

1H 2018 Results

July 25th 2018

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Highlights

Highlights 1H 2018 Results

Pulp prices to continue increasing with a tighter demand & supply balance

- **Strong global demand**
- **Low inventories** across the value chain
- **No new large capacity increase** announcements in the industry

Strong 1H18 results following pulp price increases

- **49% EBITDA** growth and **60% Net Income** growth vs. 1H 2017
- **Pulp business: 60% EBITDA** growth
- **Energy business: 5% EBITDA** growth in 1H 2018. **Higher volumes expected for 2H18.**

Strategic Plan's investments on track

- **Additional 99 Mw biomass power capacity** on track to fire up in Dec. 2019 adding **€30 Mn EBITDA**
- **Successful** execution of Pontevedra's **capacity increase** of **30k t** during 1Q 2018
- **Navia's** annual maintenance advanced to May aiming at **80k t capacity increase** in 2Q 2019

Lower leverage and attractive shareholder remuneration

- Leverage ratio down to **0.6 x Net Debt / LTM EBITDA**
- Pulp business refinancing to **save €11 Mn interest payment** as from 2019
- First **interim dividend** of € 25 Mn (0,104 €/share) to be paid on September 12

Market tightness will keep on increasing until at least 2022

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	2021	2017-21	2022	2017-22	2023	2017-23	2024	2017-24
ESTIMATED BHKP DEMAND INCREASE	1.6	2.0	3.6	1.4	5.0	1.4	6.4	1.4	7.8	1.4	9.2	1.4	10.6	1.4	12.0
CHINA	1.0	1.0	2.0	1.0	3.0	1.0	4.0	1.0	5.0	1.0	6.0	1.0	7.0	1.0	8.0
Stricter Environmental Protection Impact	0.4	0.5	0.9	0.0	0.9	0.0	0.9	0.0	0.9	0.0	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	0.2	1.0	0.2	1.2	0.2	1.4	0.2	1.6
EUROPE	0.0	0.1	0.1	0.1	0.2	0.1	0.3	0.1	0.4	0.1	0.5	0.1	0.6	0.1	0.7
NORTH AMERICA	0.0	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1
LATIN AMERICA	0.0	0.1	0.1	0.1	0.2	0.1	0.3	0.1	0.4	0.1	0.5	0.1	0.6	0.1	0.7
ESTIMATED BHKP SUPPLY INCREASE (CONFIRMED)	0.1	1.4	1.5	0.6	2.1	0.0	2.1	(0.1)	2	0.5	2.5	(0.4)	2.1	(0.2)	1.9
APP (OKI)	1.0	0.5	1.5	0.3	1.8	0.2	2.0		2.0		2.0		2.0		2.0
FIBRIA (TRES LAGOAS)	0.5	1.3	1.8	0.1	1.9		1.9		1.9		1.9		1.9		1.9
FIBRIA (ARACRUZ)	(0.1)	(0.2)	(0.3)		(0.3)		(0.3)		(0.3)		(0.3)		(0.3)		(0.3)
ARAUCO (HORCONES)								0.3	0.3	0.9	1.2		1.2		1.2
KLABIN (PUMA)	0.5		0.5		0.5		0.5		0.5		0.5		0.5		0.5
SUZANO (IMPERATRIZ. MUCURI & MARANHÃO)	(0.1)		(0.1)		(0.1)	0.3	0.2		0.2		0.2		0.2		0.2
ENCE (NAVIA & PONTEVEDRA)			0.0	0.1	0.1	0.1	0.2		0.2		0.2		0.2		0.2
METSA (AANEKOSKI)		0.1	0.1		0.1		0.1		0.1		0.1		0.1		0.1
UPM (KYMI)		0.1	0.1		0.1		0.1		0.1		0.1		0.1		0.1
SVETLOGORSK (BELARUS)		0.1	0.1		0.1		0.1		0.1		0.1		0.1		0.1
CMPC (GUAIBA)	(0.6)	0.6	0.0		0.0		0.0		0.0		0.0		0.0		0
TAIWAN P&P and RFP (Calhoun)	(0.1)		(0.1)		(0.1)		(0.1)		(0.1)		(0.1)		(0.1)		(0.1)
ARAUCO (VALDIVIA)			0.0	(0.1)	(0.1)	(0.1)	(0.2)		(0.2)		(0.2)		(0.2)		(0.2)
APRIL (KERINCI)	(0.2)	(0.4)	(0.6)	0.2	(0.4)	(0.2)	(0.6)	(0.2)	(0.8)	(0.2)	(1.0)	(0.2)	(1.2)	(0.2)	(1.4)
APRIL (RIZHAO)	(0.6)	(0.2)	(0.8)	(0.3)	(1.1)	(0.3)	(1.4)	(0.2)	(1.6)	(0.2)	(1.8)	(0.2)	(2.0)		(2.0)
OTHER UNEXPECTED CLOSURES / CONVERSIONS	(0.2)	(0.5)	(0.7)	0.3	(0.4)		(0.4)		(0.4)		(0.4)		(0.4)		(0.4)
POTENTIAL BHKP SUPPLY (NOT CONFIRMED)										0.8	0.8	2.4	3.2	2.2	5.4
UPM (URUGUAY)									0.0	0.5	0.5	1.0	1.5	0.5	2.0
ELDORADO (BRASIL)									0.0		0.0	0.5	0.5	1.5	2.0
LWARCEL (BRASIL)									0.0		0.0	0.8	0.8	0.2	1.0
VIETRACIMEX (VIETNAM)									0.0	0.3	0.3	0.1	0.4		0.4
SURPLUS / (DEFICIT)	(1.5)	(0.6)	(2.1)	(0.8)	(2.9)	(1.4)	(4.3)	(1.5)	(5.8)	(0.1)	(5.9)	0.6	(5.3)	0.6	(4.7)

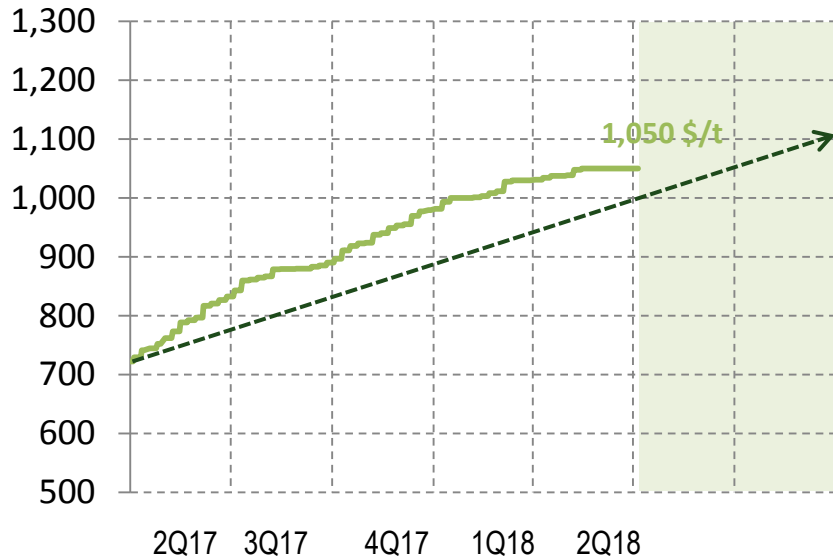
Source: ENCE estimates

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

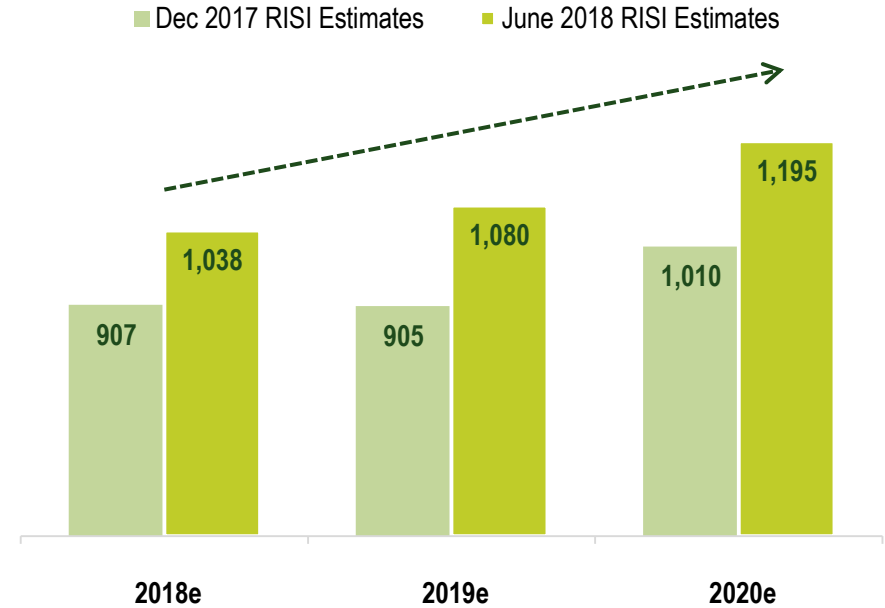
Pulp prices to continue increasing

With a tighter supply and demand balance

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



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



Pulp prices to continue increasing

- Strong global demand growth reinforced by increasing environmental protection in China
- Low pulp inventories across the value chain
- Brazil's trucker strike to dent pulp supply in 3Q18
- Price gap between softwood and hardwood above 170 \$/t

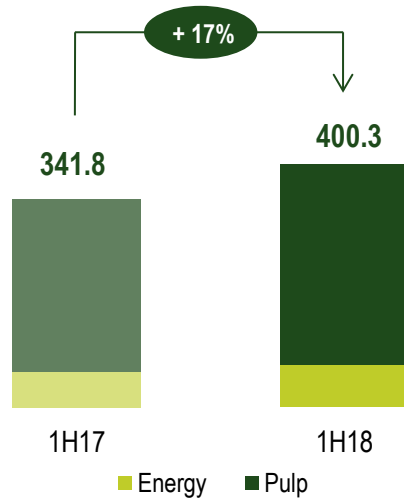
Exceeding market analyst expectations

- Pulp price forecasts continue to underestimate the tight supply and demand balance.
- No large capacity increases confirmed in the industry
- Lead time for new projects close to 3 years
- Recurring unplanned production outages

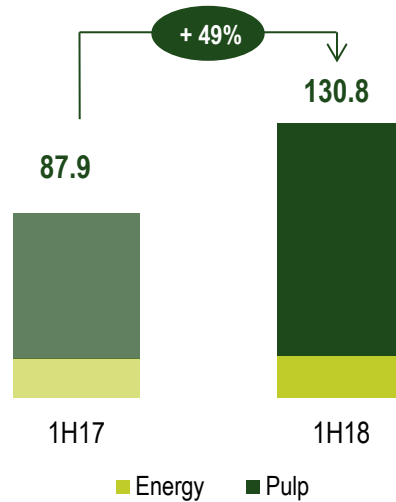
Strong 1H 2018 Results

Thanks to pulp price increases and energy business growth

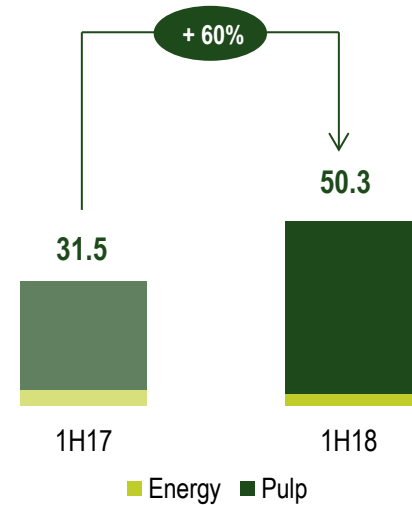
Group Revenues (€ Mn)



Group EBITDA (€ Mn)



Group Net Income (€ Mn)



Pulp business: 17% revenue growth

- 26% rise in pulp net selling price
- 4% decrease in pulp volume sold (lower destocking)

Energy business: 18% revenue growth

- 0,5% rise in energy net selling price
- 22% increase in energy volume sold

Pulp business: 60% EBITDA growth

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

Energy business: 5% EBITDA growth

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

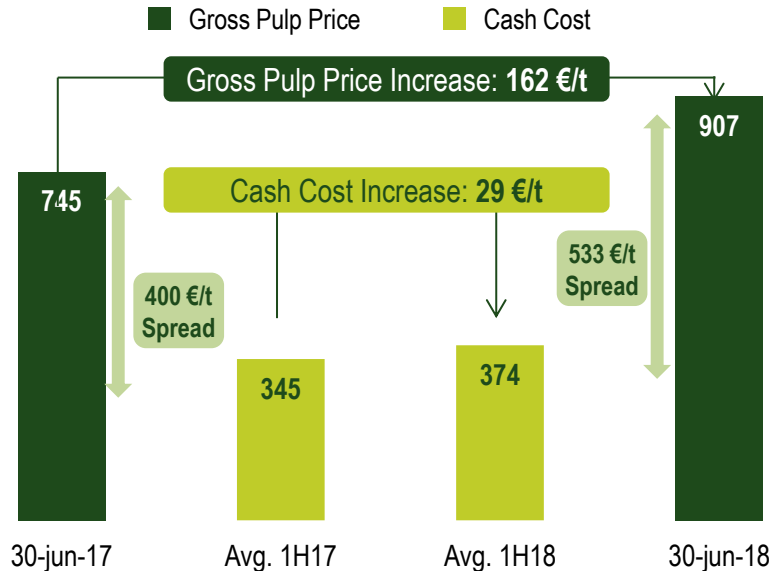
60% Net income growth

- Pulp business refinancing to save €11 Mn annual interest payment as from 2019

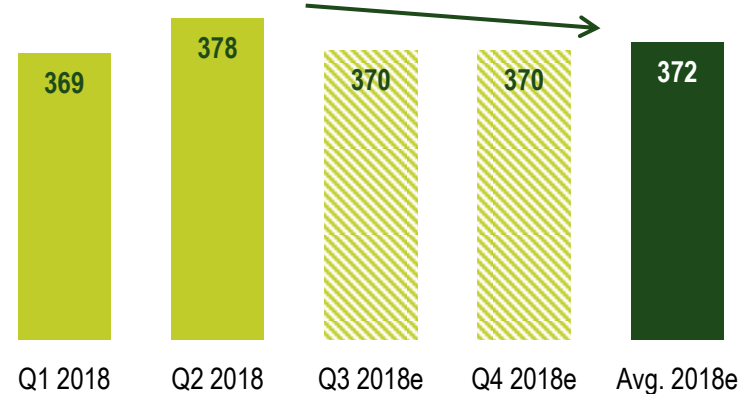
Increasing margins in the Pulp Business

FY 2018 Cash Cost forecast of 372 €/t

Gross Pulp Price (€/t) vs. Cash Cost (€/t)



FY 2018 quarterly Cash Cost



29 €/t Cash Cost increase vs. 1H 2017

- 12 €/t due to higher conversion costs (mostly linked to rising soda prices and higher maintenance at Navia).
- 8 €/t due to wood cost increase (linked to pulp prices)
- 9 €/t due to higher corporate & selling expenses (headcount growth and higher logistic cost)

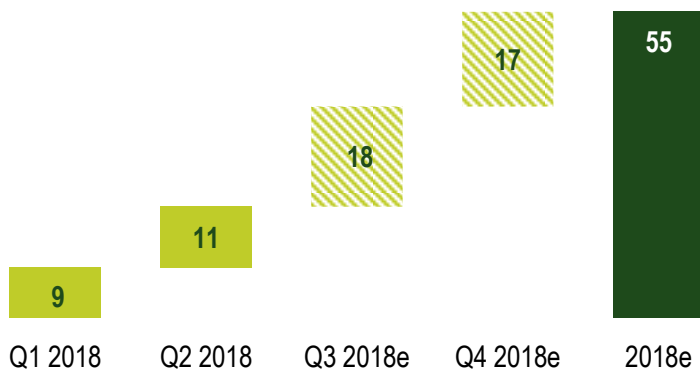
Higher pulp production in 2H 2018 to dilute fixed costs

- No maintenance shutdowns in 2H
- Incremental production from 30.000 capacity expansion in Pontevedra

Higher Energy volumes expected for 2H18

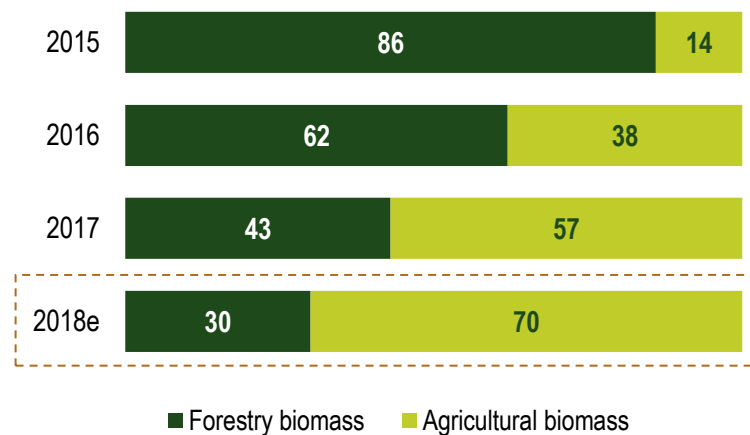
€55 Mn annual EBITDA target

Energy Business Expected EBITDA (€ Mn)



- 5.4% EBITDA growth vs. 1H17 with **44% of the annual production limit used**
- **Higher volumes and margins expected for 2H18**
- 41% of FY2017 EBITDA earned in 1H17

Ongoing Biomass Diversification (%)

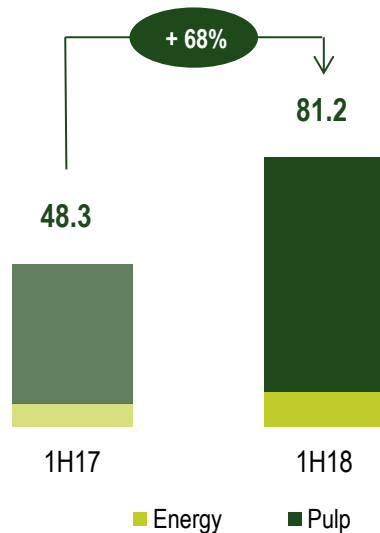


- Ongoing diversification to agricultural byproducts aiming at **€ 4 Mn cost savings in 2018**

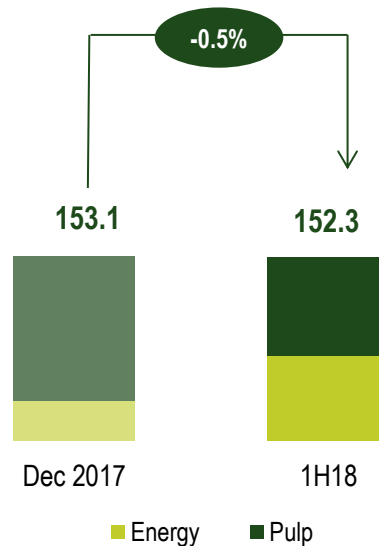
Strong Free Cash Flow generation

Low financial leverage of 0.6 x LTM EBITDA

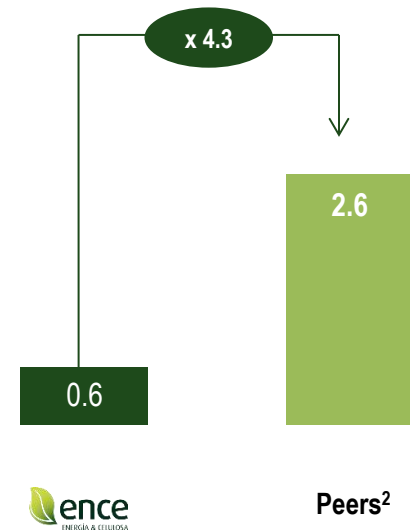
Normalized FCF¹ (€ Mn)



Net Debt Stable in 1H18



Lower Leverage than Peers



Strong Normalized Free Cash Flow generation of €81.2 Mn

- High EBITDA conversion into FCF: 62% including €13.7 Mn one-off financial payment

Net debt stable after

- €78 Mn Strategic Plan Investments
- €16 Mn Dividend payment

Further reducing leverage multiple

- Financial leverage down to **0.6 x Net Debt / LTM EBITDA**
- 4.3 x less than peer average

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

2. Average from Altri (March 18), Fibria (March 18), Suzano (March 18), Klabin (March 18), El Dorado (March 18) and CMPC (March 18)

Strategic Plan investments on track

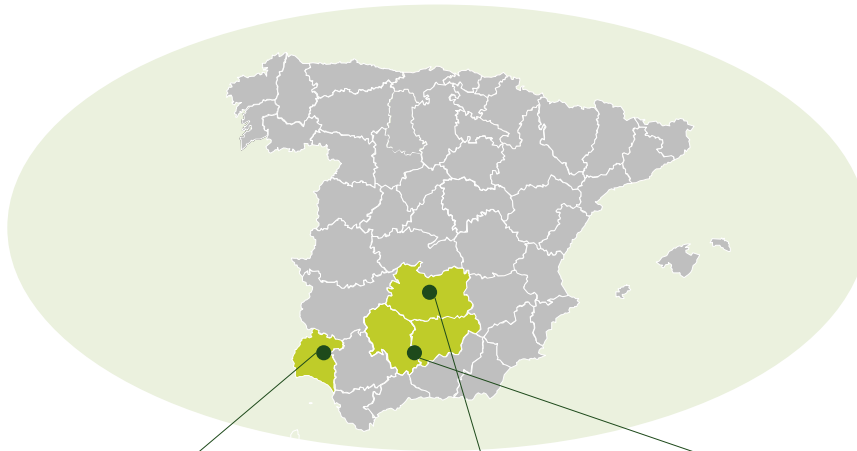
99 Mw of new capacity in Energy to achieve €90 Mn EBITDA in 2020

Energy Business Investments

Total Capacity Increase
99 Mw

Exp. Annual contribution to EBITDA
€30 Mn

Expected Opening
Dec. 2019



Huelva

Capacity
46 Mw

Ciudad Real

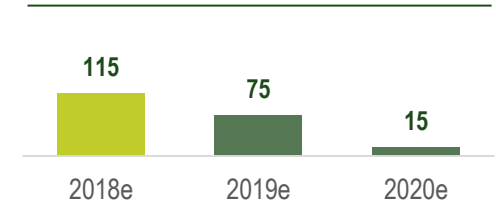
Capacity
46 Mw

Olive Pulp Area

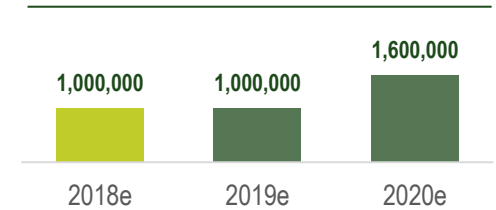
Capacity
7 Mw

Energy Business Investment Plan Summary

Capex (€ Mn)

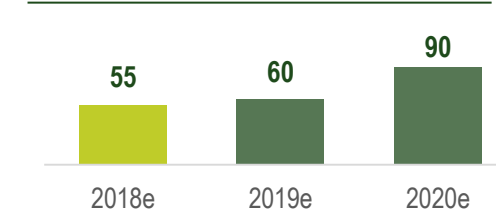


Production sold (MWh)



Expected EBITDA (€ Mn)

Assuming 2017 electricity price levels



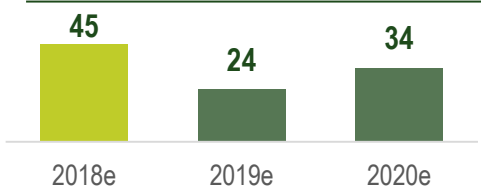
Strategic Plan investments on track

80,000 tons capacity expansion in 2Q 2019 prepared

Pulp Business Investments

Pontevedra

Investment Plan (€ Mn)



Capacity Increase
30,000 t in March 2018 ✓

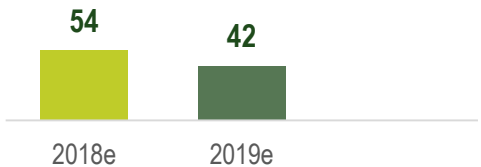
6 months ramp up

Expected EBITDA contribution of
€10 Mn at current market prices



Navia

Investment Plan (€ Mn)



Capacity Increase
80,000 t in 2Q 2019 ✓

2018 Annual
maintenance shutdown ✓

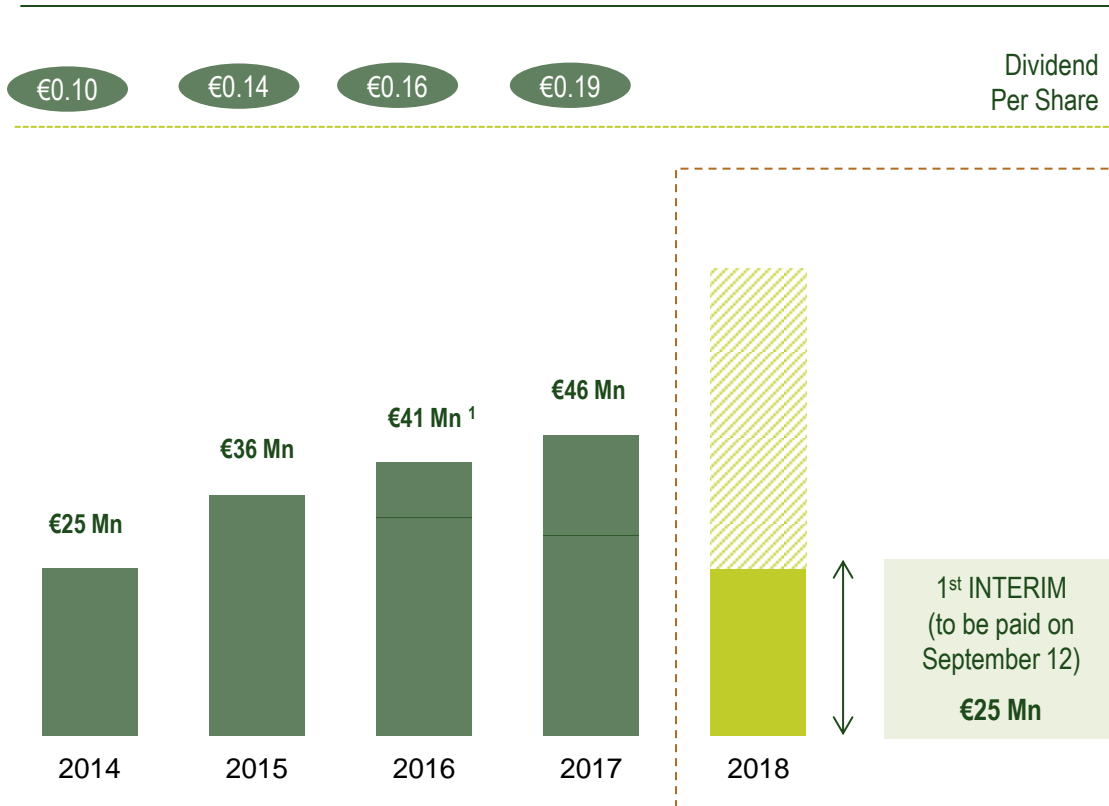
Expected EBITDA contribution of
€28 Mn at current market prices



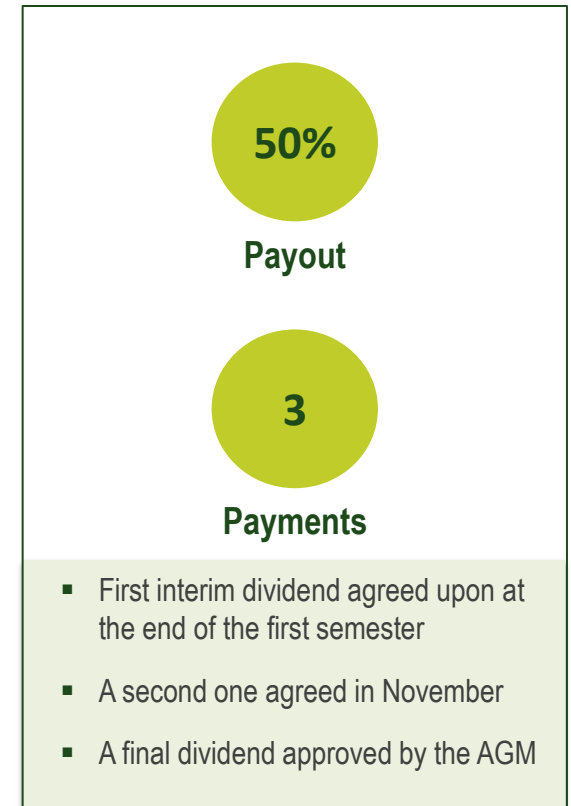
Maintaining an attractive shareholder remuneration

First interim dividend of 25 Mn€ to be paid on September 12

Annual Accrued Dividends (€ Mn)



Dividend Policy



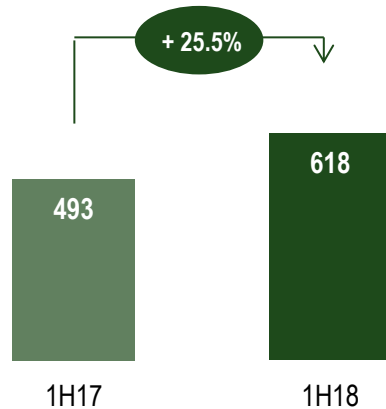
First interim dividend of 0.104 €/share to be paid on September 12

1. Includes share buyback program

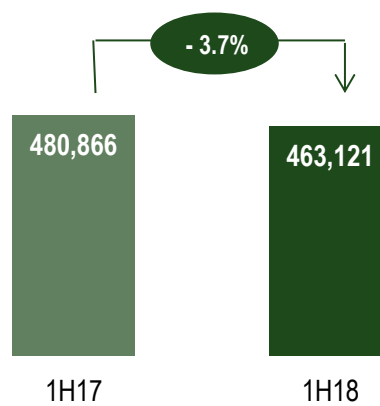


1H 2018 Results by Business

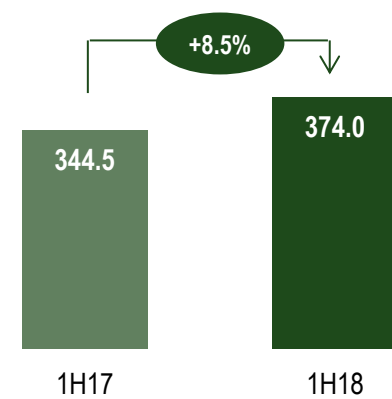
Avg. Net Pulp Price (€/t)



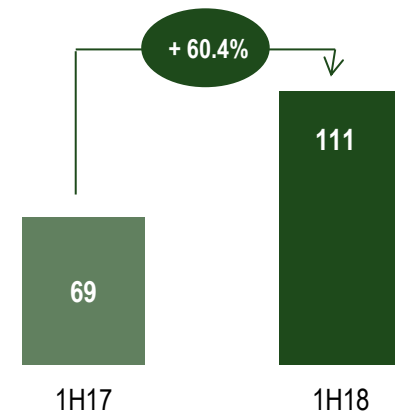
Pulp Sales Volume (t)



Avg. Cash Cost (€/t)



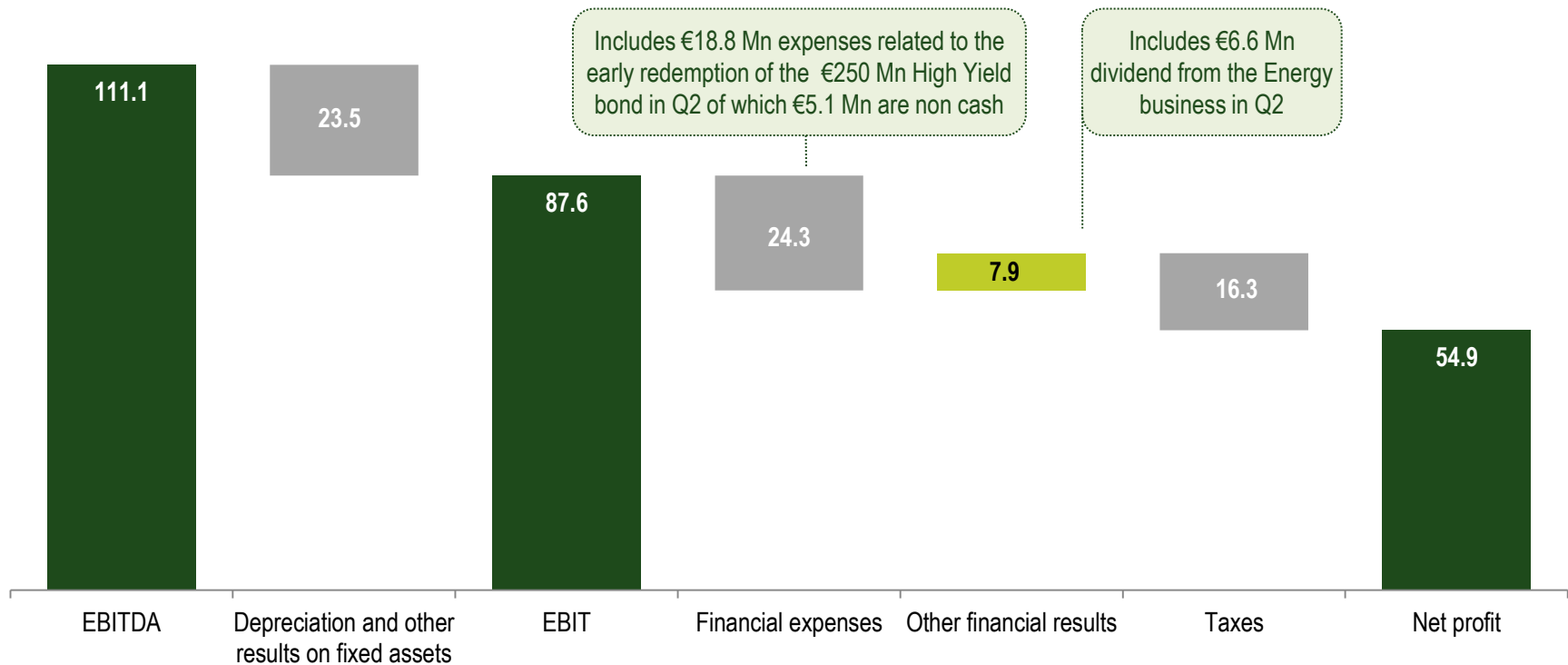
EBITDA (€ Mn)



60% EBITDA growth up to €111 Mn

- 25.5% net pulp price increase
- 3.7% decrease in pulp sales volume due to lower stocks
- 8.5% cash cost increase

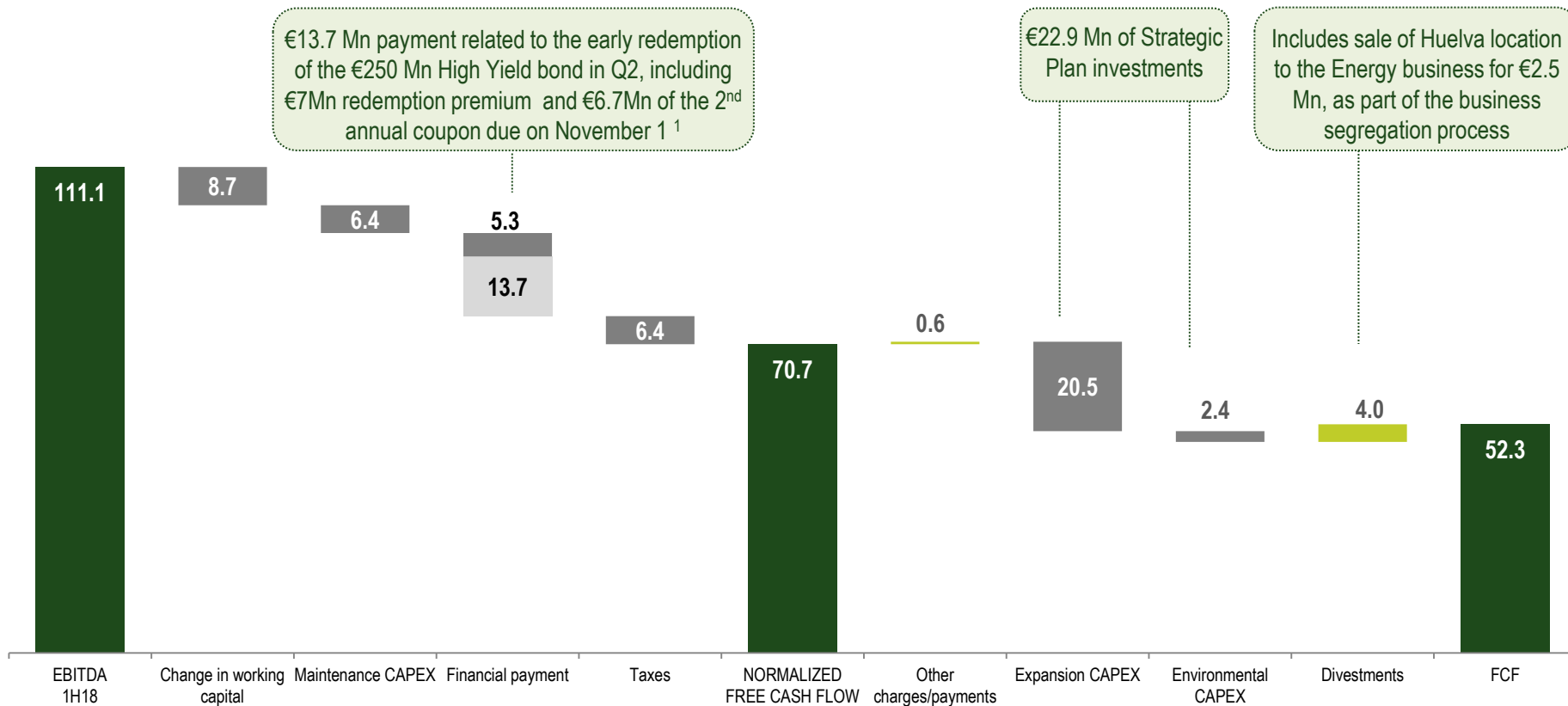
1H18 P&L Bridge (€ Mn)



Pulp Business

Cash Flow generation

1H18 Cash Flow Bridge (€ Mn)



1. Optional redemption date: November 1

Ongoing FX hedging program

To mitigate FX volatility in the Pulp Business

Dollar/Euro Exchange Rate Evolution



Current Hedges

H2 18: 59% revenues

- Avg. cap: \$ 1.17€
- Avg. floor: \$ 1.14 €

H1 19: 59% revenues

- Avg. cap: \$ 1.26 €
- Avg. floor: \$ 1.20 €

Q3 19: 48% revenues

- Avg. cap: \$ 1.29 €
- Avg. floor: \$ 1.21 €

Ence has secured an average cap of \$1.17/€ for 59% of its dollar exposure until Dec. 2018

Pulp business refinancing

To save €11 Mn interest payment as from 2019

Old High Yield Bond

5.375%
Interest Rate

€250 Mn

Redeemed on June 1

- €11.4 Mn
Annual Interest
Payment

New Convertible Bond

1.25%
Interest Rate

€160 Mn

Issued on March 3

Conversion Price
7.2635 €/share

Maturity Date
5 March 2023

Accounted as Equity ¹
€14.5 Mn

Accounted as Debt ¹
€145.5 Mn

€7 Mn High Yield bond redemption premium plus €2 Mn Convertible issuance cost to save €11 Mn interest payment as from 2019

Towards a sustainable financing model

Enhancing Ence's commitment with best ESG standards

Ence confirms its commitment to **environmental sustainability**



Ence is one of the **pioneers in sustainability financing in Spain**

Pulp

Green Loan (Bankia)
€20 Mn

Sustainable Credit Line
€70 Mn

May
2018

Interest rate subject not only to credit ratios, but also to **ESG parameters of the company**



Energy

Green Loan & Note (S&P)
€220 Mn

November
2017

Interest rate will lower with **ESG improvements**

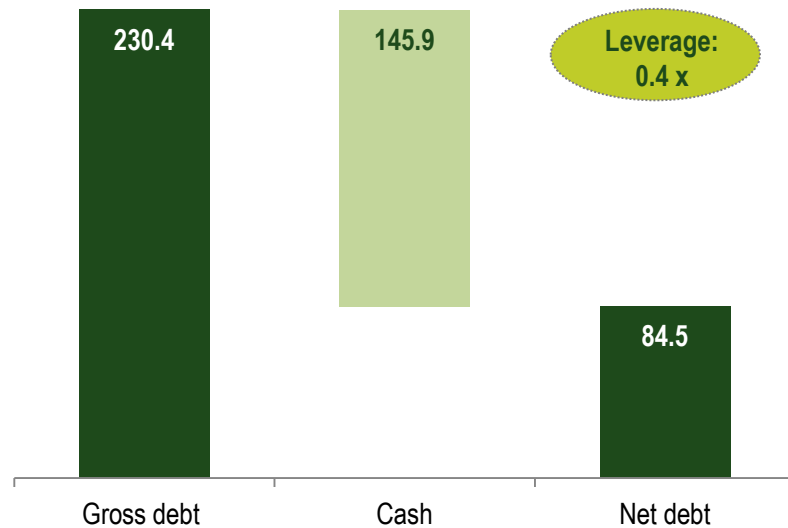


Sustainalytics in charge of ESG rating

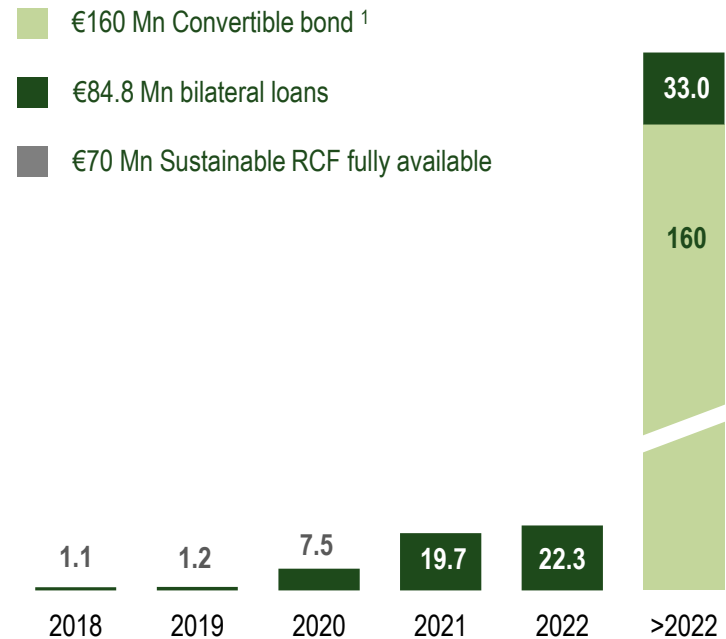
Pulp Business

Solid balance sheet and strong liquidity

Leverage as of June 2018 (€ Mn)



Debt Maturity Calendar (€ Mn)



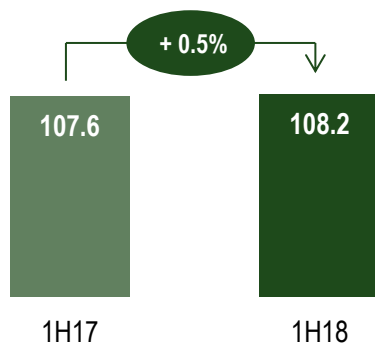
Pulp business leverage at 0.4x Net Debt / LTM EBITDA as of June 2018.

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

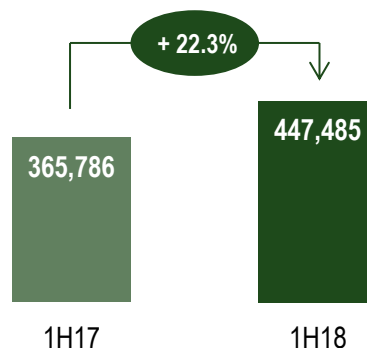
Energy Business

Operating performance

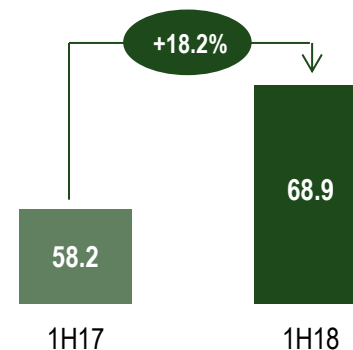
Avg. Selling Price (€/MWh)



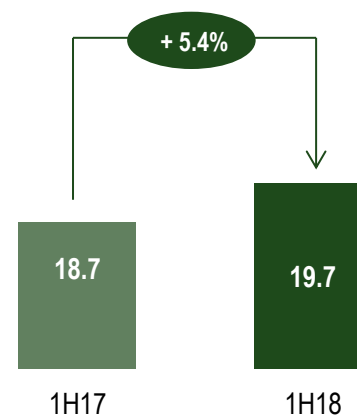
Energy Volume (MWh)



Revenues (€ Mn)



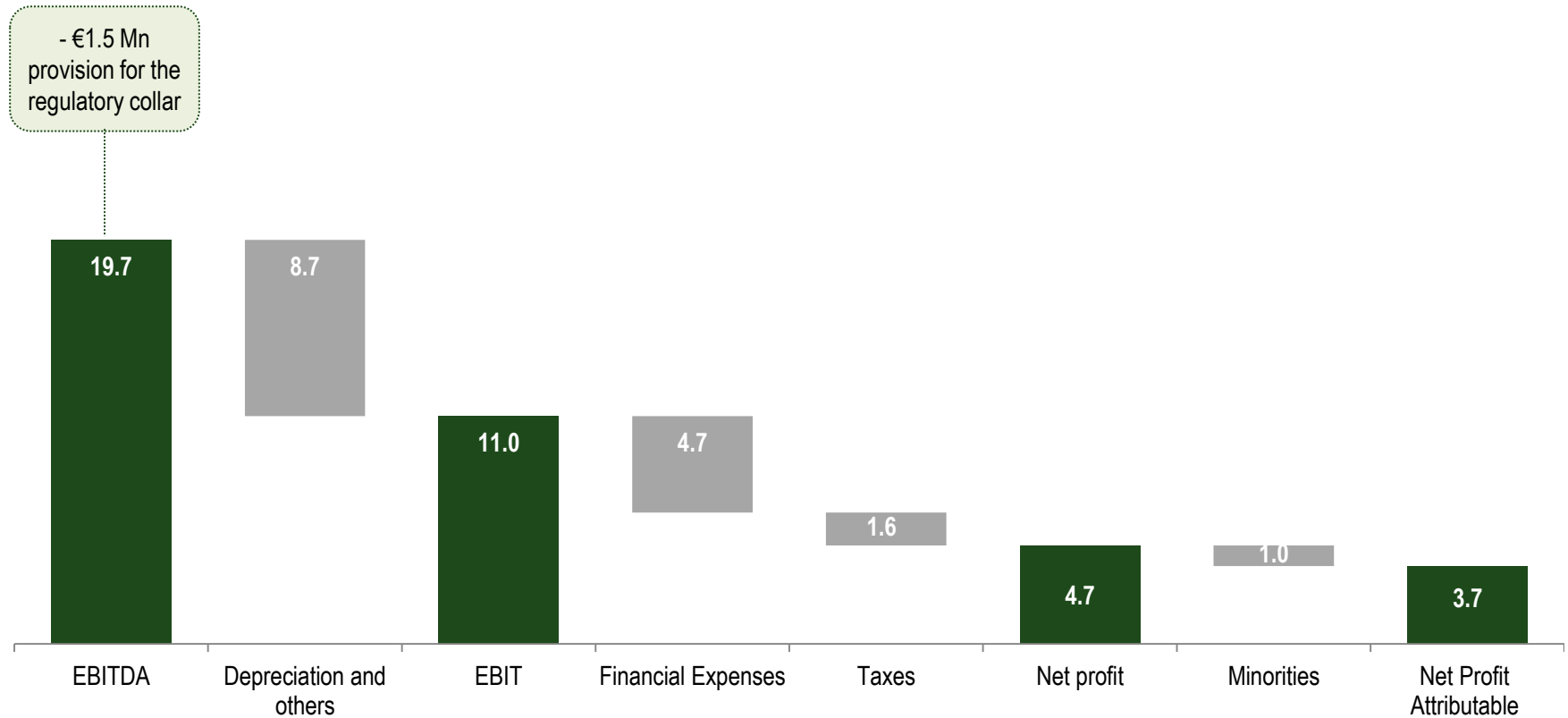
EBITDA (€ Mn)



5.4% EBITDA growth

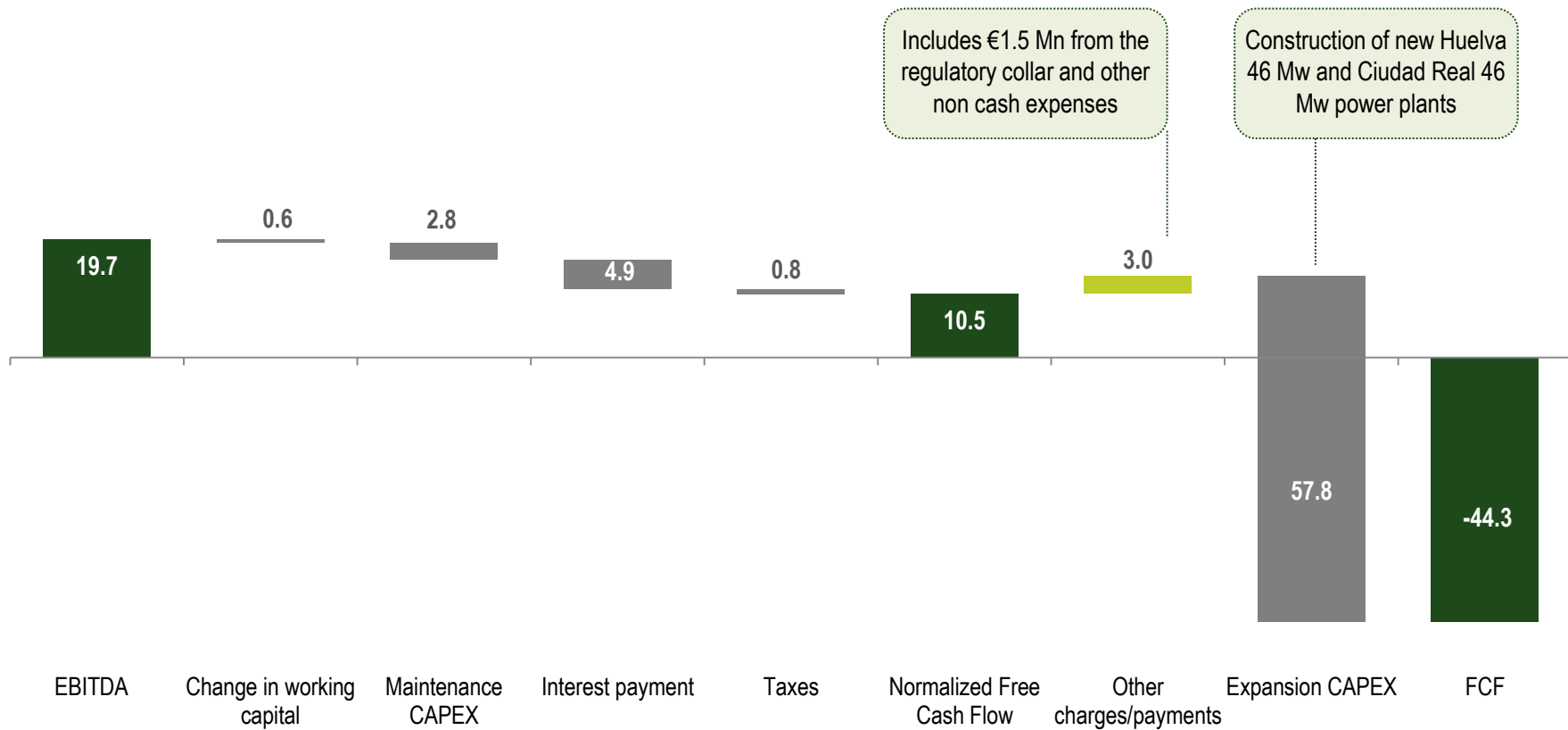
- 0.5% average selling price change
- 22.3% increase in energy volume sold
 - Increasing contribution from Cordoba 27 Mw plan acquired last August
 - 44% of the annual production limit used
- Higher volumes and margins expected for 2H18
- €55 Mn EBITDA target for FY2018

1H18 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

1H18 Cash Flow Bridge (€ Mn)

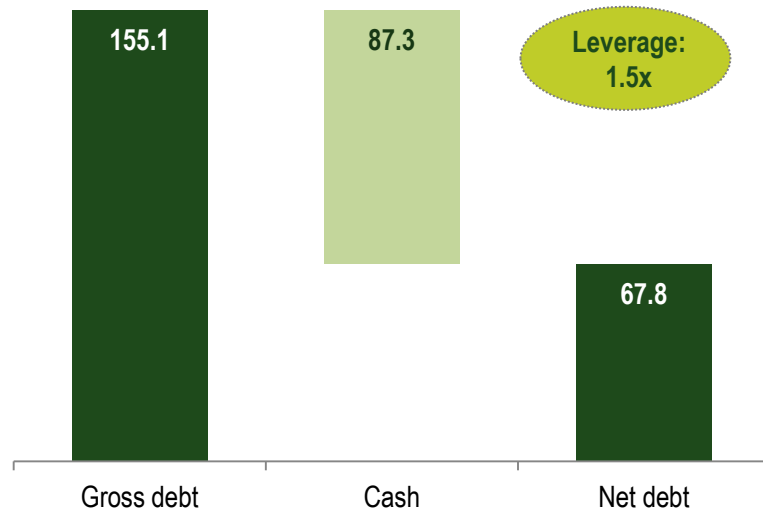


1. Regulatory collar: Adjustment derived from the deviation between the electricity price limits set by the Regulator and the real electricity price.

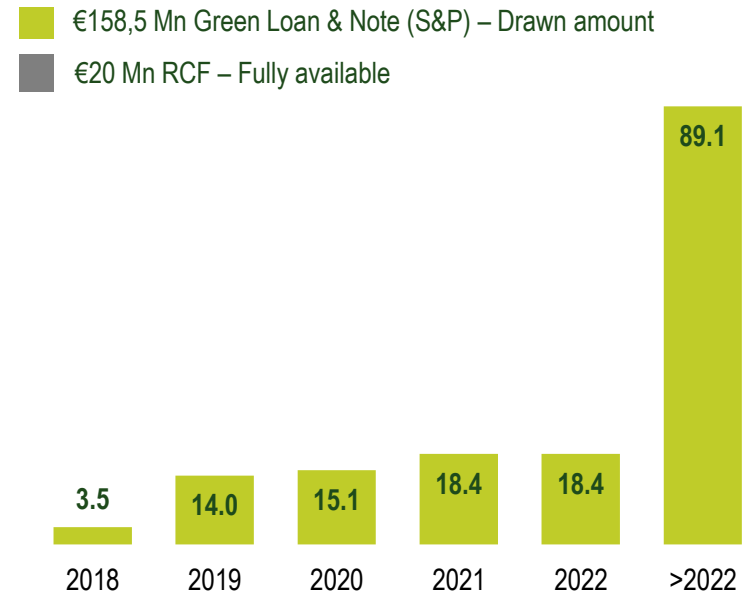
Energy Business

Solid balance sheet and strong liquidity

Leverage as of June 2018 (€ Mn)



Debt Maturity Calendar (€ Mn)



Energy business leverage at 1.5 x Net Debt / LTM EBITDA as of June 2018



Closing Remarks

Closing Remarks



Increasing pulp prices

Tighter supply and demand balance expected until at least 2022

Expected 2018 EBITDA above €300 Mn

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 in November 2018

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