non-irrigated hectares for €0.4 M**. Ence has received an advance for all such promissory contracts of **€1.6 M**. Final execution should start during 3Q15
- ✓ **€3.9 M offer for the real estate assets** also under final negotiation for its immediate execution
- ✓ **Huelva industrial assets disposal program (€34 M)** continues on track during the year
- ✓ **€4.5 M** out of the total **€21.2 M** have been paid during 1H15 related to Huelva shutdown process; **€16.7 M** are pending

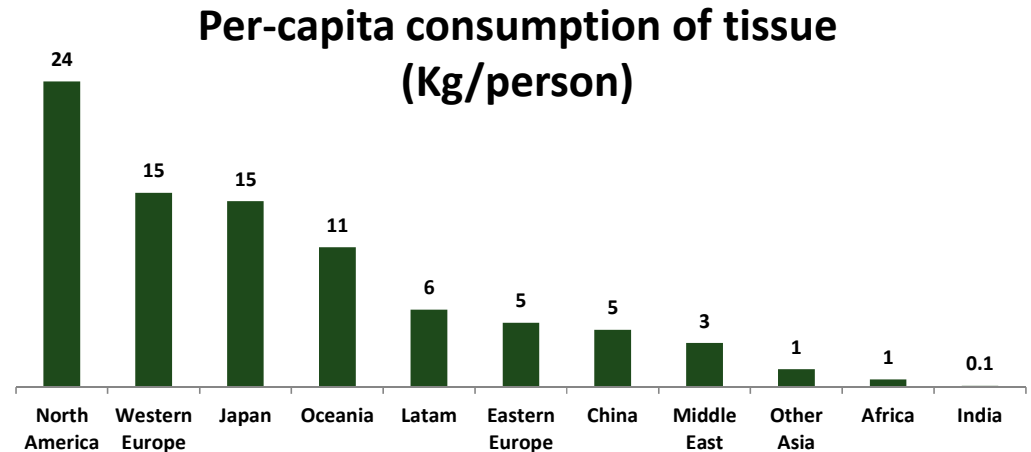
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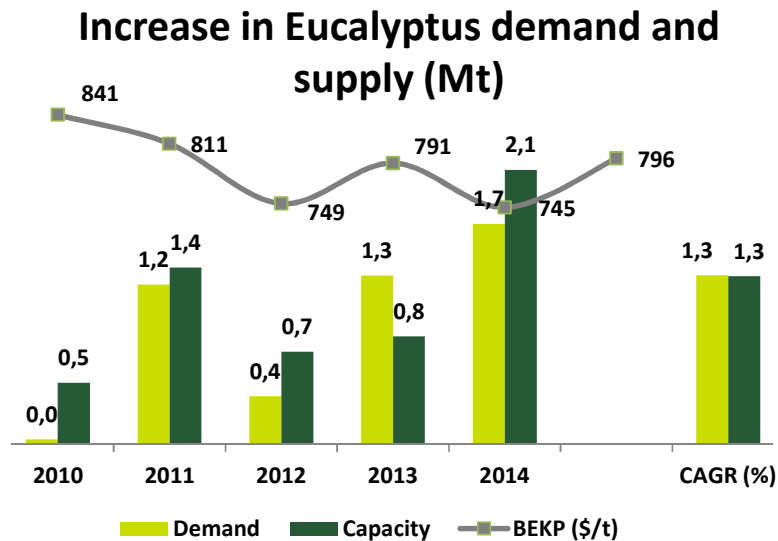
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# Pulp prices continue their recovery, rising to above 800\$/t levels, due to strong demand and low inventories

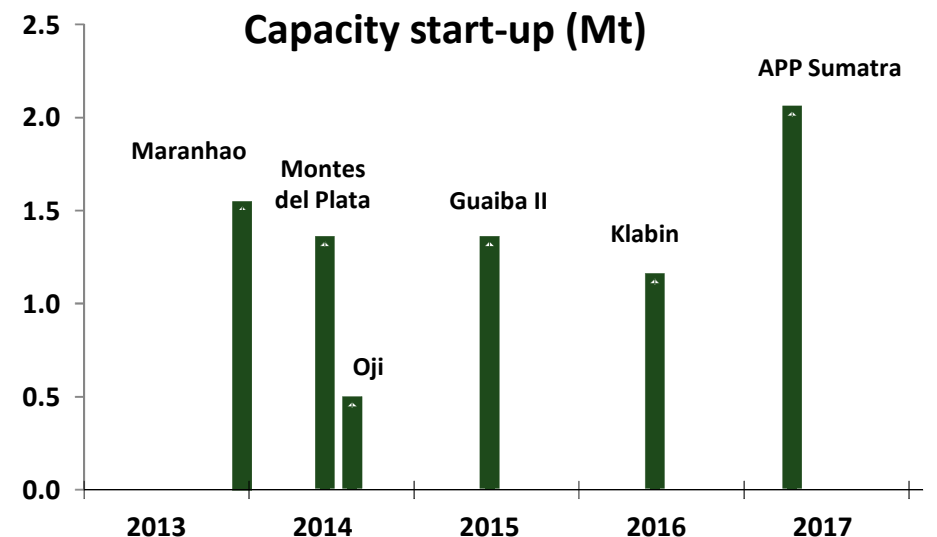
- ✓ The **new supply announced by Maranhao (1.5 Mt), Montes del Plata (1.3 Mt) and Oji (0.4 Mt)** will be offset as demand is expected to maintain a growth trend above 2% in line with last 5 years. In 2014, BEKP demand rose +9%.
- ✓ **Strong Chinese demand growing at 10% CAGR growth rates** for the last 5 years. Equivalent to a new pulp mill per year
- ✓ **Pulp price increase up to \$810/t** announced by Ence and followed by other market players effective as of beginning of May.



Source: RISI



Source: PPPC; Hawkins Wright (Dec-14) estimates; data in million tons



Source: Hawkins Wright (Dec-14) estimates; data in million tons



## Summary (I) ...

- 1** Competitiveness **Recovery Plan** is on track
  - ✓ **90%** of the Competitiveness Recovery Plan **has been achieved**
  - ✓ The 2-year-payback investments implemented and visible
  - ✓ Both the Navia 4-Year-Payback Investment program, and its increase in capacity, has been implemented as scheduled
- 2** Our **€150 M annual adjusted run rate EBITDA target has been reached. Now heading the €200 M level**
- 3** **Strong Operating Cash Flow generation** in 1H15 increasing up to **€69.2 M** from €2.8 M in 1H14
- 4** Ence has the intention to distribute an **interim gross dividend** against 2015 earnings of €0.044/share in October

## Summary (II)

- 5 Pulp prices remain strong at \$810/t level** with some room to improve pushed by the strong demand
- 6 Currency Hedging Program** being implemented ensuring the benefit of additional strengthening of the USD dollar
- 7 Energy projects facilities successfully restructured**, ensuring a complete ring fence management of the biomass activity under the sub-holding Company, Ence Energía
- Ence continues to maintain its **clear focus on its Cost Cutting and Efficiency Program** supported by the most reputed industry technologists. **Target continues to be €321/t** although implementation speed will depend on the **Navia ramp up** and on the implementation of the **wood price strategy**
- 9 Pontevedra Concession Extension on track**

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