9M 2018 Results

November 5, 2018

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Highlights

Highlights 9M 2018 Results

Strong pulp price scenario for the coming years	▪ **Strong** global **demand** ▪ **Industry** already operating **above 90%** of its capacity ▪ **Lack of large capacity increases** for the coming years
Excellent 9M18 results driven by pulp price improvement	▪ **45% EBITDA** growth and **54% Net Income** growth vs.9M 2017 ▪ **58% EBITDA** growth in the **Pulp** business ▪ **Renewable** Energy business **EBITDA** stable due to one-off operating incidents
Growth investments in the Renewable Energy business	▪ **Thermosolar** plant acquisition in **4Q18** to add **€18 Mn EBITDA**. Biomass **hybridization opportunity** ▪ **99 MW biomass power capacity** on track to fire up in Dec.2019 adding **€30 Mn EBITDA**
Growth investments in the Pulp business	▪ **Pontevedra**´s 30k t capacity increase in 1Q 2018. Another **20k t** will follow in **1Q19** ▪ **Navia**´s capacity increase of **80k t** set for **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 ▪ Second **interim dividend** to be announced in November
New Strategic Plan	▪ Strategic Plan 2019 – 2023 to be released on **November 20**

Market tightness will keep on increasing until at least 2022

Lead time for new projects close to 3 years

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

Mn t	2017-18	2019	2017-19	2020	2017-20	2021	2017-21	2022	2017-22	2023	2017-23	2024	2017-24
ESTIMATED BHKP DEMAND INCREASE	***3.1***	**1.4**	***4.5***	**1.4**	***5.9***	**1.4**	***7.3***	**1.4**	***8.7***	**1.4**	***10.1***	**1.4**	***11.5***
CHINA	***2.4***	1.0	***3.4***	1.0	***4.4***	1.0	***5.4***	1.0	***6.4***	1.0	***7.4***	1.0	***8.4***
OTHER ASIA / AFRICA / OCEANIA / MIDDLE EAST	***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	***0.1***	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	***0.1***	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	***0.1***	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)	***1.5***	**0.6**	***2.1***	**0.0**	***2.1***	**(0.1)**	***2.0***	**0.5**	***2.5***	**(0.4)**	***2.1***	**(0.2)**	***1.9***
APP (OKI)	***1.5***	0.3	***1.8***	0.2	***2.0***		***2.0***		***2.0***		***2.0***		***2.0***
FIBRIA (TRES LAGOAS)	***1.8***	0.1	***1.9***		***1.9***		***1.9***		***1.9***		***1.9***		***1.9***
FIBRIA (ARACRUZ)	***(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*
ARAUCO (VALDIVIA)		(0.1)	***(0.1)***	(0.1)	***(0.2)***		***(0.2)***		***(0.2)***		***(0.2)***		***(0.2)***
KLABIN (PUMA)	***0.5***		***0.5***		***0.5***		***0.5***		***0.5***		***0.5***		***0.5***
SUZANO (IMPERATRIZ. MUCURI & MARANHAO)	***(0.1)***		***(0.1)***	0.3	***0.2***		***0.2***		***0.2***		***0.2***		***0.2***
ENCE (NAVIA & PONTEVEDRA)		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***
UPM (KYMI)	***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***
CMPC (GUAIBA)	***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)***
APRIL (KERINCI)	***(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)	***(0.8)***	(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	***(0.7)***	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)								0.5	*0.5*	1.0	*1.5*	0.5	*2.0*
ELDORADO (BRASIL)										0.5	*0.5*	1.5	*2.0*
LWARCEL (BRASIL)										0.8	*0.8*	0.2	*1.0*
VIETRACIMEX (VIETNAM)								0.3	*0.3*	0.1	*0.4*		*0.4*
SURPLUS / (DEFICIT)	*(1.6)*	(0.8)	*(2.4)*	(1.4)	(3.8)	(1.5)	*(5.3)*	(0.1)	*(5.4)*	0.6	*(4.8)*	0.6	*(4.2)*

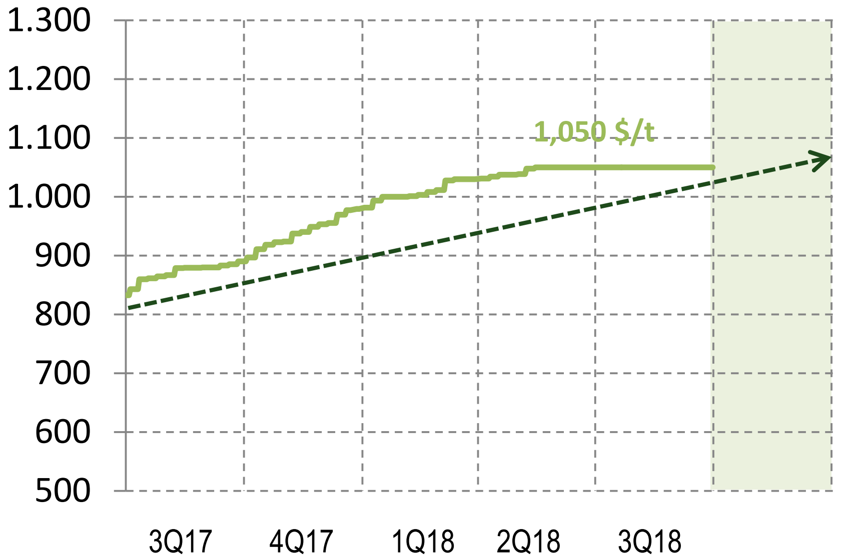
Source: ENCE estimates

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

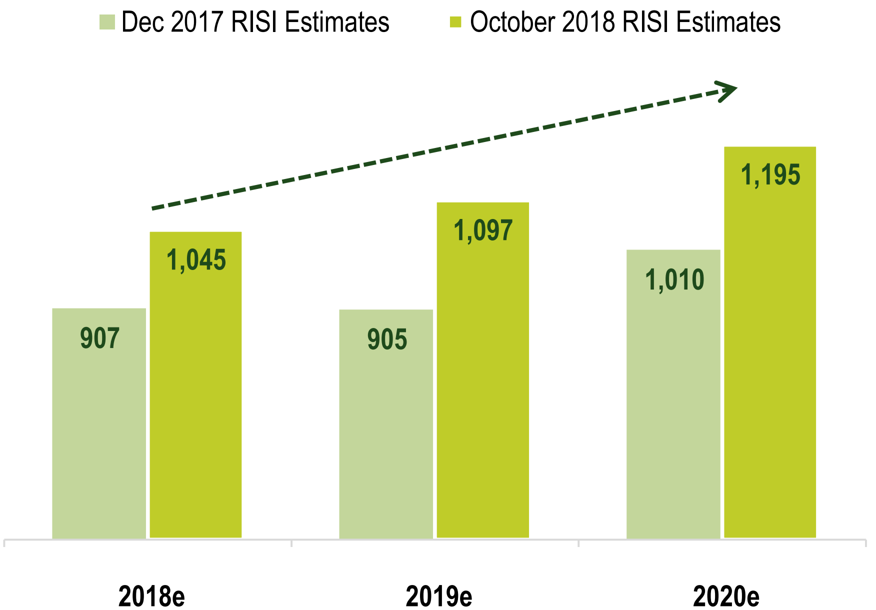
Strong pulp price scenario for the coming years

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 (+5% vs. 9M17) reinforced by:
  - Increasing environmental protection in China
  - Softwood pulp substitution (price gap 180 $/t)
- Industry already operating at c. 90% of its capacity

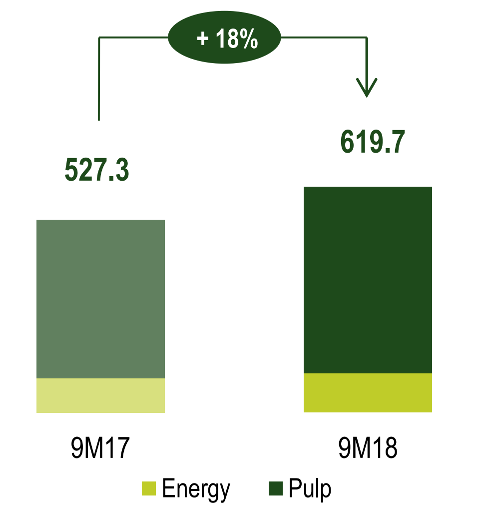
Exceeding market analyst expectations

- Lack of confirmed capacity increases
- Lead time for new projects close to 3 years
- Ongoing capacity conversions to other pulp grades
- Recurring unplanned production outages

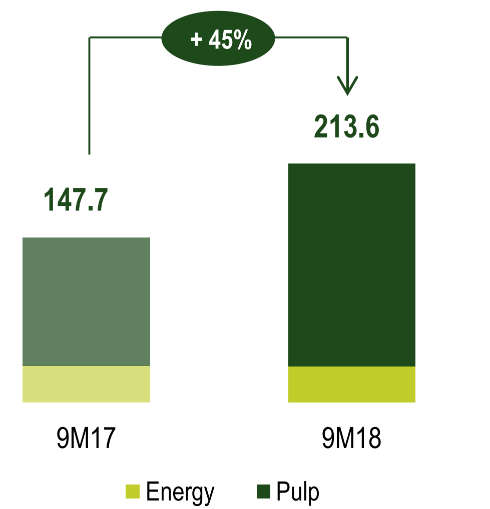
Excellent 9M 2018 Results

Driven by pulp price improvement

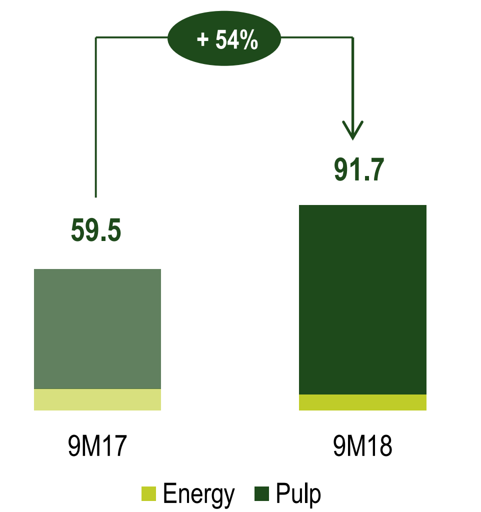
Group Revenues (€ Mn)



Group EBITDA (€ Mn)



Group Net Income (€ Mn)



Pulp business: 18% revenue growth

- 24% rise in pulp net selling price
- 3% decrease in pulp volume sold due to **pulp stock replenishment ahead of 1H19 expansions**

Energy business: 14% revenue growth

- 14% increase in energy volume sold

Pulp business: 58% EBITDA growth

- Despite higher cash cost

Energy business EBITDA stable

- Due to one-off operating incidents.

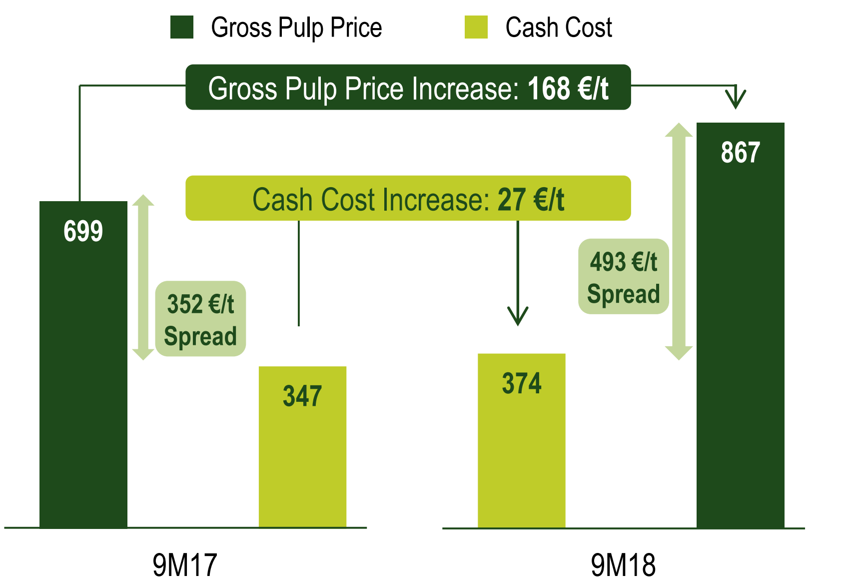
54% Net income growth

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

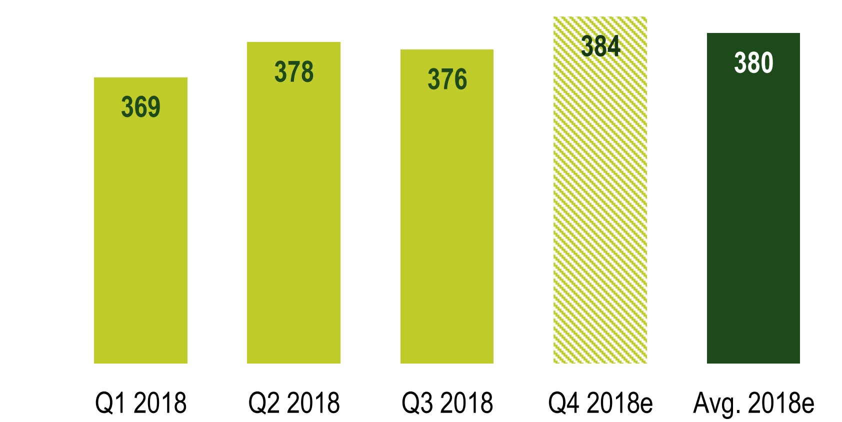
Increasing margins in the Pulp Business

FY 2018 Cash Cost forecast of 380 €/t

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



FY 2018 quarterly Cash Cost



27 €/t Cash Cost increase vs. 9M 2017

- 8 €/t due to wood cost increase (linked to pulp prices)
- 8 €/t due to higher conversion costs (mostly linked to rising chemicals and fuel cost).
- 8 €/t due to higher corporate expenses (headcount growth)
- 3 €/t due to higher logistic cost (higher fuel cost)

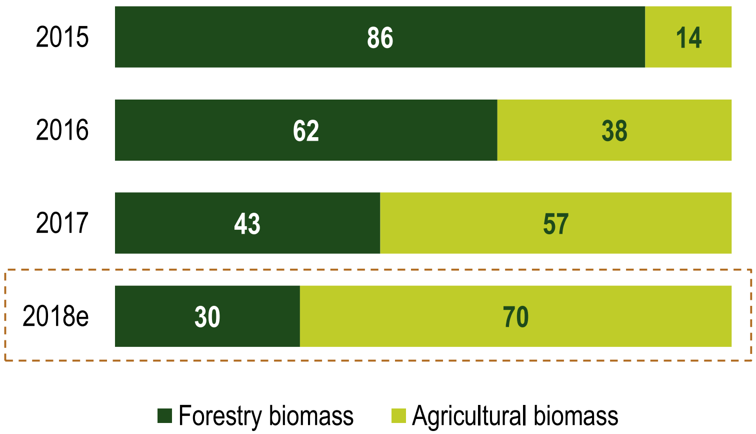
FY 2018 Cash Cost forecast of 380 €/t

- Due to higher raw material prices (wood, chemicals, fuel) and corporate expenses

Cash cost improvement expected for 2019 from fixed costs dilution over higher pulp sales

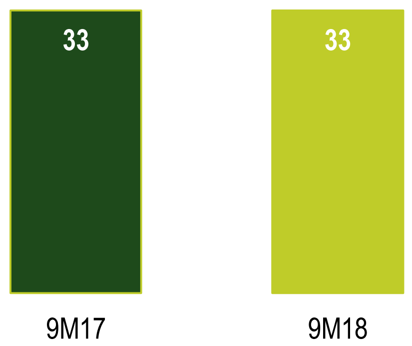
Renewable Energy business EBITDA stable
Due to one-off operating incidents

Ongoing Biomass Diversification (%)



- Diversification to agricultural byproducts multiplies biomass availability and reduces its cost.

Energy Business EBITDA (€ Mn)



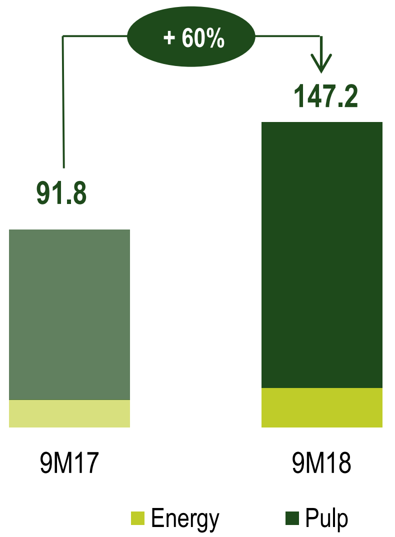
- Renewable Energy business EBITDA stable vs. 9M17 due to **one-off operating incidents**.
- Includes **€6.2 Mn provision** for the regulatory collar [1]

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

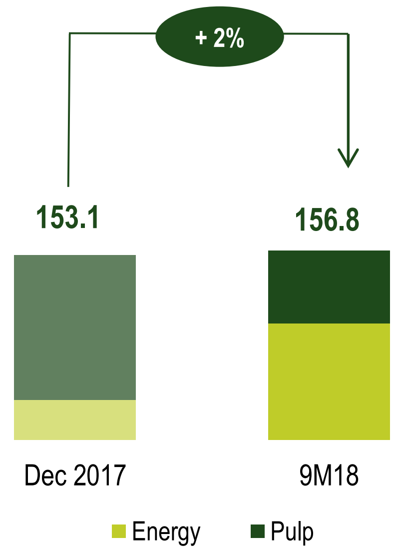
Strong Free Cash Flow generation

Low financial leverage of 0.6 x LTM EBITDA

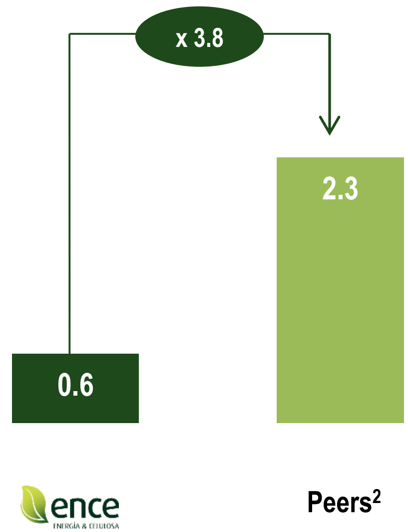
Normalized FCF[1] (€ Mn)



Net Debt Stable in 9M18



Lower Leverage than Peers



Strong Normalized Free Cash Flow generation of €147.2 Mn

- High EBITDA conversion into FCF: 69% including €13.7 Mn one-off financial payment

Net debt stable after

- €127 Mn Strategic Plan Investments
- €39 Mn Dividend payment

Further reducing leverage multiple

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

1. FCF before Strategic Plan investments, divestments & dividend payment
2. Average from Altri (June 18) , Fibria (June 18) , Suzano (June 18), Klabin (June 18), El Dorado (June 18) and CMPC (June18)

Thermosolar plant acquisition in 4Q18

First step towards diversification to other renewable technologies

Thermosolar Plant

Capex (€ Mn)	140
Capacity (Mw)	50
Annual Production (Mw/h)	70,000
Equivalent Production Hours	1,400
Annual EBITDA (€ Mn)	18

Potential Hybridization

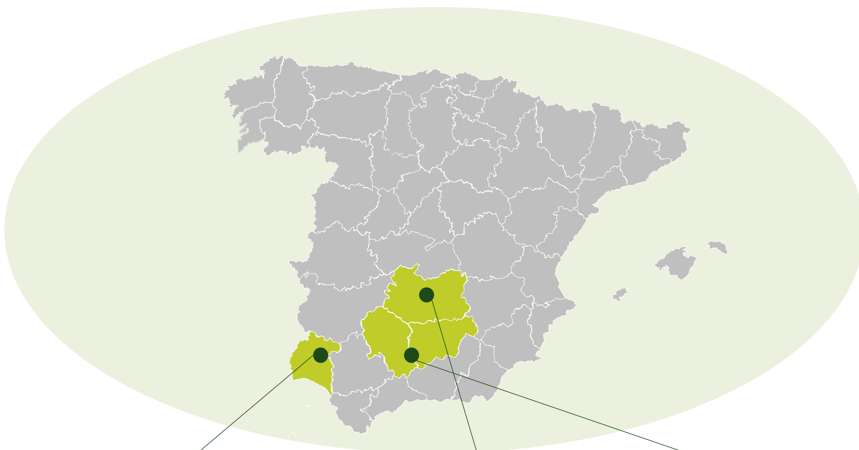
Capex (€ Mn)	30
Annual Production (Mw/h)	190,000
Equivalent Production Hours	3,800

Strategic Plan investments on track

99 MW of new biomass capacity to add € 30 Mn EBITDA from 2020

Energy Business Investments

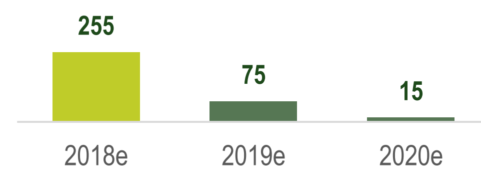
Total Capacity Increase	Exp. Annual contribution to EBITDA	Expected Opening
99 MW	**€30 Mn**	**Dec. 2019**



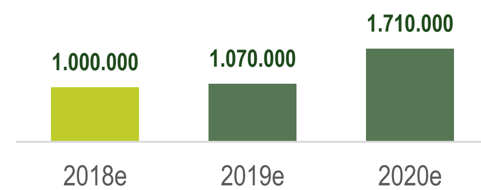
Huelva	Ciudad Real	At one of our operating plants
Capacity **46 MW**	Capacity **46 MW**	Capacity **7 MW**

Energy Business Investment Plan Summary

Capex (€ Mn)

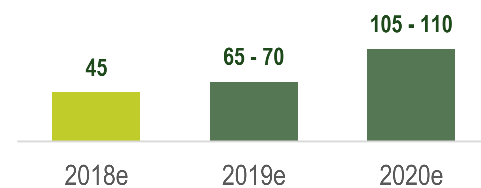


Production sold (MWh)



Expected EBITDA (€ Mn)

Assuming 2017 electricity price levels



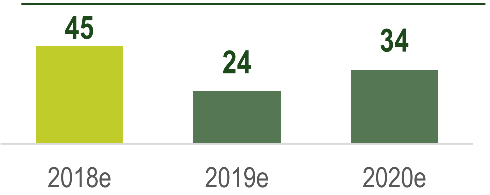
Strategic Plan investments on track

100,000 tons capacity expansion set for 1H19

Pulp Business Investments

Pontevedra

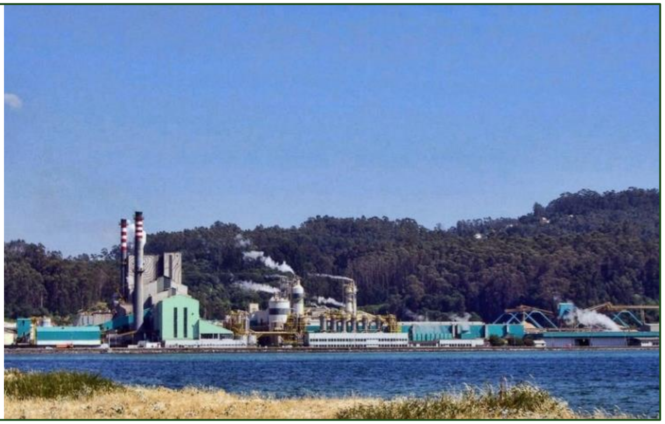
Investment Plan (€ Mn)



Capacity Increase
30,000 t in March 2018

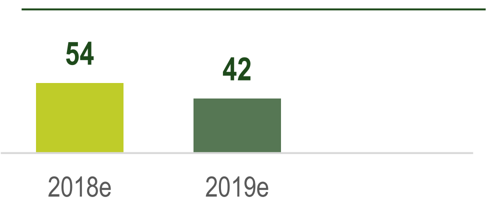
Capacity Increase
20,000 t in 1Q 2019

Expected EBITDA contribution of €18 Mn at current market prices



Navia

Investment Plan (€ Mn)



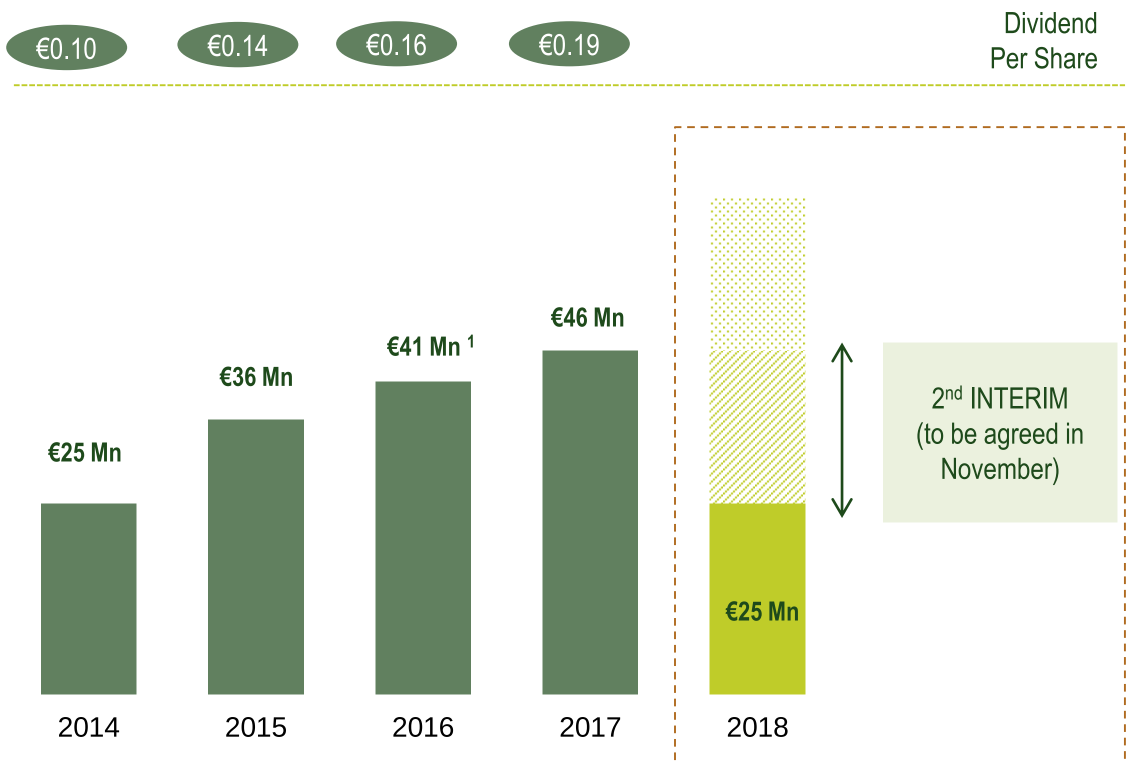
Capacity Increase
80,000 t in 2Q 2019

Expected EBITDA contribution of €28 Mn at current market prices

Maintaining an attractive shareholder remuneration

First interim dividend of 25 Mn€ paid in September

Annual Accrued Dividends (€ Mn)



Dividend Policy

50%

Payout

3

Payments

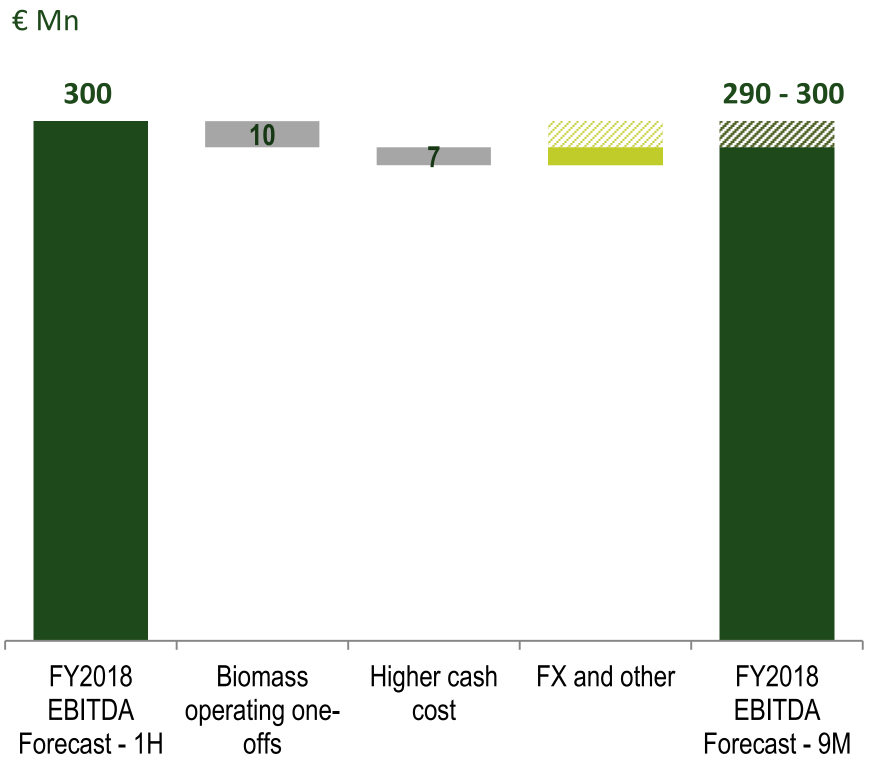
- First interim dividend agreed upon at the end of the first semester
- A second one agreed in November
- A final dividend approved by the AGM

First interim dividend of 0.104 €/share paid on September 12. Second one to be agreed in November.

1. Includes share buyback program

FY2018 EBITDA forecast of €290-300 Mn vs. €300 Mn at 1H18

Mainly due to biomass energy plants operating one-offs

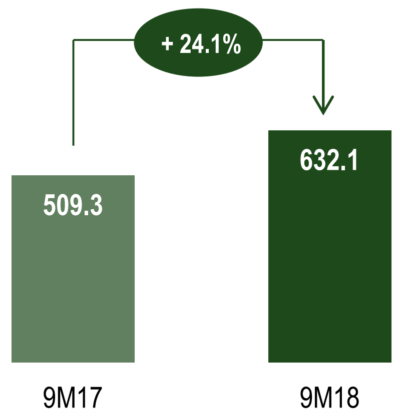


- **FY 2018 EBITDA forecast of €290-300 Mn** mainly due to biomass energy plants operating one- offs
- **FY 2019 EBITDA forecast of €340 Mn** at constant pulp prices, including pulp capacity expansions from May and last solar thermal power plant acquisition

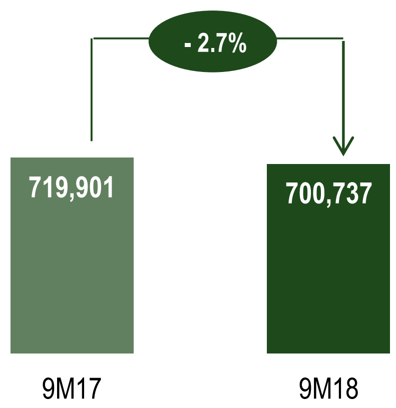
9M 2018 Results by Business

Pulp Business
Operating performance

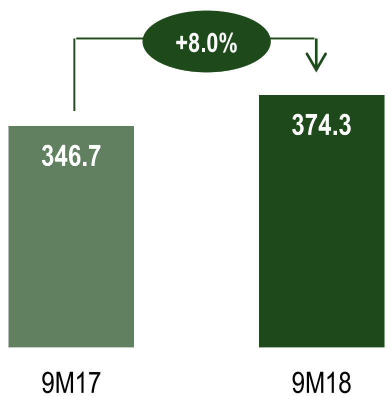
Avg. Net Pulp Price (€/t)



Pulp Sales Volume (t)



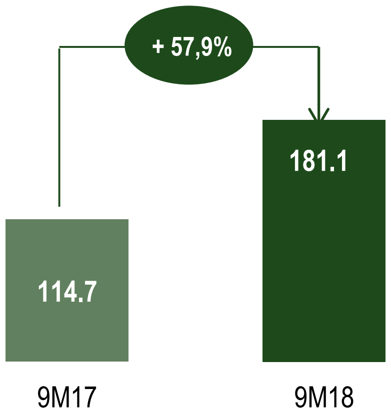
Avg. Cash Cost (€/t)



57.9% EBITDA growth up to €181.1 Mn

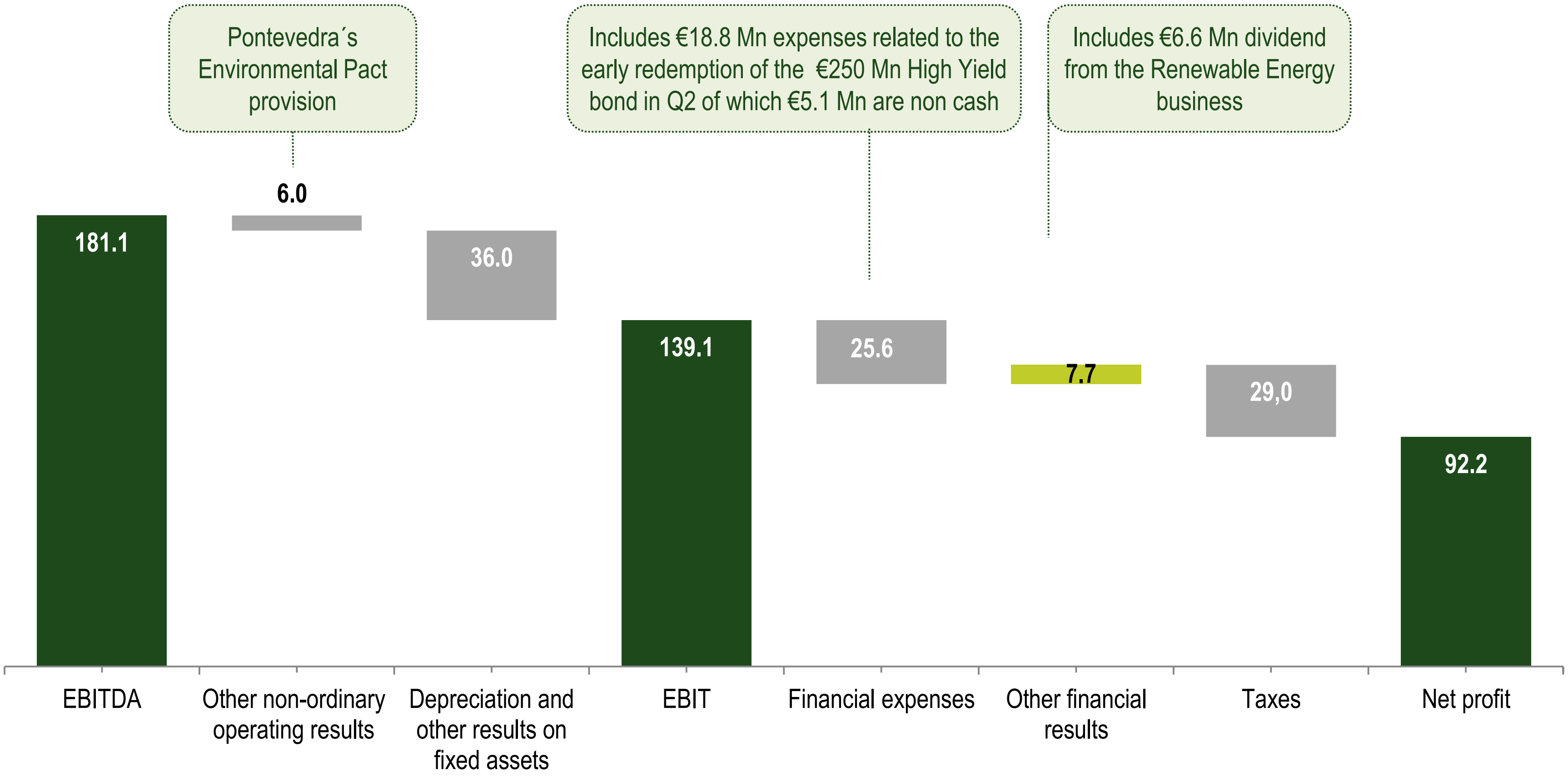
- **24.1%** net pulp price increase
- **2.7%** decrease in pulp sales despite 2% increase in pup production due to inventories rebuilding ahead of 1H19 shutdowns for maintenance and capacity expansions
- **8.0%** cash cost increase due to higher raw material prices (wood, chemicals, fuel) and corporate expenses

EBITDA (€ Mn)



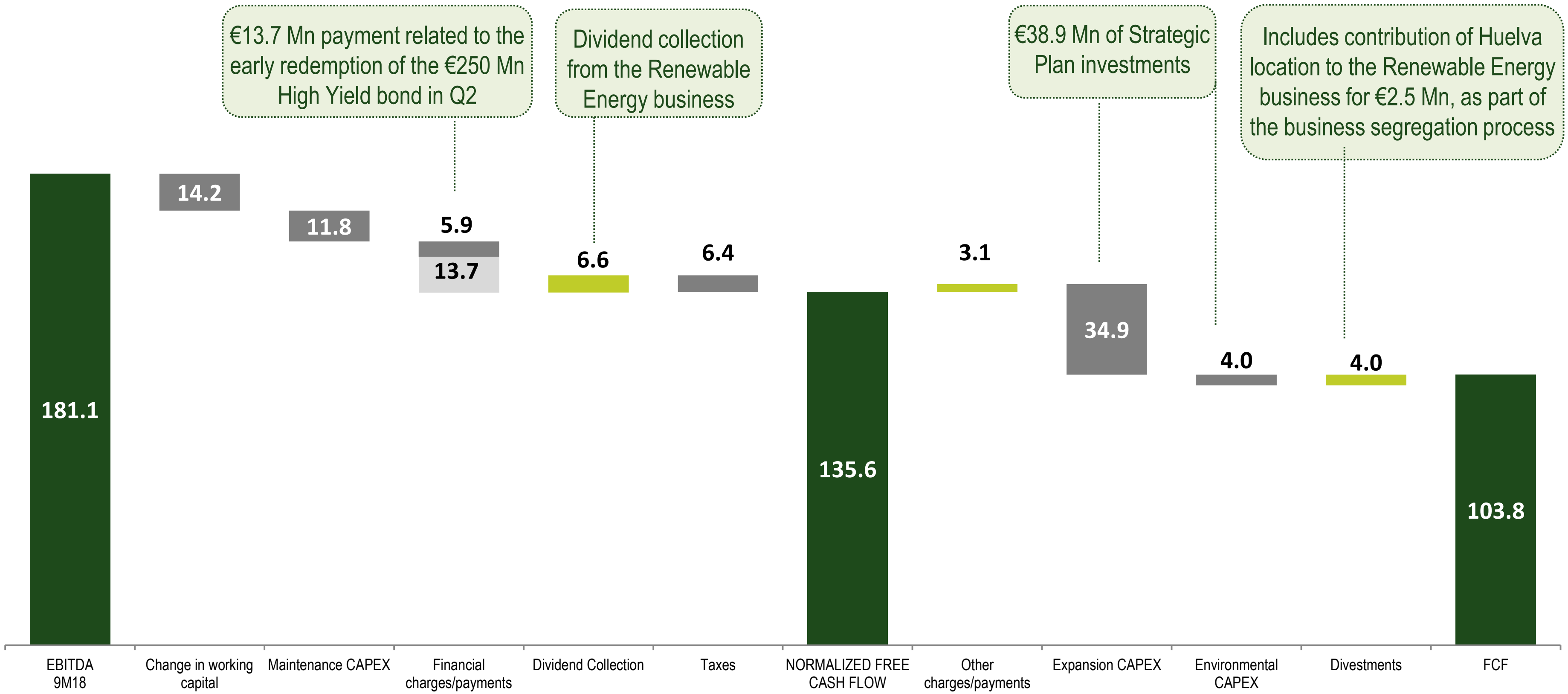
Pulp Business
P&L

9M18 P&L Bridge (€ Mn)



Pulp Business
Cash Flow generation

9M18 Cash Flow Bridge (€ Mn)



Ongoing FX hedging program

To mitigate FX volatility in the Pulp Business

Dollar/Euro Exchange Rate Evolution

Current Hedges

Q4 18: 63% revenues

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

H1 19: 55% revenues

- Avg. cap: $ 1.25 €
- Avg. floor: $ 1.19 €

H2 19: 48% revenues

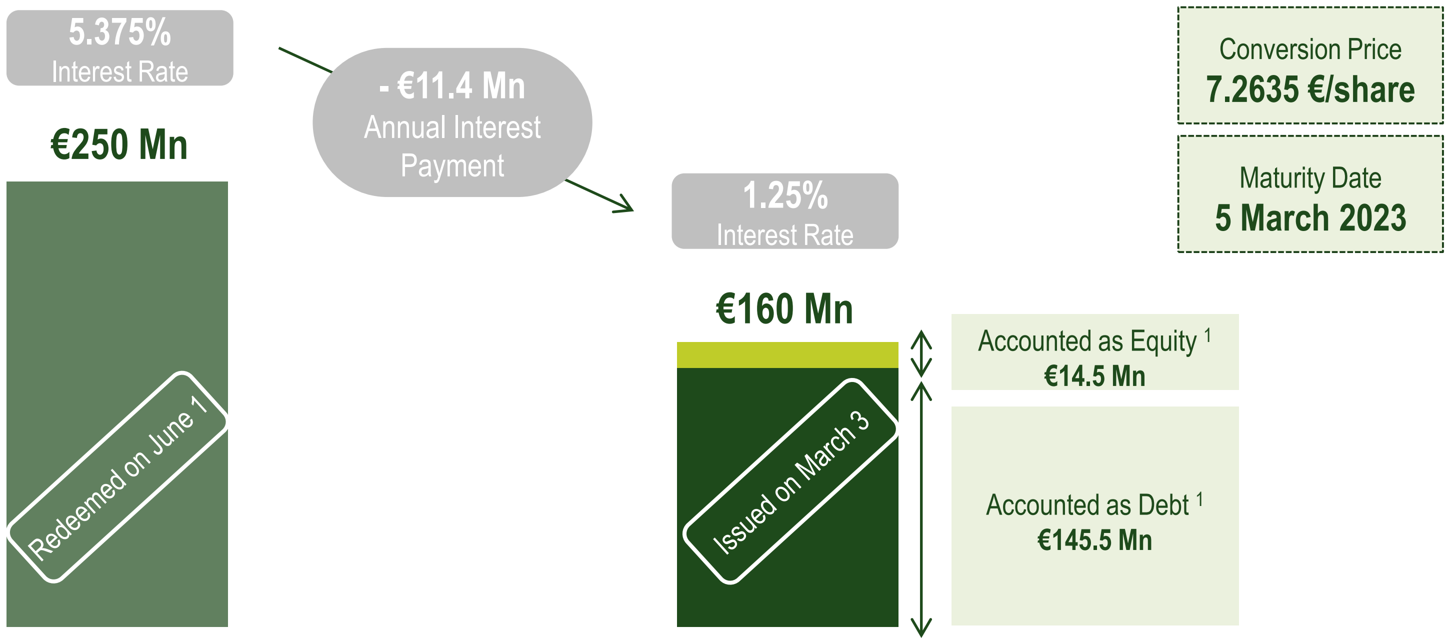
- Avg. cap: $ 1.28 €
- Avg. floor: $ 1.20 €

Ence has secured an average cap of $1.25/€ for 54% of its dollar exposure until Dec. 2019

Pulp business refinancing

To save €11 Mn interest payment as from 2019

Old High Yield Bond | **New Convertible Bond**



€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**

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

Interest rate will lower with ESG improvements

Sustainalytics in charge of ESG rating

Green financing facilities

Pulp

Green Loan (Bankia)
€20 Mn

Sustainable Credit Line
€70 Mn

May 2018

Energy

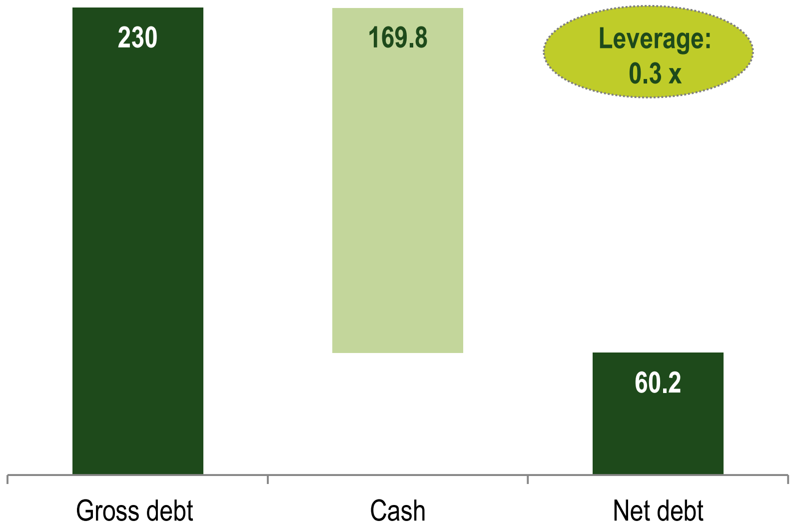
Green Loan & Note
(S&P)
€220 Mn

November 2017

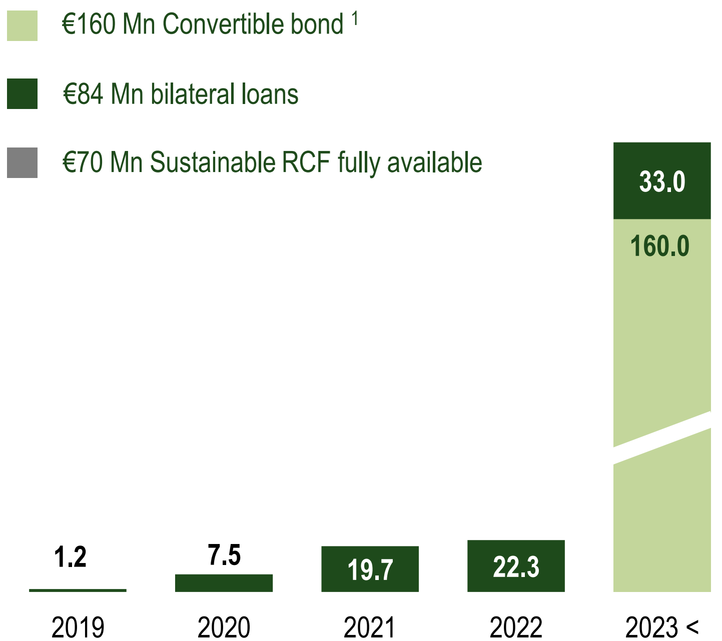
Pulp Business

Solid balance sheet and strong liquidity

Leverage as of September 2018 (€ Mn)



Debt Maturity Calendar (€ Mn)



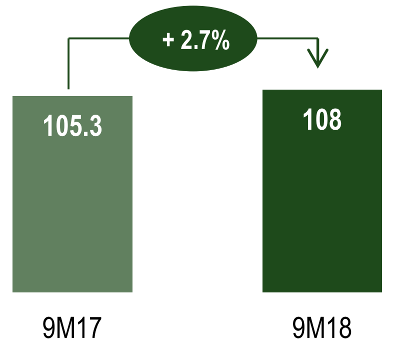
Pulp business leverage at 0.3x Net Debt / LTM EBITDA as of September 2018.

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

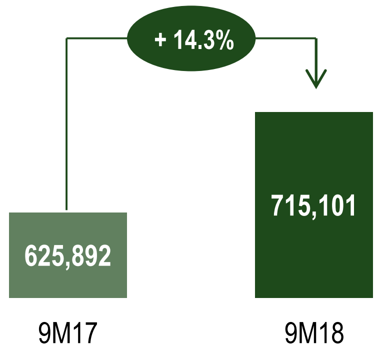
Renewable Energy Business

Operating performance

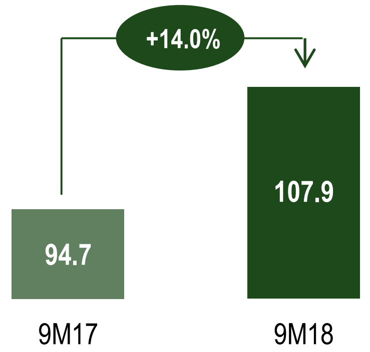
Avg. Selling Price (€/MWh)



Energy Volume (MWh)



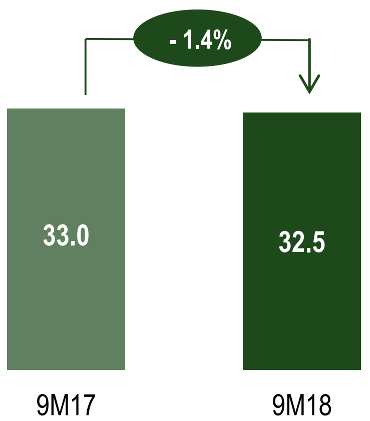
Revenues (€ Mn)



1.4% EBITDA decline

- **2.7%** average selling price change caped by the regulatory collar [1]
- **14.3%** increase in energy volume sold
  - ➢ Increasing contribution from Cordoba 27 Mw plan acquired last August
  - ➢ Partially offset by one-off operating incidents in Q3
- Includes **€6.2 Mn provision** for the regulatory collar [1]

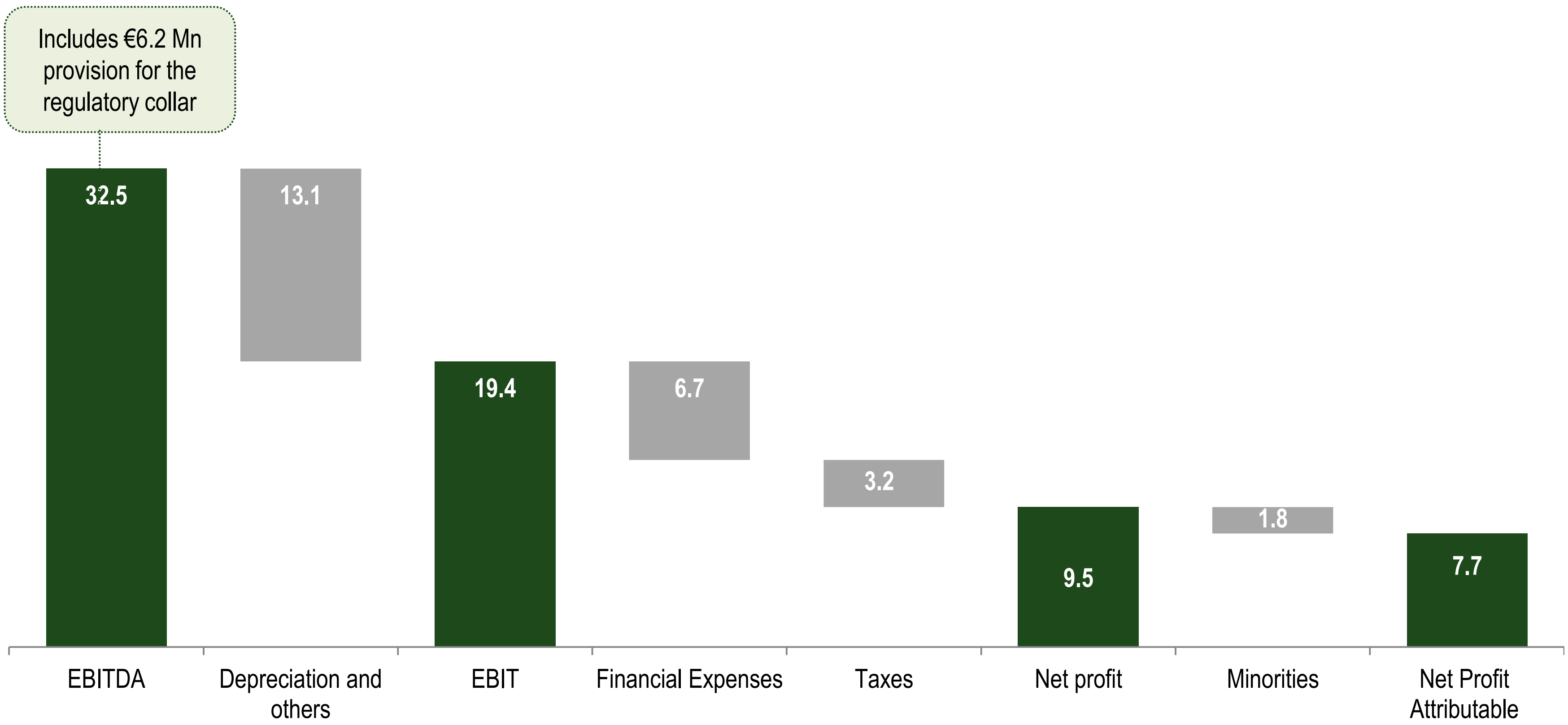
EBITDA (€ Mn)



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

Energy Business
P&L

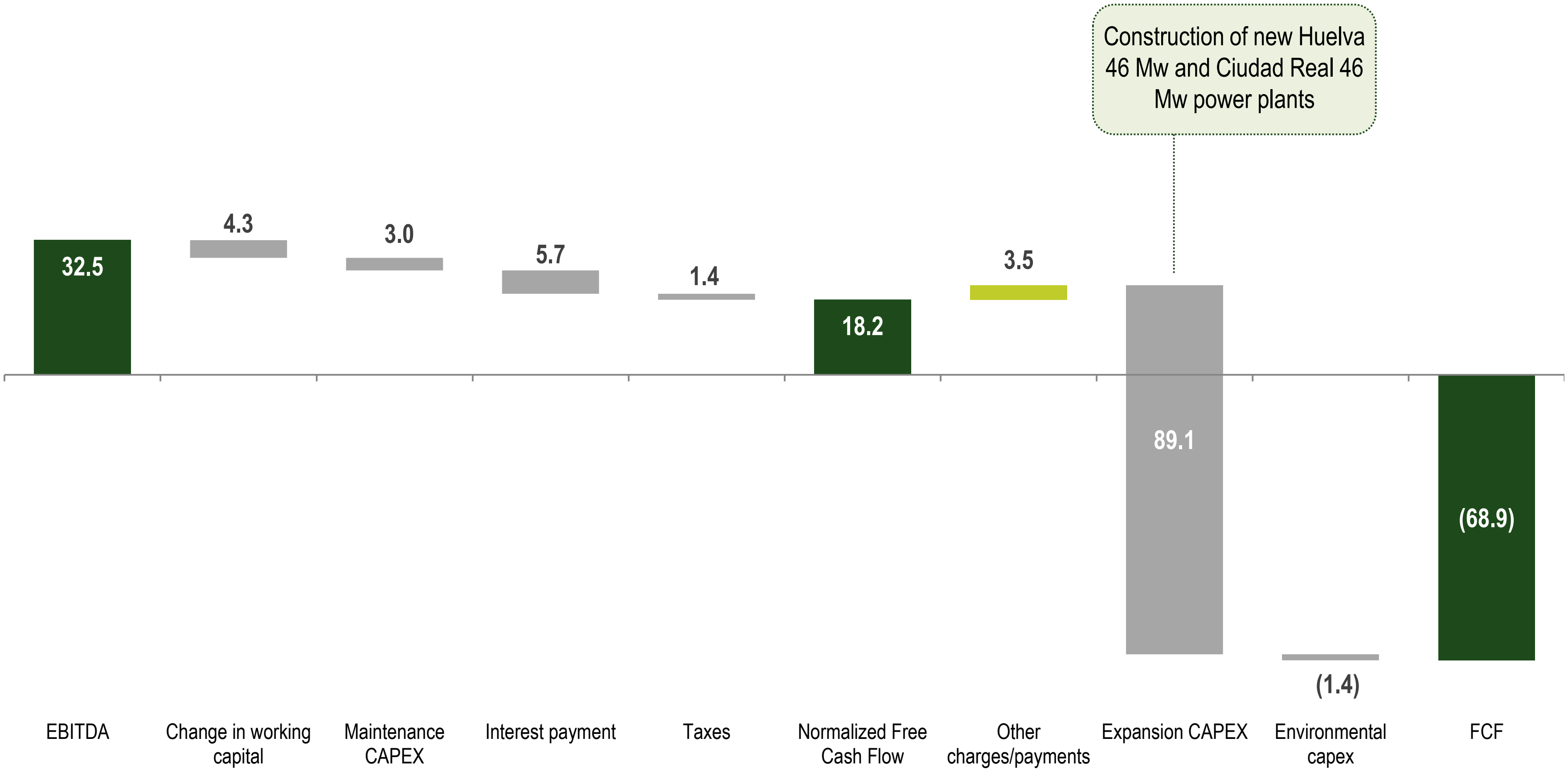
9M18 P&L Bridge (€ Mn)



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

Energy Business
Cash Flow generation

9M18 Cash Flow Bridge (€ Mn)

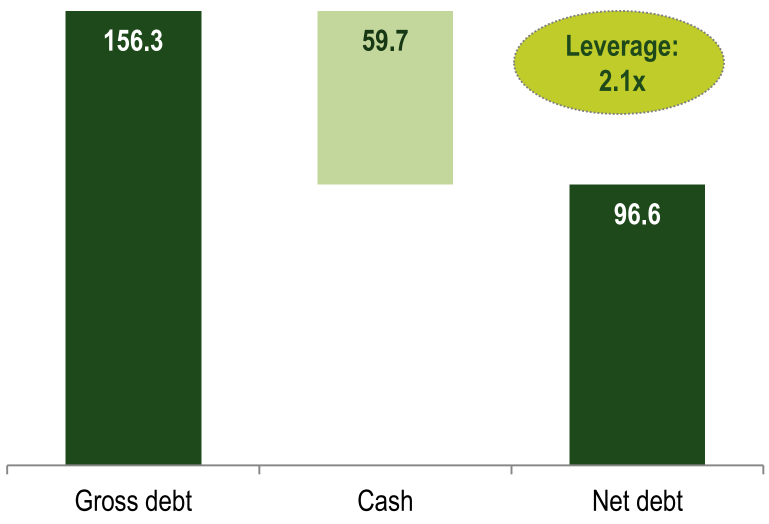


1. Regulatory collar: Adjustment derived from the deviation between the electricity price limits set by the Regulator and the real electricity price.

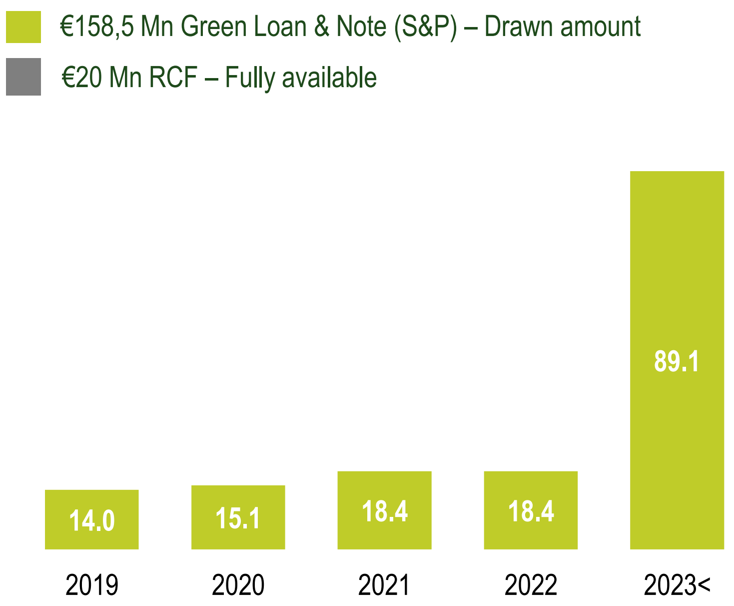
Energy Business

Solid balance sheet and strong liquidity

Leverage as of September 2018 (€ Mn)



Debt Maturity Calendar (€ Mn)



Energy business leverage at 2.1 x Net Debt / LTM EBITDA as of September 2018

Closing Remarks

Closing Remarks

Strong pulp price scenario for the coming years

Tighter supply and demand balance expected until at least 2022

FY2018 pulp sales forecast of 950,000 t including pulp stock replenishment ahead of next capacity expansions of 100,000 t in 1H 2019

FY2018 EBITDA forecast of €290 - 300 Mn

Maintaining an attractive shareholder remuneration (50% dividend pay-out) and low leverage ratio after higher growth investments

New Strategic Plan to be announced on November 20, 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 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.

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.

EBITDA is a measure used by the Ence´s management to compare the ordinary results of the company over time. For this reason and in order to make it comparable with the rest of the sector, its definition has been updated in 3Q18, in line with the usual practice of the market, to exclude specific income and expenses unrelated to the ordinary operating activities of the company, which alter their comparability in different periods.

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.

Alternative Performance Measures (APMs) Pg.2

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 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.

ENERGÍA & CELULOSA

Delivering value, delivering commitments

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