



# 4Q 2016 Results

28 February 2017

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# 1. Highlights



## 2016-2020 Strategic Plan Delivery

- €138 Mn adjusted EBITDA and €38.7 Mn Net Income (€36.8 Mn recurrent) despite lower pulp prices since 2009
- Investment Plan progressing, both in Navia and Pontevedra pulp mills
- Successful cash cost reduction, down to €340.9/t in 4Q16, in line with the Strategic Plan target of €339/t by 2017
- Energy business growth accelerating
- Stable and attractive shareholder remuneration maintained
- Asset divestment program Phase I completed
- Low leverage position preserved



## Resilient Business Model

- Continued growing demand for eucalyptus pulp (+7.7% in 2016)
- Strong and stable recurrent free cash flow generation despite lower pulp prices in 2016
- Wood cost reduction following Ence forest initiatives
- Ongoing hedging program to mitigate FX volatility on the Pulp business
- Solid earnings secured by stable regulation in the Energy business
- Successful agro waste biomass diversification reducing costs in the Energy business

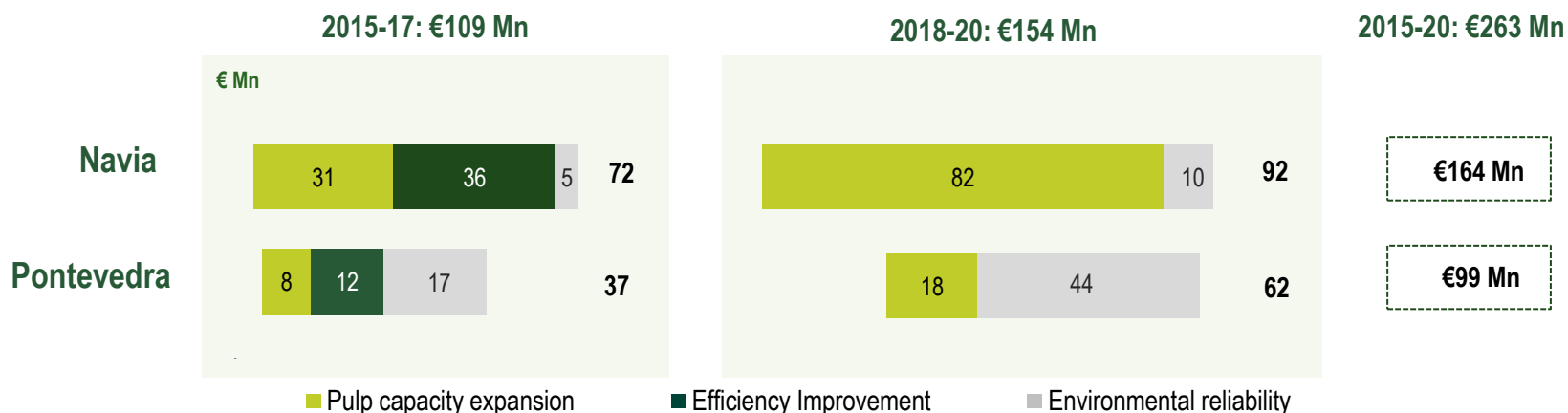


## **2. 2016-2020 Strategic Plan Delivery**

# 2016-2020 Strategic Plan delivery

Pulp Investment plan progressing to increase Ebitda by 65% in 2020<sup>1</sup>

## 41% of Current Investment Plan will be completed by 2017



### €75 Mn cash investment already executed in the Pulp Business

- 40,000 t capacity increase in Navia: **€26 Mn**
- Efficiency improvement in Navia: **€28 Mn**
- Efficiency improvement in Pontevedra: **€4 Mn**
- Environmental excellence: **€10 Mn**
- Other: **€8 Mn<sup>2</sup>**

### 30,000 t capacity expansion in Pontevedra will be implemented during March 2018 annual maintenance shutdown

### 40 MW biomass power plant will be finally built in Huelva

- Alternative repowering project to be developed in Pontevedra

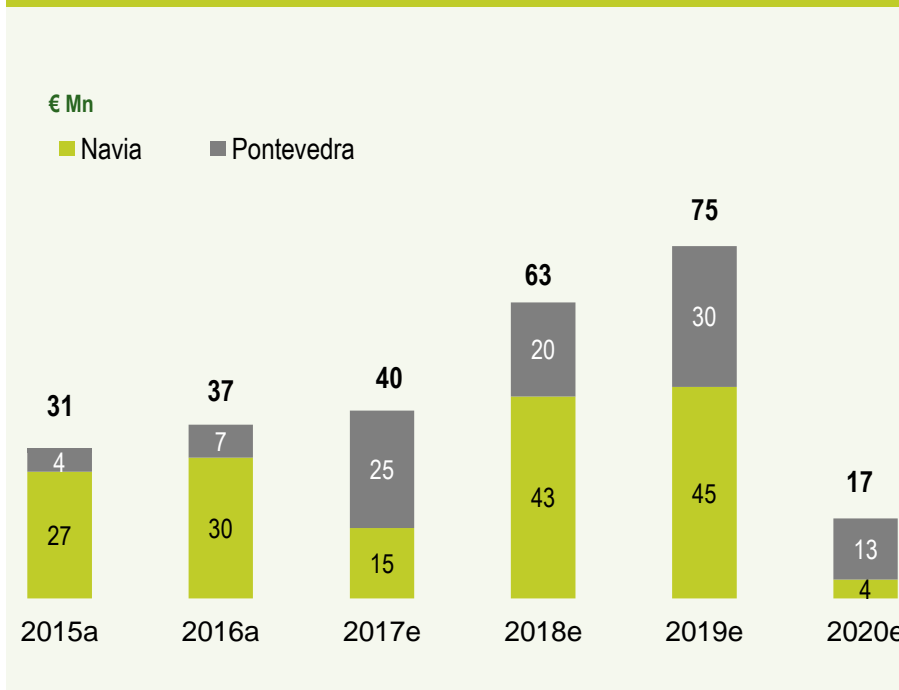
<sup>1</sup> Based on flat pulp prices of 720 \$/t and FX 1.25 \$/€

<sup>2</sup> Other investments mostly include IT Systems (SAP) not included in the Strategic Plan

# 2016-2020 Strategic Plan delivery

Pulp Investment plan progressing to increase Ebitda by 65% in 2020<sup>1</sup>

## Yearly Pulp Business Investment Plan



## Budgeted Investments for 2017

- 40,000 t capacity increase in Navia: **€5 Mn**
- Efficiency improvement in Navia: **€8 Mn**
- 30,000 t capacity increase in Pontevedra: **€8 Mn**
- Efficiency improvement in Pontevedra: **€8 Mn**
- Environmental excellence: **€12 Mn**

🌿 CAPEX implementation speed subject to a maximum leverage of 2.5 x Net debt to EBITDA

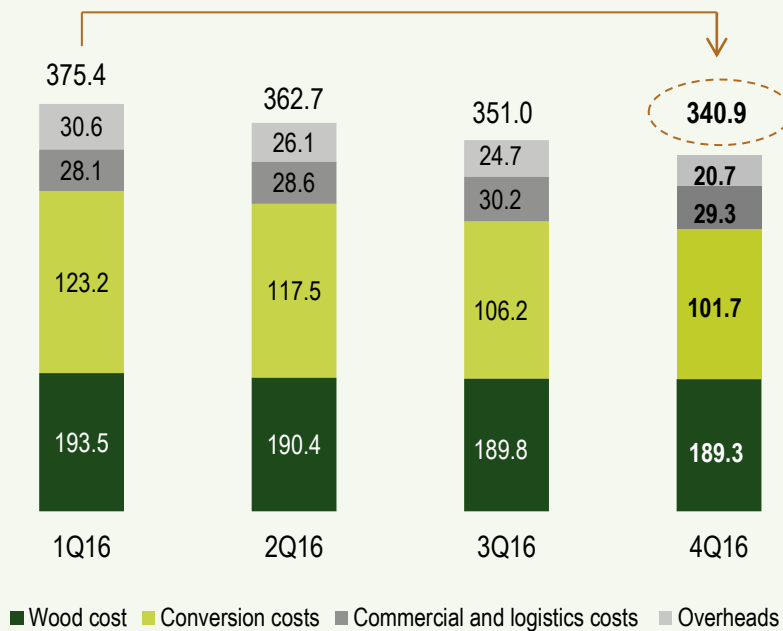
<sup>1</sup> Based on flat pulp prices of 720 \$/t and FX 1.25 \$/€



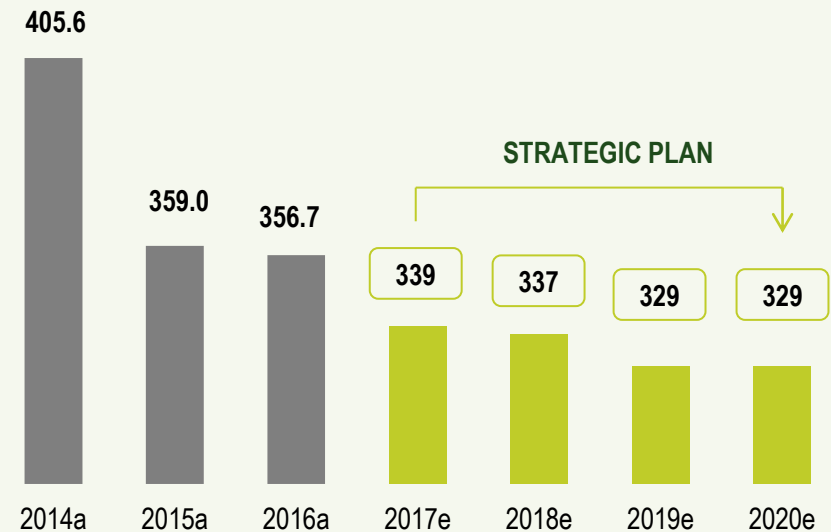
# 2016-2020 Strategic Plan Delivery

## Successful cash cost reduction

### Cash Cost Evolution in 2016



### Current and Expected Cash Cost Reduction



- Continued cash cost improvement in 4Q16: €340.9/t
- Expansion and efficiency measures implemented in Navia
- Wood cost reduction linked to the PIX price decrease

- Expected cash cost reduction in 2017 down to: €339/t
- In line with our Strategic Plan

Note: 2016 cash cost figures include the lower conversion costs by the energy component corresponding to the difference between the pool price estimated by the Regulator for 2016 and the real pool price in 2016, according to the International Accounting Standards.

# 2016-2020 Strategic Plan Delivery

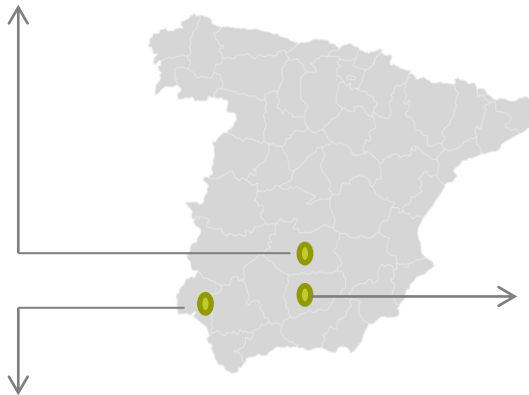
Energy business growth accelerating

Accretive acquisitions of 32 Mw and new 40 Mw project in Huelva to increase our capacity by 65%



## Ciudad Real 16 Mw

- 12Mw of net capacity
- Fuel: Agro waste



## Jaen 16 Mw

- 12Mw of net capacity
- Fuel: Agro waste



## Huelva 40 Mw

- 40Mw of net capacity
- Fuel: Agroforestry waste

- In December 2016, Ence acquired two biomass power plants located in Spain with a combined capacity of **32 MW** for **€34 Mn EV** (€22.5 Mn for Ence stake)
  - **2017 expected EBITDA** from these new plants increasing **to over €7.5 Mn**, from €5.5 Mn in 2016, due to rapid synergies from Ence's strong capacities on biomass supply management and diversification
- New project to build a **40Mw biomass power plant in Huelva** taking advantage of synergies with our 50 Mw and 41 Mw plants already operating in the same location. Works to start in 4Q17
  - Start up: **01 / 2020**
  - **Capex: €87 Mn**
  - **EBITDA: €11 Mn**
  - Financing: **60%**

# 2016-2020 Strategic Plan Delivery

Stable and attractive shareholder remuneration maintained

## 6.6%<sup>1</sup> shareholder return in 2016

### 2016 Shareholder Remuneration

- €32.7 Mn Cash
- €8.6 Mn in Buyback Program (4 Mn shares)

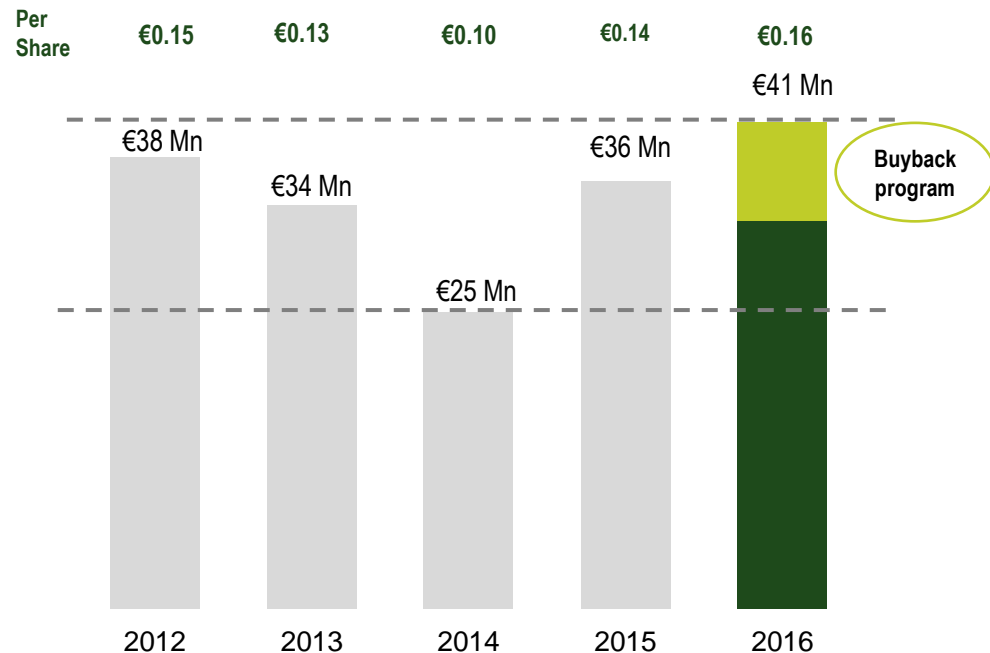
### Maintaining a low leverage position as of December 2016

- 1.6 x Net Debt / Adj. EBITDA

### Ranks #10 in IBEX Top Dividend

- Includes 25 Companies from IBEX 35 and IBEX mid & Small Caps

- The Board of Directors has proposed a 2016 final dividend of €11.6 Mn to be paid in April 18th 2017.



Note. Annual accrued dividends (€ Mn); includes dividend paid in shares for years 2012 and 2013

<sup>1</sup> Shareholder Return calculated as Cash + Buyback Program / market capitalization at year - end

# 2016-2020 Strategic Plan Delivery

Asset Divestments Program Phase I completed in 2016

## Successful Phase I Non-Core Asset Divestment Program

### 2015 Divestments

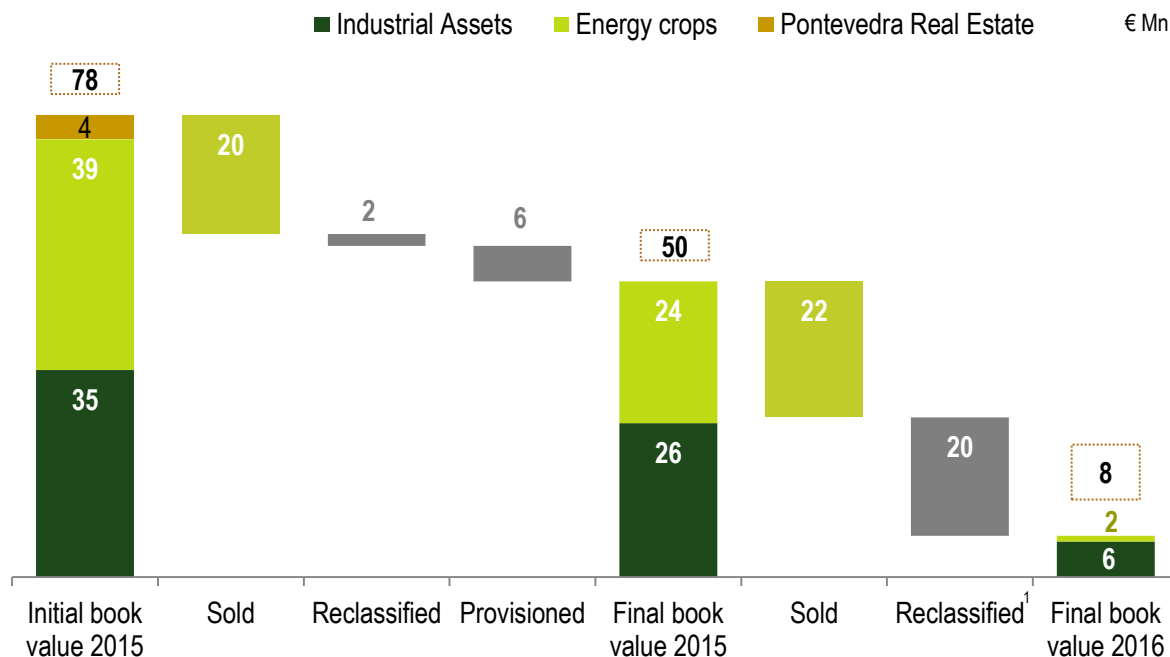
- Total Proceeds: **€32 Mn**
- Capital Gains: **€12 Mn**

### 2016 Divestments:

- Total Proceeds: **€38 Mn**
- Capital Gains: **€16 Mn**

### Pending Disposals 2017

- €6 Mn in Industrial Assets



### Considering non-core eucalyptus plantations Phase II divestment program in the future

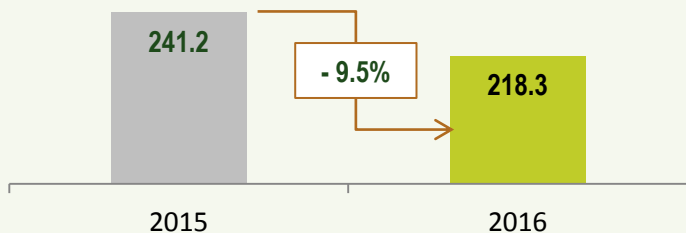
- 69,784 Hectares
- €168.9 Mn Book Value

<sup>1</sup> €20 Mn book value of Huelva industrial assets reclassified as fixed assets

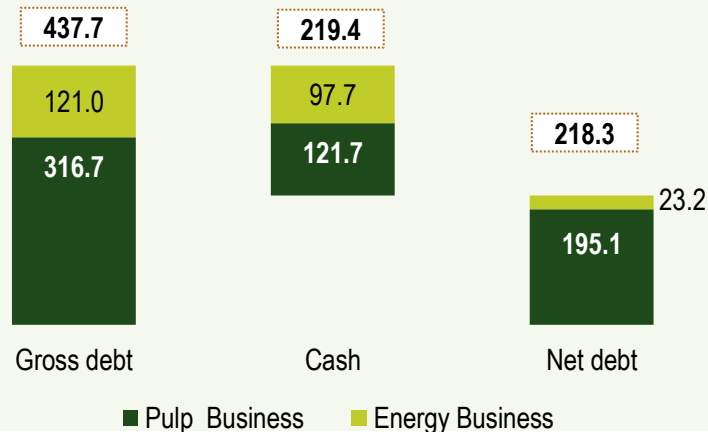
# 2016-2020 Strategic Plan Delivery

Low leverage position preserved

## Net debt reduction in 2016



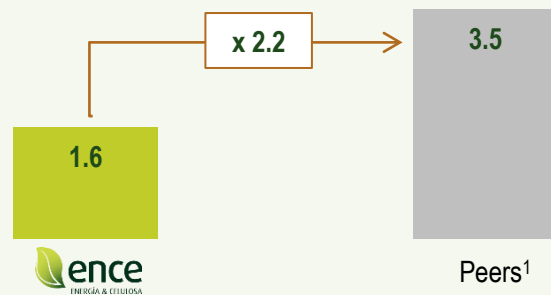
## Solid balance sheet and strong liquidity (€ Mn)



## Low leverage below peers

### 1.6x Net Debt / Adj. EBITDA after:

- Strategic Plan CAPEX implementation
- Strong shareholder remuneration



<sup>1</sup> Average from Altri (Sep-16), Fibria (Dec-16), Suzano (Dec-16), El Dorado (Sep-16), Klabin (Sep-16), and CMPC (Sep-16).



### **3. Resilient Business Model**

# Resilient Business Model

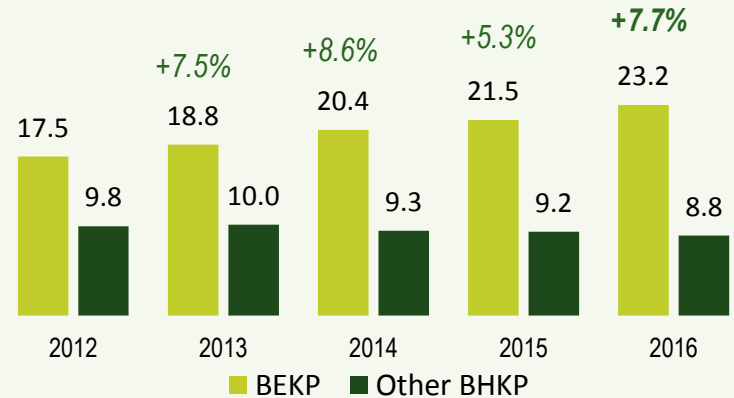
Continued growing demand for Eucalyptus pulp

## Global Demand for Eucalyptus Pulp (Mn t)

- +7.7% global eucalyptus pulp demand growth in 2016

- Equivalent to 1.7 Mn tons

- Above 2012 – 2016 CAGR of 7.3%

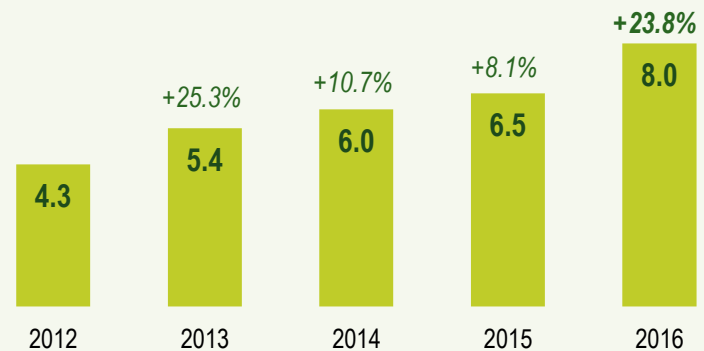


## Chinese Demand for Eucalyptus Pulp (Mn t)

- + 23.8% eucalyptus pulp demand growth in China

- Above 2012-2016 CAGR of 16.7%

- Fuelled by the tissue consumption mega-trend



Source: PPPC G-100

# Resilient Business Model

Favorable demand and supply balance expected for 2017

## Expected Annual Increase for Global Hardwood Supply and Demand (Mn t)

Mn t	2017	2018	2019	2017 - 2019
<b>ESTIMATED DEMAND INCREASE</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>4.5</b>
China	1.1	1.1	1.1	3.3
Other Asia / Africa / Oceania / Middle East	0.3	0.3	0.3	0.9
Europe	0.1	0.0	0.0	0.1
USA and Canada	-0.1	0.0	0.0	-0.1
Latam	0.1	0.1	0.1	0.3
<b>ESTIMATED SUPPLY INCREASE</b>	<b>1.0</b>	<b>1.8</b>	<b>0.3</b>	<b>3.1</b>
KLABIN (PUMA)	0.5			0.5
APP (OKI)	1.0	0.8	0.2	2.0
FIBRIA (TRES LAGOAS)	0.3	1.3	0.3	1.9
METSA (AANEKOSKI)	0.1			0.1
UPM (KYMI)	0.1			0.1
APRIL (KERINCI Conv: HW - DP)	-0.2			-0.2
APRIL (RIZHAO Conv: HW - SW)	-0.3			-0.3
TAIWAN P&P	-0.1			-0.1
SUZANO (IMPERATRIZ & MUCURI)			0.2	0.2
ALTRI (CELTEJO + CELBI)		0.1		0.1
<i>OTHER NON ANNOUNCED</i>				
<i>CLOSURES/STOPPAGES/CONVERSIONS</i>	-0.4	-0.4	-0.4	-1.2
<b>BALANCE</b>	<b>0.5</b>	<b>-0.3</b>	<b>1.2</b>	<b>1.4</b>

-  Favorable supply and demand balance for the coming years
-  APP OKI project ramp up is proving to be more gradual than analyst expectations
-  Prices in China have soared by \$95/t since September and Europe is following
-  Ence has closed sales agreements for up to 100% of its pulp production in 2017
-  \$50/t price hike in January and February in Europe.
-  Another \$30/t increase announced for March



# Resilient Business Model

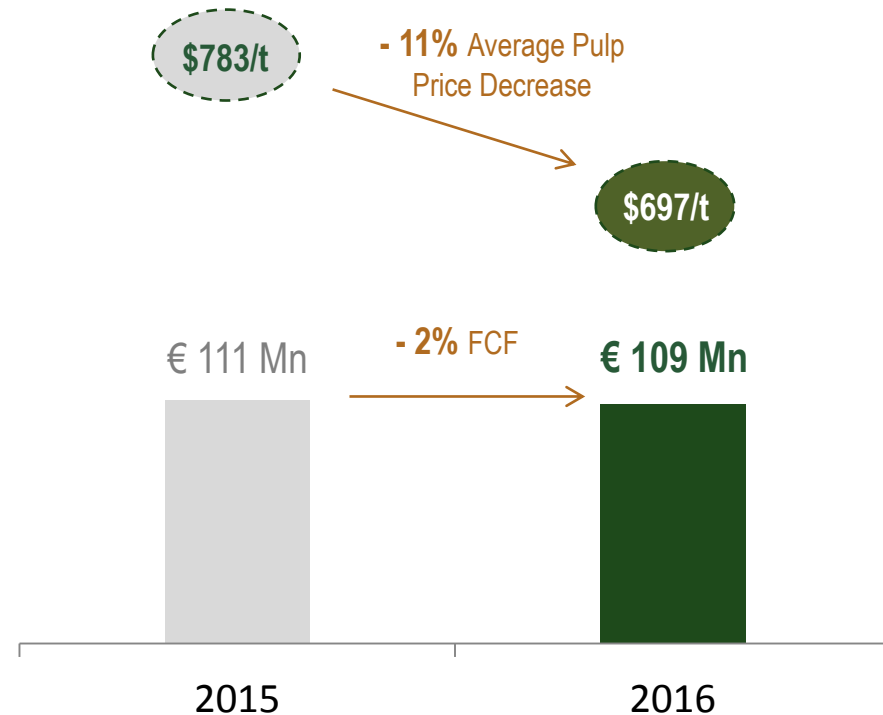
Strong and stable recurrent cash flow generation despite lower pulp prices

## Recurrent Free Cash Flow Generation (€Mn)

- Recurrent Free Cash Flow maintained in 2016 despite lower pulp price

- Low FCF Breakeven supports Ence strong resiliency

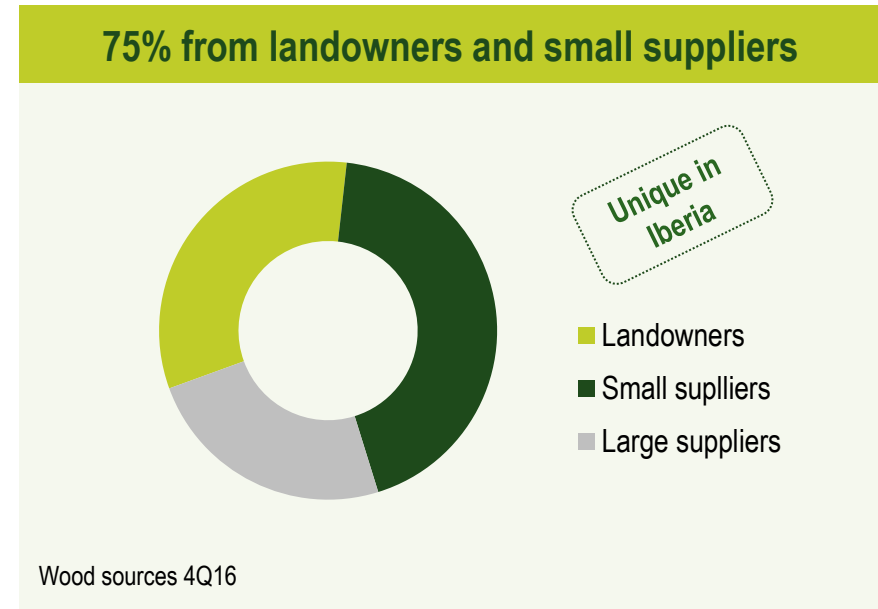
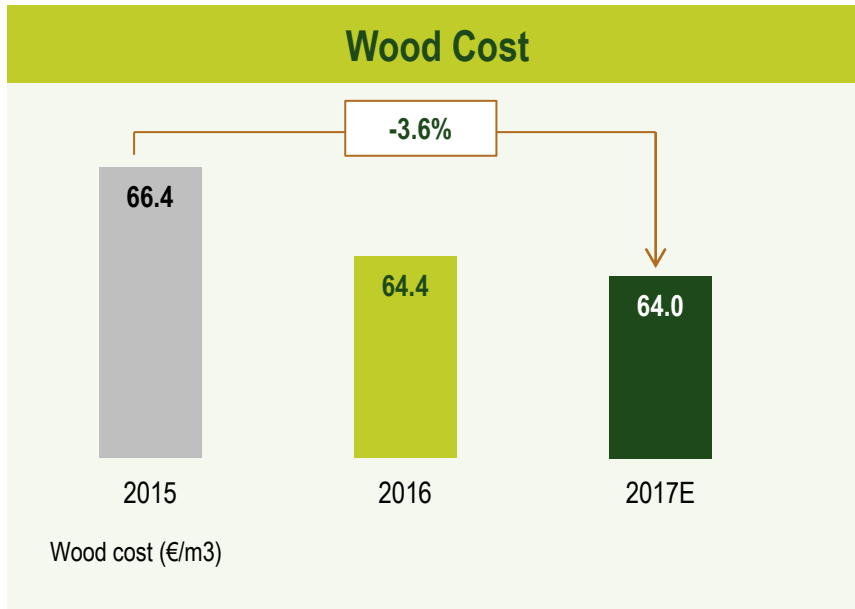
- \$500/t FCF breakeven price for 2017e



Note: Recurrent free cash flow includes Adjusted EBITDA, change in WC, taxes, maintenance CAPEX and interest payments

# Resilient Business Model

## Wood cost reduction following Ence forest initiatives



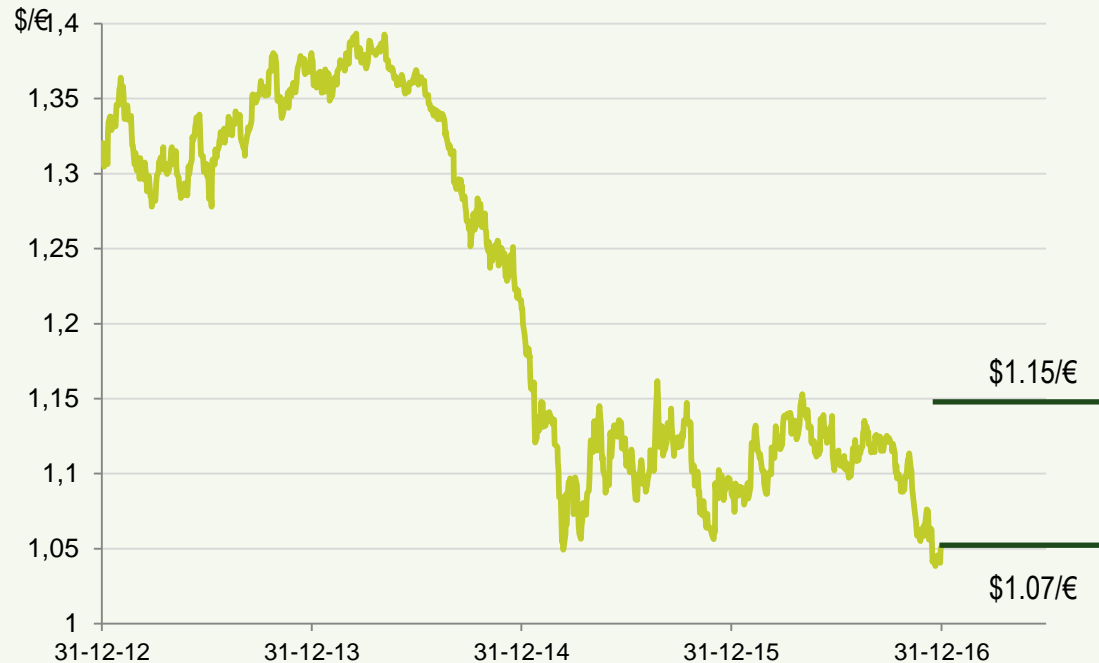
### Active supply management reducing costs and strengthening Ence position in forestry market

- Ence reduced its wood purchase cost in 2016 as a result of its 2015 initiative to link the wood price with the pulp price performance
- Small land owners coordination initiative to be developed in 2017 (Coto Redondo)

# Resilient Business Model

Ongoing hedging program to mitigate FX volatility on the Pulp business

## Dollar/Euro Exchange Rate Evolution



## Current Hedges

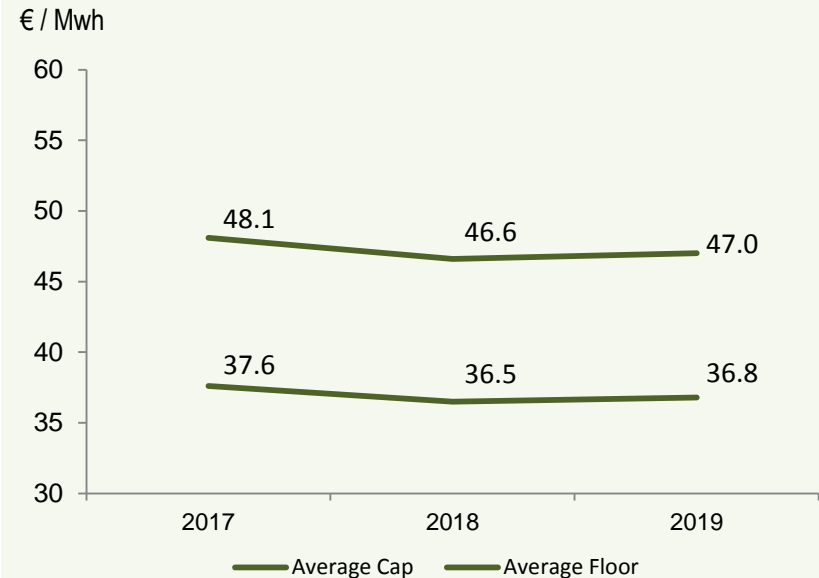
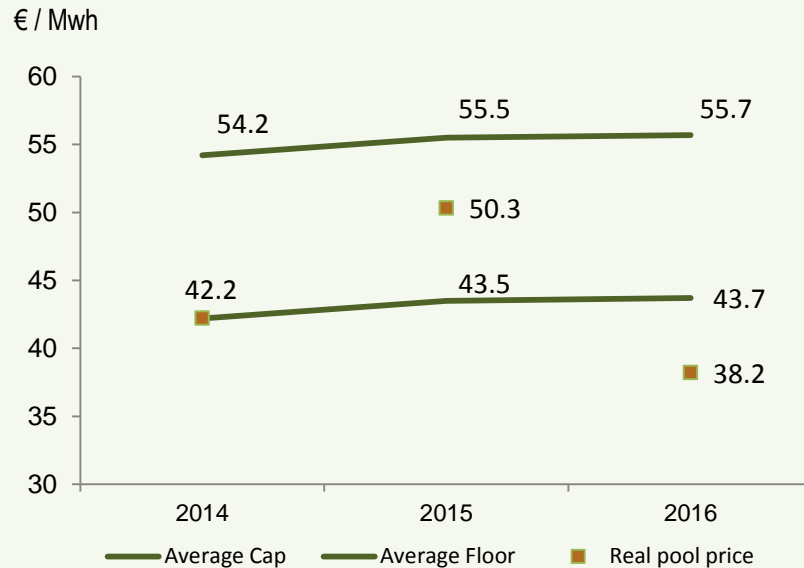
- 1 - 6 months \ 67% revenues:
  - Avg. floor: \$ 1.06 €
  - Avg. cap: \$ 1.14 €
- 6 - 12 months \ 73% revenues:
  - Avg. floor: \$ 1.08 €
  - Avg. cap: \$ 1.16 €
- 12 - 18 months \ 57% revenues:
  - Avg. floor: \$ 1.08 €
  - Avg. cap: \$ 1.16 €
- 18 - 24 months \ 25% revenues:
  - Avg. floor: \$ 1.05 €
  - Avg. cap: \$ 1.16 €

- Ence consistently maintains a FX hedging program of at least 50% of its dollar exposure for the following 18 months

# Resilient Business Model

Solid earnings secured by stable regulation in the Energy business

## Feed in tariffs related to operating costs compensated on a triennial basis



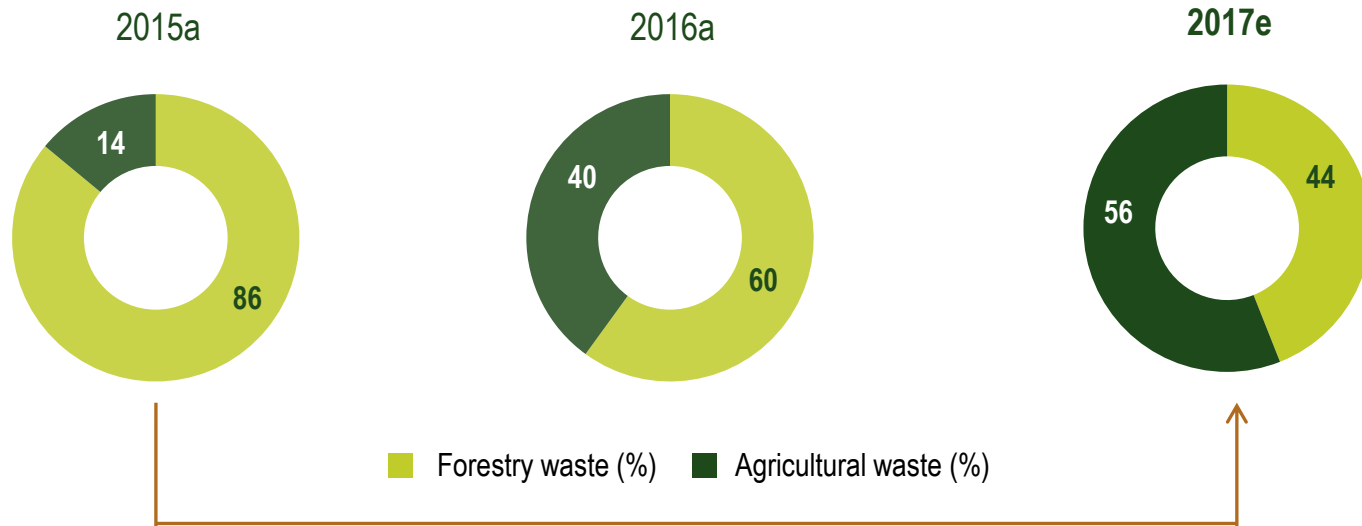
- Government forecasted annual pool prices to be between €55/Mwh and €43/Mwh for the period 2014 – 2016
- Real pool price in 2014 was €42/Mwh entailing a compensation of €1.7 Mn
- Real pool price in 2016 was €38/Mwh entailing a compensation of €7.8 Mn

- Government has changed the collar for the period 2017-2019 to €47/Mwh and €37/Mwh
- Therefore, feed in tariffs have been adjusted upwards by c €5.5/Mwh
- €45 Mn EBITDA expected from the Energy business in 2017**

# Resilient Business Model

## Successful agro waste biomass diversification

### Weight of Forestry and Agricultural Waste Supply

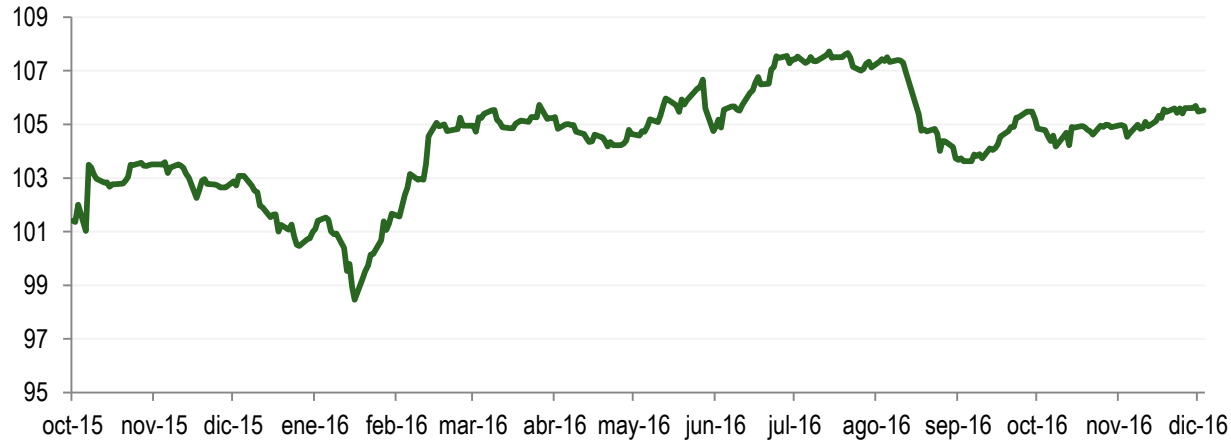


- Ence has unique capabilities in diversifying biomass sources among multiple agricultural residues minimising its supply dependency and managing prices down
- Energy business **EBITDA margin up to 35%** in 2016 despite lower pool prices
- Agricultural residues include:
  - Citrus fruits
  - Olive leaf and prune
  - Bond fruits (almond, peach..)
  - Olive marc
  - Cotton bush
  - Vineyard strain
  - Cereal straws
  - Raspberry prune

# Resilient Business Model

Ence's corporate bond performance reflects its improved credit metrics

## Ence Corporate Bond Performance



Strong Ence's corporate bond performance in 2016, trading at 105.5% at year-end

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PRICE(%/nominal)	101.40	101.57	105.24	104.83	104.75	104.88	107.53	107.36	103.63	104.78	104.92	105.52
YIELD (%) *	5.100	5.055	4.149	4.229	4.227	4.172	3.071	3.068	4.440	4.109	4.042	3.689

AGENCY	RATING	OUTLOOK	DATE
Moody's	Ba3	Stable	30/11/2016
S&P	BB-	Positive	28/07/2016

Reflecting its positive business performance, low leverage and high liquidity



## 4. 4Q 2016 Results

# Consolidated Key Figures

2016 Results confirm the resilience of Ence's business model

➤ **+29.1% EBITDA in 4Q vs 3Q 2016 fueled by both Pulp and Energy businesses**

➤ **15% pulp price decline in 2016 partially offset by:**

- + 4.3% increase in pulp sales volume
- + €2/t cash cost reduction after Strategic Plan investments due to 1Q16 one offs
- + €14/t cash cost reduction in 4Q16 vs. 4Q15
- + 3 p.p. margin improvement in the Energy business despite lower pool price

➤ **Strong and stable recurrent free cash flow of €109 Mn, reflecting working capital dynamics**

➤ **€23 Mn Net Debt reduction after:**

- Strategic Plan investments for €65.8 Mn
- Divestment Program for €38.7 Mn
- Dividend payment for €32.7 Mn
- Share buyback for €8.6 Mn

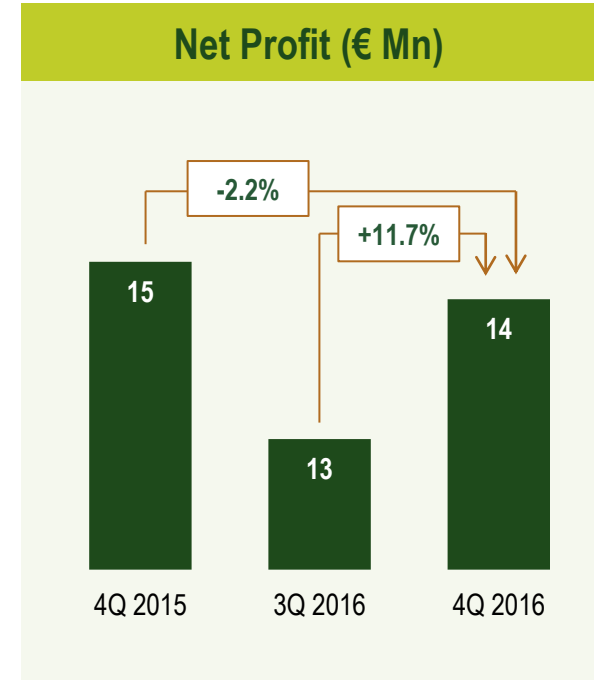
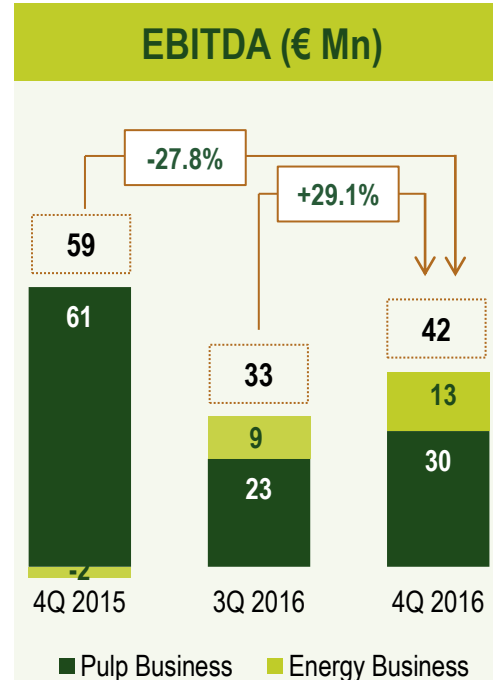
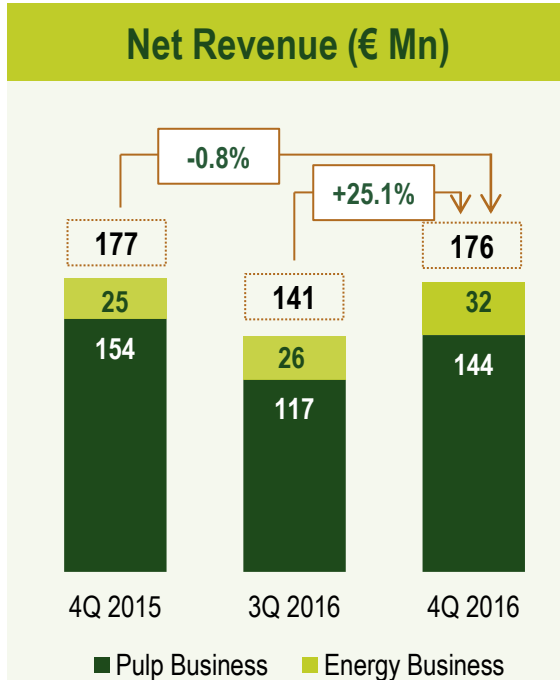
P&L			
€ Mn	2016	2015	% Change
<b>Revenue</b>	<b>605.4</b>	<b>663.9</b>	<b>(8.8%)</b>
Pulp Business Adj. EBITDA	104.0	169.6	(38.7%)
Energy Business Adj. EBITDA	34.0	31.2	9.0%
<b>Total Adjusted EBITDA</b>	<b>138.0</b>	<b>199.5</b>	<b>(30.8)</b>
EBIT	72.7	133.2	(45.4%)
<b>Net Profit</b>	<b>38.7</b>	<b>49.9</b>	<b>(22.4%)</b>

FCF & Net Debt performance			
€ Mn	2016	2015	% Change
<b>Recurrent FCF</b>	<b>109.1</b>	<b>111.4</b>	<b>(2.1%)</b>
Strategic Plan Investments	65.8	31.8	106.9%
Divestment Program	38.7	32.3	19.9%
Shareholder remuneration	41.3	35.8	15.4%
<b>FCF</b>	<b>63.9</b>	<b>83.7</b>	<b>(23.6%)</b>
<b>Net Financial Debt</b>	<b>218.3</b>	<b>241.2</b>	<b>(9.5%)</b>



# Quarterly Key Figures

4Q16 strong performance both in Pulp and Energy businesses

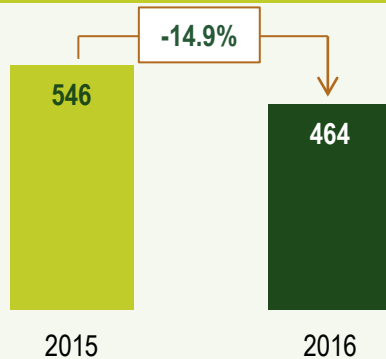


- 🌿 Pulp business: +26.5% EBITDA in 4Q vs 3Q fueled by a €10/t cash cost reduction
- 🌿 Energy business: +35.6% EBITDA in 4Q vs 3Q due to lower annual pool price regulatory compensation

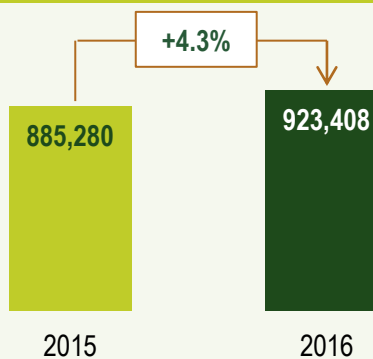
# Pulp Business

## Operating performance

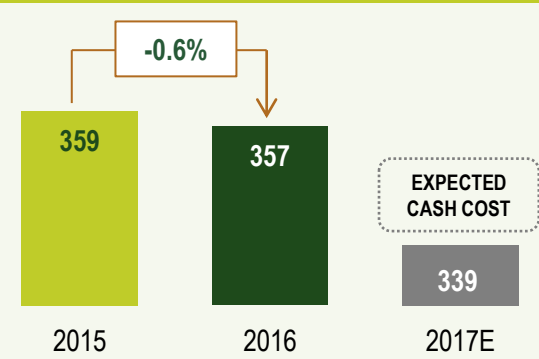
### Average selling pulp price (€/t)



### Pulp sales volume (t)

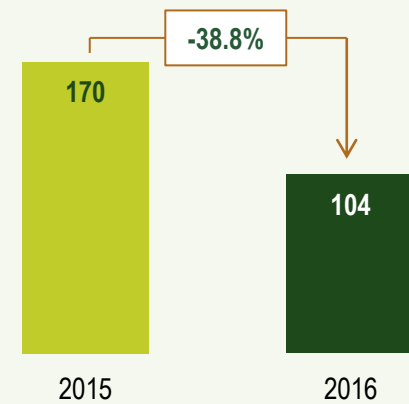


### Cash cost (€/t)

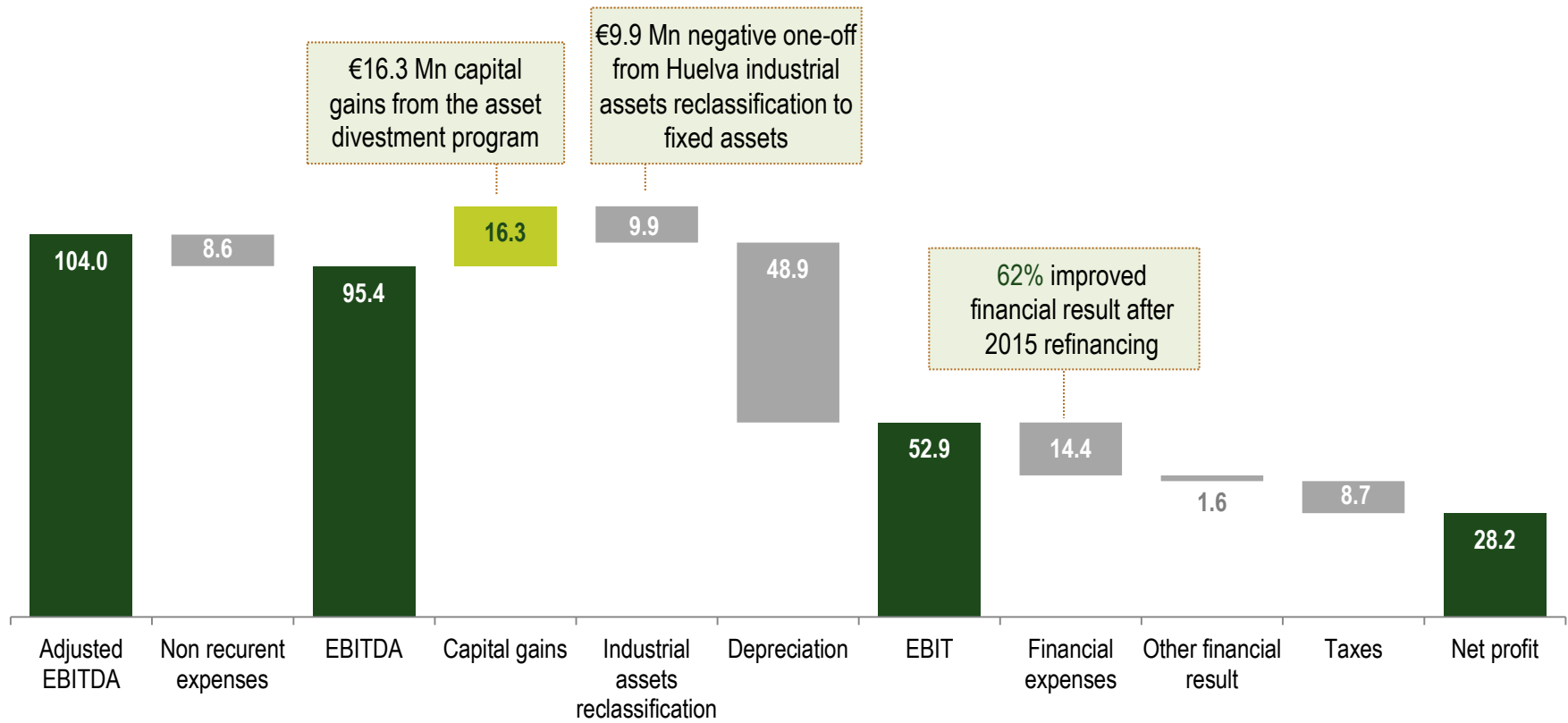


- 14.9% pulp price decline in 2016 partially offset by:
  - + 4.3% increase in pulp sales volume
  - + €2/t cash cost reduction after Strategic Plan investments due to 1Q16 one offs
  - + €14/t cash cost reduction in 4Q16 vs. 4Q15
- Expected cash cost reduction in 2017 down to €339/t
  - In line with the Strategic Plan

### Adjusted EBITDA (€ Mn)



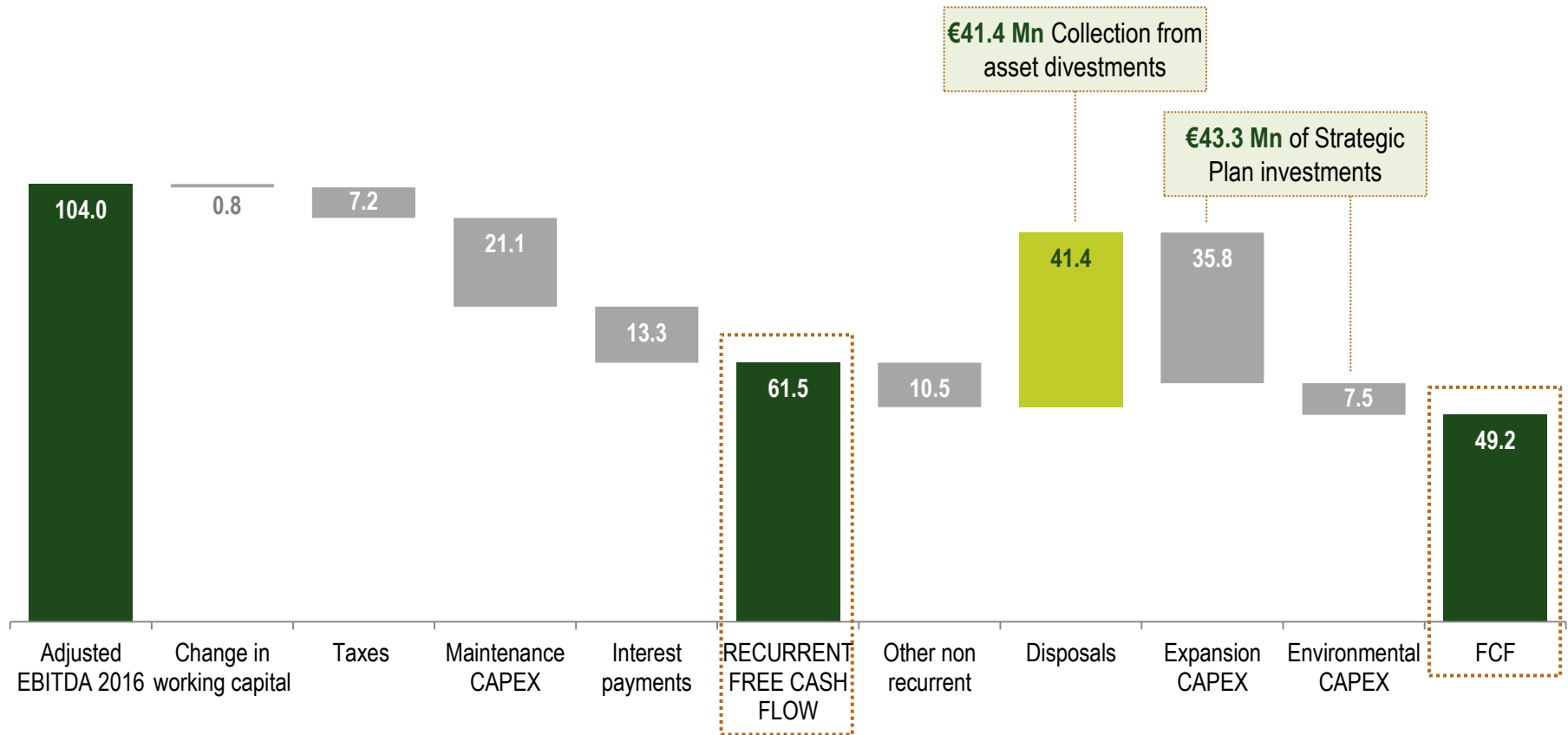
### 2016 P&L Bridge (€ Mn)



# Pulp Business

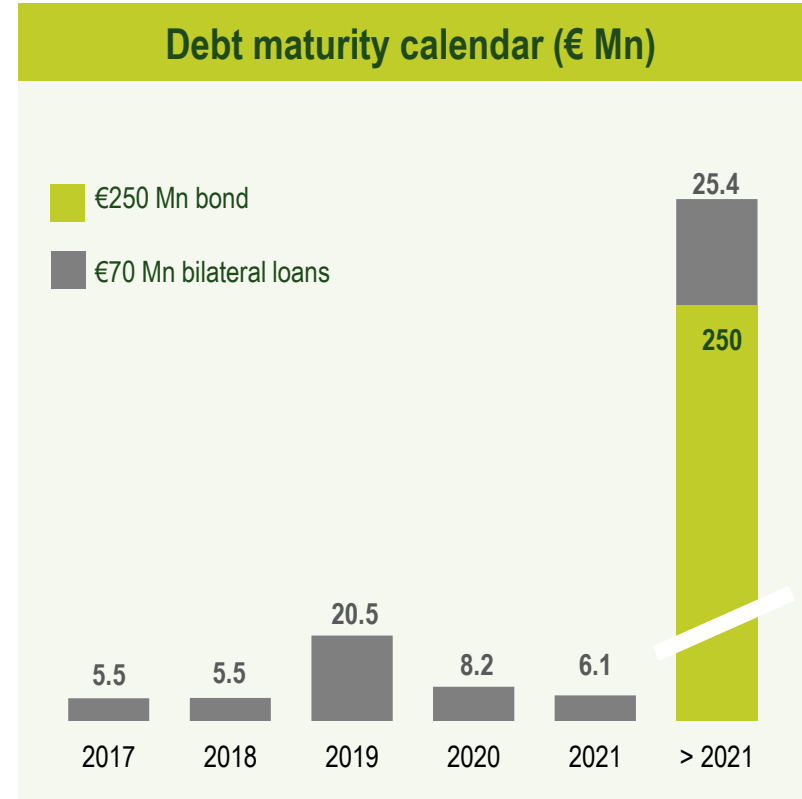
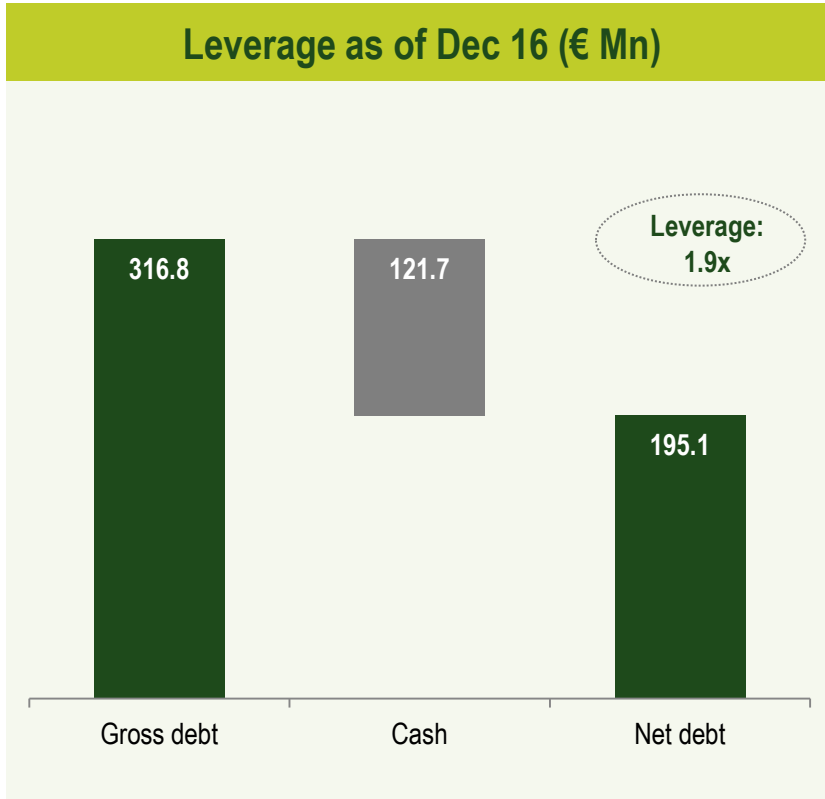
## Cash Flow generation

### 2016 Cash Flow Bridge (€ Mn)



# Pulp Business

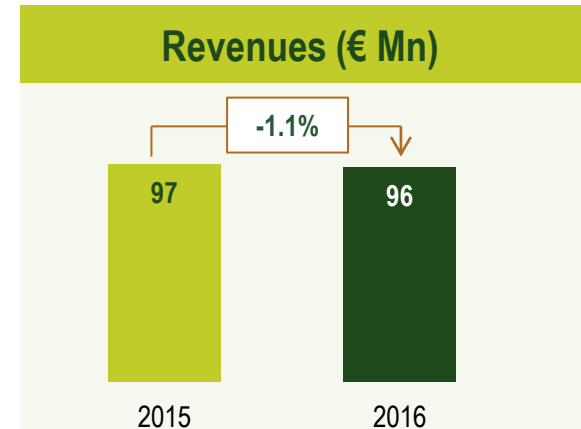
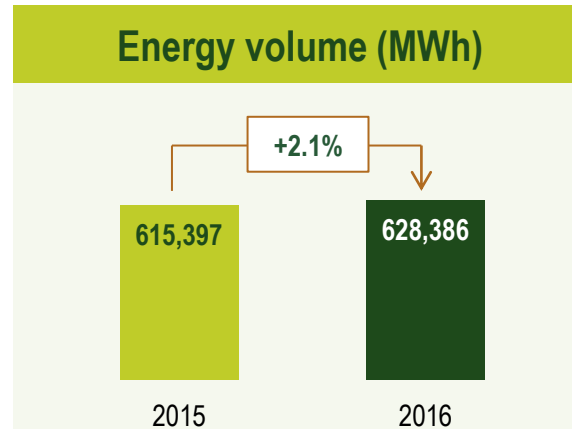
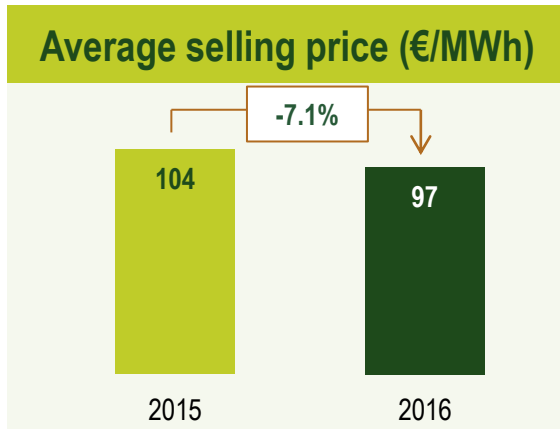
Solid balance sheet and strong liquidity



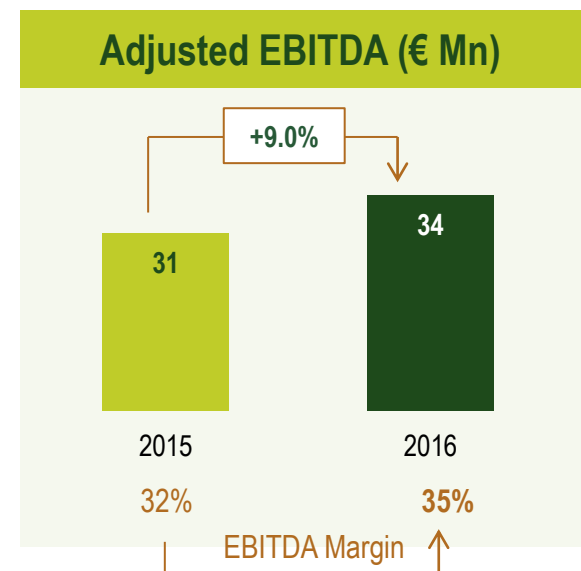
🌿 Pulp business leverage at 1.9x Net Debt / adjusted EBITDA as of December 2016

# Energy Business

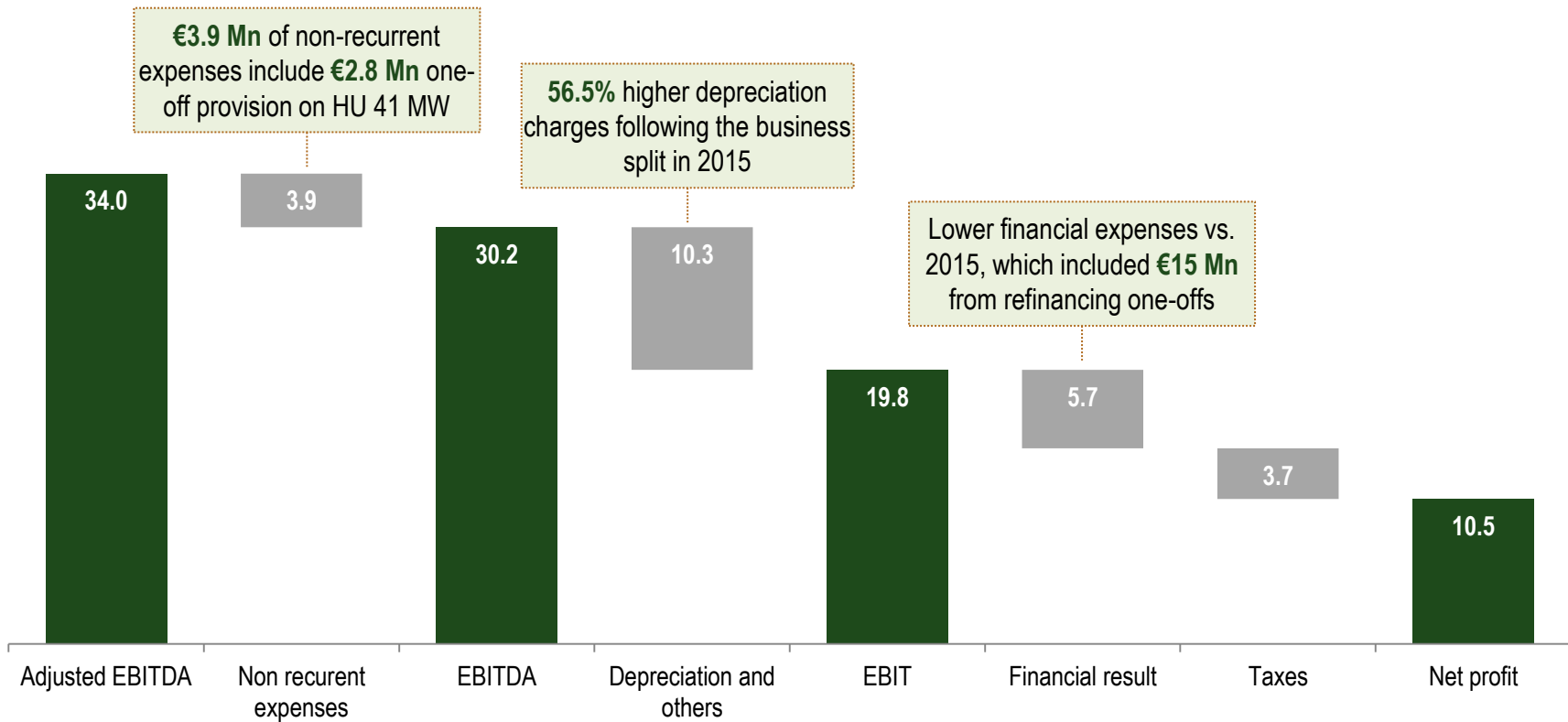
## Operating performance



- 7.1% lower average selling price due to lower pool prices, partially mitigated through our hedging policy (+€1.2 Mn in 2016)
- Difference between the pool price estimated by the Regulator and real pool price for 2016 has been partially offset by a €3.9 Mn revenue increase in Q416
- 2.1% higher energy production after generating 19,080 MWh above the regulatory cap of 6,500 h due to higher pool prices in Q416
- +9% EBITDA increase despite lower pool prices following Ence's biomass diversification strategy



### 2016 P&L Bridge (€ Mn)

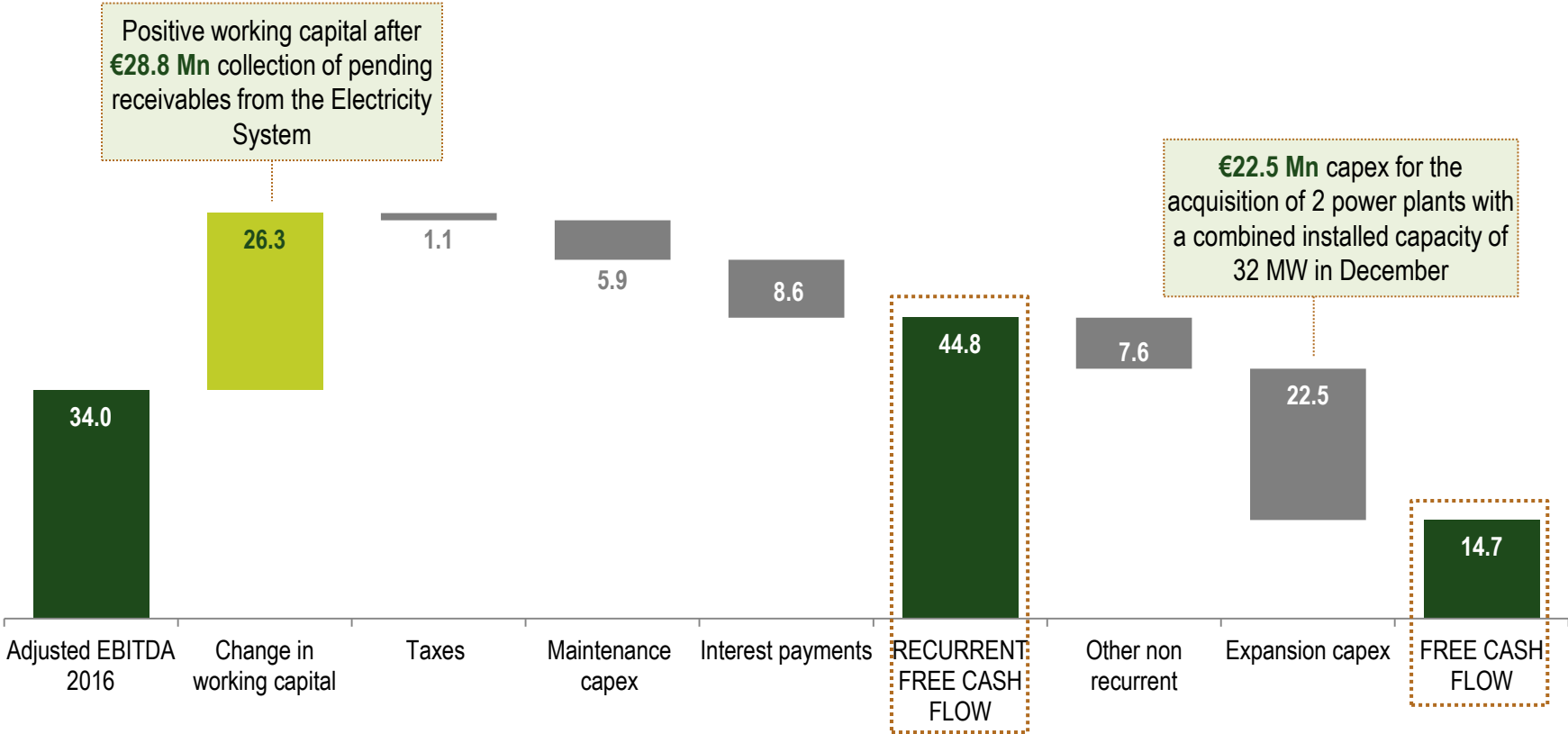


# Energy Business

## Cash Flow generation



### 2016 Cash Flow Evolution Bridge (€ Mn)

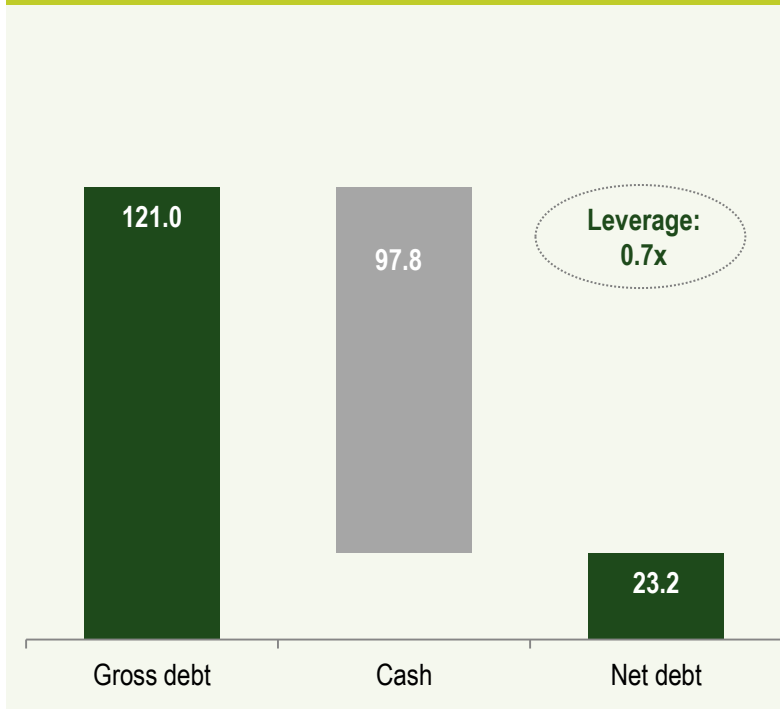




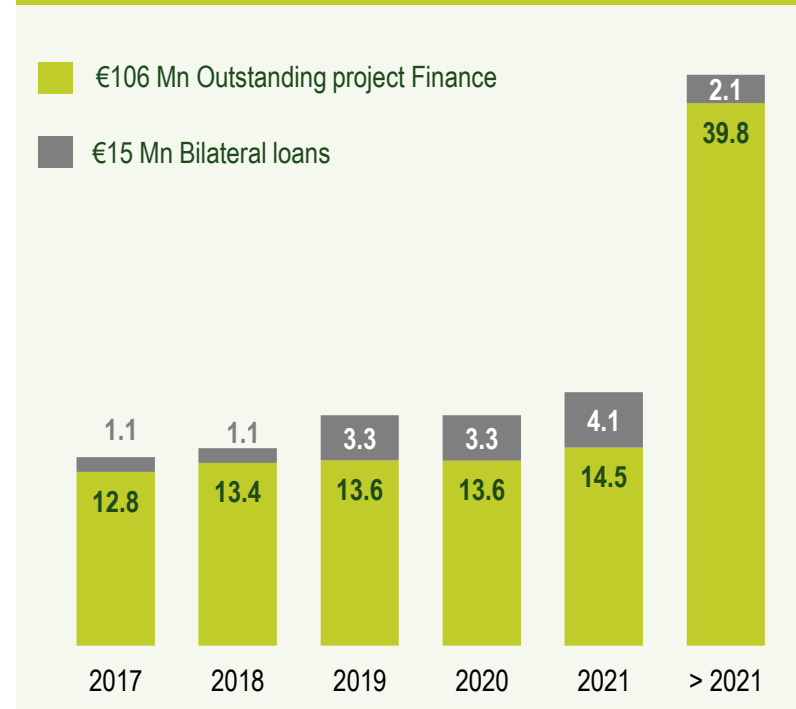
# Energy Business

Solid balance sheet and strong liquidity

## Leverage as of Dec 2016 (€ Mn)



## Debt maturity calendar (€ Mn)



🌿 Energy business leverage at 0.7x Net Debt / adjusted EBITDA as of December 2016



## 5. Closing Remarks

- 🌿 2016 **Results** confirm the **resilience** of Ence's business model
- 🌿 **Strategic Plan** is on track: we are already delivering results in Navia & Pontevedra
- 🌿 **Cash cost** reduction evolves favorably to an average of **€339/t in 2017**
- 🌿 Positive market environment expected with **tight supply & demand balance**
- 🌿 **Energy business growth** accelerating
- 🌿 Stable and attractive **shareholder remuneration** maintained
- 🌿 Keeping a **low leverage** position (< 2.5x Net Debt/EBITDA in the Pulp business)

