



Energía y Celulosa

# Ence, Energía y Celulosa

## 2011 Results



February 29<sup>th</sup>, 2012

# 2011 Results: strong cash flow generation setting the basis for an attractive shareholders dividend payment



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**1 Robust cash flow generation, that enables to combine a solid balance sheet** with the execution of the biomass plan and an attractive dividend payment



**2 Strong cash cost reduction** based on growth in production (pulp & energy), and wood and fixed cost reduction

**3 Outstanding operating performance,** based in high utilization rates

**4 Strong increase in sales and gross margin in energy business,** with improvements in efficiency rates

**5 Solid pulp prices with an average of 800\$/t in 2011 and sound 2012 outlook**

Management Board will propose to the Shareholders' General Meeting the payment of:

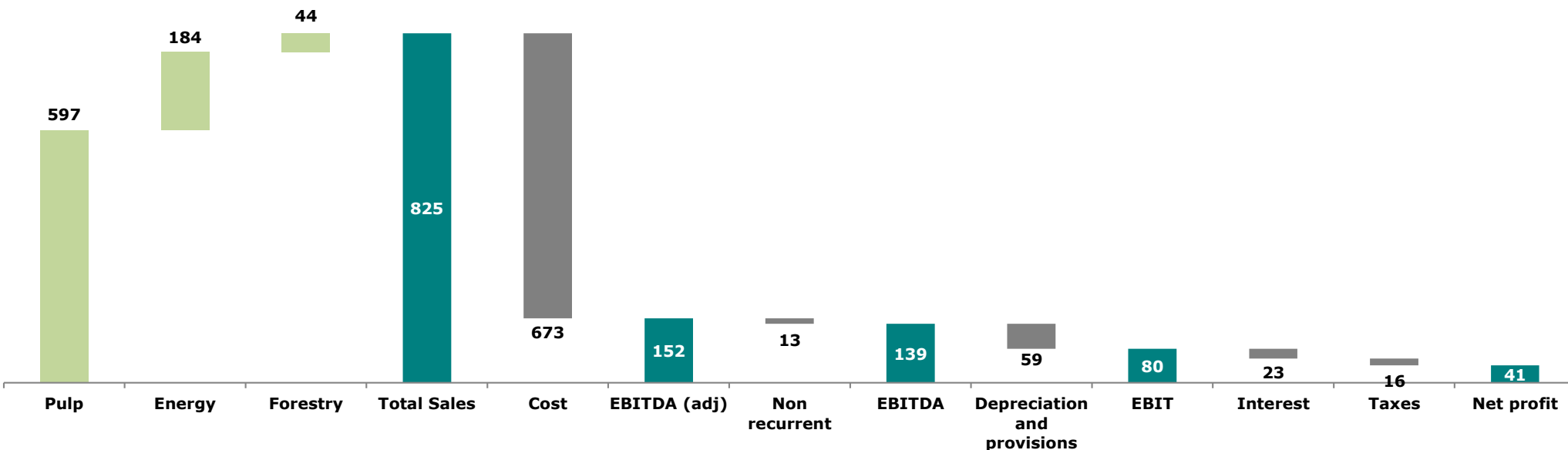
- **Cash dividend: 0.07 €/share** (40% payout)
- **Dividend in kind: 1 share (treasury stock) per every 26 shares hold** (equivalent to 3.5% of outstanding shares)



**Total Payment of 34.3M€<sup>(1)</sup>, equivalent to a dividend yield of 7.4%**

(1) Calculation based in 28<sup>th</sup> February 2012 stock price (1.965€/share)

Profit &amp; Loss account breakdown (M€)

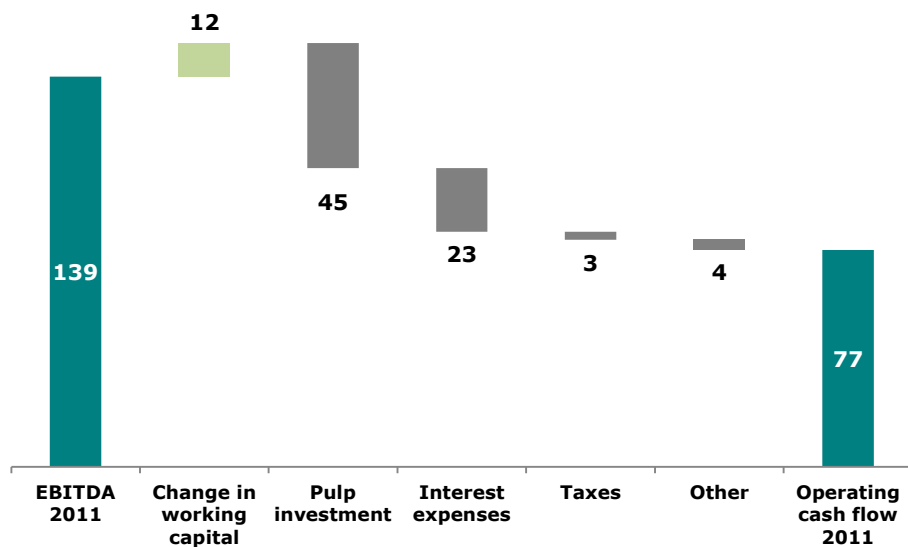


- The **7% growth in pulp volumes sold** has partly compensated the lower average selling price for the year (2010-1S2011 as pick of the cycle)
- **Strength in energy sales**, posting an annual growth rate above the 30% mark
- **Attractive operating margins, reaching 18% in 2011** (adjusted)

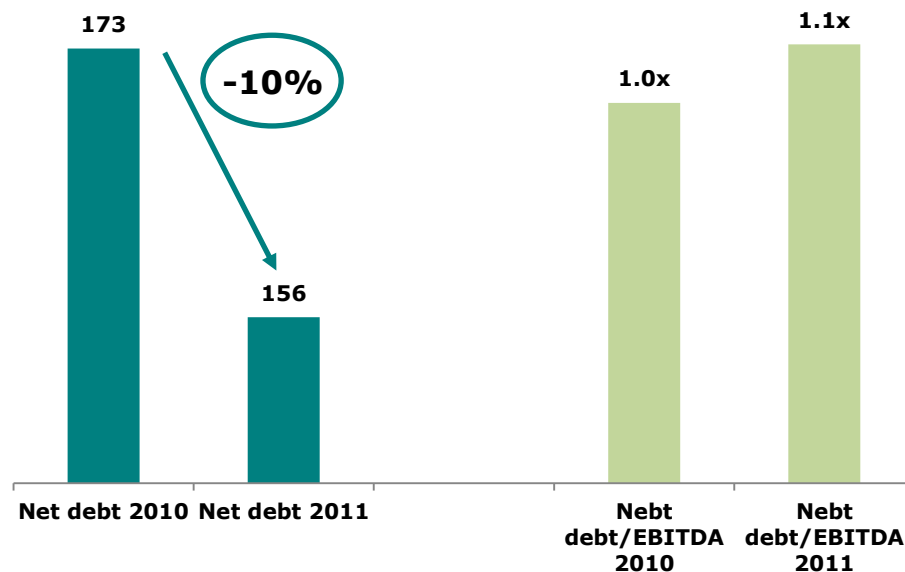
# ... leading to robust cash flow generation setting the basis for an attractive shareholders dividend payment



### Operating Cash Flow breakdown (M€)



### Recourse net debt (M€) and gearing

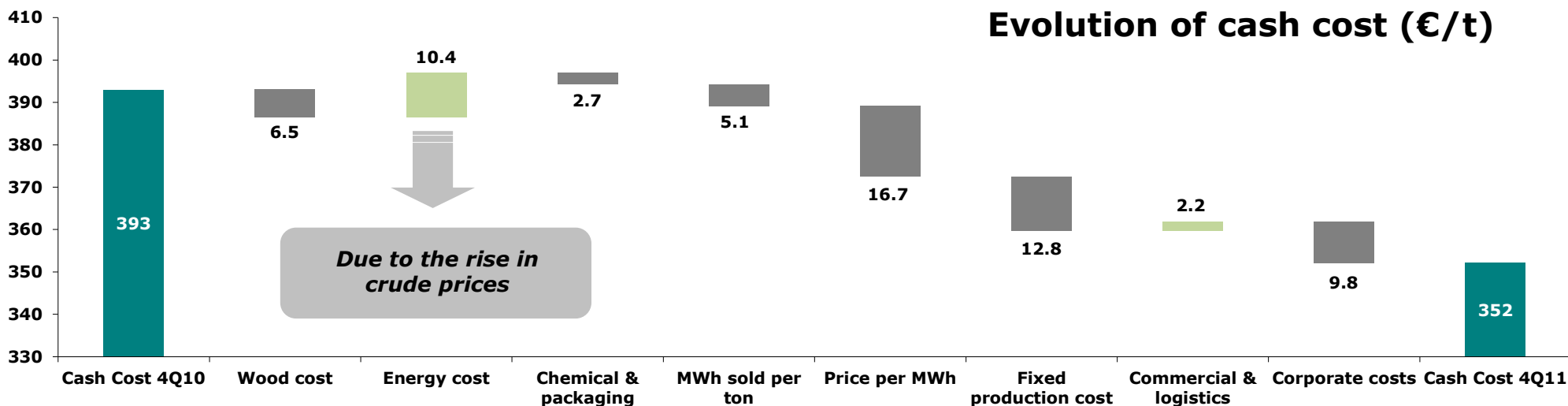


- **Operating FCF strength through solid management of working capital and Capex**, which supports the structuring of the biomass plan and sets the basis to offer an attractive remuneration to shareholders
- **Recourse net financial debt reached 1.1x EBITDA** of last twelve months
- Additionally, **54M€ of non-recourse debt has been used linked to the** project finance successfully signed in June 2011 for the construction of the 50MW power plant in Huelva

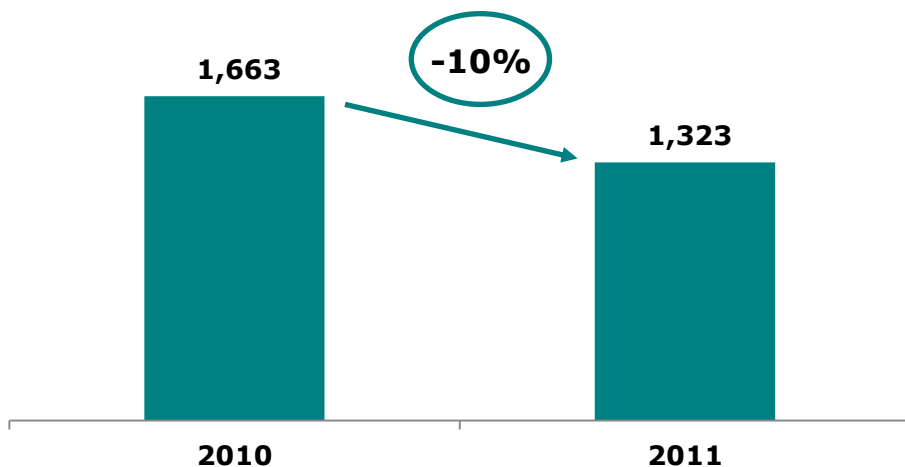
## Strong cash cost reduction based on growth in production (pulp & energy), and wood and fixed cost management ...



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### Number of employees by year end

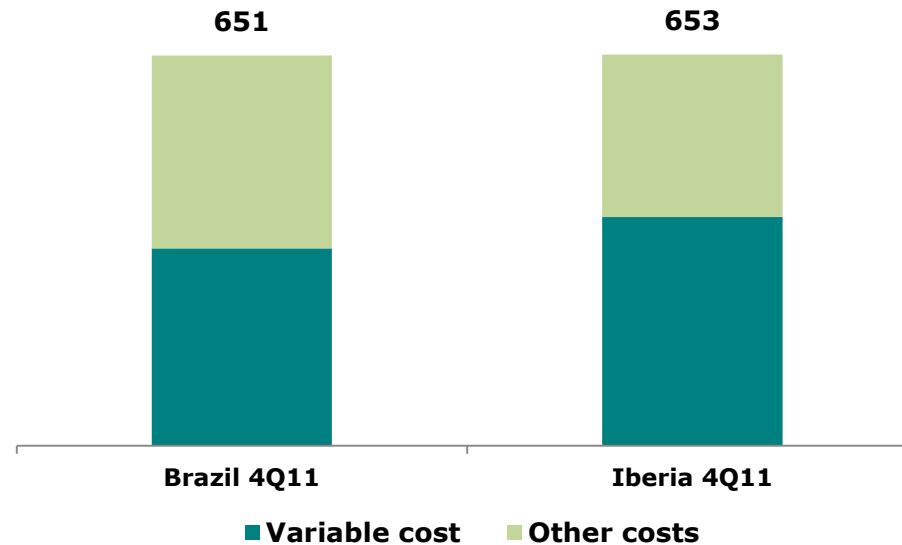


- Positive trend during the year resulting in a reduction over 41 €/t (-10%) from 4Q10 reference up to the target level settled, thanks to higher pulp production, higher energy contribution, and wood and fixed cost reduction
- Headcount reduction efforts will pay-off in 2012
- The growth in production (increased fixed costs dilution and improvement in raw materials consumption rates), wood cost management and higher energy efficiency and further fixed cost reduction, will allow to continue reducing costs in the coming months, as January 2012 cash cost levels demonstrates (i.e. 338 €/t)

# ... have allowed the cost differential between Brazil and Iberia to be reduced across the year



Total cost comparison between Brazil and Iberia (USD/t)



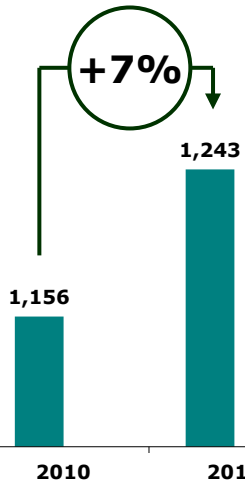
Source: RISI (5-Year Forecast); costs with delivery to Northern Europe; variable costs includes variable costs of production and transport; other costs includes fixed costs, interests and industrial and forestry depletion

- The increases in variable costs in Latin America, the currencies performance and the higher leverage are reducing the cost gap with the Iberian Peninsula producers
- These data are average estimates for the area, and therefore, do not include the cost reduction reached by Ence along the year

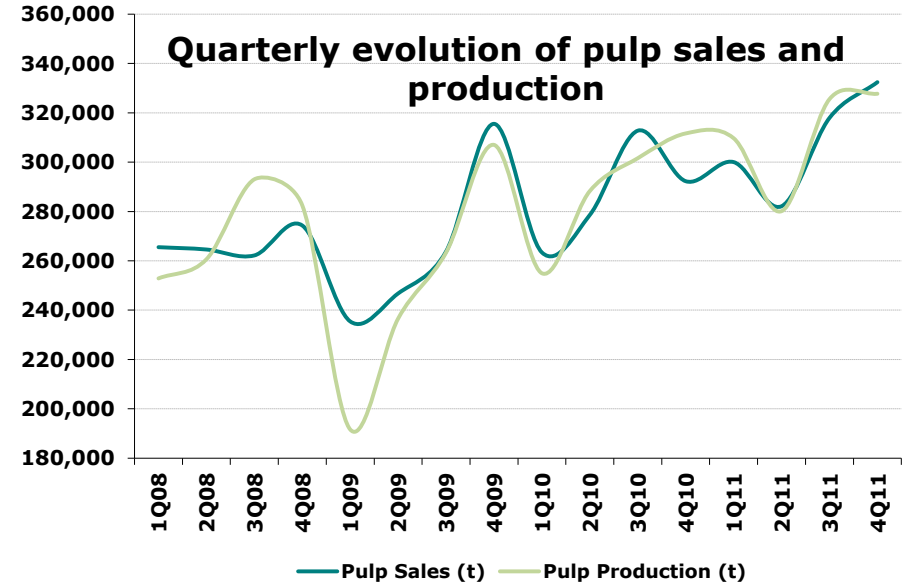
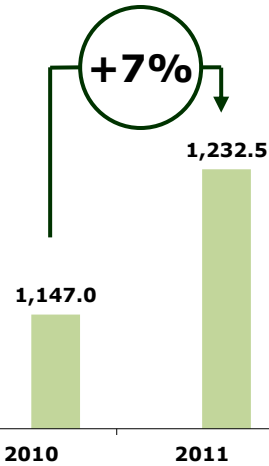
# 3 Outstanding operating performance, based in high capacity utilization ratios ...



**Pulp Production ('000t)**

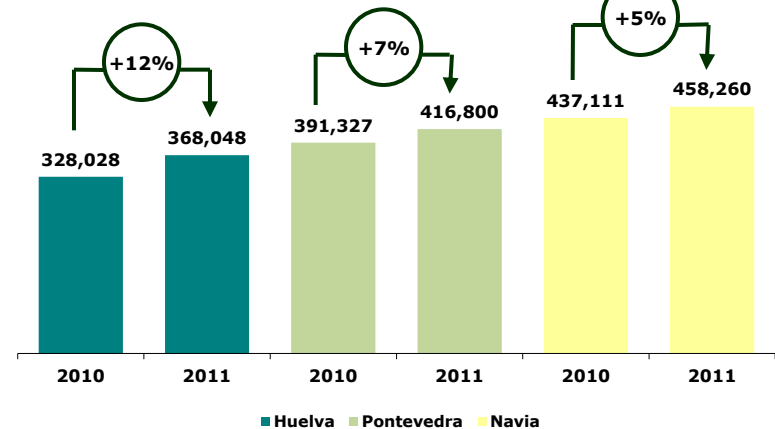


**Pulp Sales ('000t)**

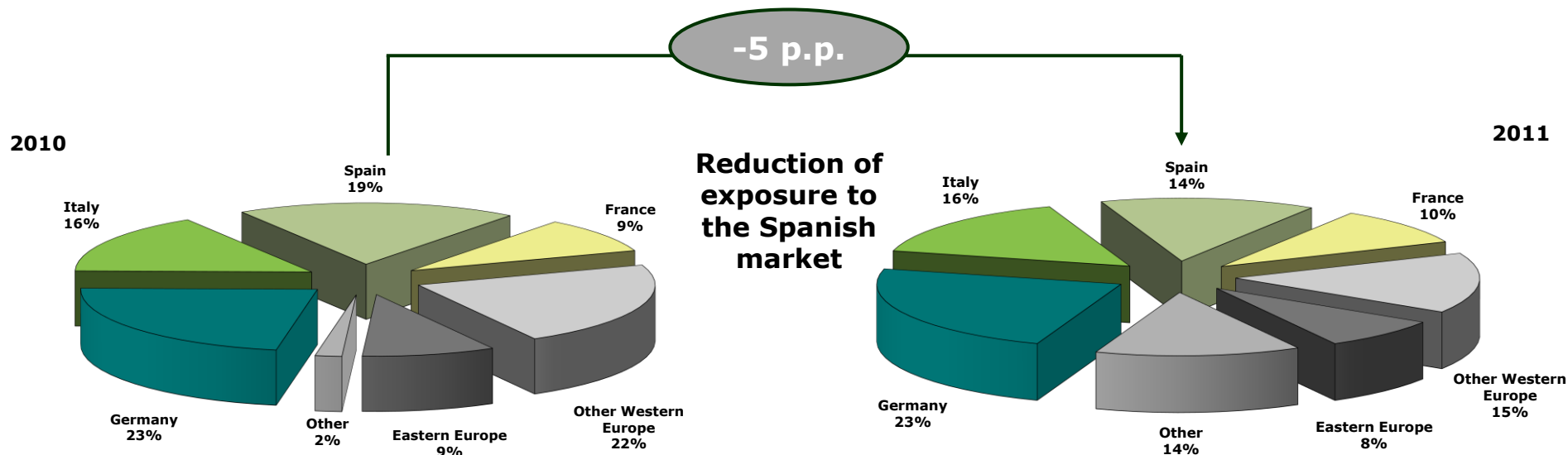


- **+7% increase in pulp production**, with all mills increasing their output between 5% to 12%
- The increase in production has enabled to close the last two quarters of 2011 with a total pulp output above **325,000 tons per quarter**

**Production per plant (tons)**



## ... while keeping the focus on geographic diversification, thus reducing the risk profile of the business



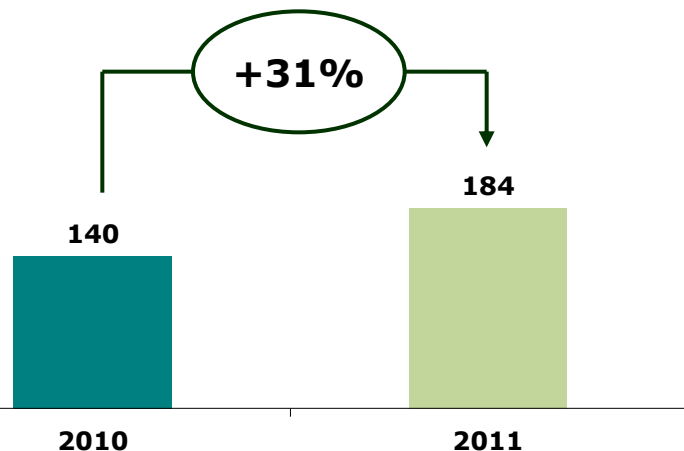
- **Reduced exposure to the Spanish market** (14% sales in 2011 vs 19% in 2010). 50% of Spanish sales are to multinational groups
- **Strengthen positioning in the main European markets where the company is present** (i.e. Germany, Italy and France)
- **Exposure to new markets** (representing 14% in 2011 vs 2% in 2010), increasing access to China benefiting from an attractive logistic scheme (container returns)
- **50% of sales for tissue production**, paper grade that keeps growing at 1% per year in spite of the economic crisis



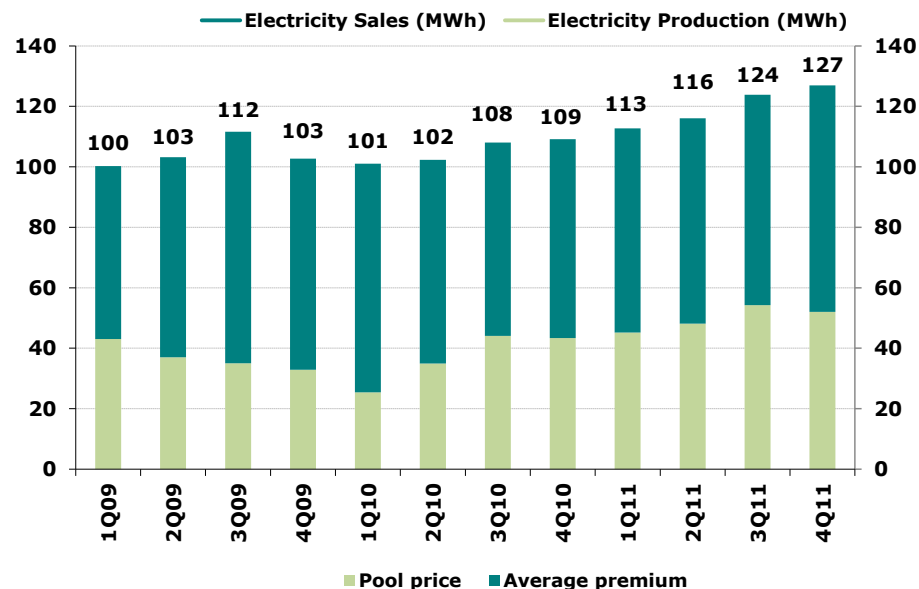
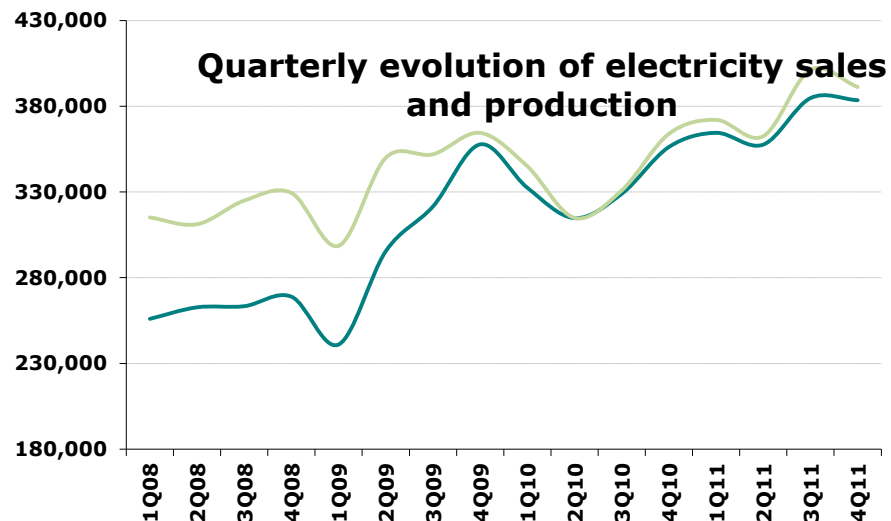
# Strong increase in sales and gross margin of energy business



### Electricity sales (€Mn)



- **Increased electricity production linked to pulp output rise (+6% in 2011)**
- **Increased electricity output from Navia biomass plant (+8%),** having achieved full operative capacity levels
- **Improvement in the average price** due to the increased weight of the biomass generation in the production mix (**76% of end 2011 production**), the increase in pool prices, and annual review linked to inflation



# RDL 1/2012: putting temporarily on hold renewable energy tariffs with the objective to reorganize the sector ...



## RDL 1/2012 KEY POINTS

- I** **Economic scheme is maintained for facilities in operation** (non-retroactive regulation)
- II** **Maintaining the economic regime for facilities included on the so-called “pre register”, ensuring profitability**
- III** **The government establishes its willingness to elaborate specific regulation for certain technologies, including biomass and cogeneration (art. 3.3)**

## Ence

**230MW in operation**  
(180MW biomass)

**70MW** registered  
(50MW Huelva and  
20MW Mérida), **80%**  
**2012 business plan**

**140MW** under  
development

## ACTION PLAN

- I** **Maintaining promotion activities for non “pre-registered” projects**, focusing on the granting of local and regional authorizations
- II** **Limiting investments in energy crops to the direct development** of the biomass supply to the registered plants of Huelva and Merida
- III** **Increase the pace of the analysis and identification of opportunities for international expansion**

# ... with biomass having a good starting position to emerge stronger from this process given their differential impacts compared to other technologies

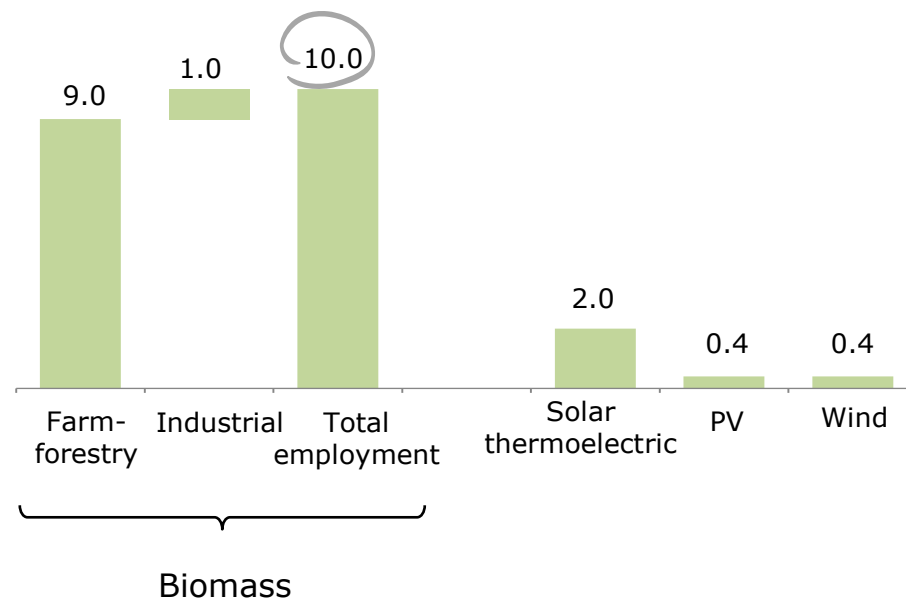
## Positive impact on **employment and wealth**

- Job creation in rural areas
- Support to agricultural development by using unprofitable land
- Positive contribution to public deficit reduction through tax paying
- Improving trade balance by developing local technology

## Positive impact on **energy efficiency**

- Reduction in energy imports (less dependency on third countries)
- 100% managed energy (24x7x365)
- Network stability and lower investment needs in the grid
- Reduction of network losses

Employment generation by technology



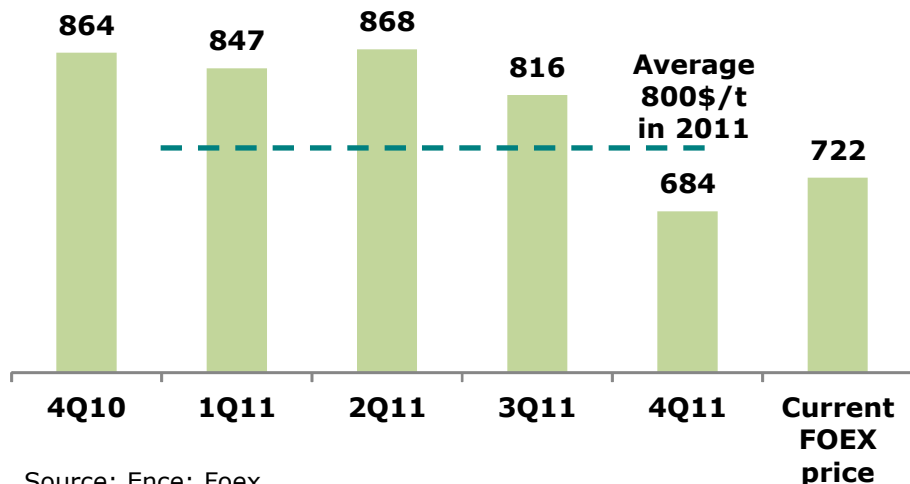
It is estimated that **the benefits arisen by achieving the MW objectives of biomass plants established in PER 2011-2020 will produce revenues amounting €725M/year** compared to premiums costs of approximately €600M/year

# Solid pulp prices in 2011 and strong outlook in 2012, with market prices showing an upward trend since December



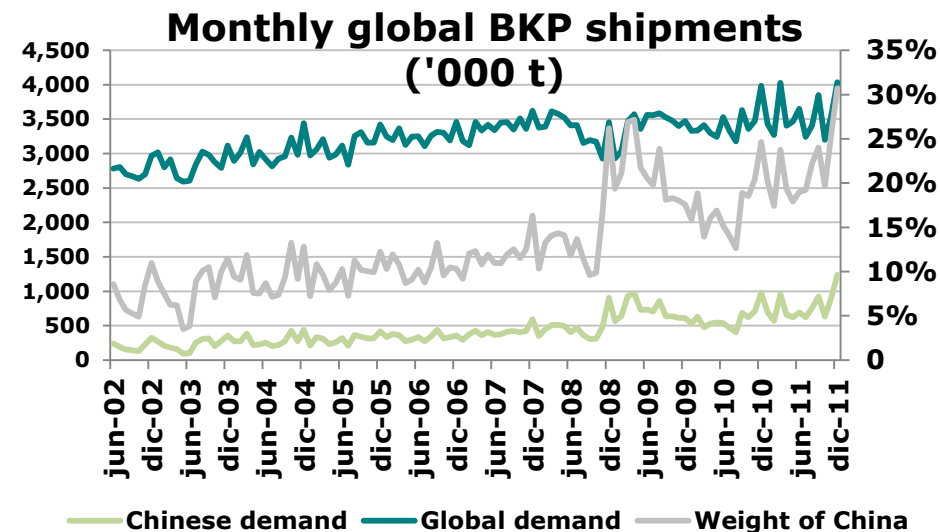
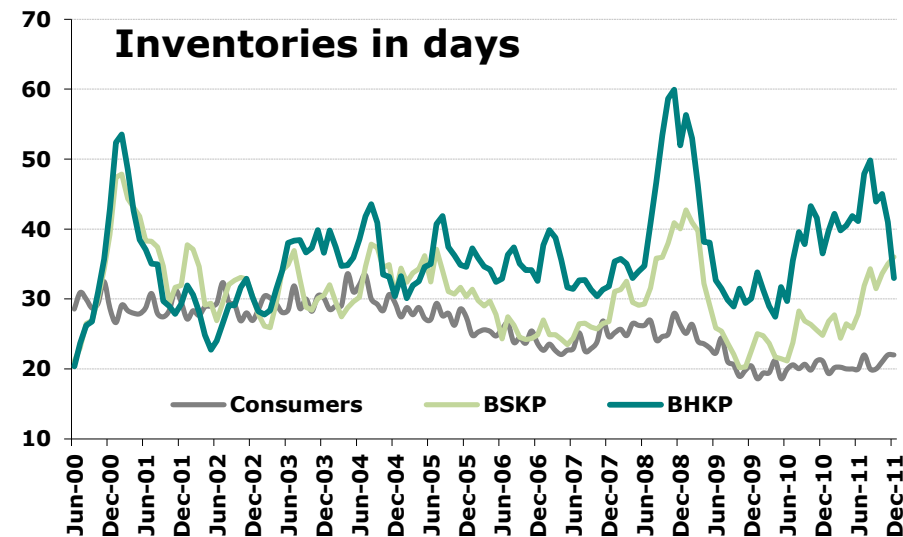
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### Evolution of pulp prices (\$/t)



Source: Ence; Foex

- The price of short fiber remained high in 2011 in spite of the correction shown in the 4Q11 in a context of strong macroeconomic uncertainty and **has touched a clear floor at 650\$/t**
- The current supply-demand balance and the perceived costs levels in the sector **point to a market price range above previous cycles**
- The strong recovery of the demand based on Chinese growth, low inventory levels and the lack of new capacity expected for 2012, are driving a **quick recovery in prices during the first quarter of 2012 to reach an expected 760\$/t at the end of that period**

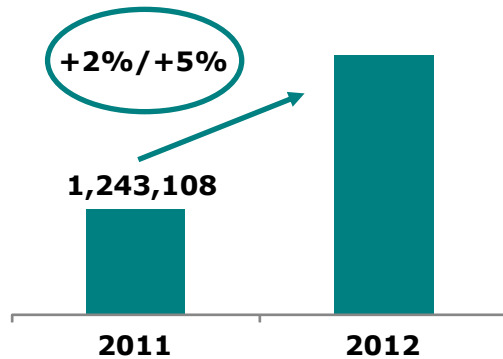


# Solid 2012 outlook

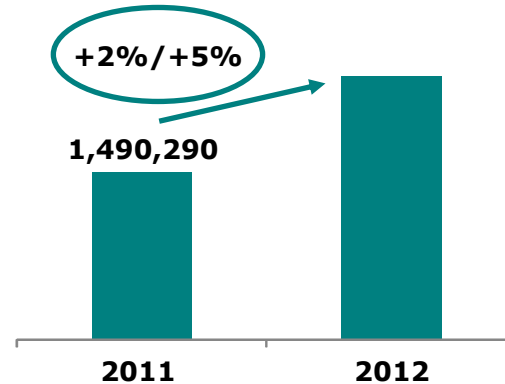


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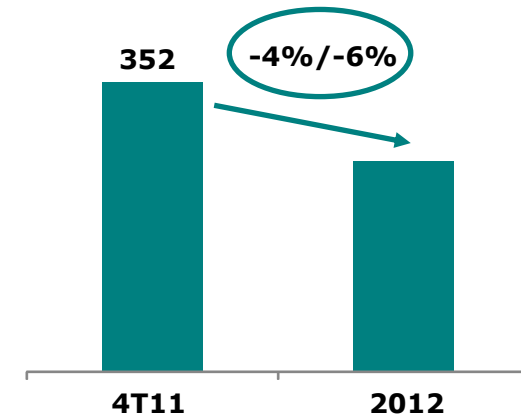
**Pulp production  
(tones)**



**Electricity sales  
(MWh)**



**Cash cost (€/t)**



- Increasing the availability and efficiency of industrial facilities
- Optimizing maintenance downturns and standardizing technical procedures for start-ups after maintenance outage
- Repowering the electrical connection line from the Navia mill to the grid (increasing the energy export capacity by 3MW)
- Improving supply, logistics and mix of biomass fuels to guarantee stable production of biomass fired power plants

- Increasing the energy margin contribution due to higher electricity generation, better average sales price and lower consumption
- Reducing corporate fixed costs
- Higher dilution of fixed costs due to increase in production
- Greater efficiencies in wood supply and lower weight of wood imports

# In summary



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## Year 2011

- 1 Very sound operating performance**
- 2 Acceleration in sales and margin contribution from the energy business**
- 3 Strong reduction in cash cost**
- 4 Solid pulp prices**

Proposal for a total shareholder remuneration in 2012 of 34.3M€ <sup>(1)</sup>  
7.4% dividend yield

## Year 2012

- 1 Pulp price: positive outlook**
- 2 Strong operations: production & cost**

Price increase to 760USD/t in March  
Production: +2%/+5%  
Cash cost: -4%/-6%

(1) Based on the closing price as of 28<sup>th</sup> February 2012 (1.965€/share)

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## 2011 Results



February 29<sup>th</sup>, 2012