

# Ence Energía y Celulosa

## 1Q14 Results

May 6th, 2014



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- A** Ence regular EBITDA under current regulatory framework
- B** 1Q14 summary results
- C** A conceptual approach to reshape EBITDA by 2016

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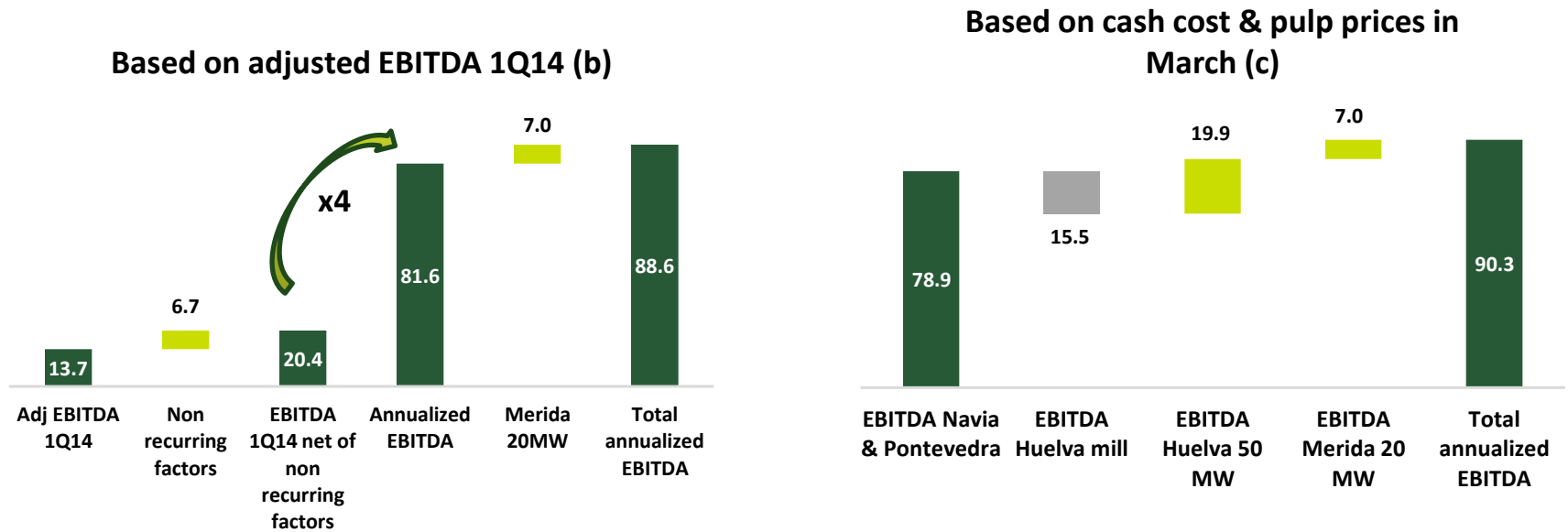
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# 1Q14 results are not representative of Ence's EBITDA generation capacity

## Non-recurrent factors affecting 1Q14 performance

- 1 Electricity market price at an extraordinary low level of €26/MWh, well below the €49/MWh taken by legislation as standard in Spain to calculate fixed tariffs
  - ✓ Depressed revenues from energy sold
  - ✓ Lower electricity output to avoid operating below variable costs for gas & forestry biomass installations
- 2 Extra operating cost for Huelva 50MW as 60% of supply in 1Q14 run on energy crops
- 3 Reduced level of pulp production due to operational failures (close to 18,000 tons)
- 4 Merida 20MW biomass power plant not yet accounted for despite completion of start-up
- 5 Downward trend in cash cost not fully reflected in 1Q14

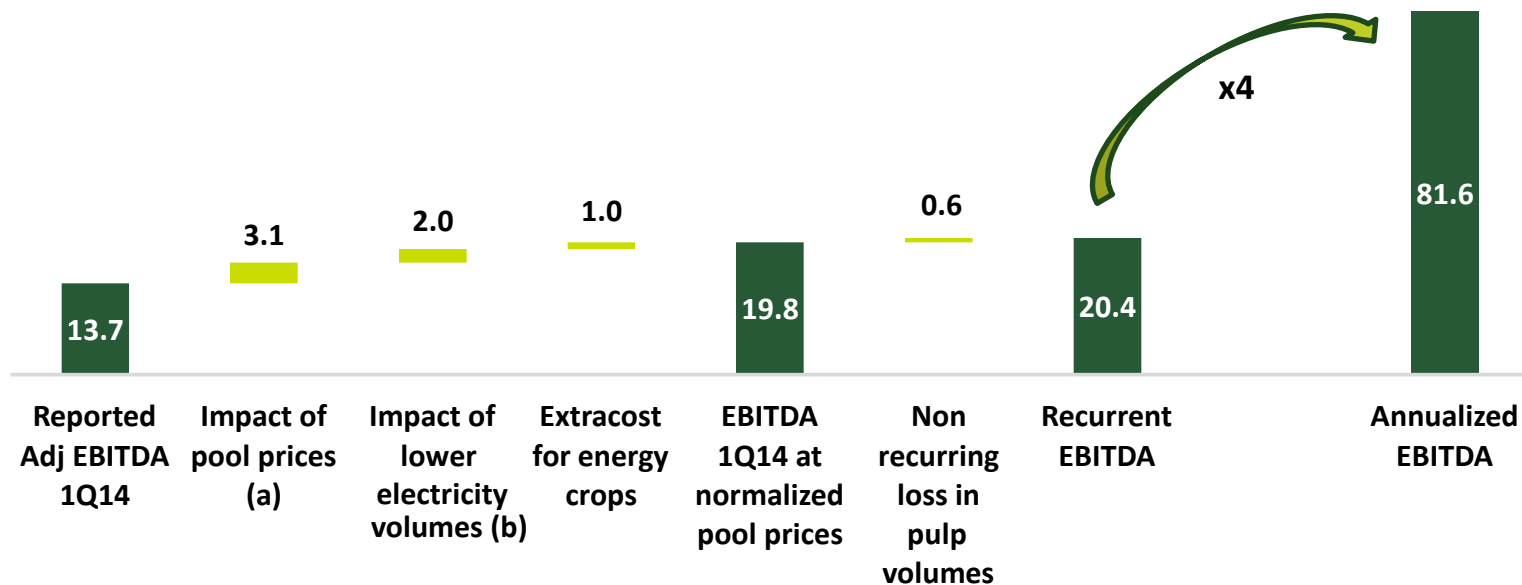
# Annualized 1Q14 results at normalized pool prices (a)



- (a) calculated with a pool of €49 /MWh, in line with the estimate in which the proposed remuneration framework is based and which comply with future compensation parameters
- (b) calculation is disclosed in the following slide
- (c) March is the first month with normalized energy operations after the announcement of the proposal for a new tariff framework (OM), reducing the electricity generation at low pool price hours in those power installations with higher production costs. Based on March pulp prices of €439/t

# Weak EBITDA due to extraordinary pool prices...

## EBITDA 1Q14 with normalized pool prices

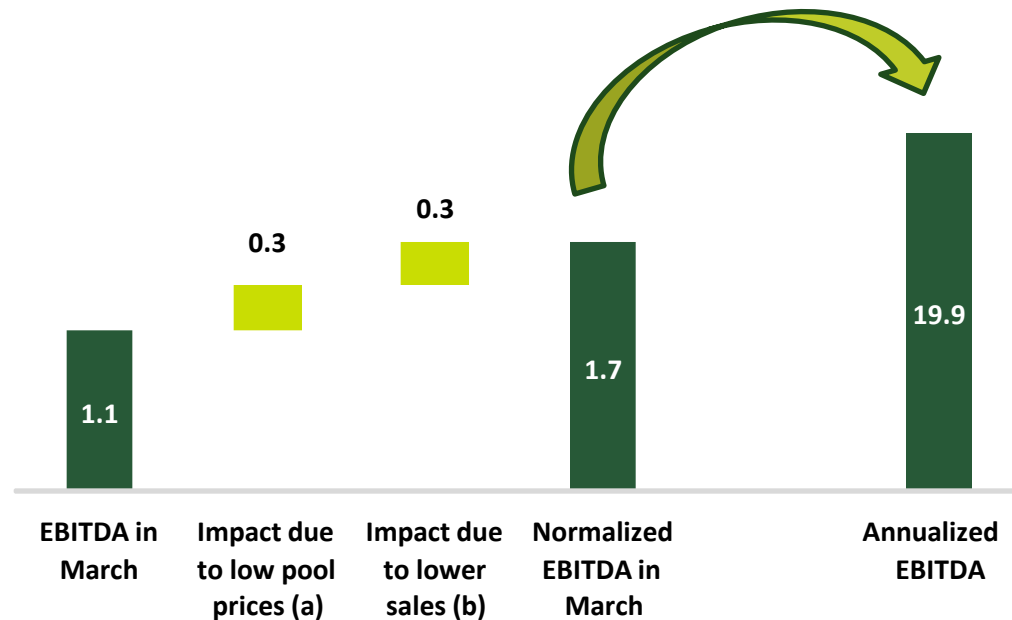


(a) calculated with a pool of €49 /MWh, in line with the estimate in which the proposed remuneration framework is based and which comply with future compensation parameters

(b) calculated with a normalized power generation with pool prices of €49/MWh

... with Huelva 50 MW showing a good performance in spite of regulatory impact and low pool prices...

### Annualized EBITDA of Huelva 50 MW

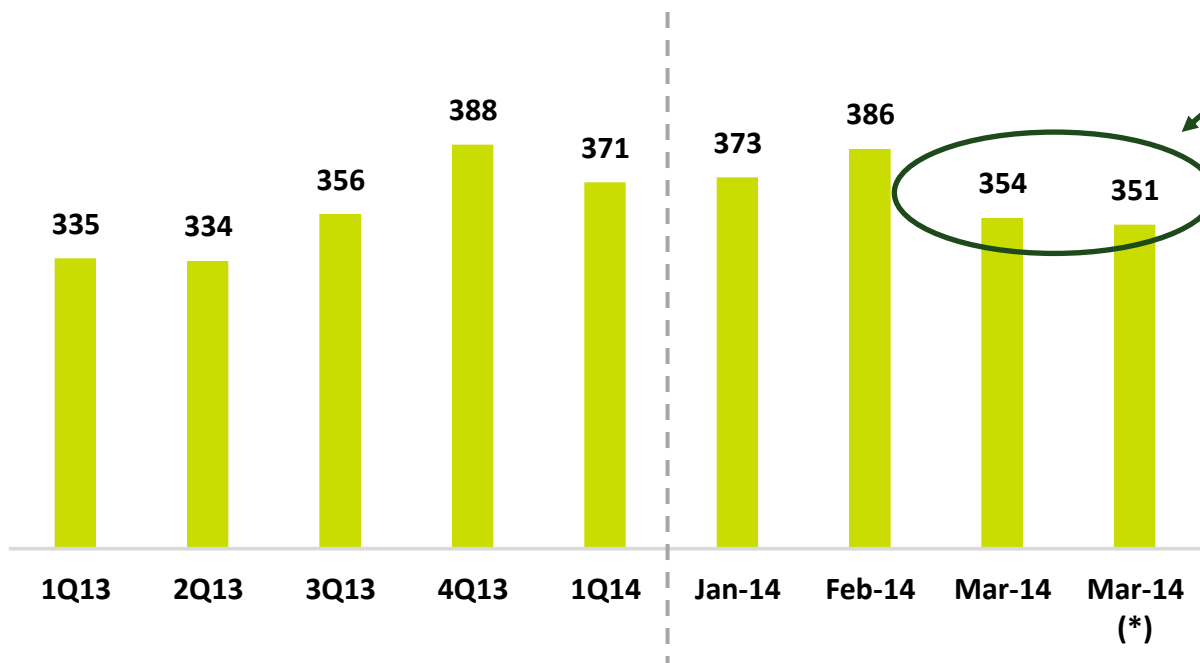


(a) calculated with a pool of €49 /MWh, in line with the estimate in which the proposed remuneration framework is based and which comply with future compensation parameters

(b) Calculated with a monthly production of 27,083 MWh, in line with proposed limited time of 6,500 hours per MW

## ... improving cash cost of Navia and Pontevedra mills in March...

Cash cost of Navia and Pontevedra (average)



Improved cash cost in Navia and Pontevedra through better management of power installations and reduction in chemicals and overheads

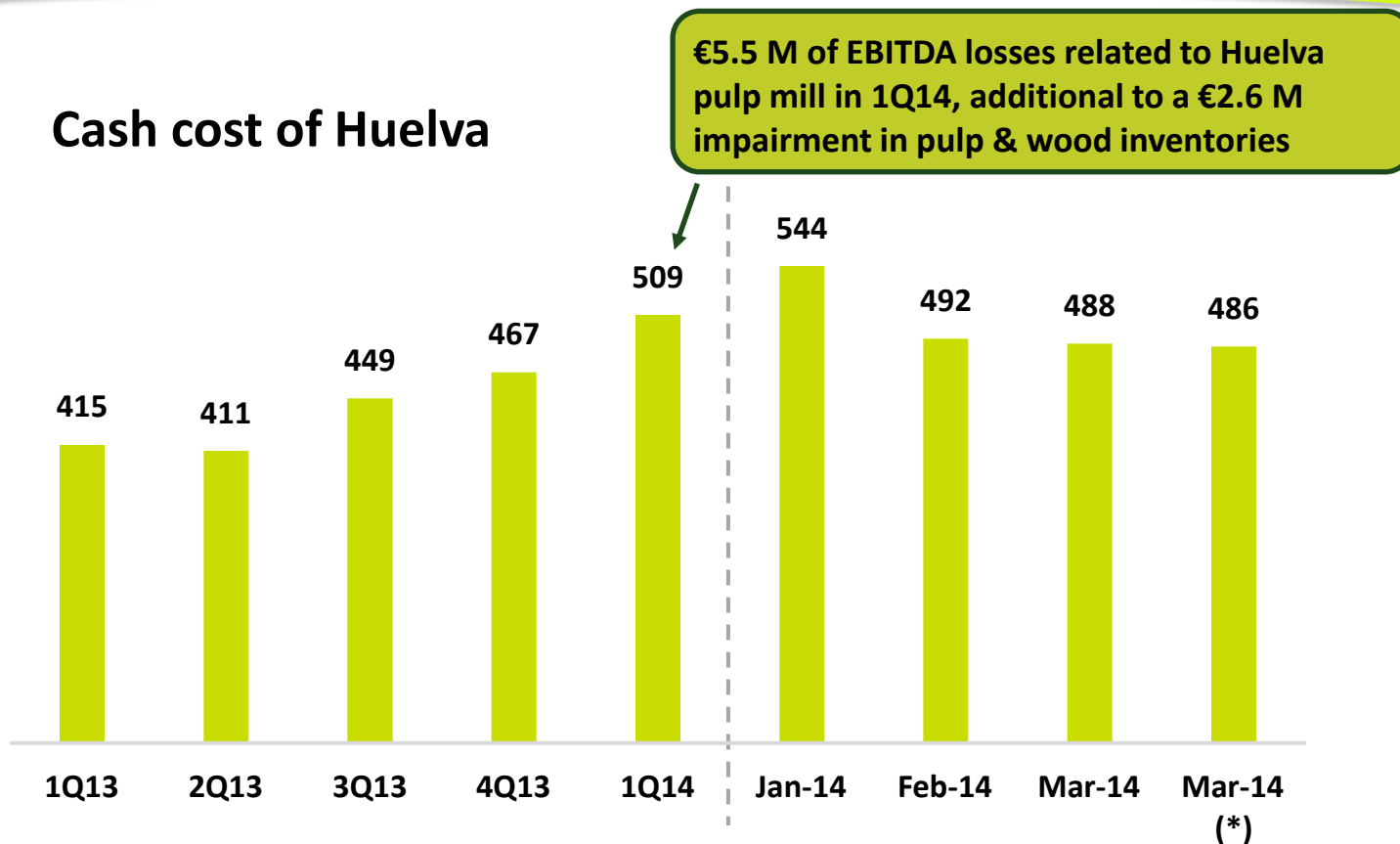
Navia and Pontevedra mills would generate a EBITDA of €79 M at current pulp prices (€440/t in May) and sales volumes in line with those of 2013 (0.9 Mt)

(\*) calculated with a pool of €49 /MWh, in line with the estimate in which the proposed remuneration framework is based and which comply with future compensation parameters



# ... although Huelva mill is struggling to achieve profitability

## Cash cost of Huelva



**Stronger impact of regulation due to the natural gas cogeneration and its dependence of more expensive imported wood**

(\*) calculated with a pool of €49 /MWh, in line with the estimate in which the proposed remuneration framework is based and which comply with future compensation parameters

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# 1Q14 results

**Weak  
performance  
in 1Q14**

**1**

**Fall in operating results due to:**

- **Worst production figures in pulp and energy**
- **Impact of the energy reform**
- **Extraordinary depressed pool prices**

**2**

**Stable pulp market**

**3**

**Cash cost starting to decrease in March**

**A tough situation in Huelva due to regulatory changes in energy**

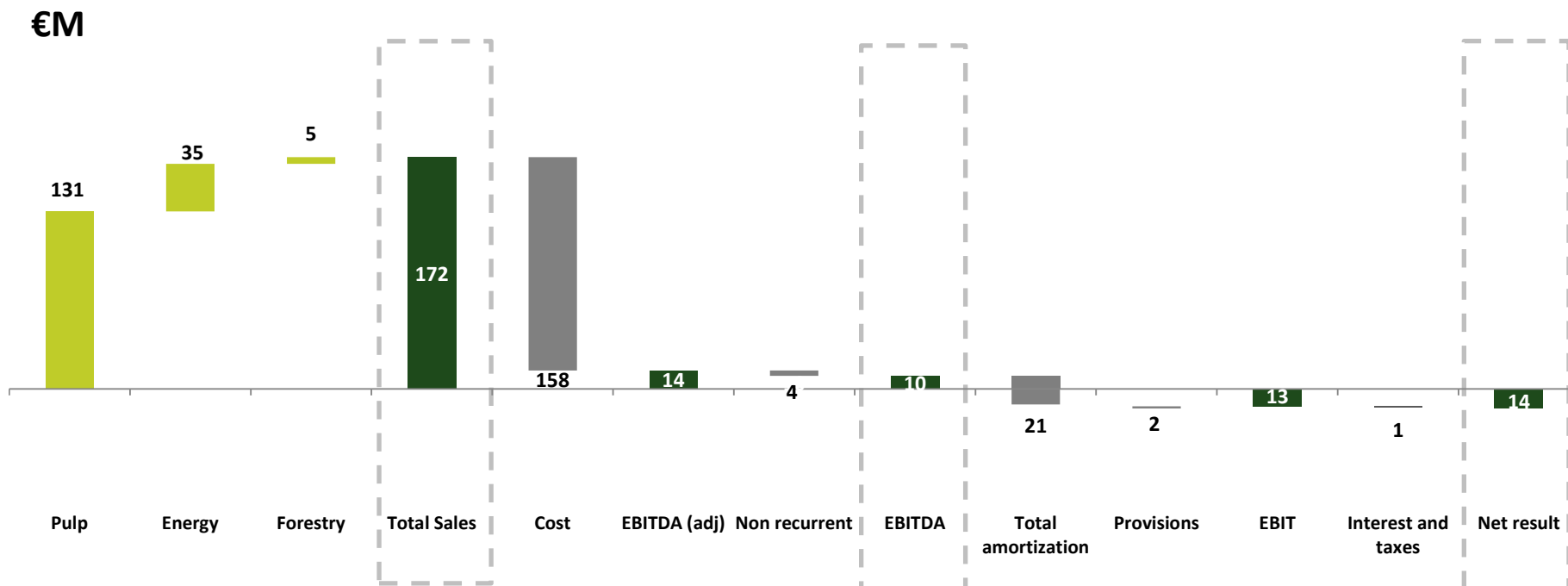
**4**

**Anticipated start-up of Merida 20MW biomass power plant**

**5**

**Solid balance sheet position maintained despite the new regulatory framework**

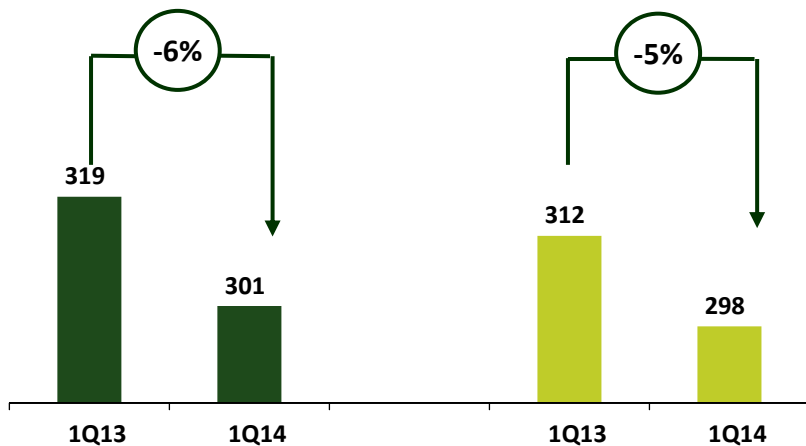
# Breakdown of 1Q14 P&L



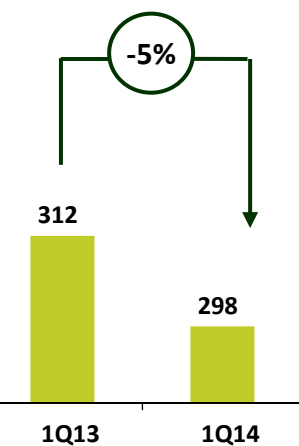
- ✓ Net result in 1Q14 stands at -€14 M vs +€ 13 M in 1Q13
- ✓ 13% decrease in pulp sales in 1Q14 vs 1Q13 driven by lower pulp prices and decrease in volumes
- ✓ 8% decrease in pulp prices in \$/t, driven by expectations of new capacity

# 1 Negative mill's operating performance...

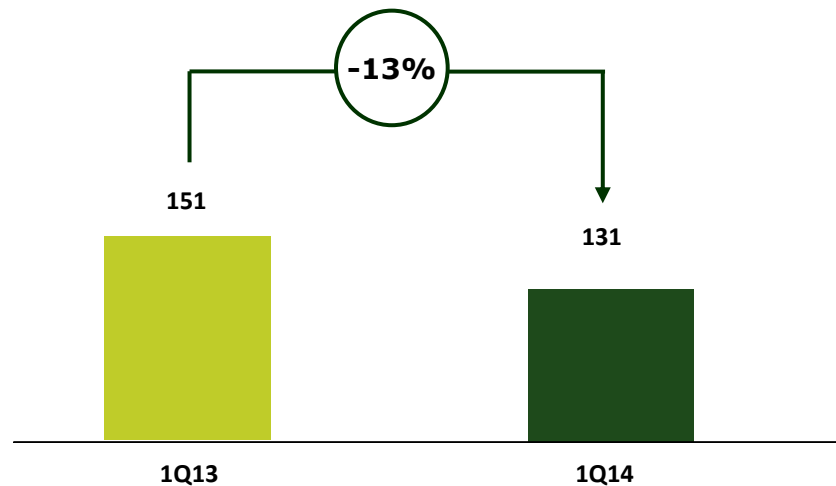
Pulp production (000t)



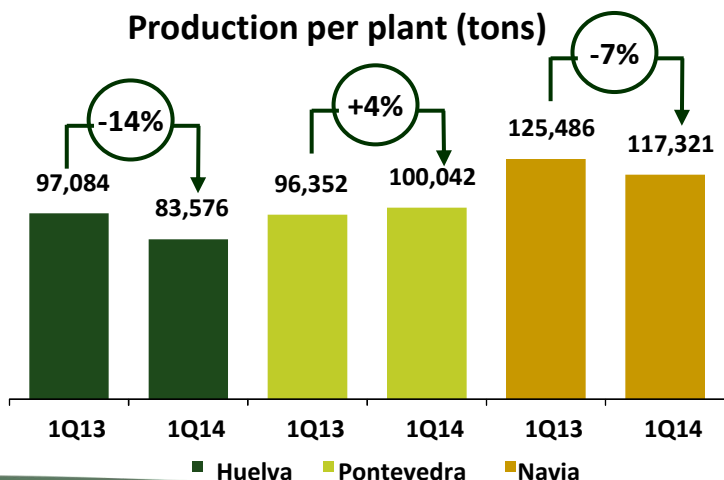
Pulp sales (000t)



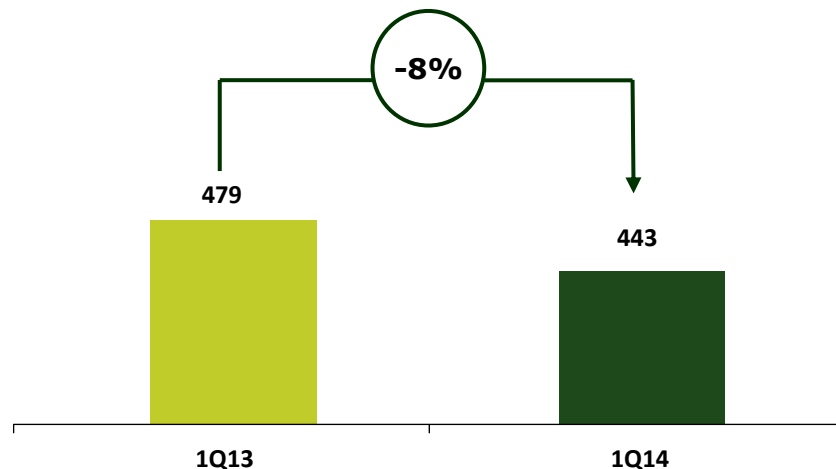
Pulp sales (€ M)



Production per plant (tons)



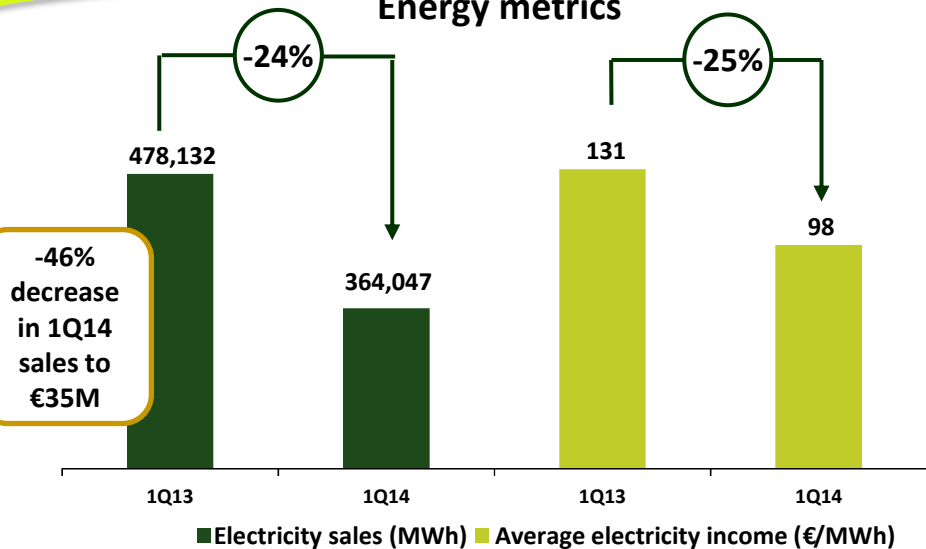
Average price (€/ton)



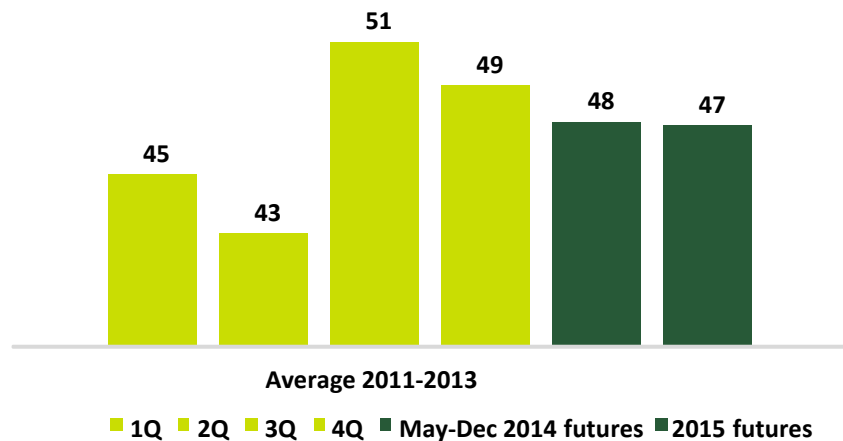
1

# ...and lower energy generation due to the energy reform and lower pool prices

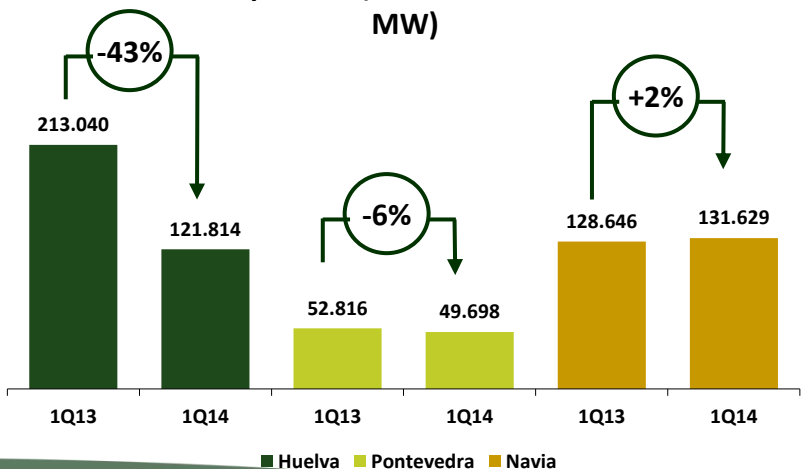
Energy metrics



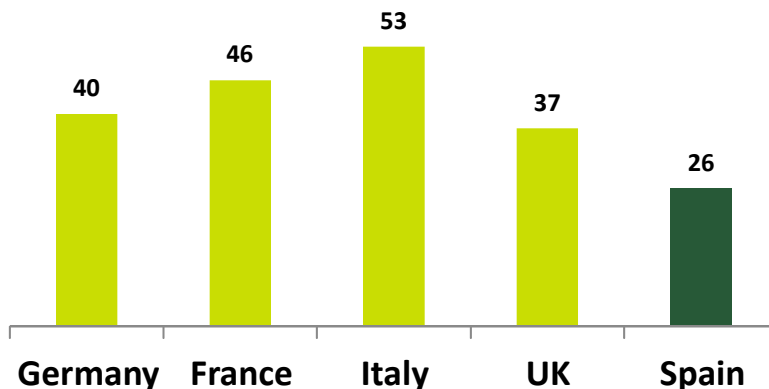
Spanish pool prices



Production per mill (MWh; excludes Huelva 50 MW)



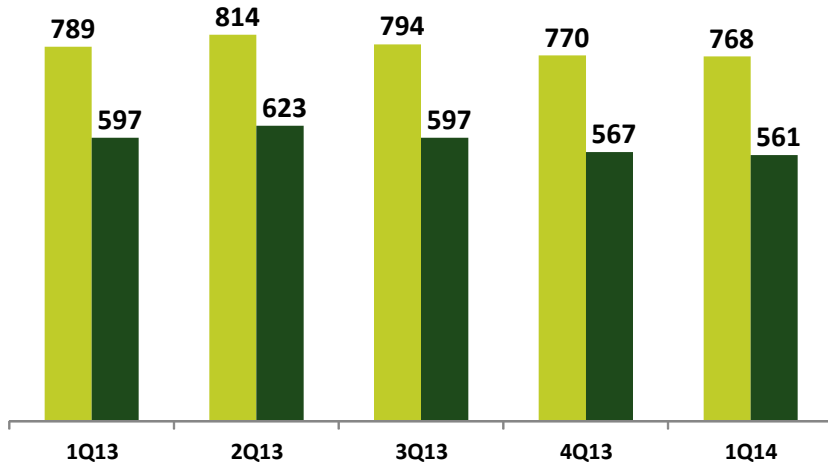
Pool prices in Europe in 1Q14 (€/MWh)



# Stable pulp market in terms of prices and inventories...

Pulp price evolution

■ \$/t ■ €/t

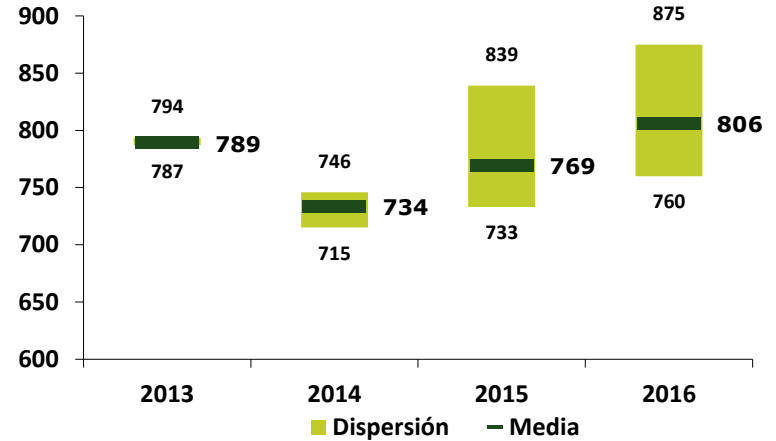


Source: Ence; Foex

Prices have remained close to \$770 /t in 1Q14 thanks to:

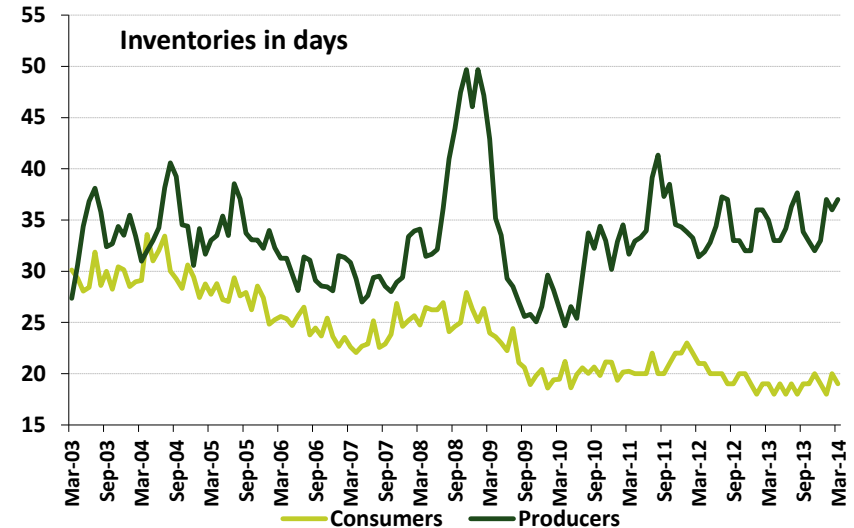
- ✓ Low inventory situation: producer stocks at mid levels (36 days) and consumer stocks at historical lows (18 days)
- ✓ Stable global demand in 1Q14 (-0.8%)
- ✓ Spread between softwood and hardwood at maximum levels
- ✓ Strength of Chinese demand

Analyst pulp prices forecast (\$/t)



Source: Prices are \$/t CIF North Europe; contributors: Hawkins, RISI, Terra Choice, Valoise Vision

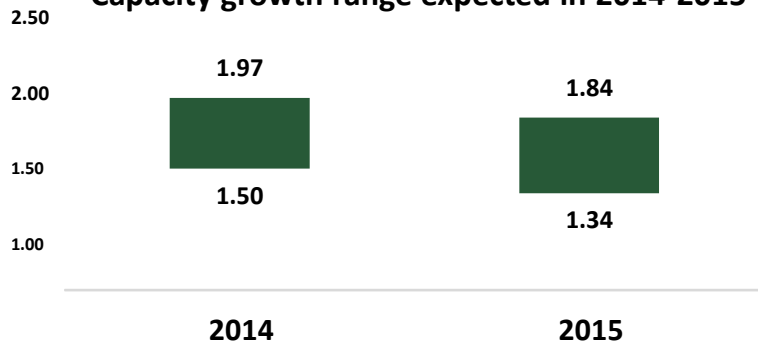
Inventories in days



## 2 ... which are set to continue in 2014 despite of new expected capacity

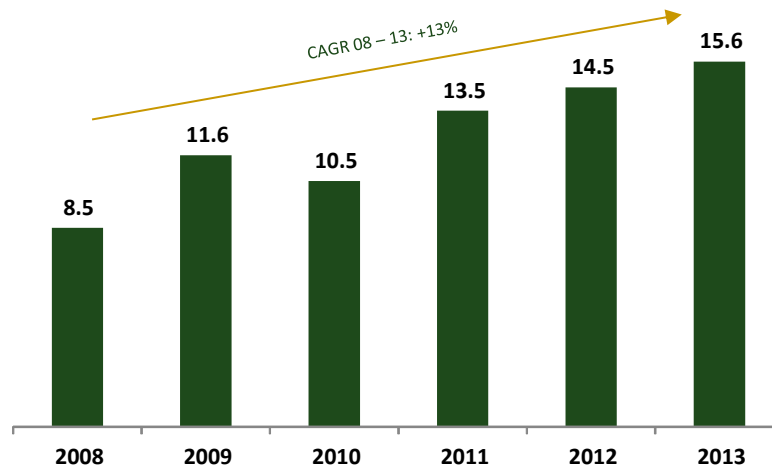
- ✓ Demand growth has been stronger than capacity growth thanks to strong evolution in emergent markets and delays in new capacity
- ✓ Eldorado mill (1.5 Mt) started operations in November 2012 with no major impact on prices
- ✓ New supply from Maranhao (1.5 Mt), Montes del Plata (1.3 Mt) and Oji (0.4 Mt) might affect pulp prices in 2014, although full impact on supply will be delayed to 2015. However, this capacity will be offset because demand will increase to perform in line with last 4 years average
- ✓ Strength of Chinese demand (+13% CAGR for the last 5 years)
  - 1.38 million tons of new annual demand, equivalent to a new pulp mill per year

Capacity growth range expected in 2014-2015



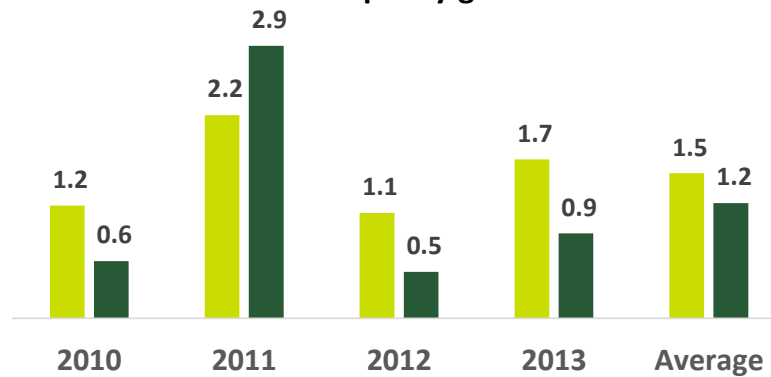
Source: RISI (Feb-14) and Hawkins Wright (Dec-13) estimates; data in million tons

Chinese demand



Source: PPPC; figures in million tons

Demand and capacity growth in 2010-2013



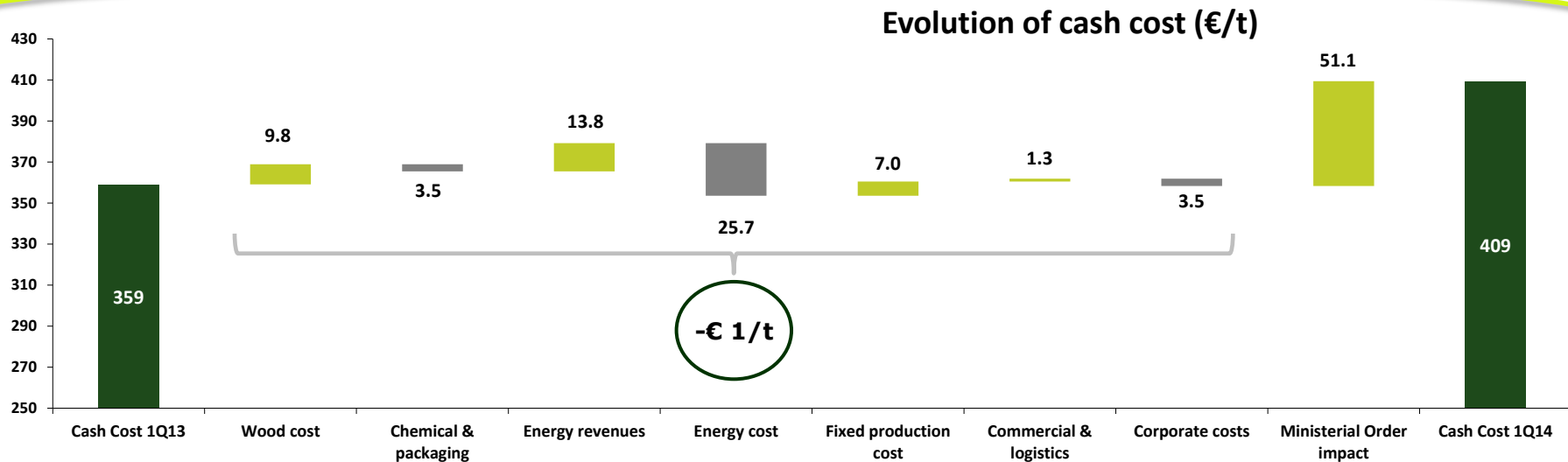
■ Demand ■ Capacity

Source: PPPC; Hawkins Wright (Dec-13) estimates; data in million tons

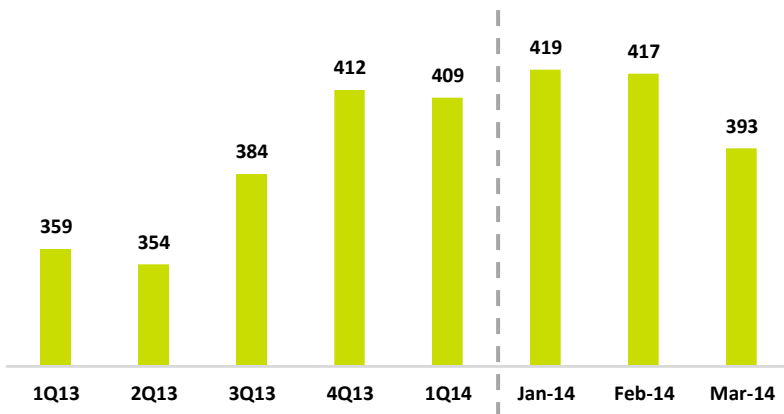


3

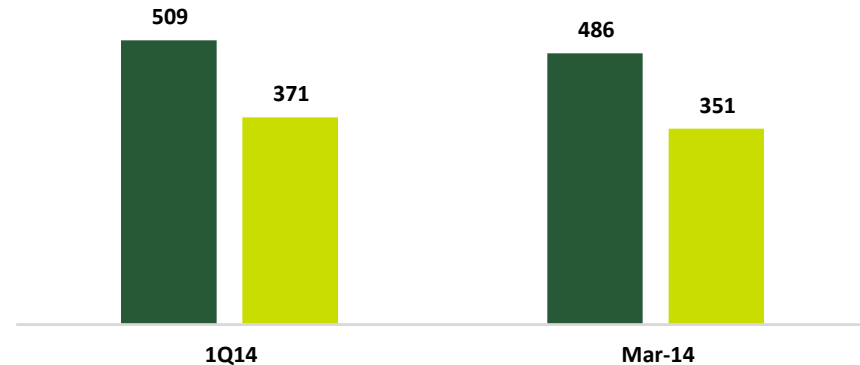
# Cash cost starting to decrease in March along with a tough situation in Huelva due to regulatory changes



### Cash cost evolution (€/t)



### Cash cost per mill



■ Huelva ■ Navia & Pontevera

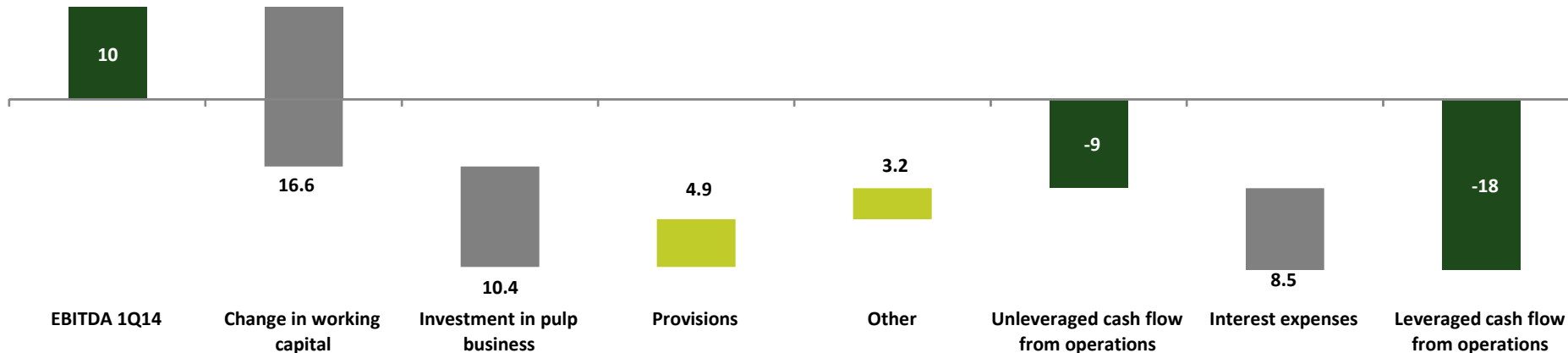
## 4 Anticipated start-up of Merida 20MW biomass power plant



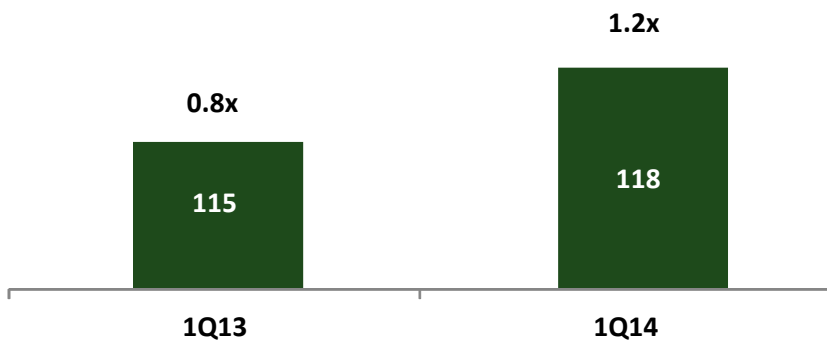
- ✓ Merida 20MW power plant started operations at the beginning of April, 6 months in advance of guidance (October 2014)
- ✓ Annual EBITDA will be close to 7 M€ assuming full impact of current regulatory proposal for new tariffs

## Solid financial situation with no relevant maturities in the short term

### Cash flow evolution (€M)



### Net corporate financial debt (€M) and net corporate financial debt to EBITDA (12m)



- Cash outflow in 1Q14 due to increase in working capital based on:
  - Increase in wood inventories (€6 M) as a previous measure to reduce prices to suppliers
  - Reduction in the use of factoring lines (€10 M) to reduce our financial cost
- Net financial debt increase by +3% to €118 M, with low leverage of 1.2x EBITDA of the last twelve months
- There is a €106 M non-recourse debt related to the "project finance" signed for the construction of the 50 MW plant in Huelva and 20 MW plant in Mérida

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# 2014 – 2015 Recovery plan of competitiveness

		Increase in expected 2016 EBITDA	Capex 2014 -2015
<b>1</b>	Measures of cost management (no investment)	+€28 M (*)	-
<b>2</b>	Investments in efficiency (2-4 years payback)	+€21 M	€47 M
<b>3</b>	Restructuring the mix of production	+€30 M	€80 M
		<b>+€79 M</b>	<b>€127 M</b>

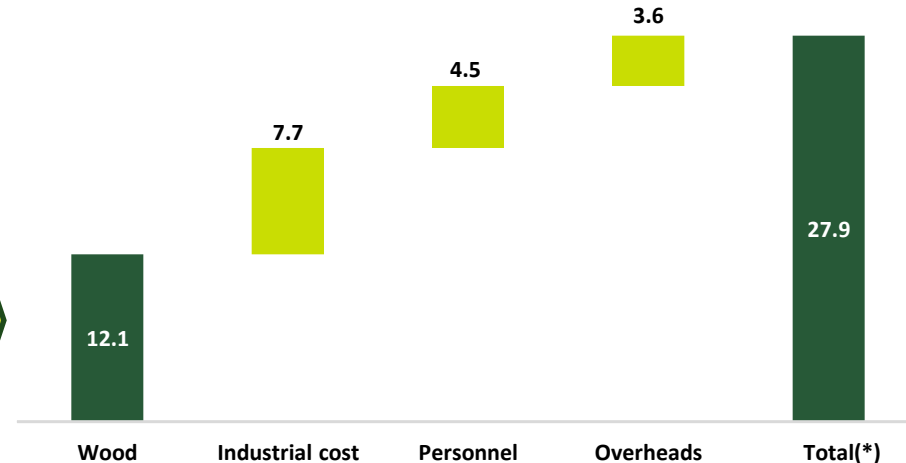
(\*) €12M are related to Huelva mill operations

# Measures of cost management

1. Reduction of wood & biomass cost of supply
  - ✓ 3.5€/m3 price cut announced in April for standing timber & traders purchases, starting in Spanish & Portugal northern regions (150kt/month)
  - ✓ Execution of industrial projects to reduce wood yield (m3 per ton of pulp) by 3%
    - Wood yield: improving utilization rates and reducing losses to increase productivity of wood chips
    - Digesters: improving cooking conditions and process a more homogenous wood intake (by specie, diameter and age)
  - ✓ Reduce biomass cost of supply by diversifying biomass sources towards agriculture waste
2. Personnel redundancy program under execution
3. Optimization of logistic costs through centralized procurement
  - ✓ Renegotiation of conditions for major ports of destination: Amsterdam, Brake & Livorno
  - ✓ Renegotiation of conditions for all ports of origin and transportation to port facilities
  - ✓ Auctions for pulp transportation by truck in Spain
4. Optimization of mill's supplies
  - ✓ Chemicals & fuel
  - ✓ Industrial services
5. Optimization corporate headquarters



Cost management (€M)



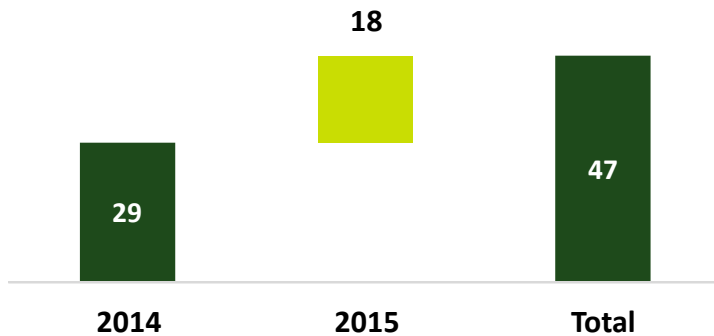
(\*) €12M are related to Huelva mill operations



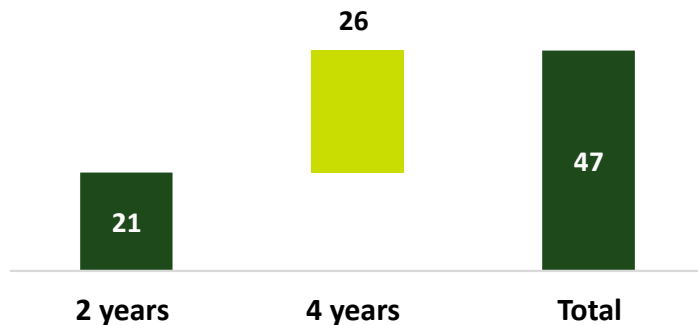
**+€28 M  
expected saving  
in 2016**

# 2014 – 2015 Recovery plan of competitiveness: efficiency investment measures...

Capex breakdown by year (€M)



Capex breakdown by payback (€M)



+€17 M  
expected  
saving in  
2016

- ✓ 2 years payback investments:
  - Engineering projects completed
  - Main equipment contracted
  - 100% implemented in 2014
- ✓ 4 years payback investments:
  - Engineering projects in progress
  - Preliminary budgets with major suppliers
  - Implemented in 2015 (30% capex in 2014)

## ...that may also extend the production organically...

	Theoretical nominal production	Utilization rate	Net production in 2016	2013 production	Increase in production
<b>Navia</b>	512.0	93%	502.2	477.0	<b>+25.2</b>
<b>Pontevedra</b>	444.0	93%	435.2	417.2	<b>+18.0</b>

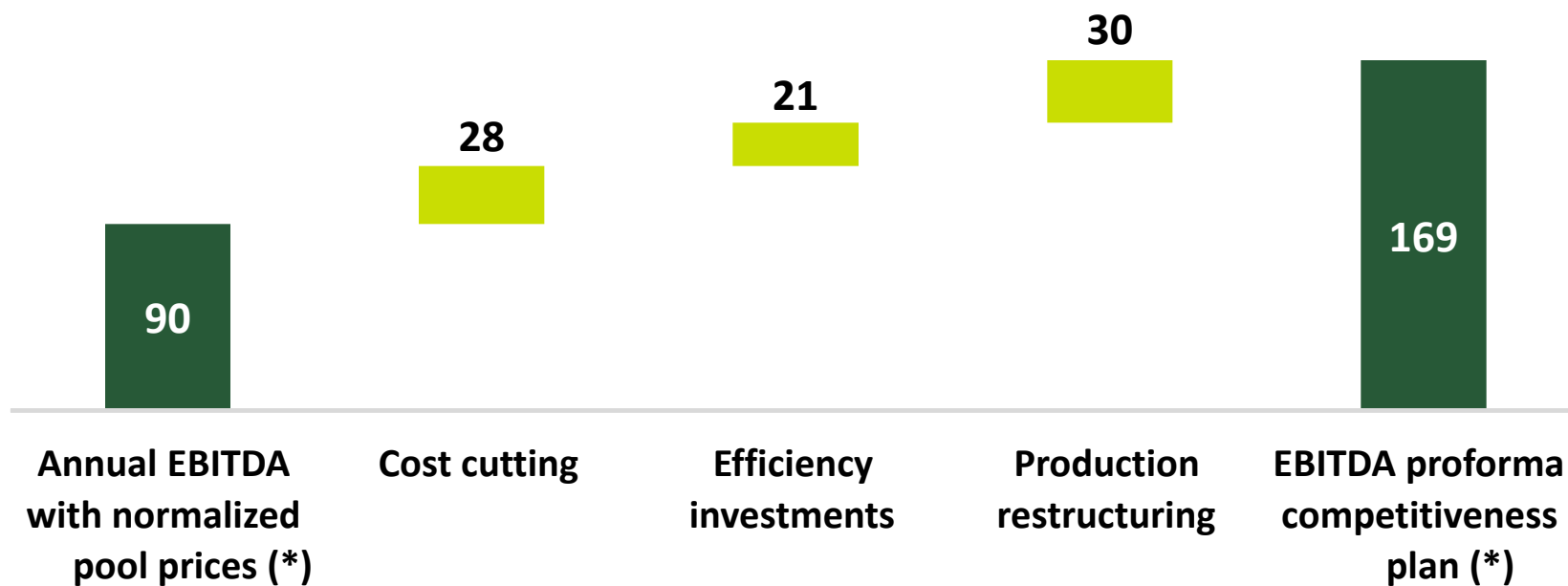
Note: figures in thousand tons; capacity of mills adjusted by improved due to investments



**+€4 M additional revenues  
expected in 2016**



## ...offsetting the impact of the regulatory changes



(\*) based on March 2014 pulp price of €439/t

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Energy revenue and production cost figures ("cash cost") from 3Q13, 4Q13 and 1Q14 are calculated based on tariffs defined in proposal of "Order for approval of compensatory parameters for electric energy production facilities based on renewable energy, cogeneration, and waste sources", sent by the Ministry of Industry, Energy, and Tourism to the CNMC on 3 February 2014, with retroactive validity from 14 July 2013 pursuant to RD-law 9/2013. It has been accounted an impact of -€4.2 M, -€2.9 M and -€7.6 M in 3Q13, 4Q13 and 1Q14, respectively. Given that such tariffs have not been approved by the date of publication of 1Q14 results, the consolidated result and production cost ("cash cost") accounted for in the period may change after the report's publication.

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## 1Q14 Results

May 6th, 2014

