

Ence Energía & Celulosa

2013 Results

February 26th, 2014



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A Highlights

B Impact of the energy reform

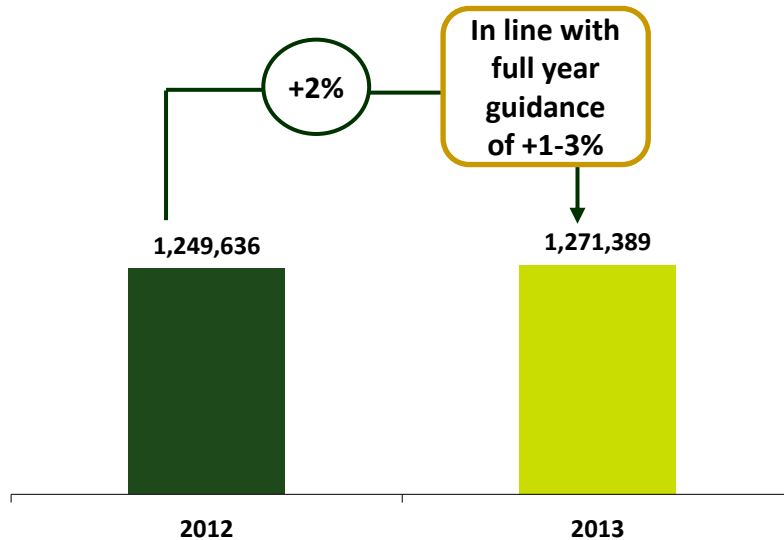
C 2013 Results

Highlights

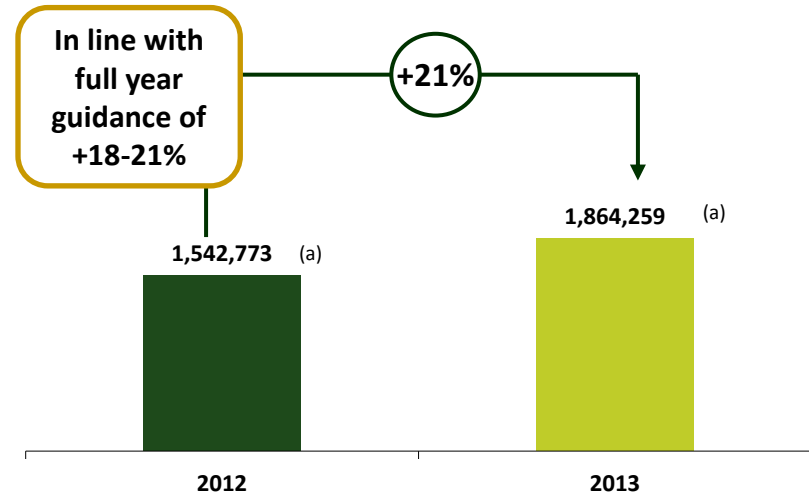
- 1 Strong production, with pulp & energy output fully aligned with year-end guidance**
- 2 Strengthening of commercial positioning, gaining market share in the European pulp market**
- 3 Resilient cash flow generation despite energy reform**

Positive operating performance, beating targets for pulp and energy production in 2013

Pulp production (t)



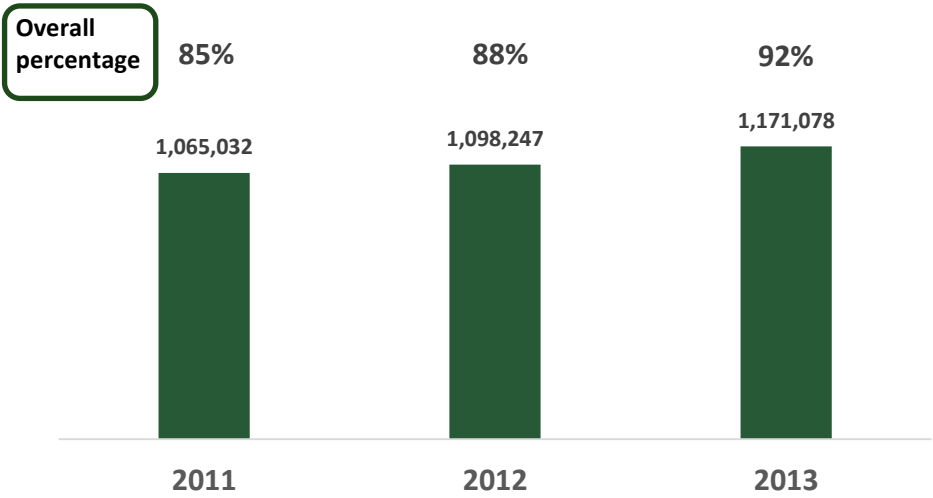
Electricity sales (MWh)



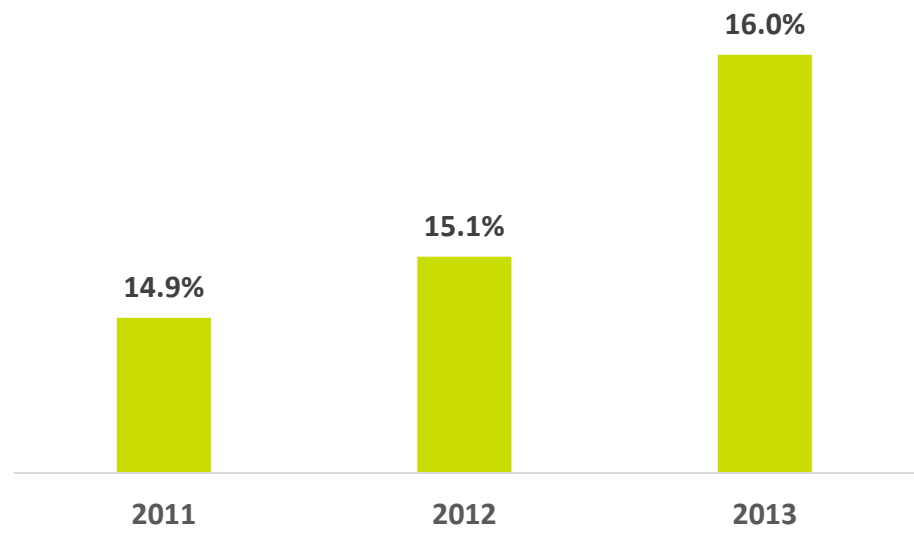
(a) figures adjusted by capitalized sales of Huelva 50MW, which had no impact on profits

Strengthening of commercial positioning amid a stable pulp market

Pulp sales in Europe (t)

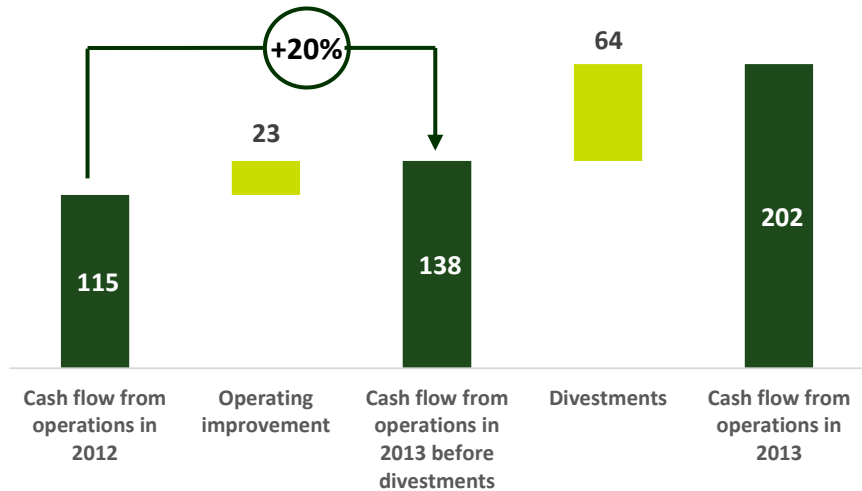


Market share in Europe

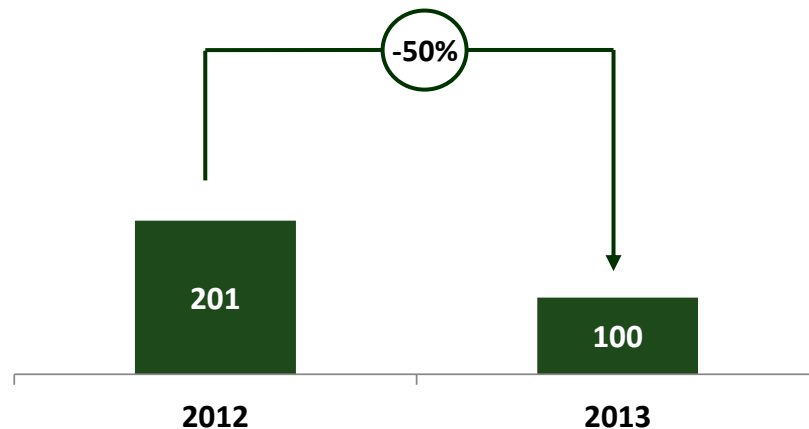


Resilient cash flow generation which continues to reinforce our balance sheet position

Evolution of operating cash flow in 2013 (a)



Net financial debt (€M)



(a) Cash flow from operations is calculated as "Cash flows from operating activities" as reflected in the cash flow statement of the company, excluding interest payments and reduced by maintenance capex

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Regulatory Regime for Renewables: major changes with an impact on Ence's business

APPROVED LEGISLATION

Law 15/2012,
December 27th 2012



- 7% tax on energy revenues for all generators
- Effective January 1st 2013

RDL 9/2013,
July 12^{ve} 2013



- Energy complementary payments are eliminated (efficiency & reactive power surplus)
- Sets a new remuneration framework for renewables based on pre-tax IRR of 10 year note plus 300 bps
- Effective July 14th 2013

REGULATORY DRAFT, SUBJECT TO ALLEGATIONS

Draft OM developing
RDL 9/2013,
February 2nd 2014



- Proposal of a new tariff regime for renewables:
 - Same tariff for energy crops and forestry waste
 - Feed-in tariff assigned to 80%-90% of total operating plant's utilization rate
 - Feed-in tariff price for lignin is eliminated
- Tariff is paid on top of pool prices, implying higher volatility of energy revenues
- Effective July 14th, 2013

Impact of the draft OM (new tariff regime) on Ence's sales and assets in 2013

Recurrent

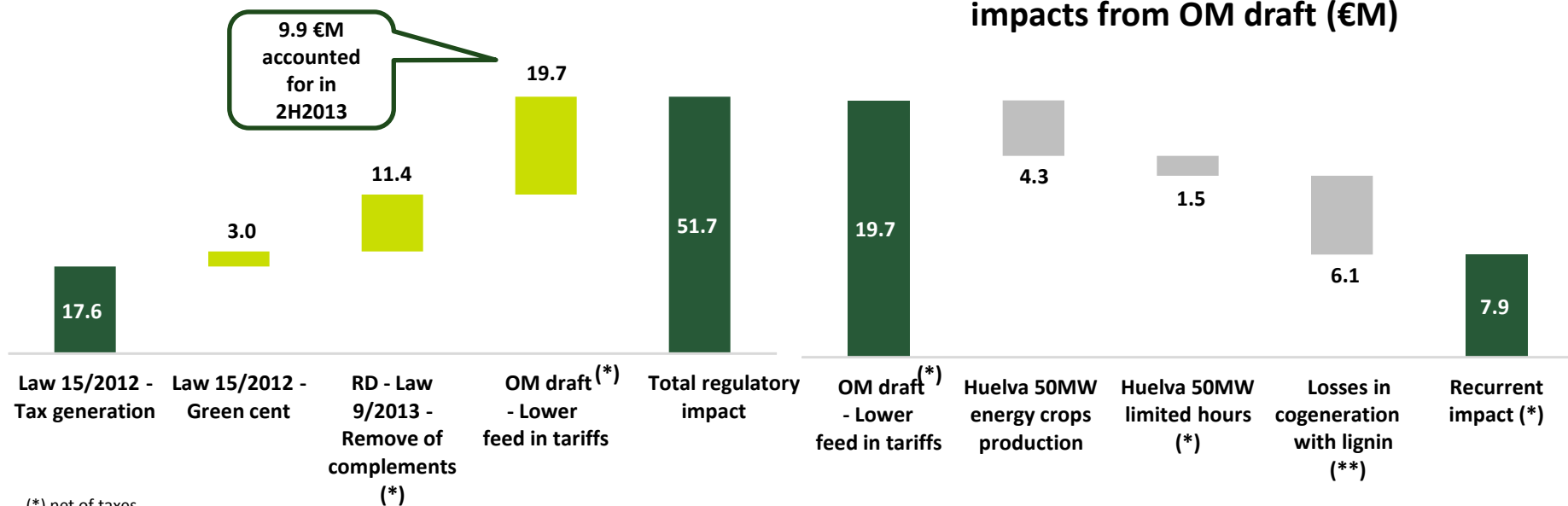
Non Recurrent

€ in Millions	<i>Accounted Impact</i>	<i>OM full impact</i>
Energy Sales (net of electricity tax)	9.86 ^(*)	19.71 ^(*)
Impairment of assets		
Energy crops	23.45	46.90
Industrial assets (gas co-generation)	2.87	5.73
Irrigation Equipment	4.36	8.72
Development Costs	1.05	2.11
Intangible Assets	1.43	2.85
	43.01	86.03

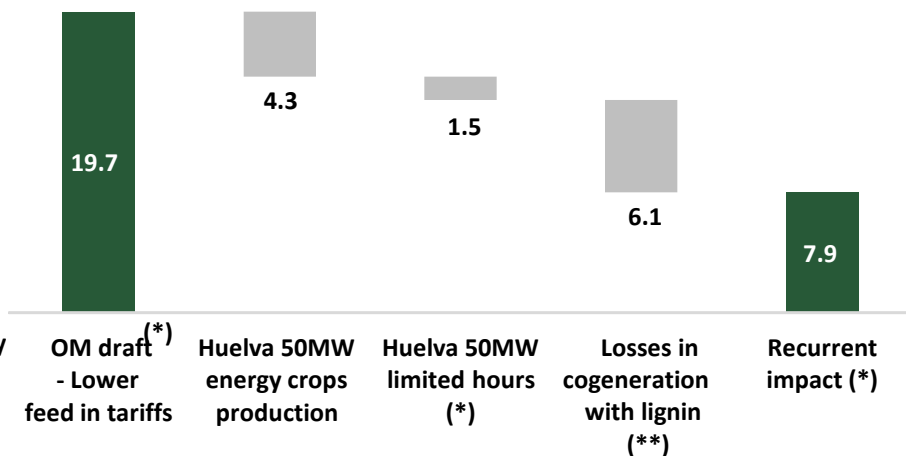
(*) From July 14th

Pro-forma impact of the different regulatory changes in 2013 without write-offs

Full energy reform impact in 2013 (€M)



Breakdown of recurring/non recurring impacts from OM draft (€M)



(*) net of taxes

(**) in 2H13, all cogeneration with lignin is operating under a "gross sales/gross electricity consumption" scheme vs a "net sales/self-consumption of electricity" scheme

✓ The annualized impact of all regulatory changes excluding the non recurrent items would be an impact of €62 M

Regulatory Regime for Renewables: short term actions

STATUS

- | | |
|--|---------------------------------------|
| <ul style="list-style-type: none">• Presentation of allegations to draft OM | February 26 th , 2014 |
| <ul style="list-style-type: none">• Drafting of legal actions | March-June 2014 |
| <ul style="list-style-type: none">• Cancellation of capex programs for energy crops | 21M€ included in 2014 budget |
| <ul style="list-style-type: none">• Efficiency programs under review & structuring
(2Q14 defined & contracted)<ul style="list-style-type: none">- Organic industrial CapEx program- Cost savings package | 2-4 years pay-back
Under execution |
| <ul style="list-style-type: none">• Redesign of operating scheme for electricity production & sales (from “gross sales/gross electricity consumption” to “net sales/self-consumption of electricity”) | New scheme operational in June 2014. |

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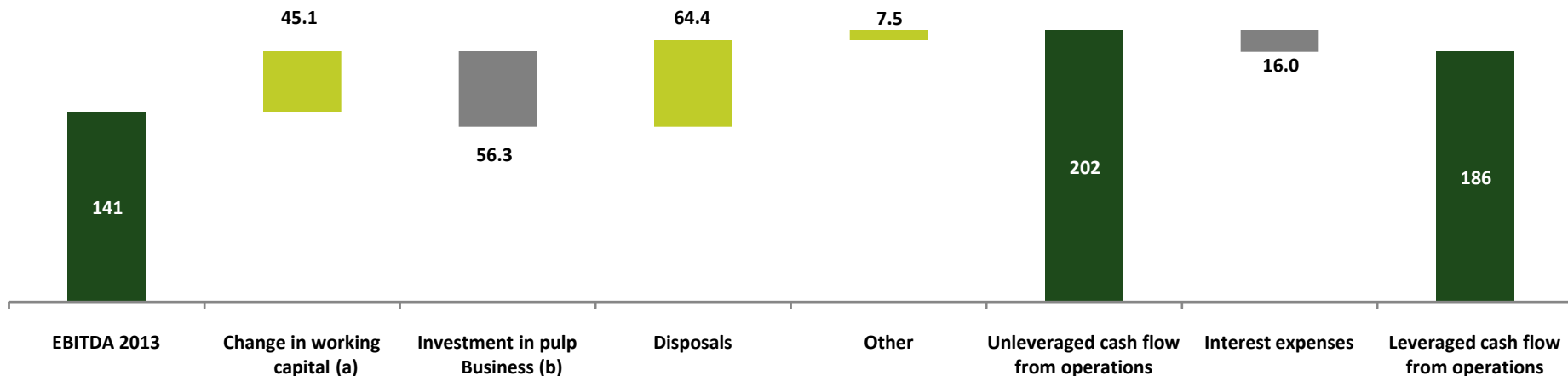
2013 results

Positive
performance
despite cost
pressure

- 1 Resilient cash flow generation which continues to reinforce our balance sheet position
- 2 Positive mill's operating performance, with pulp production aligned with year-end guidance
- 3 Strengthening of commercial positioning amid a stable pulp market
- 4 Solid performance of energy activity led by the consolidation of the new 50MW power plant
- 5 EBITDA performance affected by the energy reform, leading to a pick up in cash cost

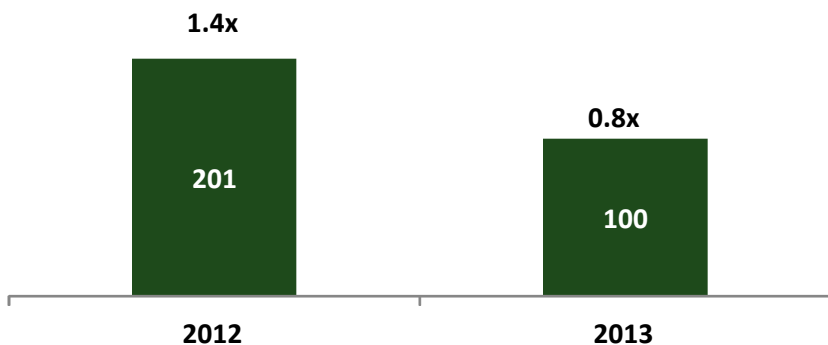
Resilient cash flow generation which continues to reinforce our balance sheet position

Cash flow evolution (€M)



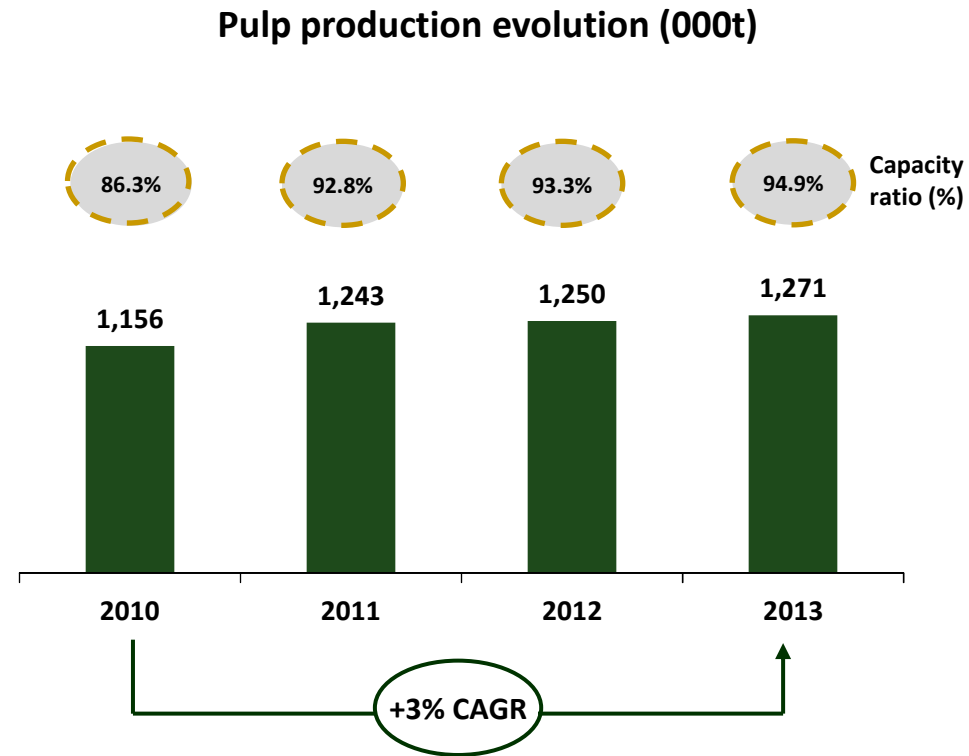
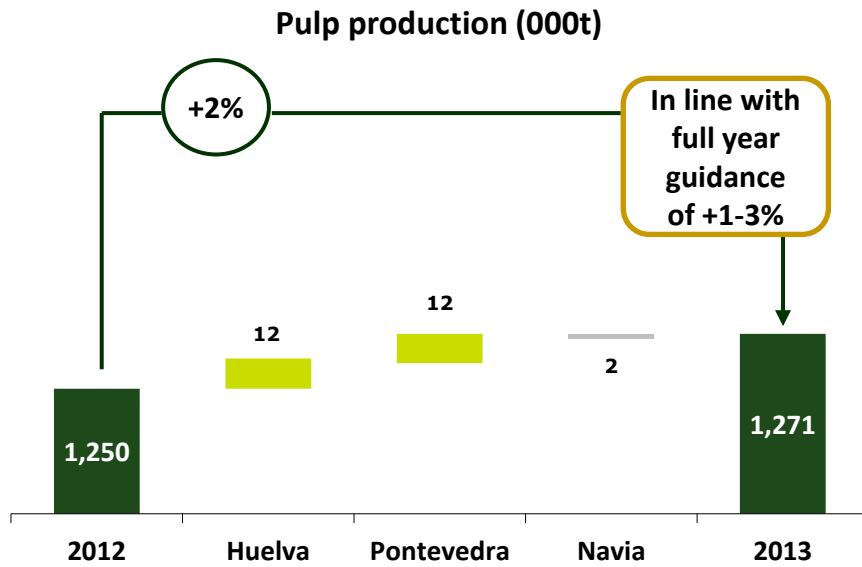
(a) Changes in working capital includes the sale of inventories in Uruguay for €6.2 M as part of the assets disposals
 (b) investments in pulp mills and eucalyptus plantations for pulp production

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



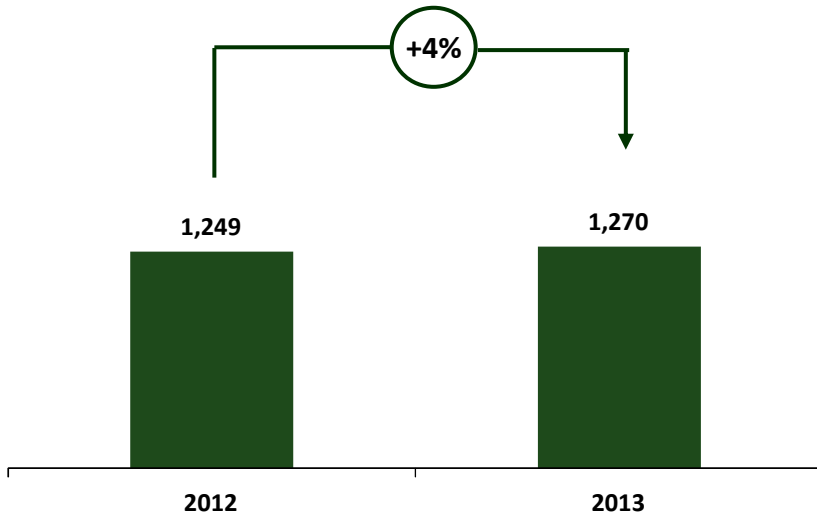
- ✓ **Strong operating cash flow thanks to higher prices** driven by higher demand and a solid management of working capital
- ✓ **Net financial debt decreased by -50% to €100M, with low leverage of 0.8x EBITDA** of the last twelve months
- ✓ There is €103M non-recourse debt related to the "project finance" successfully signed for the construction of the 50MW plant in Huelva and 20MW plant in Mérida

Positive mill's operating performance

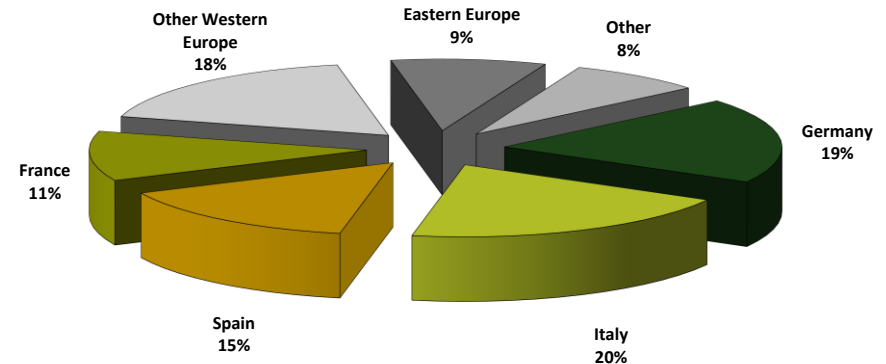


Strengthening of commercial positioning...

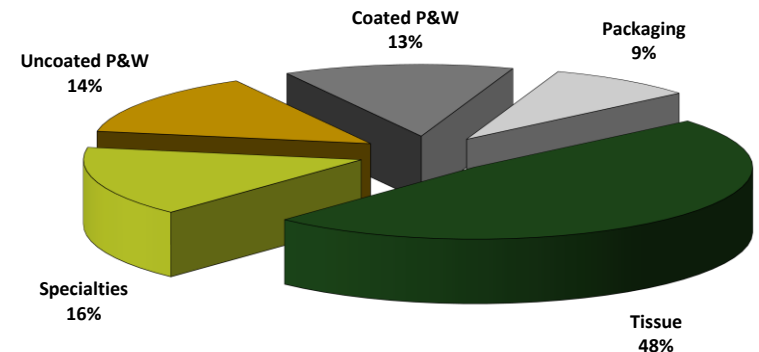
Pulp sales (000t)



2013 sales breakdown by country

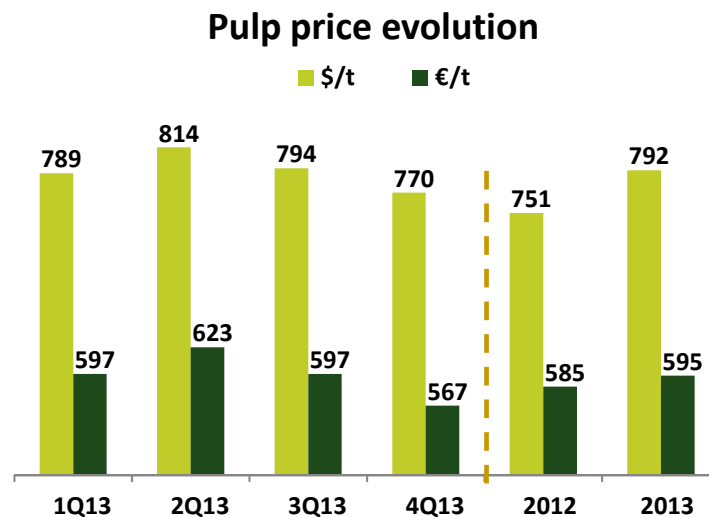
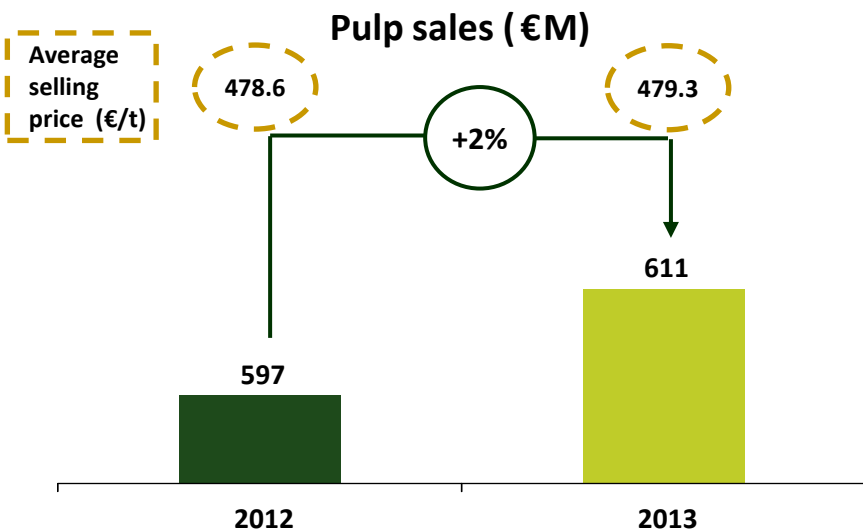


2013 sales breakdown by segment



- ✓ Better mix of pulp sales with focus in Europe, mainly Germany, France and Italy
- ✓ In 2013, sales outside Europe, mainly Asia, have been reduced by -34% (8% in 2013 vs 12% in 2012)
- ✓ In 2013, Ence market share in Europe is 16% vs 15% in 2012

... amid a positive momentum of pulp prices...



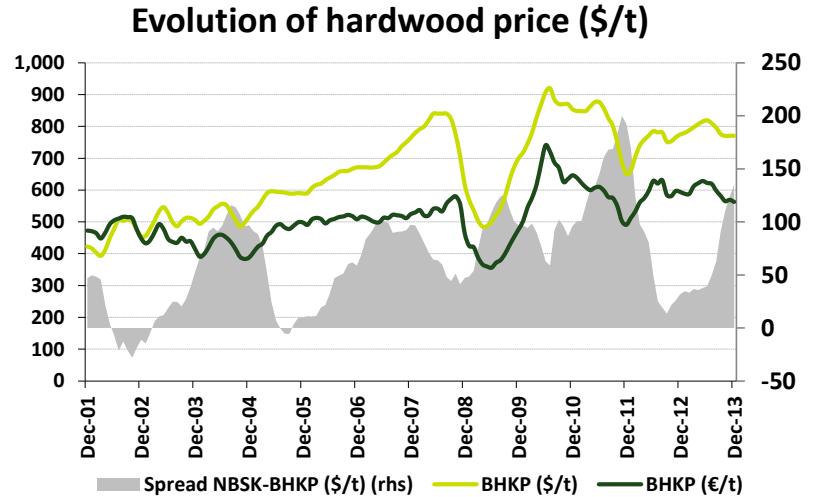
Source: Ence; Foex

- ✓ The price of short fiber bottomed at \$768/t in October, +2% above the average reached in 2012 and in line to 4Q13 average due to demand seasonality
- ✓ **Demand strength, mainly in emergent markets, current low inventory levels and delays in new capacity are supporting prices above \$770/t**
- ✓ The **current supply-demand balance** is expected to remain in the coming years, what will keep the medium term prices close to \$800/t

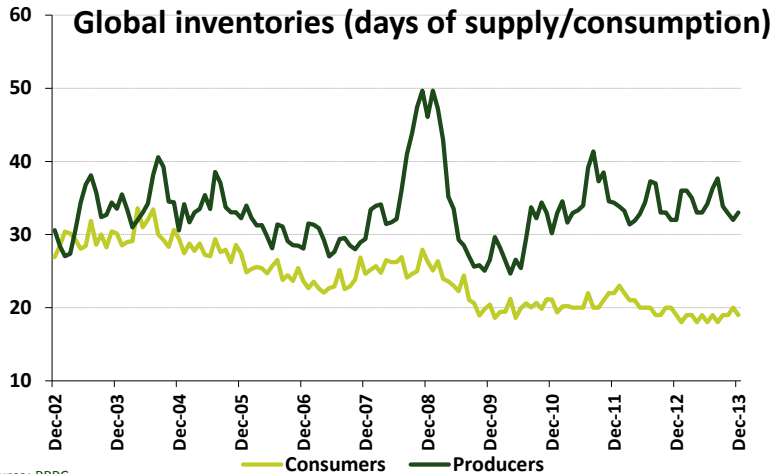
...and stable pulp markets...

Prices have remained close to \$800 /t in 2013 thanks to:

- ✓ Low inventory situation: producer stocks at mid levels (32 days) and consumer stocks at historical lows (19 days)
- ✓ Recovering demand in North America (+5% in 2013)
- ✓ Spread between softwood and hardwood at maximum levels
- ✓ 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

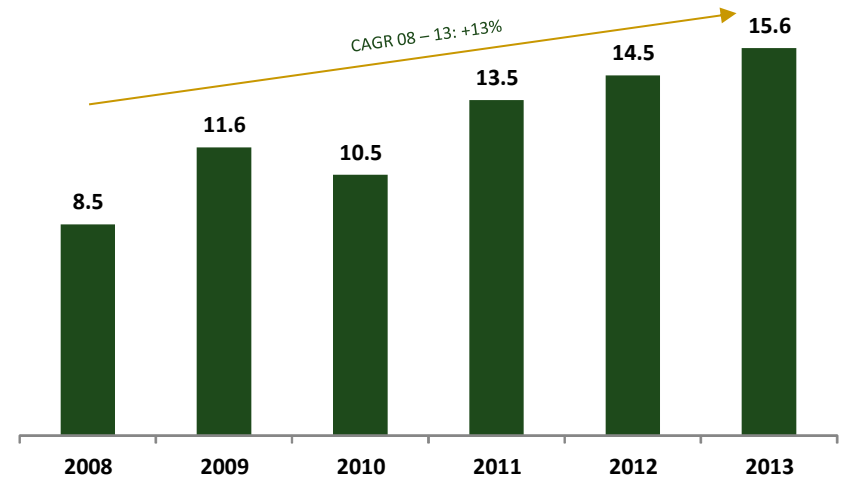


Source: FOEX;



Source: PPPC

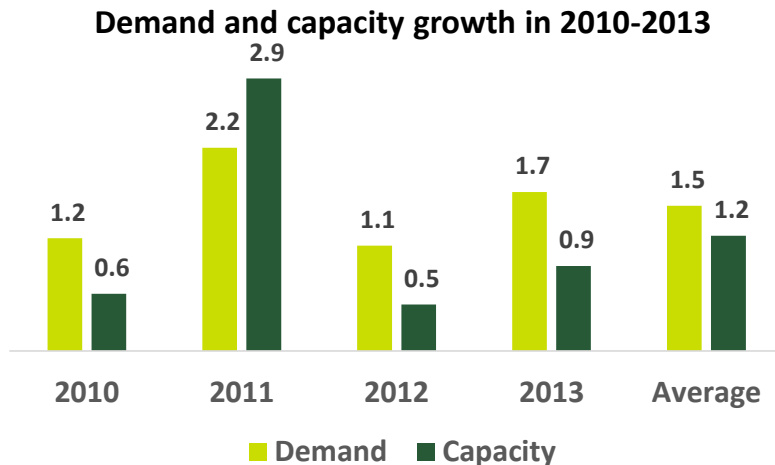
Chinese demand (million tons)



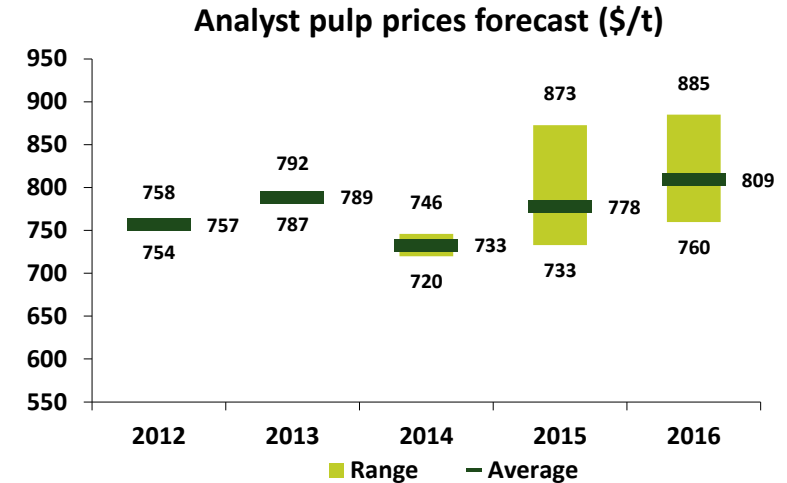
Source: PPPC

... which are set to continue in 2014 in spite of expected new 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 mills (0.4 Mt) might affect pup prices in 2014, although full impact on supply will be delayed to 2015
- ✓ However, this capacity could be offset if demand were to perform in line with last 4 years average

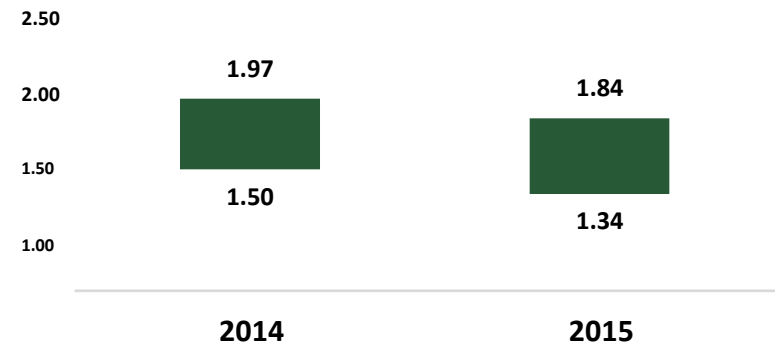


Source: PPPC; Hawkins Wright (Dec-13) estimates; data in million tons



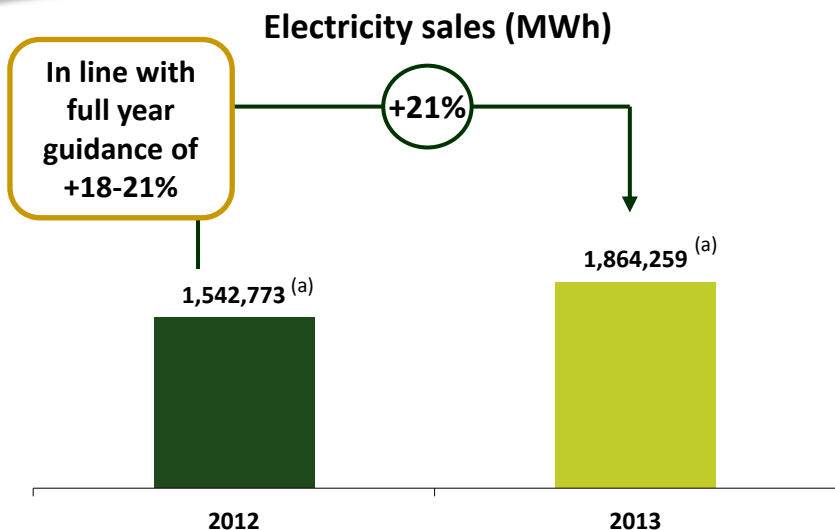
Source: Prices are \$/t CIF North Europe; contributors: Hawkins, RISI, Terra Choice, Valoise Vision

Capacity growth range expected in 2014-2015

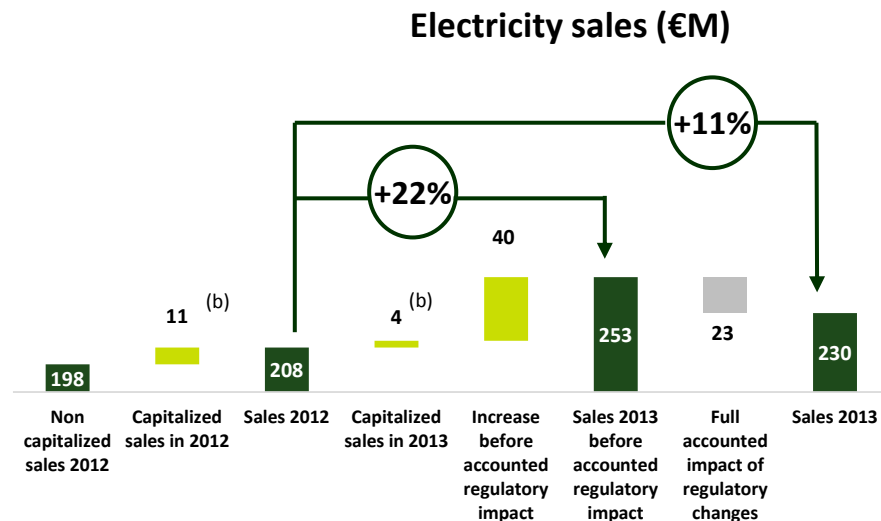


Source: RISI (Feb-14) and Hawkins Wright (Dec-13) estimates; data in million tons

Solid performance of energy activity led by the consolidation of the new 50MW power plant

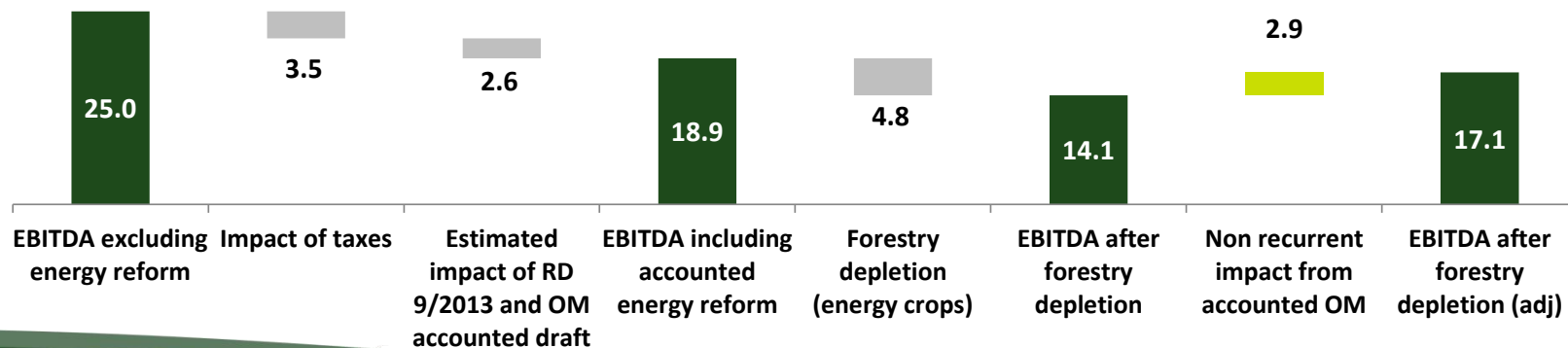


(a) figures adjusted by capitalized sales of Huelva 50MW, which had no impact on profits



(b) Capitalized sales of Huelva 50MW, eliminating the impact on profits

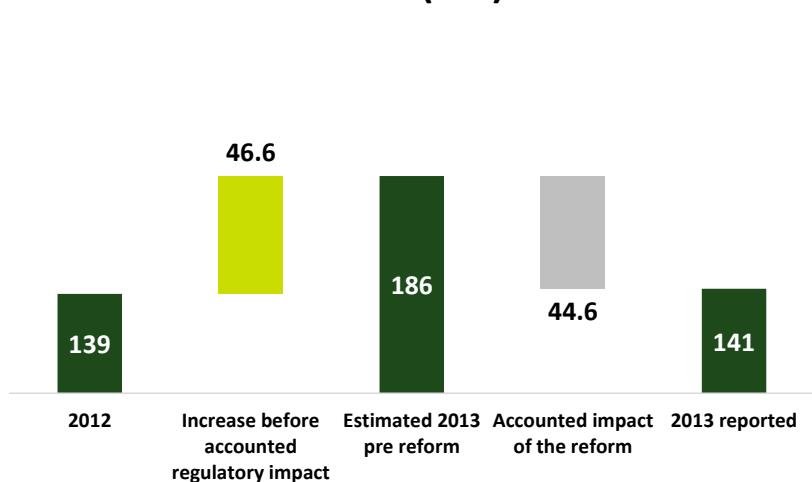
Total regulatory accounted impact on Huelva 50MW operating profit (€M) (a)



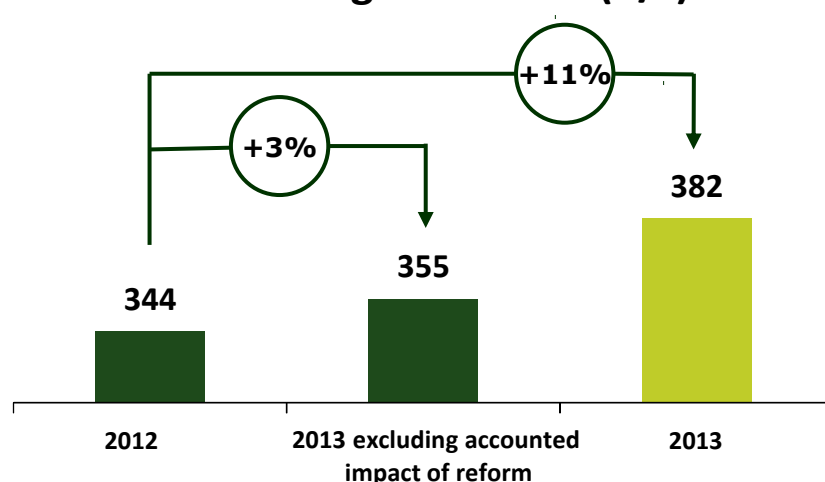
(a) From February to December. In January, figures were fully capitalized

EBITDA performance affected by the energy reform, leading to a pick up in cash cost

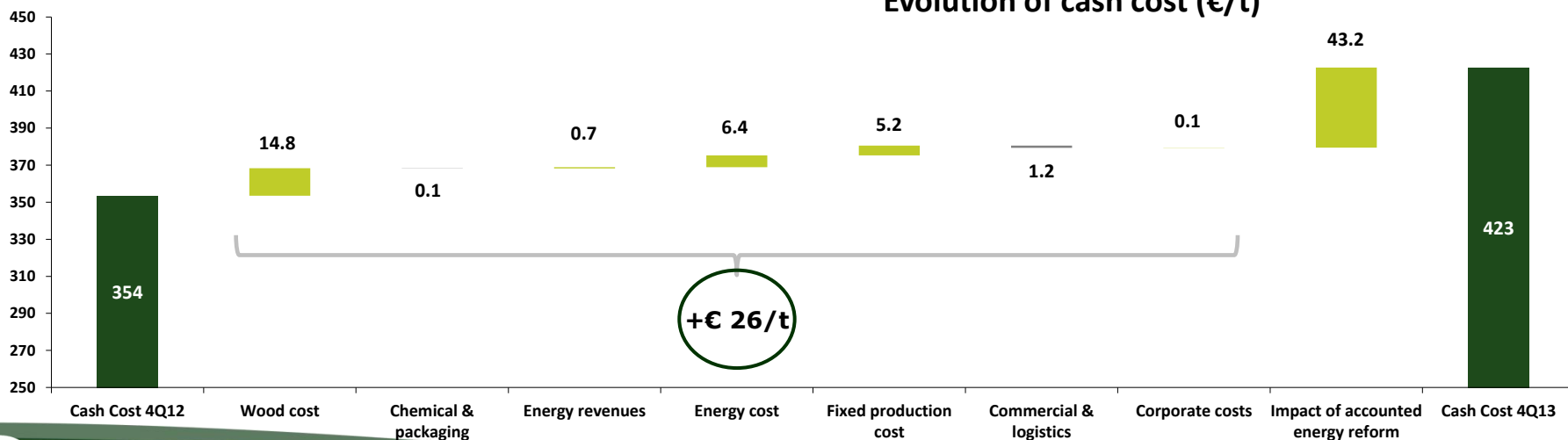
EBITDA (€M)



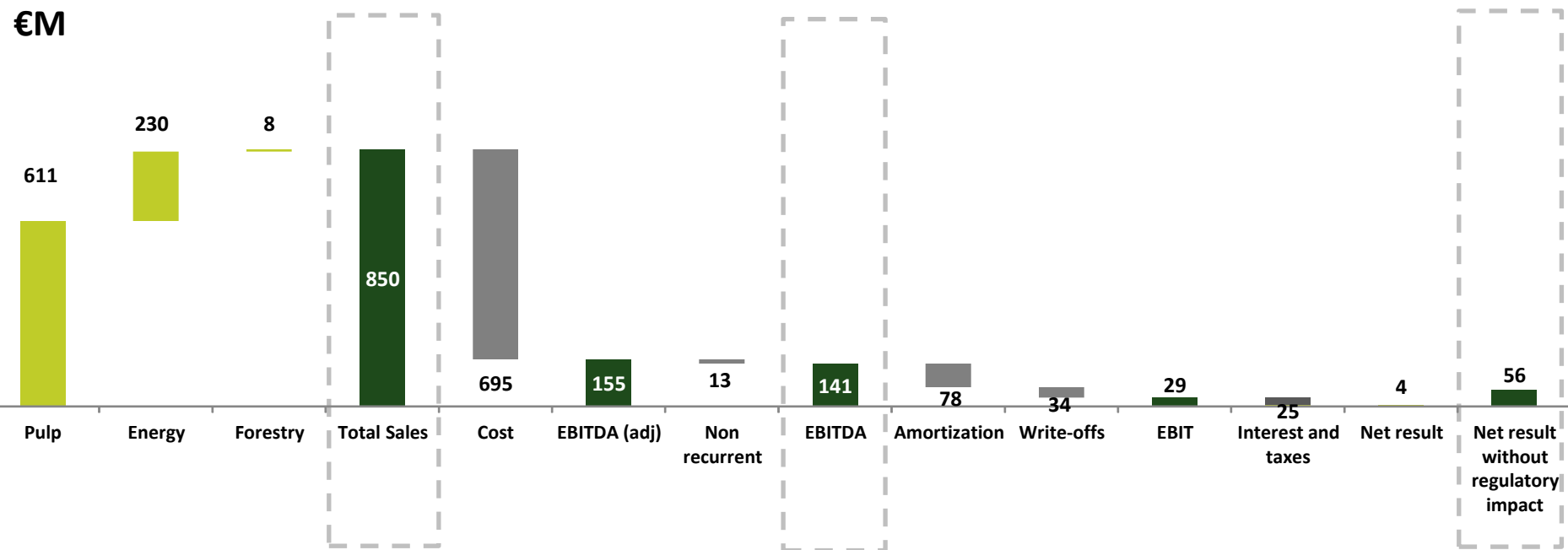
Average cash cost (€/t)



Evolution of cash cost (€/t)



Breakdown of 2013 P&L



- ✓ Net profit of the year stands at +€4 M vs +€ 43 M in 2012
- ✓ +2% growth in pulp sales in 2013 vs 2012 thanks to growth in volumes
- ✓ Solid +5% increase in pulp prices in \$/t, driven by higher pulp demand
- ✓ Strong increase in energy sales, reaching an +10% annual growth thanks to the contribution of the new 50MW Huelva power plant

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Energy revenue and production cost figures ("cash cost") from 3Q13 and 4Q13 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. As in point 1 of the current report is mentioned, an impact of -€43 M has been accounted in 2013 accounts (-€10 M due to the retroactive impact from premiums changes and -€33 M due to asset impairment). Given that such tariffs have not been approved by the date of publication of these 3Q13 and 4Q13, consolidated results and production cost ("cash cost") accounted for in the period may change after the report's publication.

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