



# Capital Markets Day

17 March 2022



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# Today's Presenters

## Ignacio de Colmenares

*Chairman & CEO  
Ence Energía y Celulosa*



- Ignacio has had a long professional career in the steel, energy and pulp industry. Before joining Ence in December 2010, in 1996 he joined TYCSA as CEO, a producer of steel and aluminium ropes, and optical power ground wire. In 2001, he served Global Steel Wire as CEO after merging with TYCSA.
- Before joining Ence, in 2008 he held the position of CEO of Isofoton, a company that promotes PV plants and produces PV panels and solar cells .
- He was member of the board of CEPI (Pulp and Paper European Association). Currently, he is a member of the steering committee of the Spanish Association of Pulp, Paper and Paperboard producers (ASPAPEL). For five years, he has been member of the investment Committee of Artá Capital, and currently serves as board member or Corporación Financiera Alba, where he also seats at the investment committee of the board. He chairs Ence's Board of Directors and its Executive Committee
- He has a degree in Law and an MBA by IESE business school.



## Alfredo Avello

*CFO and Chief Forestry Officer  
Ence Energía y Celulosa*

- Since his incorporation to ENCE in 2013 Alfredo has carried out his activities as Director of Corporate Development and Strategy and was appointed CFO of the Group in November 2014.
- Alfredo is also responsible for the Forestry Business of the Company. Before joining ENCE, he was CFO and Head of Corporate Development at Foresta Capital and Grupo Multitel. Previously he served as Treasurer and Financial Director at Atlantic Copper (Freeport McMoRan Copper & Gold).
- He has a degree in Law from the San Pablo CEU University, a Master in International Business Transactions (LL.M.) from the University of London and a PADE from IESE Business School.

## Jordi Aguiló

*CEO of the Pulp business*



- Jordi was CEO of the ENCE Energy Business after successfully developed it and consolidated the operations during 6 years until 2018 when he was appointed CEO of the Pulp Business.
- Before joining ENCE in 2012, he held various management positions in the infrastructure and energy sectors (grupo ACS, COMSA) where he led the project developing, EPC Construction and manage assets as an IPP. He was also involved in R&D projects in Germany with RWE and in a Spanish Technological Center.
- Since 2017, Jordi is the President of APPA Biomasa which is the leading business association of the sector in Spain and the interlocutor with the different administrations (European and national) on key regulations for the sector. He was also member of the CEPI Energy Committee and actively participates in the steering committee of ASPAPEL.
- He is an industrial Engineer from Universitat Politècnica de Catalunya (UPC), he has also a Bachelor's degree in Physics from Universitat de Barcelona (UB), and holds an Executive MBA from IESE.



## Marc Gómez

*CEO of the Energy business*

**Magnon**

- Marc joined Ence group from ABB Spain, a company of which he had been President & CEO since 2018 and in which he had developed his career for the last 26 years. In ABB he held various leadership positions with local, regional or global responsibilities, combining a very strong local and international experience.
- In 2010, he was appointed as local divisional manager of the robotics and motion business of ABB in Spain and Portugal and in 2013 he became regional Mediterranean manager of the same business. From 2015 to 2017, previously to serve as Chairman and first executive director of the company in Spain and Portugal, Marc was global managing director of solar business within ABB Group.
- He is an industrial engineer from the Universitat Politècnica de Catalunya and holds an Executive MBA from EADA and SLDP from IMD.

1.

Strategic Vision

2.

Sustainable Forestry Management

3.

Pulp Business

4.

Renewable Energy Business

5.

Financial Outlook

6.

Closing Remarks

# 1 Strategic Vision

**Ignacio Colmenares**  
CEO Ence Energía y Celulosa

## Vision

*“To be leaders in the sustainable use of natural resources to produce **special pulp** and **renewable energy** in competitive bio-factories and plants integrated into their environment”*

## Purpose

*“.....to contribute to the development of society through the sustainable and responsible use of the natural resources available in our environment, offering pulp to replace polluting products and manageable green energy”*



# Most sustainable company in our industry

According to Sustainalytics



## Safe & eco-efficient operations

- ✓ 39% reduction in the Group's Injury frequency rate (vs 2020)
- ✓ 0 accidents with sick leave on the Energy Business
- ✓ Circular economy: <1% total waste sent to landfills
- ✓ 85% plants with ZERO WASTE certification
- ✓ -40% odor minutes in pulp bio-mills (vs 2020)
- ✓ 1,9 Mt biomass valorized

Reduced Production Costs



## Climate action

- ✓ -9% Scope 1 GHG Emissions (vs 2020)
- ✓ 500k tCO2 avoided
- ✓ 92k tCO2 absorbed



## Sustainable products

- ✓ Specialty pulp products used as plastic substitutes
- ✓ Renewable energy
- ✓ 1st Pulp EPD published: Encell TCF and Naturcell
- ✓ Industry leader in Sustainalytics

Leadership and Differentiation



## Community engagement

- ✓ 45k beneficiaries of community engagement plants
- ✓ 19k jobs created
- ✓ 95% of suppliers are local



## People & values

- ✓ 90% permanent contracts
- ✓ +3% female employees (vs 2020)
- ✓ 80% of new hires <30 are female
- ✓ Great Place To Work certification

Social License to Operate



## Sustainable agroforestry

- ✓ 85% of managed land certified
- ✓ 74% of supplied wood certified & 73% of biomass certified
- ✓ 99% wood & biomass suppliers homologated
- ✓ 100% plants SURE System Certified (sustainable biomass)
- ✓ 88% of wood acquisitions from small suppliers

Risk Minimization



## Corporate Governance

- ✓ Transparency
- ✓ Best practices
- ✓ Virtual AGM with 100% of resolutions approved
- ✓ ~40% female members
- ✓ 60% independent female directors on Audit and Remuneration Committees

Ensure Correct Decision Making



Global ESG score: 91/100 FTSE4Good



# Pulp & Renewable Energy

Two independent and complementary businesses



## Pulp Business



Europe's leading eucalyptus pulp producer with 1.2 Mn tons (6% market share) of installed capacity:

Navia: 685,000 t

Pontevedra: 515,000 t

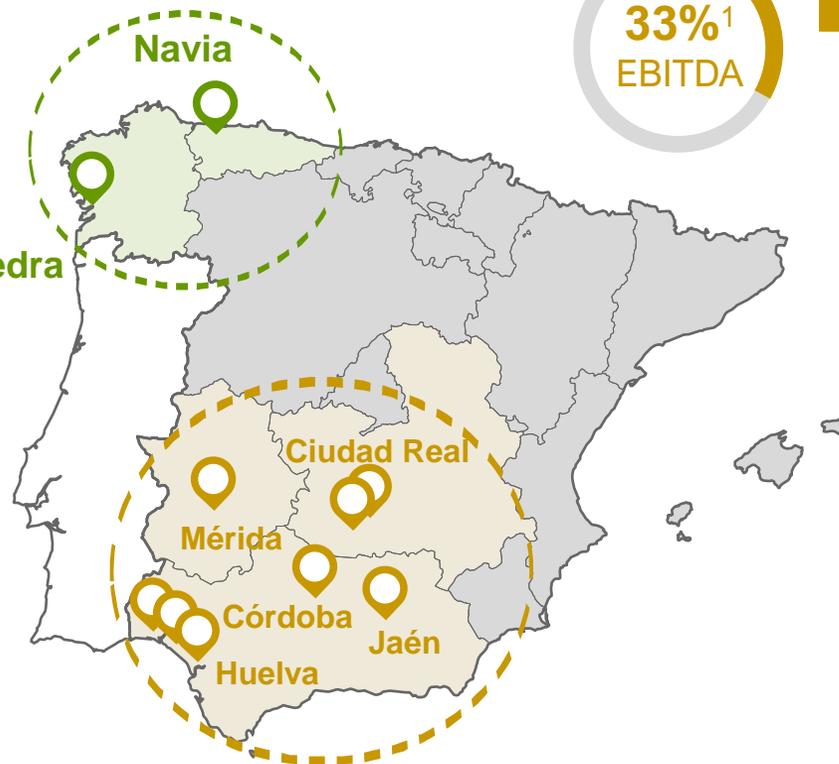
Cyclical pulp business, dependent on the global pulp price in US\$

Based on Ence's over 60 years experience in wood supply management

Long-term financing without maintenance covenants and ample liquidity

Reference Net Debt to EBITDA of 2.5x<sup>2</sup>

100% owned by Ence



## Renewable Energy Business

Largest biomass operator in Spain with 266 MW of Renewable Energy installed capacity & 140 MW pipeline in biomass

Regulated Renewable Energy business provides stability and high visibility of revenues

Based on Ence's over 60 years experience agroforestry biomass supply management

Long-term financing and ample liquidity

Reference Net Debt to EBITDA of 5.0x<sup>2</sup>

51% owned by Ence (49% sold to Ancala Partners in Dec. 2020)

Pulp & RE are independently managed, financed and reported

<sup>1</sup>2021 recurrent annual EBITDA split ex-hedge impact

<sup>2</sup>EBITDA calculated at mid cycle prices



# Pulp competitive advantages

## Low cost pulp producer vs. Northern European countries

### Hardwood pulp (BHKP)

### Softwood pulp (BSKP)

Source

Most hardwood pulp from **eucalyptus wood**



← **Substitutive materials** →

Most softwood pulp from **pine & spruce wood**



Primary Use

Best suited for products with high smoothness, opacity and uniformity (e.g. **tissue**)



Best suited for higher durability & strength (e.g. **printing & writing**)



Geography

Eucalyptus only grows under specific climate conditions (Iberia & LatAm)



More abundant pines are better adapted to cold climates (Nordic)



Yield<sup>1</sup>

Iberia: **4.8**

Scandinavia: **1.1**

Production Cost

**\$ Low**

← **Last 10 years NET average price spread of 95 \$/t** →

**\$ High**

<sup>1</sup> Tons of pulp / ha / year

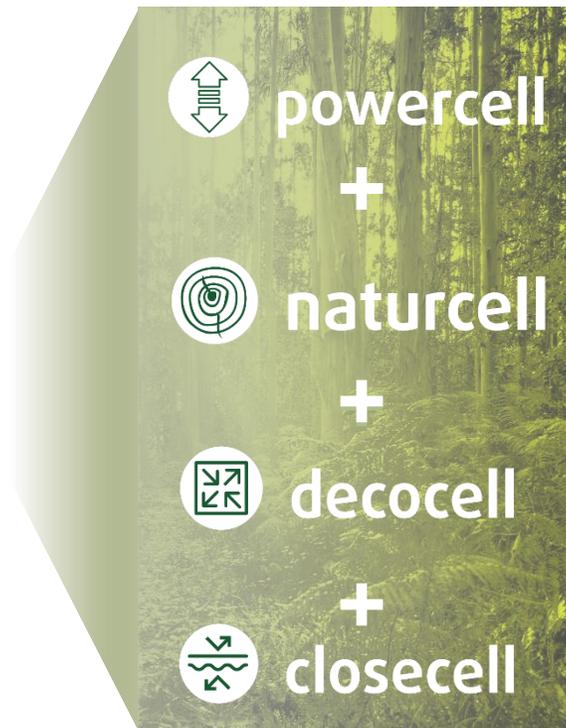


# Pulp competitive advantages

Differentiated products aimed at softwood pulp and plastic substitution



High quality pulp and differentiated products with lower environmental footprint and enhanced technical properties



+ Others such as photocell , high white, softcell and porocell

- ✓ Aimed to replace softwood pulp
- ✓ Targeted for demanding customers in terms of sustainability
- ✓ Certified life cycle analysis

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- ✓ First unbleached short-fiber cellulose on the market
- ✓ Minimization of refining energy
- ✓ Soften products

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- ✓ Used as a plastic alternative in multiple uses
- ✓ Low wet-expansion cellulose suitable for decor paper applications
- ✓ Results in significant energy savings in the refining process

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- ✓ Used as a plastic alternative in packaging for food & beverage industry
- ✓ Low porosity material

- Ence Advanced differentiated products offer lower environmental footprint and enhanced technical properties
- Differentiated products, which have higher margins, accounted for **16% of Ence's pulp sales in 2021** (c.150.000 t)



# Pulp competitive advantages

Just in time service with 5-7 days delivery vs. 40 days from LatAm

## Just in time service

(5-7 days delivery vs. 40 days for LatAm deliveries)



● **Lower logistics costs** vs LatAm

● Proximity offers **protection against rising transport costs**

● Contributes to **reduce CO2 emissions** by sourcing locally

**Ence has a privileged access to the European market**



# Our strategy is to enhance Navia pulp bio-mill...

## Navia Excelente Project

Capital  
Markets  
Day



### Differentiated Products

Improvement of the eco-efficiency and flexibility of Navia to foster production of differentiated pulp products to substitute softwood and plastic  
(BHKP annual pulp substitution with **up to 400,000 t of differentiated products by 2027**)



### Diversification into Fluff

To diversify Navia product range into Fluff pulp production for the absorbent hygienic products industry in Europe, substituting imported Fluff  
(BHKP annual pulp substitution with **up to 100,000 t of Fluff by 2027**)



### Decarbonization

Promotion of the circular bio-economy through the use of lignin to replace natural gas as fuel in lime kilns and its use in high value-added products  
(Estimated annual **reduction of up to 50,000 tons of CO<sub>2</sub> emissions by 2027**)

Navia Excelente strategy to foster production of differentiated products, diversify into Fluff pulp and reduce its environmental footprint while improving cash costs with the valorisation of the lignin



# ... while defending the legality of Pontevedra concession

The Supreme Court admits our appeal against the rulings of the National Court

## Update



On July 2021, the Spanish National Court has annulled the land concession on which our Pontevedra bio-mill is located



Supreme Court has admitted the appeal by Ence against the annulment of its concession. Final ruling expected by year end 2022

## Materiality

Pontevedra pulp mill accounts for:



**1/3** of the **Pulp Business** average cycle EBITDA



**1/4** of the **Group** average cycle EBITDA => smaller/less efficient than Navia

### PRUDENT FINANCIAL SCENARIO ADOPTED

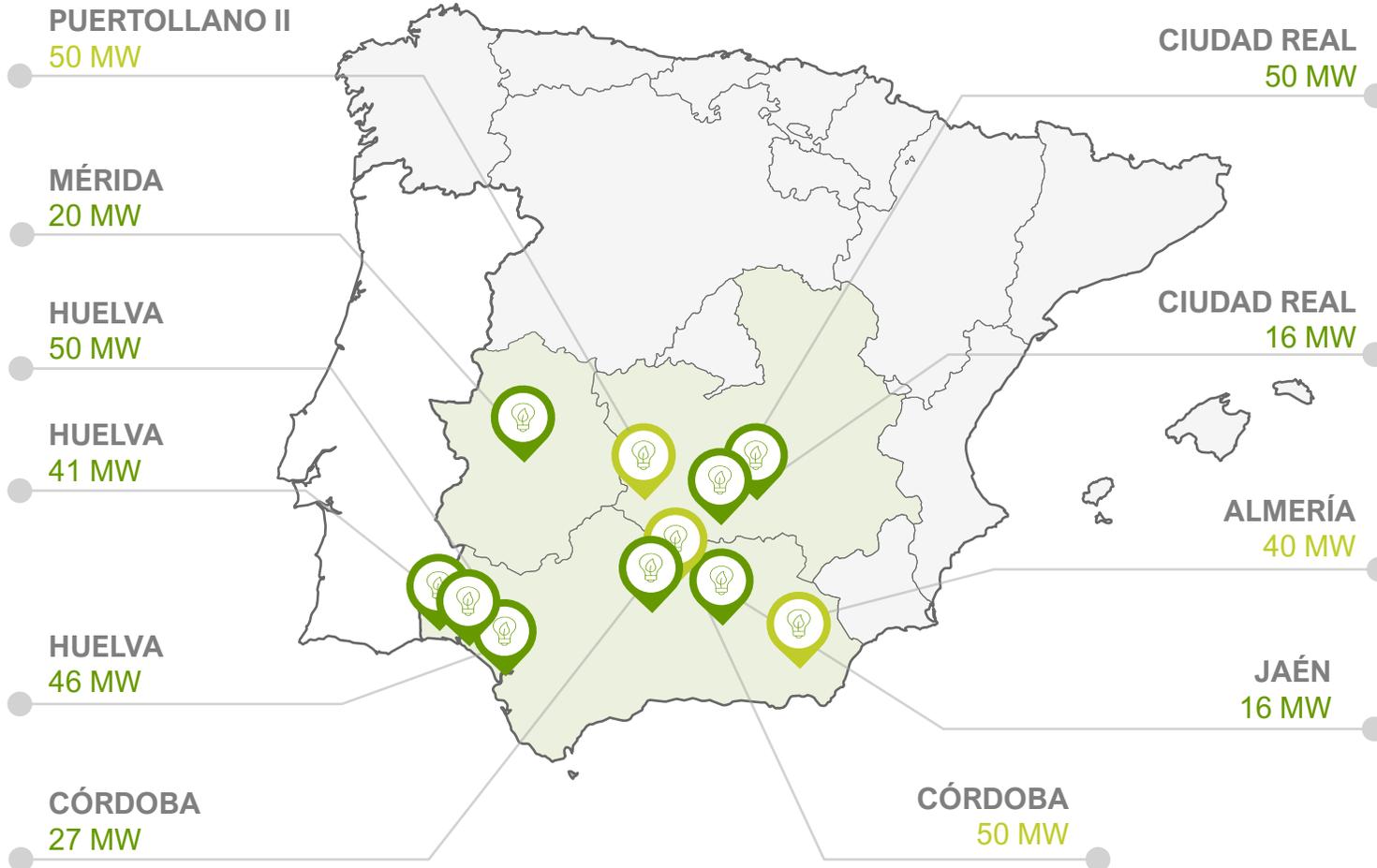
- Potential closure already provisioned as of 2021
- Potential related cash outflow of ~€72 Mn



# Largest biomass operator in Spain with 60 years experience

A regulated business which provides stability and visibility to our P&L

Capital  
Markets  
Day



**Current Power Plants Portfolio**

- Biomass power plants **266 MW**
- Biomass Pipeline **140 MW**

**€50-70 Mn**  
Estimated Annual  
EBITDA

at the regulated price bands



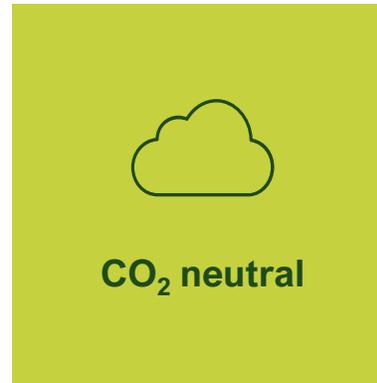
# Competitive advantages of Biomass Energy

A manageable renewable technology with room to grow in Spain

Capital  
Markets  
Day

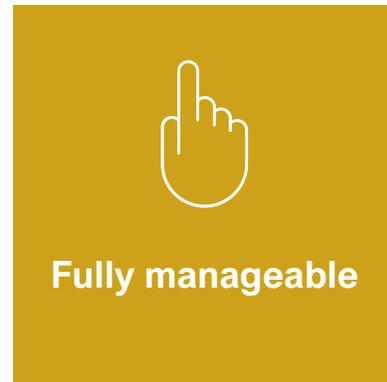


Biomass is a very abundant resource in Spain. **We draw upon local agricultural and forest by-products**, mitigating their environmental impact and reducing fire risk



Biomass is **neutral in carbon emissions** and avoids diffuse emissions of forest and agricultural byproducts. It also **reduces fire risk** in our forests and the problem of **biomass uncontrolled burning**.

Biomass is the only renewable technology, together with hydraulics, which is **totally manageable**. It can operate 24 hours a day, 365 days a year and exceed 8,000 hours a year. **Biomass acts as a backup for other renewable energies.**



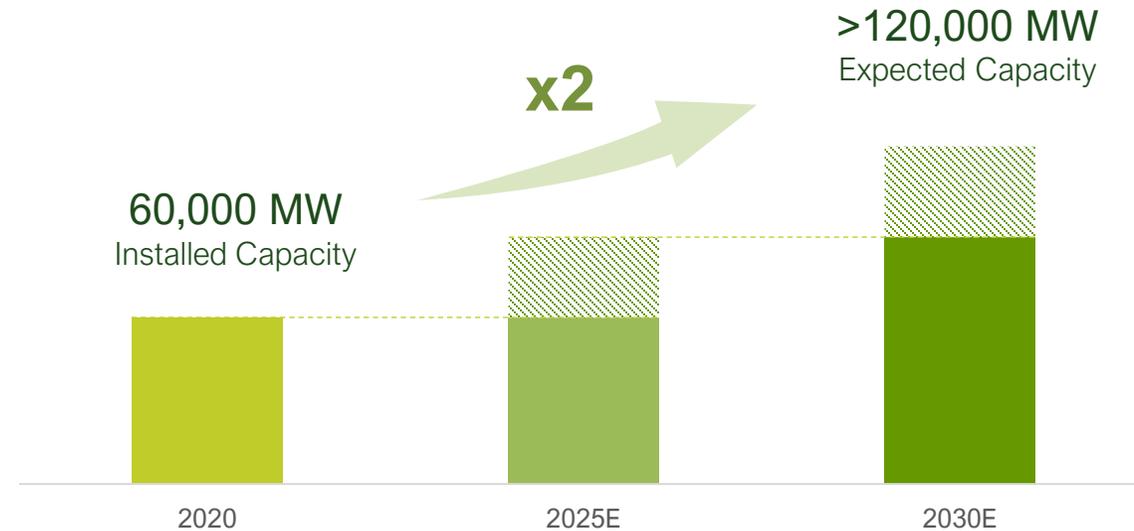
Biomass provides a **high socioeconomic value** due to its environmental advantages and the important contribution to the rural **employment** generation and the **industrialization** of the rural economy, avoiding rural exodus.



# Platform for growth

Spain will double its renewable installed capacity by 2030

## Spain expected renewable energy to double by 2030<sup>1</sup>



## Ence's pipeline



**Biomass: 140 MW**



**PV: 373 MW**



**Early-stage PV pipeline: 300 MW**



**Other growth opportunities**

Spanish RES market expected to grow significantly in the upcoming years...



...and Ence has both the expertise and a proven track record to capitalise on that growth

<sup>1</sup>Source: Integrated National Energy and Climate Plan 2021-2030



# Strong track record creating value

Through greenfield, M&A and selective asset rotation

## Greenfield



## M&A



■ Acquisition  
■ Sale

Over €170 Mn capital gains through asset rotation



# Ence delivers long-term structural growth

Improving value creation

Capital  
Markets  
Day



1

European leader operating in two long-term structural growth industries combined with long-term structural competitive advantages

2

Navia Excelente Strategy adopted to take advantage of current industry megatrends, develop Navia & defend the Pontevedra Concession

3

Shareholder returns further enhanced by multiple new projects (ROCE >> WACC)

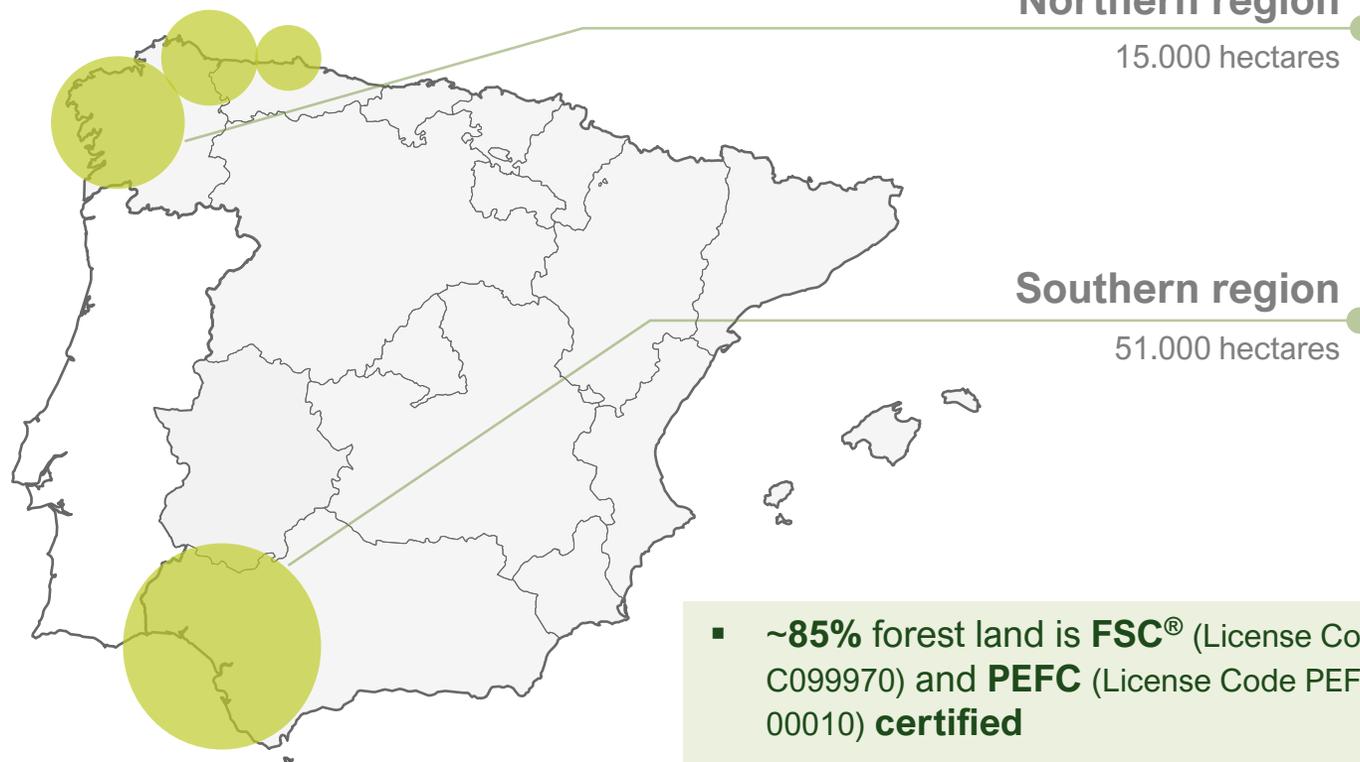
# Sustainable Forestry 2. Management

**Alfredo Avello**  
CFO & Chief Forestry Officer  
Ence Energía y Celulosa



# We are the largest private forest manager in Spain

And the reference in responsible and sustainable forestry management



## Northern region

15.000 hectares

## Southern region

51.000 hectares

- ~85% forest land is **FSC®** (License Code FSC-C099970) and **PEFC** (License Code PEFC/14 -20-00010) **certified**
- Annual production: **400.000 tons / year of wood and 130.000 tons / year of biomass**
- Our plantations annually **remove 600,000 tons of CO2** from the atmosphere

## Our forestry activity



- Maintenance of direct and indirect environmental values (biodiversity, soil, air and water quality, etc.)
- 22% of hectares (c. 14.000 ha) dedicated to protecting and preserving ecosystems
- Reduction of fire impacts
- Prevents deforestation



- Clones and seedlines adapted to specific local soil and climate conditions
- Promotion of state of the art sustainable silviculture practices



- Development of the surrounding areas (job creation and income distribution, promotion of forestry sector, etc.)
- Fixing population in rural areas



# Further growth opportunities

## Eucalyptus nurseries / R&D / Carbon sink

### Eucalyptus nurseries

- 3 Eucalyptus nurseries in Spain
- 12 million improved clones and seedlings production per year



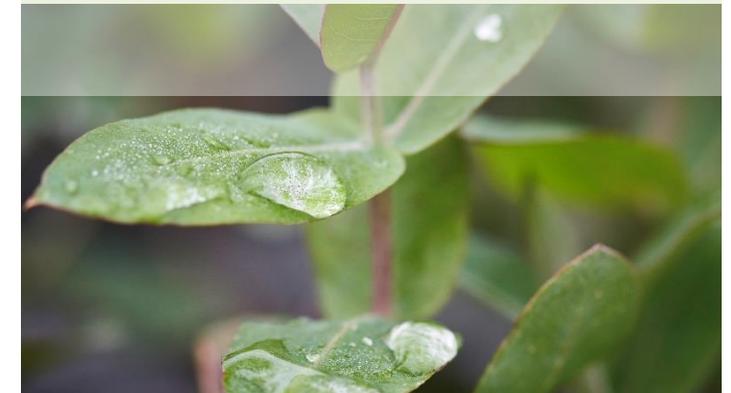
### R&D

- Pioneers in the clonal reproduction of eucalyptus Globulus
- 3rd generation of improved clones
- Enhancing yields of eucalyptus plantations adapted to new climate change and plague local conditions



### Carbon sink

- Faster growth and higher density of eucalyptus vs. other wood species
- Our plantations annually remove 600.000 t of CO2 from the atmosphere
- Positive net balance of 92,000 t in 2021





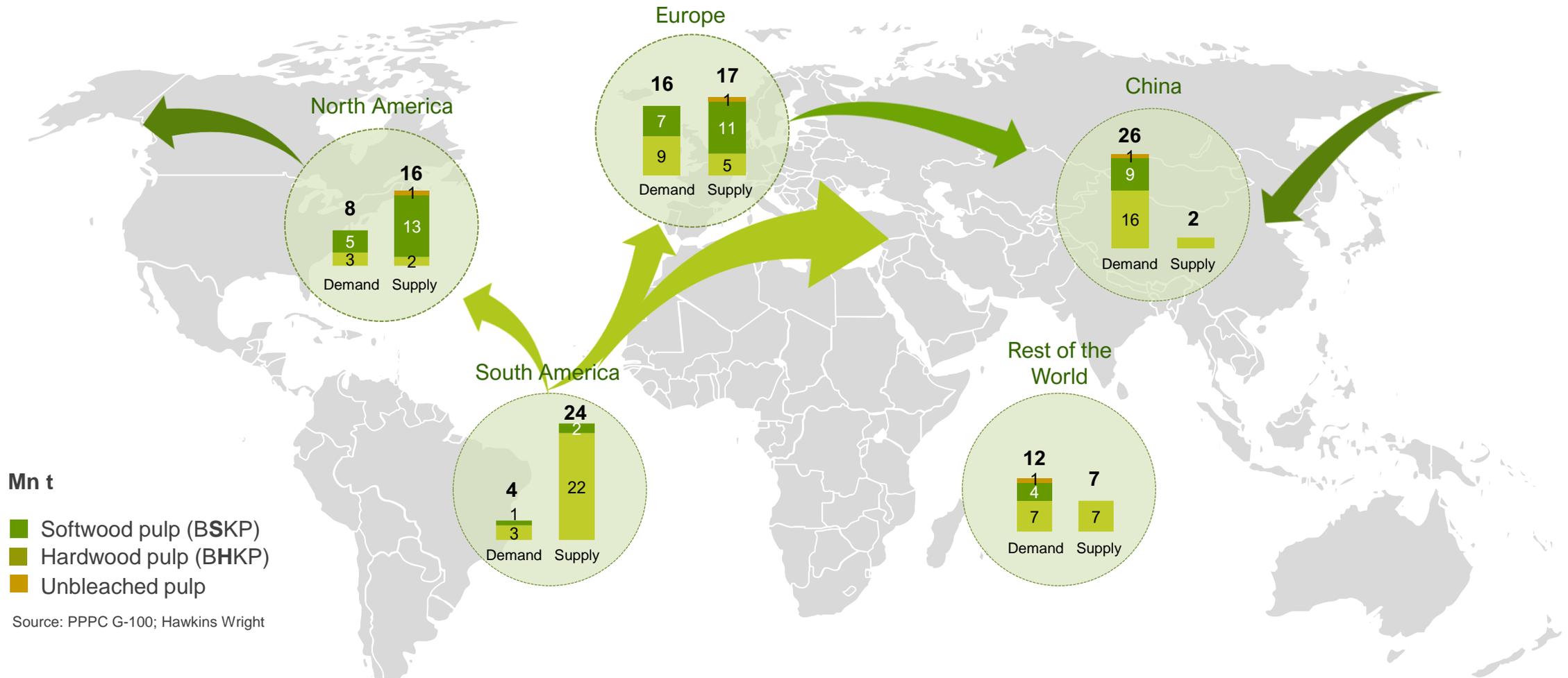
# 3 Pulp business

**Jordi Aguiló**  
CEO of the Pulp Business



# Global market pulp industry

66 Mn t in 2020



Europe and China are structural importers of BHKP due to the lack of local hardwood



# 80% of global pulp demand generated by growth segments

Driven by urban growth, global trade and plastic substitution



## Tissue & Hygiene Products

36 Mn t<sup>1</sup>

CAGR 2010 – 2020: +3.4%<sup>2</sup>

Tissue demand growth driven by:

- ✓ Urban population growth and
- ✓ Increasing living standards in emerging countries
- ✓ Post-pandemic consumption habits

Iberian hardwood pulp best suited for Tissue

13 Mn t<sup>1</sup>

## Printing & Writing



CAGR 2010–2020: -4.0% (-16% 2020)<sup>2</sup>

P&W secular decline driven by digitalization



## Packaging

7 Mn t<sup>1</sup>

CAGR 2009 – 2019: +2.1%<sup>3</sup>

Packaging growth driven by:

- ✓ Global trade
- ✓ E – commerce
- ✓ **Plastic products substitution**

9 Mn t<sup>1</sup>

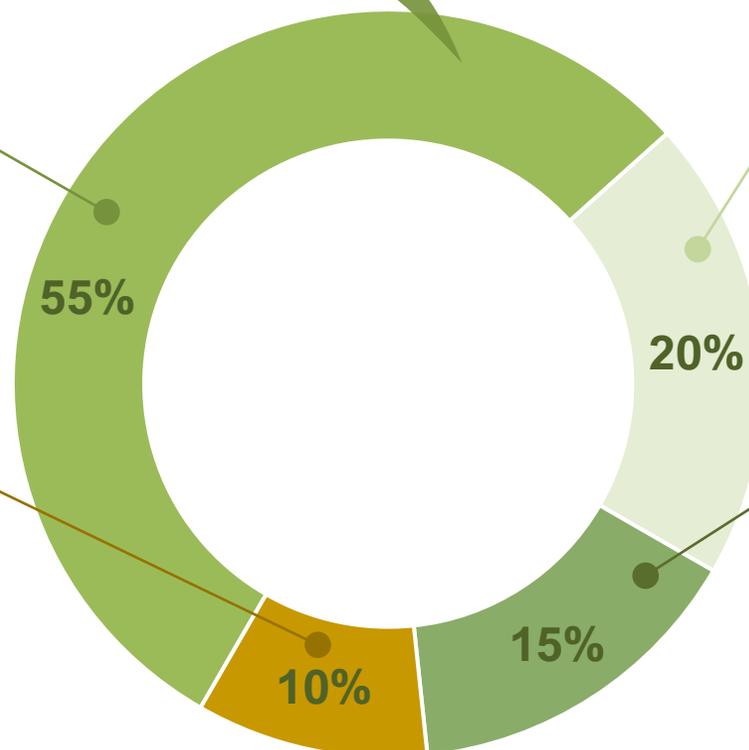
## Specialties



CAGR 2009 – 2019: +1.1%<sup>3</sup>

Specialties growth driven by:

- ✓ Industrial output
- ✓ Household consumption
- ✓ **Plastic products substitution**



2.9% annual market pulp demand growth in the last 10 years, equivalent to 1.6 Mn t per year

<sup>1</sup> Source: Ence  
<sup>2</sup> Source: PPPC  
<sup>3</sup> Source: RISI

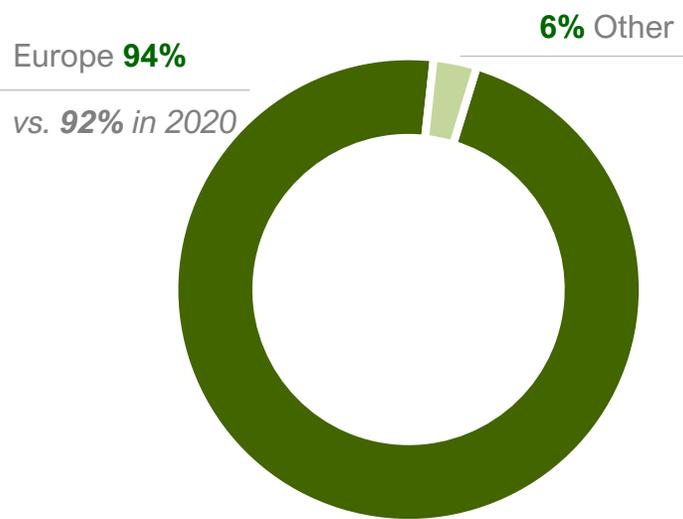


# Ence pulp sales: over 1 Mn t

Focus on Europe and on growing segments with differentiated products

## Geographical sales breakdown

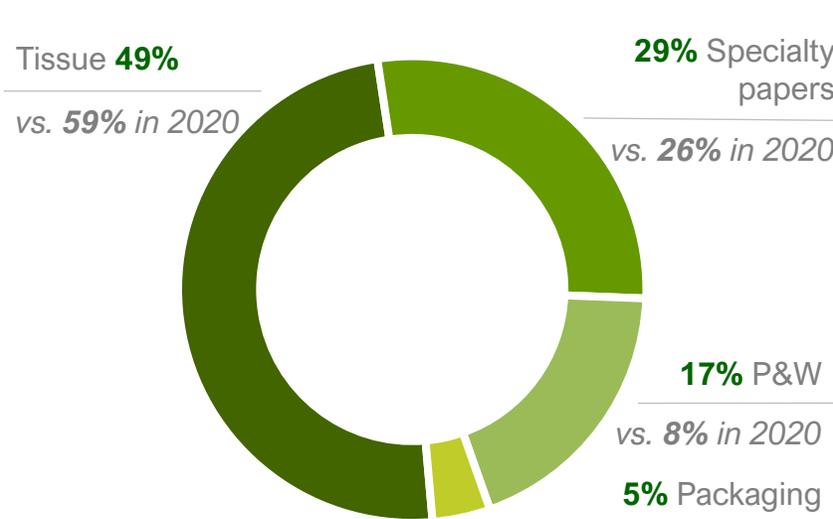
% of pulp sales



Source: Ence FY21

## Breakdown by end product

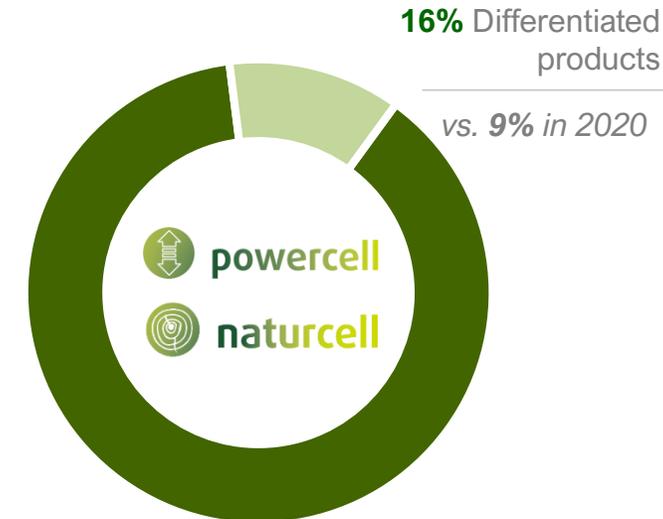
% of pulp sales



Source: Ence FY21

## Differentiated products

% of pulp sales

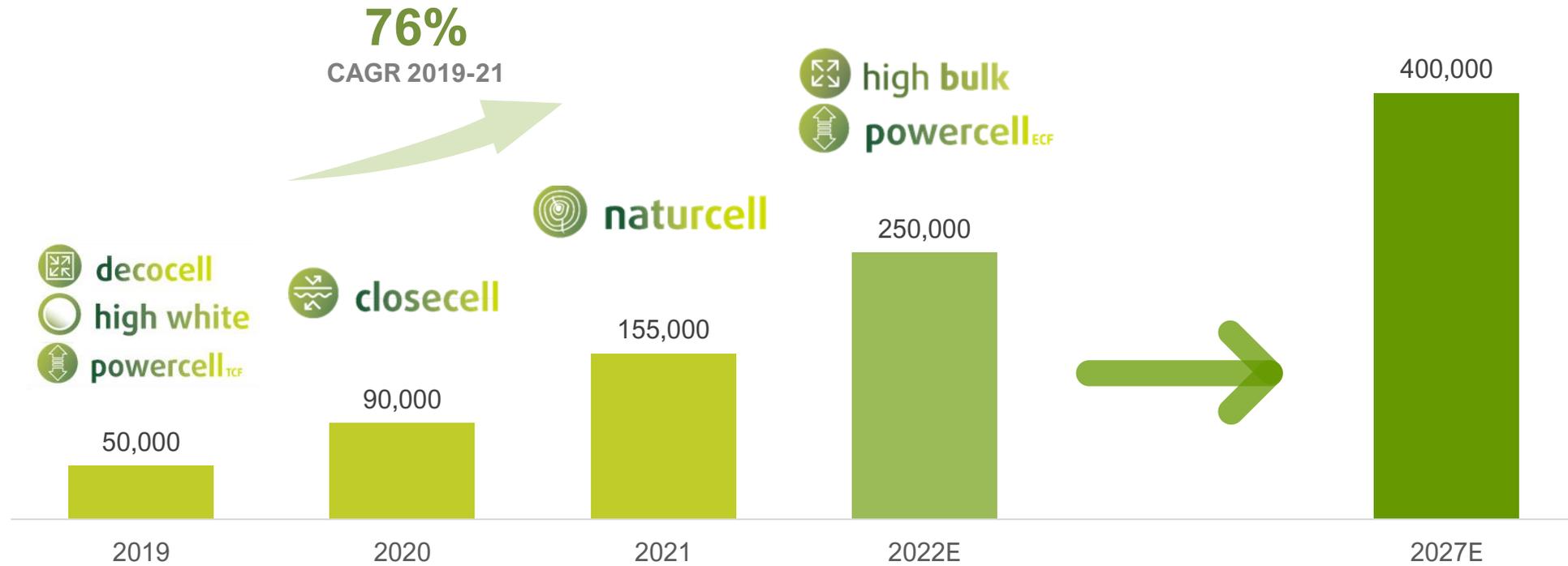


Source: Ence FY21

Ence's **differentiated products** accounted for **16% of pulp sales** (c,150.000 t) vs. 9% in 2020  
 These higher value-added products with higher margins are more environmentally friendly and well suited to replace softwood pulp



# Ence Advanced growing at a 76% CAGR with special products



Ence's special products have almost x3 during the period 2019-21 (76% CAGR) and expected to be at 400,000 in 2027



# Our strategy is to enhance Navia while defending Pontevedra

## Navia Excelente Project

### DIFFERENTIATED PRODUCTS

- Improvement of the eco-efficiency and flexibility of the differentiated pulp production in Navia to substitute softwood and plastic products

Capex (€ Mn)	15	2023
Substitution of BHKP (t)	+250,000 <sup>1</sup>	2022-27
Targeted incremental margin (€/t)	20	2022-27



### FLUFF

- To diversify Navia product range into Fluff pulp production for the absorbent hygienic products industry in Europe, substituting imported Fluff

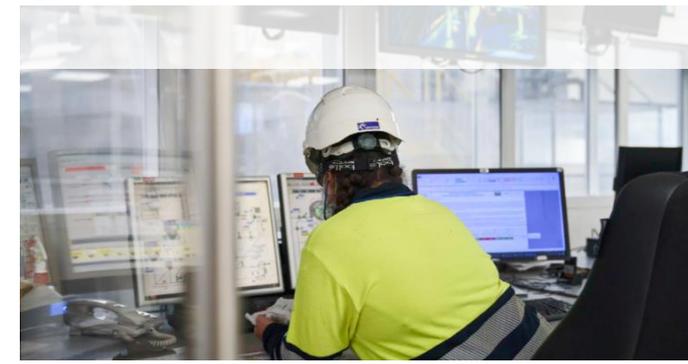
Capex (€ Mn)	30	2022-23
Substitution by Fluff (t)	100,000	2024-27
Targeted incremental margin (€/t)	40	2024-27



### DECARBONIZATION

- Promotion of the circular bio-economy through the use of lignin to replace natural gas as fuel in lime kilns and its use in high value-added products. Reduction of up to 50.000 tons of CO<sub>2</sub> emissions by 2027

Capex (€ Mn)	60	2022-24
Annual Pulp Production boost (t)	+30,000	2024-25
Navia cash-cost reduction (€/t)	5	2024-25



<sup>1</sup>Up to +400,000 by 2027 (+250,000 vs. 2021)



# 4. Renewable Energy Business

**Marc Gómez**  
CEO of the Energy Business

**Magnon**



# Spain will double its renewable installed capacity by 2030

A unique growth opportunity

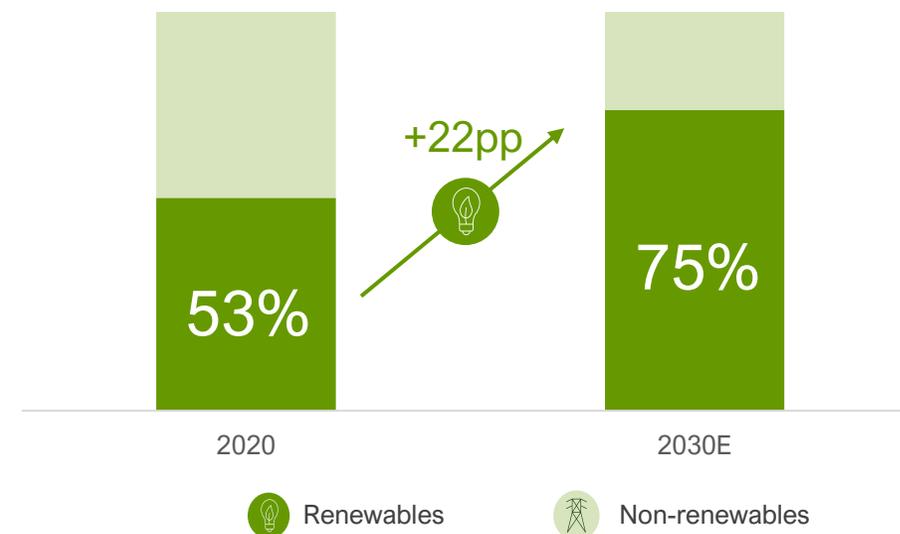


EU targeted energy from renewable sources by 2030... **32%**

Spain expected renewable energy to double by 2030<sup>1</sup>  
MW

Technology (MW)	2020	2025E	2030E
Wind	28,033	40,633	50,333
Solar PV	9,071	21,713	39,181
Hydraulic	14,109	14,359	14,609
Pumping	6,024	6,899	9,524
Solar thermoelectric	2,303	4,803	7,303
Biomass	613	815	1,408
Biogas & Other RES	211	281	321
<b>Total (MW)</b>	<b>60,364</b>	<b>89,503</b>	<b>122,679</b>

Spain renewable electric energy share to rise >20pp by 2030<sup>1</sup>  
In % of total MW



<sup>1</sup>Source: Draft of the Integrated National Energy and Climate Plan 2021-2030

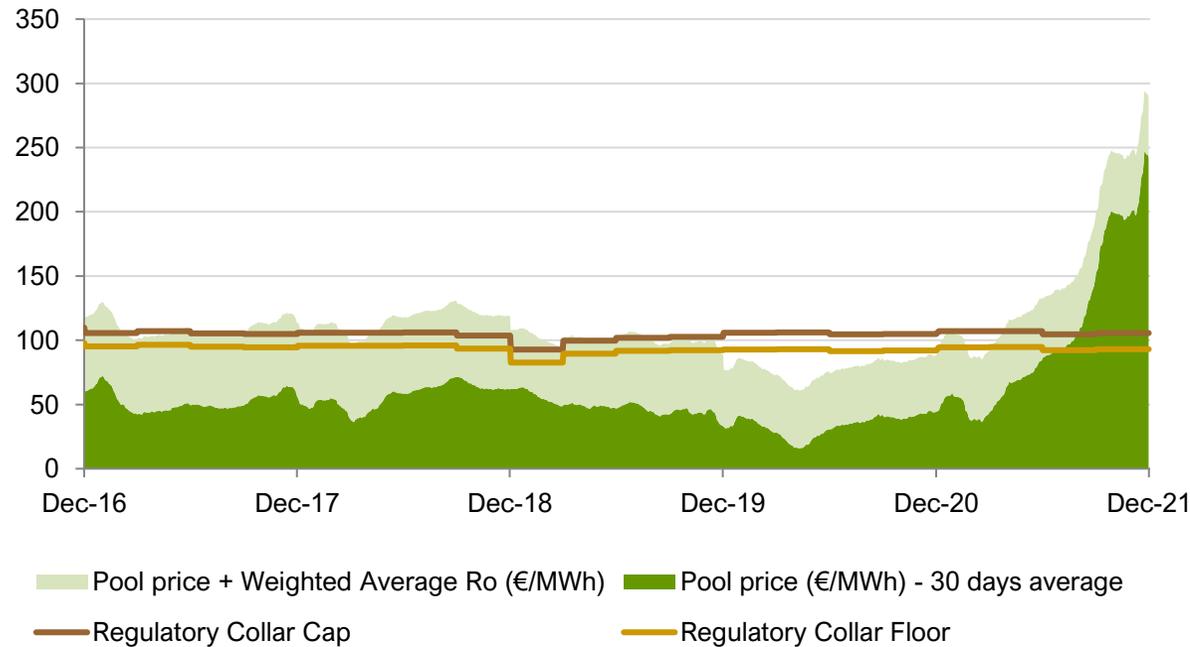


# A regulated business

Estimated annual EBITDA of €50 - 70 Mn at the regulated price bands

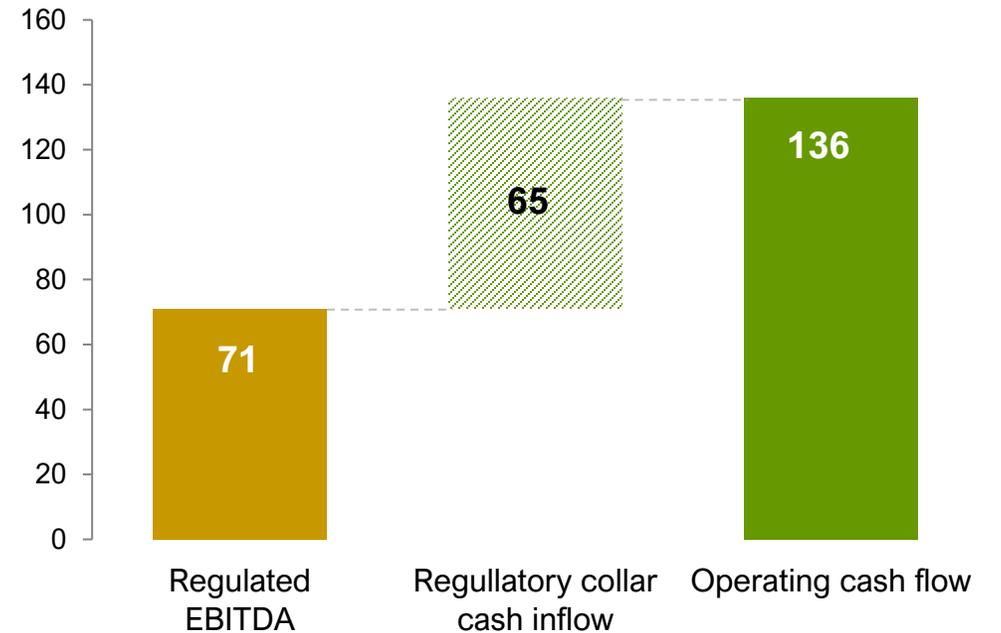
## Regulated Revenues (€/MWh)

Energy market price + Return on the operations (Ro) + Regulatory Collar



## Cash inflows 2021 (€ Mn)

(€ Mn)



1. Annual return on investment of our power plants amounts to €41 Mn
2. Additional EBITDA of €10-30 Mn at the regulated sales price bands

- Additional cash inflow in 2021 from the difference between the electricity market price and its regulated price (regulatory collar)



# Biomass pipeline

140 MW

**PUERTOLLANO II 50 MW**

Biomass



Environmental permit

**ALMERÍA 40 MW**

Biomass



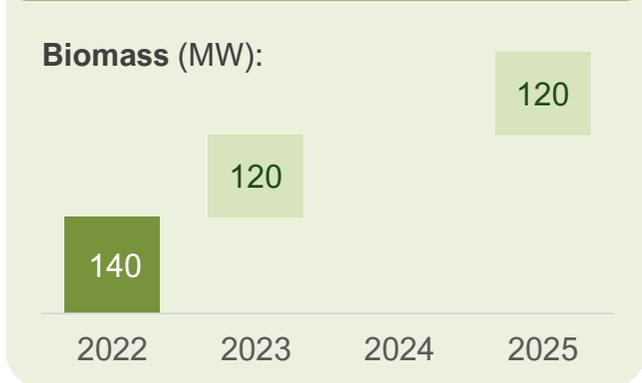
**CÓRDOBA 50 MW**

Biomass

State of the art, low cost biomass projects and an example of fair energy transition



## Biomass Auction calendar 2022-2025



## Biomass Auctions Scheme

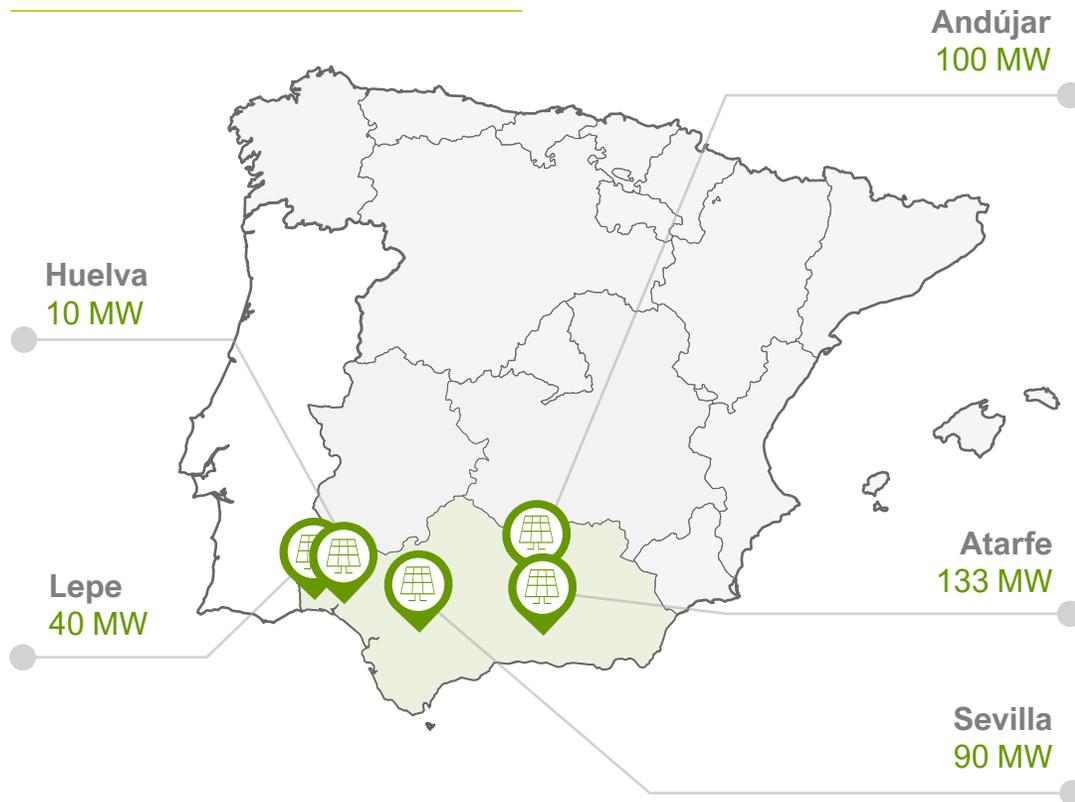
- 20-year regulatory life
- 85% Pay as bid (€/MWh)
- 15% Energy market price



## PV pipeline

373 MW + 300 MW at an early stage

### Portfolio location



### Sale agreement for 373 MW Solar PV asset portfolio

- €62 Mn sale price for 5 PV assets with combined capacity of 373 MW
- Estimated capital gain of over €50 Mn
- To be closed between 2022-24 upon RTB status being reached

### Projects Timeline



Ence Energía has **additional PV projects with a combined capacity of 300 MW** at an early-stage of development



# Further growth opportunities

## Energy management / energy storage

### Energy management

- Biomass renewable energy is dispatchable by definition, what is a great support for the system
- Ence is already working in Secondary and Tertiary Regulation in all the Biomass plants



### Energy storage

- Massive deployment of renewable energy into the Spanish mix will require storage solutions (2.5 GW by 2030 as per PNIEC) to stabilize the grid and store renewable energy produced at low pool (or zero) prices.
- Ence is analysing several alternatives (batteries, molten salts and gas/compressed air) to be deployed at our sites if economics are viable.



Energy management should lead into a €5 Mn EBITDA improvement in 2022 - 2025

# 5. Financial Outlook

**Alfredo Avello**  
CFO & Chief Forestry Officer  
Ence Energía y Celulosa



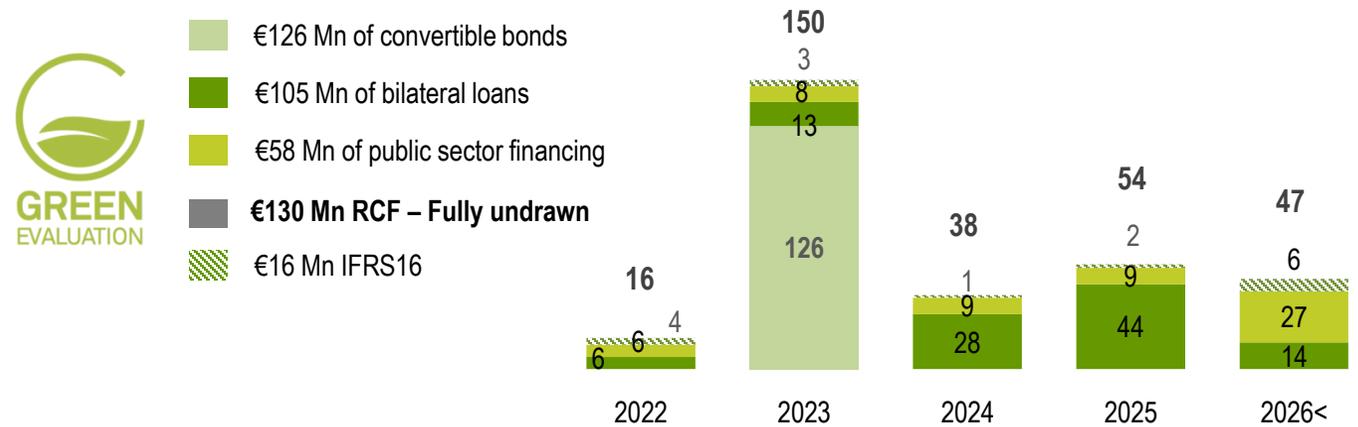
# Strong financial position

## Prudent leverage policy per business

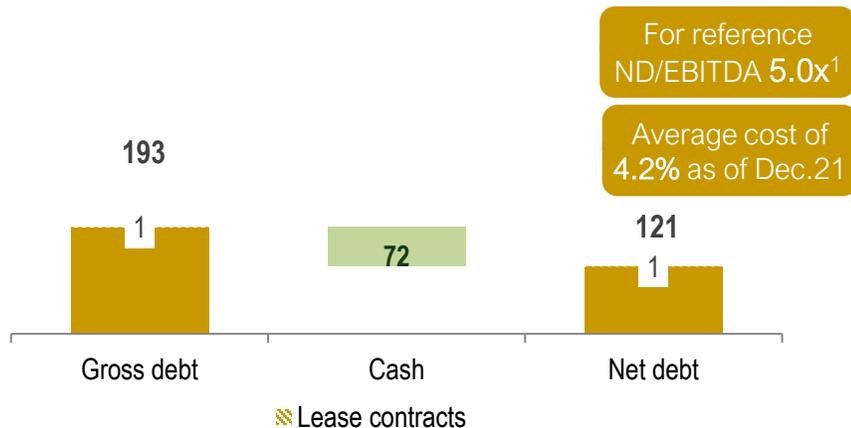
Pulp business net debt as of 31 Dec. 2021 (€ Mn)



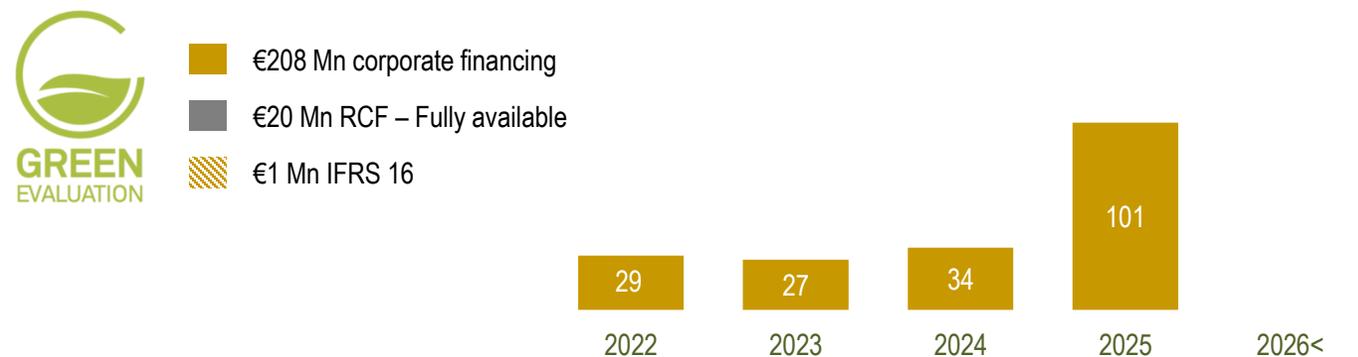
Pulp business debt maturity schedule (€ Mn)



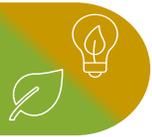
Renewables business net debt as of 31 Dec. 2021 (€ Mn)



Renewables business debt maturity schedule (€ Mn)



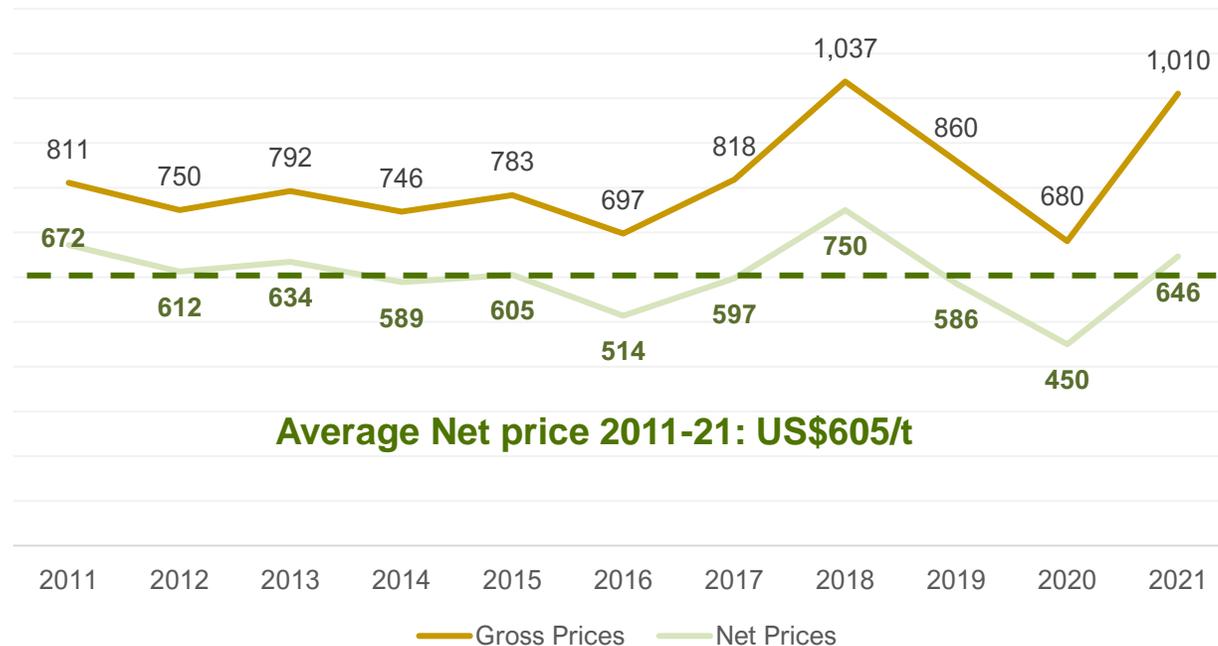
<sup>1</sup>EBITDA calculated at mid cycle prices



# Average net pulp price 2011-2021 of US\$605/t and expected to continue the trend for the period 2022-25

## BHKP Pulp Prices Europe US\$/t

Sources: - Annual average FOEX gross price in Europe  
- Net price provided by Ence



## Avg. annual BHKP Price Europe Consensus as of February 2022, in US\$/t

Source: RISI, Hawkins Wright, Brian McClay



Financial projections based on last industry specialists' consensus which are expecting average net prices for the next years



# We have prudently assumed in our projections a stable pool price of 48 €/MWh as from 2Q22



## Implications for the Energy business

- 41 MW biomass power plant in Huelva
- 16 MW biomass power plant in Jaén
- 16 MW biomass power plant in Ciudad Real
- 14 MW biomass power plant in Cordoba
- 13 MW gas cogen plant in Cordoba
- 50 MW biomass power plant in Huelva
- 20 MW biomass power plant in Mérida
- 46 MW biomass power plant in Huelva
- 50 MW biomass power plant in Ciudad Real



A pool price in excess of 48 €/MWh will imply additional cash inflows vs. our projections for Ciudad Real 50 MW and Huelva 46 MW plants as well as anticipated cash inflows for the rest of the plants



## Implications for the Pulp business

- 40 MW lignin power plant in Navia
- 35 MW lignin power plant in Pontevedra
- 37 MW biomass power plant in Navia



Our pulp bio-mills sell all their renewable energy at the market pool price plus a feed-in tariff of 28 €/MWh. At the same time, they purchase back approximately the same amount of energy at the same price (**natural hedge**). An average pool price in excess or below the assumption of 48 €/MWh wouldn't affect their margin or cash flow contribution.

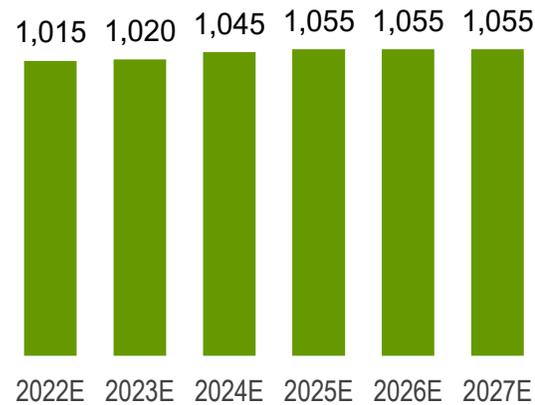


A pool price in excess of 48 €/MWh will imply anticipated cash inflows vs. our projections

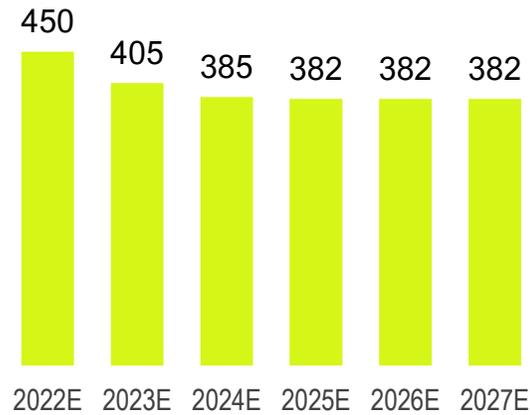
**Our pulp business has a natural physical hedge in energy**

# Our core strategy is to implement Navia Excelente and maintain Pontevedra fully operational

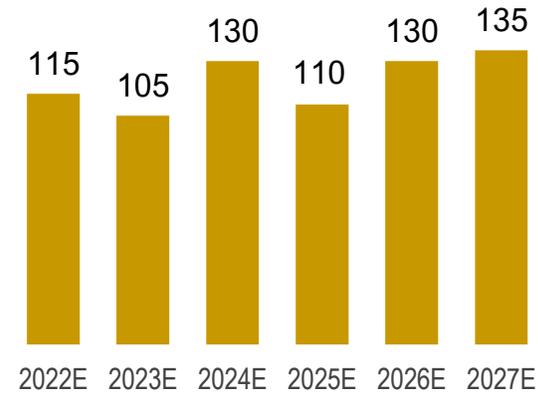
Pulp production ('000 t)



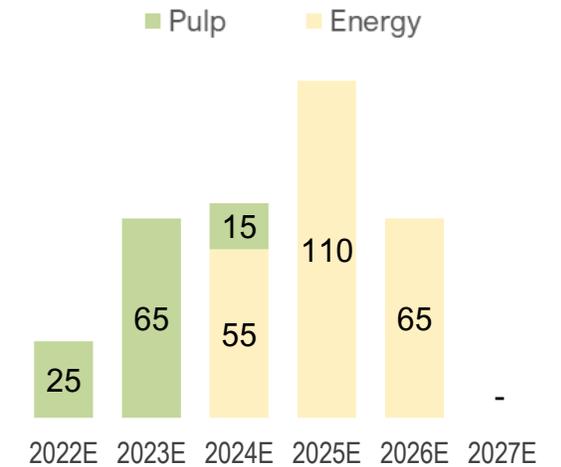
Cash cost (std. BHKP) (€ Mn)



FCF<sub>ex</sub> new project capex<sup>1</sup> (€ Mn)



New projects capex<sup>2</sup> (€ Mn)



Main PULP KPIs	2022E	2023E	2024E	2025E	2026E	2027E
BHKP price (\$/t)	1,107	926	930	936	945	945
Exchange rate (\$/€)			1.16			
Discount (%)			36%			

Main ENERGY KPIs	2022E	2023E	2024E	2025E	2026E	2027E
Price (€/MWh)	100			48 <sup>3</sup>		
Energy sales (GWh)	1,600	1,600	1,600	1,600	1,825	2,200

<sup>1</sup>FCF before new projects capex, financing and dividends. It does not include any potential regulatory collar cash-inflow in 2022

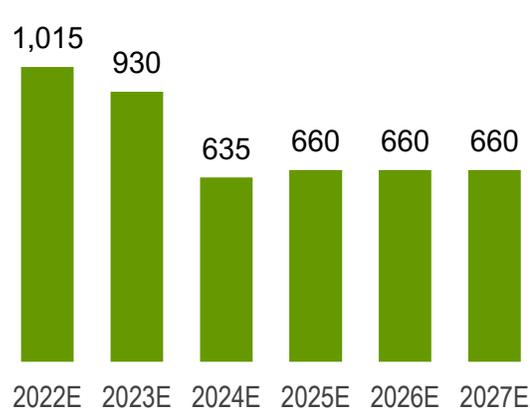
<sup>2</sup>Includes Navia Excelente project and two Biomass plants

<sup>3</sup>48 €/MWh as from 2Q22 - within the regulatory collar bands

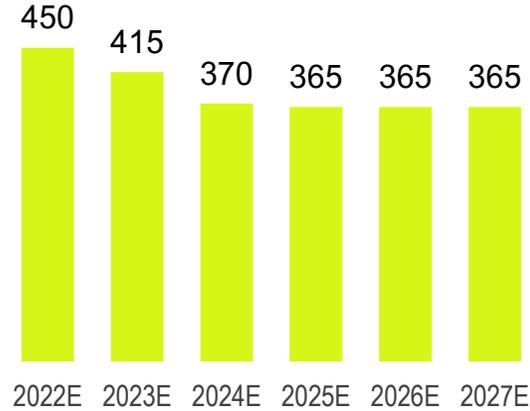


# Even if we are obliged to close Pontevedra, we would continue to generate substantial free cash flow

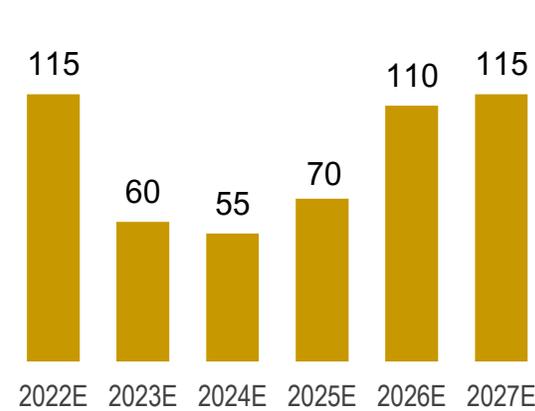
Pulp production ('000 t)



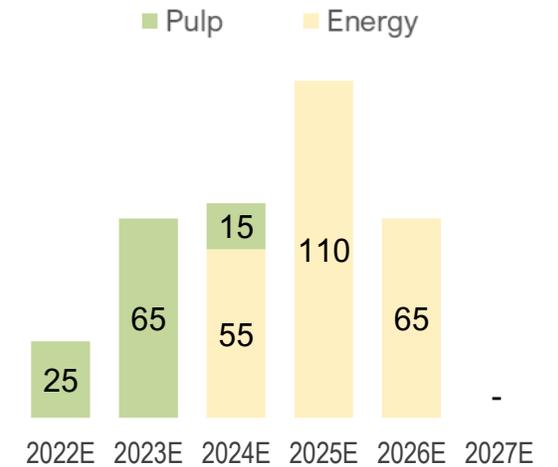
Cash cost (std. BHKP) (€ Mn)



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<sup>2</sup>Includes Navia Excelente project and two Biomass plants

<sup>3</sup>48 €/MWh as from 2Q22 - within the regulatory collar bands



# Moreover, if we are obliged to close Pontevedra, we will further expand Navia production



## Navia 100

Annual FCF  
€15m<sup>1</sup>

Build a new line at Navia mill with a capacity of 100,000 t of Hardwood Paper Grade Pulp (BHKP) using equipment from the potential dismantling of Pontevedra mill

Capacity increase (t)	+100,000	2026-27
Cash Cost reduction (€/t)	10	2026-27
Capex (€ Mn)	100	2024-25



## Navia 340

Annual FCF  
€45m<sup>1</sup>

Build a new swing line at Navia mill with a capacity of 340,000 t of Hardwood Paper Grade Pulp (BHKP) or alternatively up to 200,000 t of Dissolving Pulp for viscose fiber products

Capacity increase (t)	+340,000	2026-27
Cash Cost reduction (€/t)	15	2026-27
Capex (€ Mn)	450	2024-26



Annual FCF<sup>1</sup> contribution from Pontevedra would be more than offset by Navia Excelente and any of these two projects

<sup>1</sup> Estimated annual FCF contribution before financing and assuming mid cycle pulp prices

# 6 - Closing Remarks

**Ignacio Colmenares**  
CEO Ence Energía y Celulosa



# Russia only represents 3%<sup>1</sup> of the market pulp industry

Over 60% of their pulp exports to China

## Market pulp industry

'000 t	Annual Imports	Annual Exports
	2021	2021
Softwood Pulp	208	1,217
Hardwood Pulp	56	273
Other	14	665
<b>Total</b>	<b>279</b>	<b>2,156</b>

## Paper industry

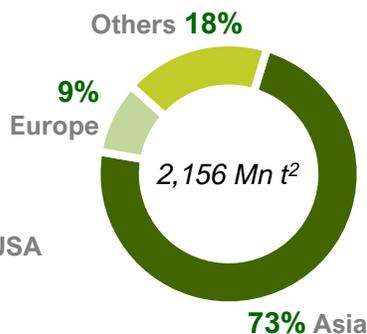
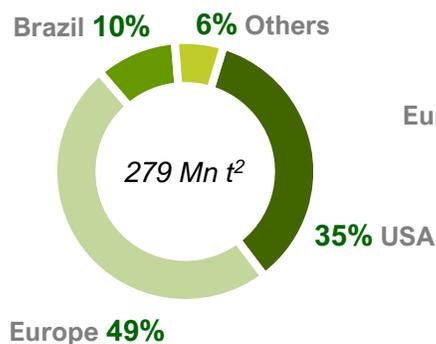
'000 t	Annual Imports	Annual Exports
	2021	2021
Packaging	253	2,225
Newsprint	3	922
P&W	833	455
Tissue	8	61
<b>Total</b>	<b>1,097</b>	<b>3,663</b>

## Wood industry

'000 t	Annual Exports
	2021
Softwood	8,115
Hardwood	8,195
SW lumber	29,000
Pellets	2,425
<b>Total</b>	<b>47,735</b>

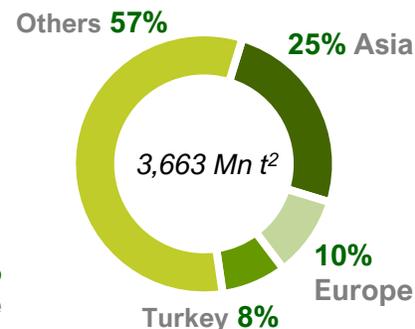
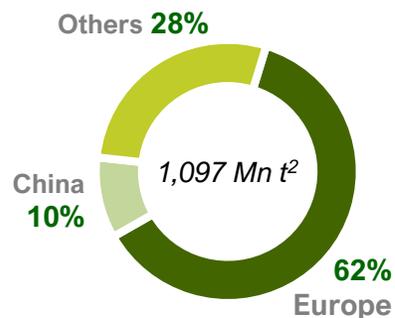
Russia's pulp imports breakdown

Russia's pulp exports breakdown



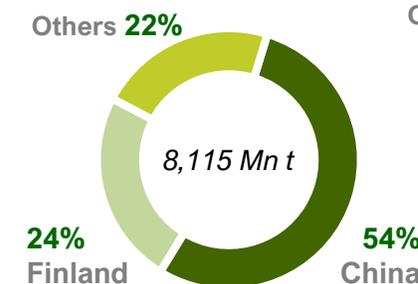
Russia's paper imports breakdown

Russia's paper exports breakdown



Russia's softwood exports breakdown

Russia's hardwood exports breakdown



Source: Hawkins Wright Pulpwatch 28<sup>th</sup> volume (4 March 2022)

<sup>1</sup>In 2020, Pulp global demand amounted to 66 Mn t

<sup>2</sup>Breakdown percentages are averages of the 2012-2021 period



## Ence has no direct exposure to the Russian-Ukrainian conflict



No direct exposure to the Russian-Ukrainian conflict  
Furthermore, Ence faces this situation with high liquidity and a strong financial position



## New dividend policy

Based on free cash flow and subject to prudent leverage ratios per business

Capital  
Markets  
Day



### x3 Annual payments

1. First interim dividend agreed at the **end of the first semester**
2. Second interim dividend agreed at the **end of the third quarter**
3. A final dividend approved by the **AGM**



### Amount based on cash available for distribution

Ensuring a reference leverage of:

**2.5x** Net Debt / EBITDA for the **Pulp business**, at average cycle prices

**5.0x** Net Debt / EBITDA for the **Energy business**, at average cycle prices

And considering capex plans and commitments



## Closing remarks

Ence...

Capital  
Markets  
Day



1

...operates in industries powered by **long-term structural growth** drivers

2

...enjoys significant **competitive advantage** in both Pulp & Renewable Energy

3

...adopts **NAVIA EXCELENTE Strategy** to develop Navia & defend Pontevedra Concession

4

...has multiple **value-creation opportunities + projects** to pursue with a **strong balance sheet**

5

...will **discontinue its hedging activity** from 2022 onwards => minimal impact beyond 2021

6

...is confident in its ability to **sustain strong cash generation** in future years

7

...recently reset its **dividend policy** to better align shareholder returns with underlying cash generation

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](http://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 all 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, before hedges, which are also not included in the cash cost.

### EBITDA

EBITDA is a measure of operating profit before depreciation, amortisation 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.

EBITDA is a measure used by Ence's management to compare the ordinary results of the company over time. It provides an initial proxy for 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.

### 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.

### MAINTENANCE, EFFICIENCY & GROWTH AND SUSTAINABILITY CAPEX

Ence provides the breakdown of its capital expenditure and related cash outflows for each of its business units in its quarterly earnings report, distinguishing between maintenance, efficiency & growth and sustainability 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, sustainability capex covers investments made to enhance quality standards, occupational health and safety, to improve the environment and to prevent contamination.

Ence's 2019-2023 Business Plan includes a schedule of the amounts it expects to invest annually in efficiency & growth and sustainability capex in order to attain the strategic targets set. The disclosure of capex cash flows broken down by area of investment facilitates oversight of the 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 the 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 recognised 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 as well as loans with Group companies and associates.

Net debt is calculated as the difference between current and non-current borrowings on the liability side of the balance sheet together with the sum of cash and cash equivalents, cash for financial debt coverage 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.



**MSCI**  
ESG RATINGS



CCC B BB BBB A AA AAA



Global ESG score:  
91/100



FTSE4Good

# Delivering value Delivering commitments

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