



Disposal of the Project Punta Pereira  
18 May 2009

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- 1 Transaction Overview
  - 2 Transaction Rationale
  - 3 Pulp Business in Spain:  
Integrated Competitive Business Model
  - 4 Conclusion
- Annex



# 1 Transaction Overview

# Transaction Overview (I)



Sale process structured through a **broad auction**, inviting **19** of the largest sector players...

## Key Terms

- Project sold to two “tier one” industrial players in the sector: Stora Enso and Arauco
- All-cash, at an EV of sold assets of USD340m (equivalent to €251m<sup>(1)</sup>)
  - Retention of selected assets
- USD317m in cash proceeds for ENCE (equivalent to €234m<sup>(1)</sup>)

## Key Dates

- Share Purchase Agreement signed in May 17<sup>th</sup>, 2009
- Expected closing in third quarter 2009

## Additional Considerations

- Approved by respective Boards of Directors
- No foreseen regulatory risks in Uruguay
- Fast execution with no business disruption

(1) Exchange rate assumption of EUR/USD 1.3556

## Transaction Overview (II)



... to maximise value for ENCE shareholders amid a **challenging** sector and financial markets environment

### Assets Sold

- 100% stake in the pulp mill project located in Punta Pereira, Uruguay, and part of its related forest asset base
- Industrial assets: Free trade zone and mill site in Punta Pereira, and pulp mill project
- Forest assets located in the Western Coastal and Central regions (128.2 k gross hectares owned and 11.3 k gross hectares under consortia/lease agreements<sup>(1)</sup>)
- Other assets: M' Bopicuá logistics terminal

### Assets Excluded

- Forest assets located in the Atlantic Region (25.8 k gross hectares owned and 3.8 k gross hectares under consortia/lease agreements<sup>(1)</sup>)
- 200 k m<sup>3</sup> of wood inventories ready for exportation
- Peñarol export chipping terminal (Montevideo)

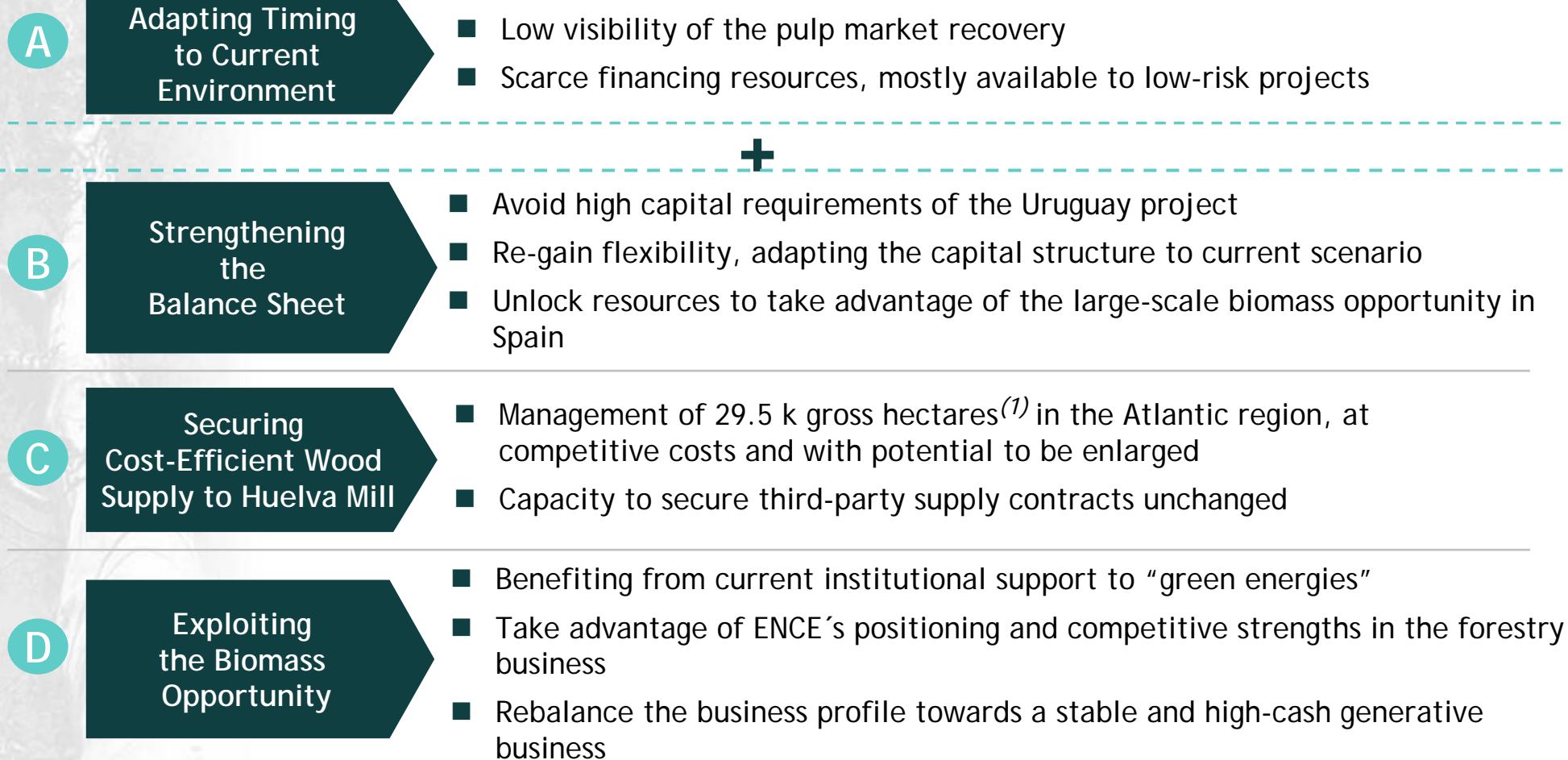
High quality-high liquidity assets offer additional value and flexibility

(1) Based on a 65% plantable rate



## 2 Transaction Rationale

# Transaction Rationale: Prioritizing Business Opportunities



Re-allocation of resources in light of medium term outlook to focus on the biomass opportunity in Spain

(1) Based on a 65% plantable rate for land under consortia/leased agreements

# Transaction Rationale: Prioritizing Business Opportunities

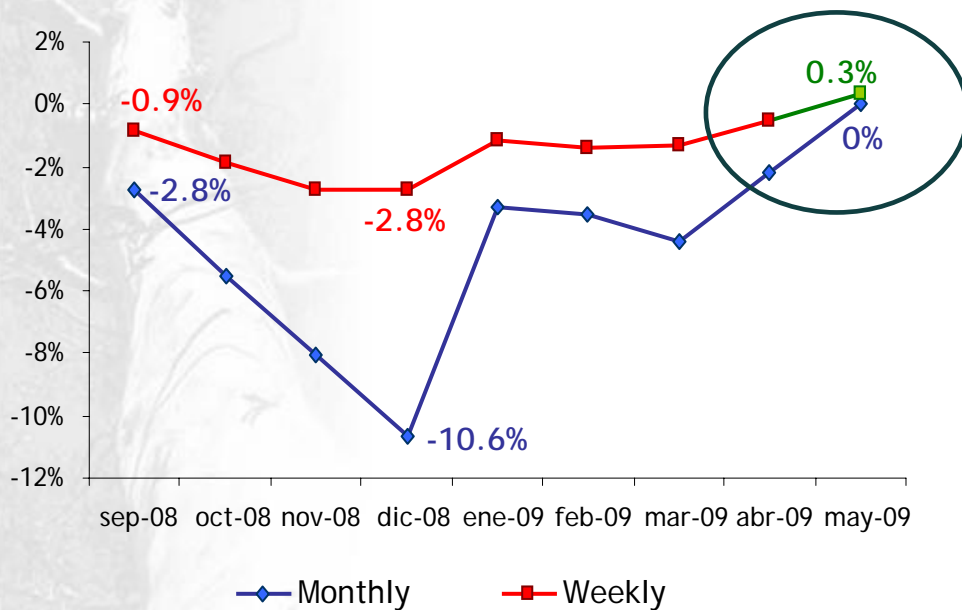


## A Adapting Timing to Current Environment: Address Low-Risk Business Opportunities in a Low-Visibility Scenario

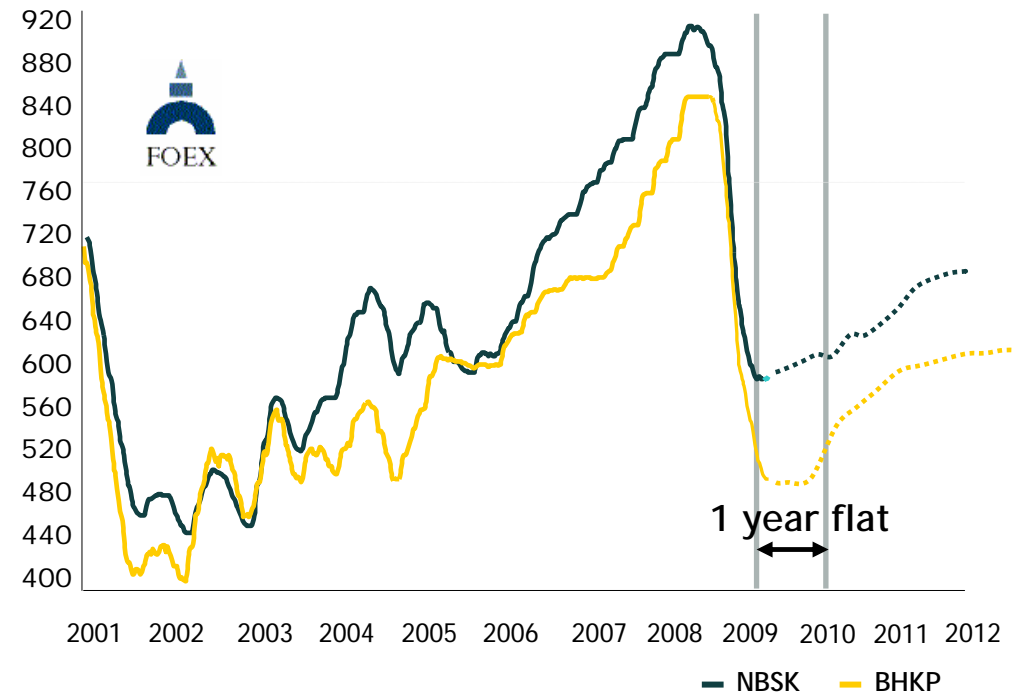
There are signs the pulp market has bottomed ...

...although no recovery is foreseen in the short term

PIX BHKP  
Drop evolution Sep 08-May 09



Price Evolution NBSK-BHKP (USD/Tn)



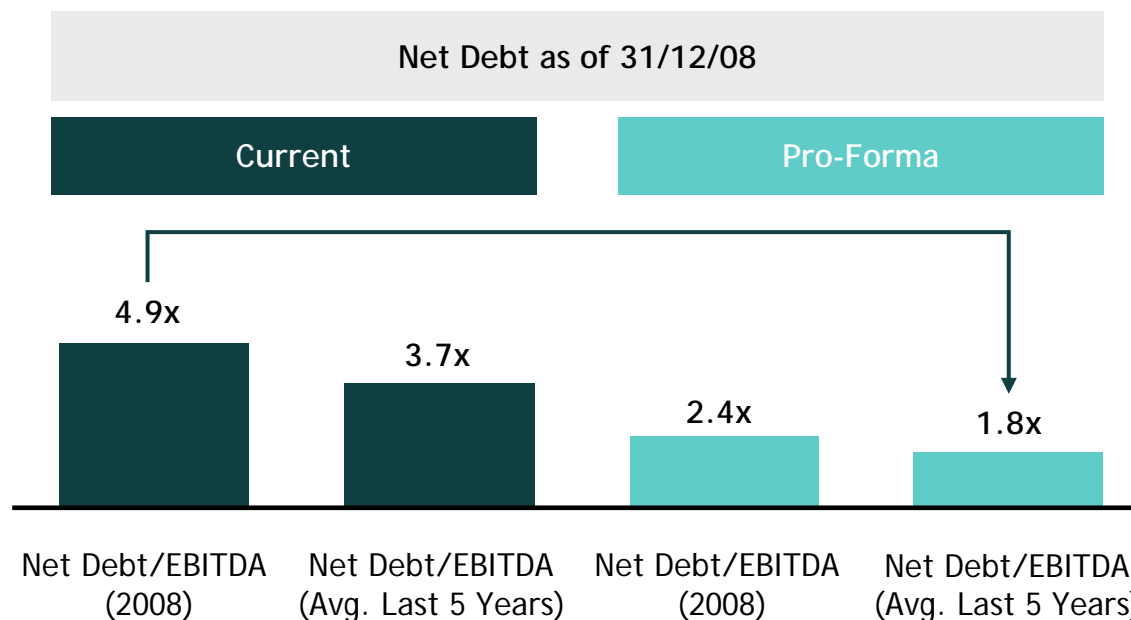
Current weak financial markets but still open to finance low-risk regulated projects

# Transaction Rationale: Prioritizing Business Opportunities



## B Strengthening the Balance Sheet: Adapting to Market Conditions

Strong Improvement of Current Leverage Ratios...



Devote 100% of transaction proceeds to balance sheet flexibility

...and Enhancement of Future Cash Flow Profile

- Avoid high capital expenditures linked to the development of the project
- Improved forward-looking debt profile of the company
- Reduced credit risk
- Enhanced flexibility in current adverse environment being ready to face more secure projects already identified

# Transaction Rationale: Prioritizing Business Opportunities



## C Securing Cost-Efficient Wood Supply to Huelva Mill: Keeping an Efficient Export Asset Base in the Region



### Key Metrics

#### Forest Assets ...

- Gross hectares under management: 29.5 k
  - Owned hectares: 25.8 k
  - Leased hectares: 3.8 k<sup>(1)</sup>
- Current available volume to be harvested: 1 Million m<sup>3</sup>
- Run-rate wood production: 395 k m<sup>3</sup>/year

#### ... based on *E. Globulus*

- Preferred Eucalyptus species for the Spanish pulp mills
- Excellent pulp quality properties
- Great adaptability to the region, with productivity yields of 20 m<sup>3</sup>/ha./year, doubling Spanish levels
- R&D of *E. globulus* in Spain fully applicable to the region

#### Peñarol Terminal

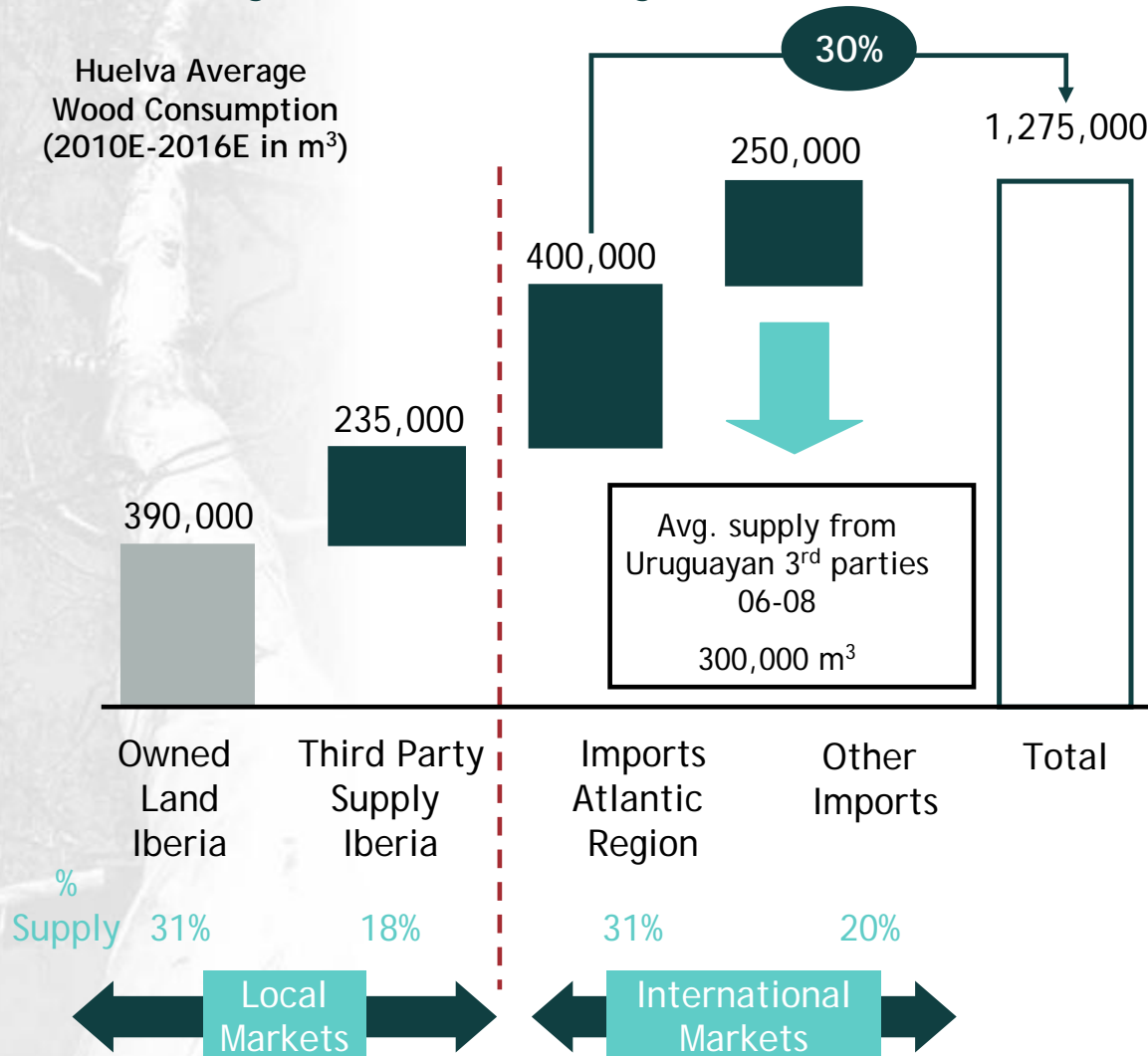
- Log area: 3 hectares
- Chipping area: 4 hectares
- Chip mill capacity: 400,000 m<sup>3</sup>/year

(1) Based on a 65% plantable rate

# Transaction Rationale: Prioritizing Business Opportunities



## C Securing Cost-Efficient Wood Supply to Huelva Mill: >60% of Total Import Needs Through the Atlantic Region



- 100% of 2009 supply secured through:
  - 200 k m<sup>3</sup> of wood inventory available at Peñarol & Atlantic region
  - Third party local suppliers
- 80% of average yearly supply need until 2016E coming from local markets and Atlantic region owned assets in Uruguay
- Capacity to close third party wood contracts in Uruguay unchanged

**Estimated wood cost at mill gate around €70/m<sup>3</sup> (1)**

(1) Cost to the Huelva port

# Transaction Rationale: Prioritizing Business Opportunities



## D Exploiting the Biomass Opportunity: Benefiting from an Sector in Expansion with Governmental Support

### Support from Macroeconomic Environment

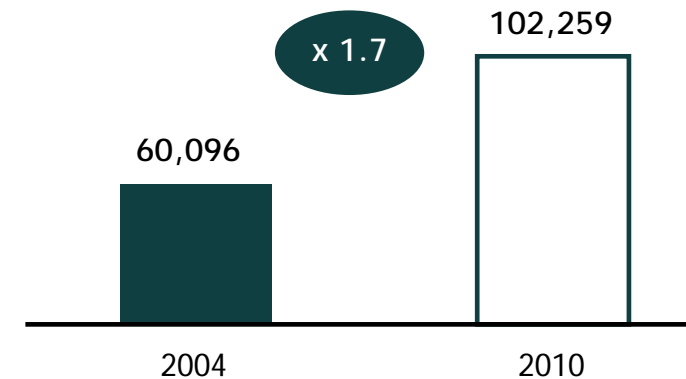
- Many factors justify the strong support to renewable energies
  - Growing concerns for supply from traditional energy sources
  - Volatile commodity price framework
  - Increasing environmental awareness

### Support from Institutional Guidelines

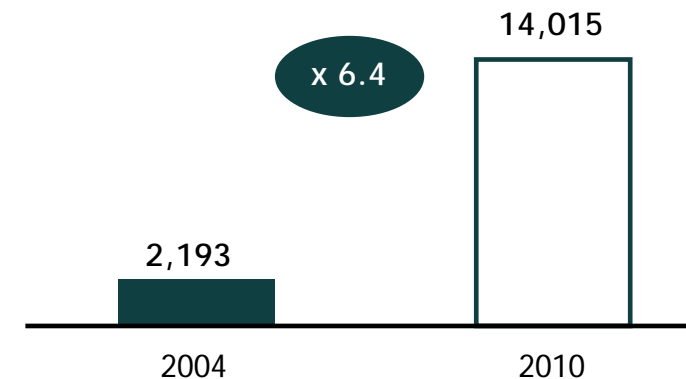
- Spain is far from 2010 biomass target and needs to fill the gap in biomass in the next future, since other renewables have exceeded targets
- 20-20-20 European regulation pushing biomass and biofuels strongly
  - Spain is currently adapting the EU regulation to a 2011-2020 renewable plan

ENCE is a player of reference as it manages 55% of total biomass generation in Spain

Renewable Energy in Spain  
Production GW/h  
(Scenario PER 2005-2010)



Biomass production in Spain  
Production GW/h  
(Scenario PER 2005-2010)



# Transaction Rationale: Prioritizing Business Opportunities



## D Exploiting the Biomass Opportunity: ENCE's Unparalleled Skills to Shape the Natural Leader in Biomass in Spain

ENCE is currently the **largest private forest owner** in Spain, with options to transform sub-optimal plantations into energy crops

Proven **track-record in forestry** related activities, building on the capabilities of a **dedicated silviculture team**

**Direct access to biomass** from third party suppliers as part of current wood supply chain

**Distinctive expertise in R&D**, fully applicable to energy crops (yield improvements and higher caloric value)

50,000 owned hectares

80% of biomass supplied from third parties

>10k has. planted with energy crops

Experimental plots in 31 has.

13 species being evaluated

Existing nursery for 8 million energy crops plants

Current industrial activity and presence yields synergies and strong institutional relationships in key regions

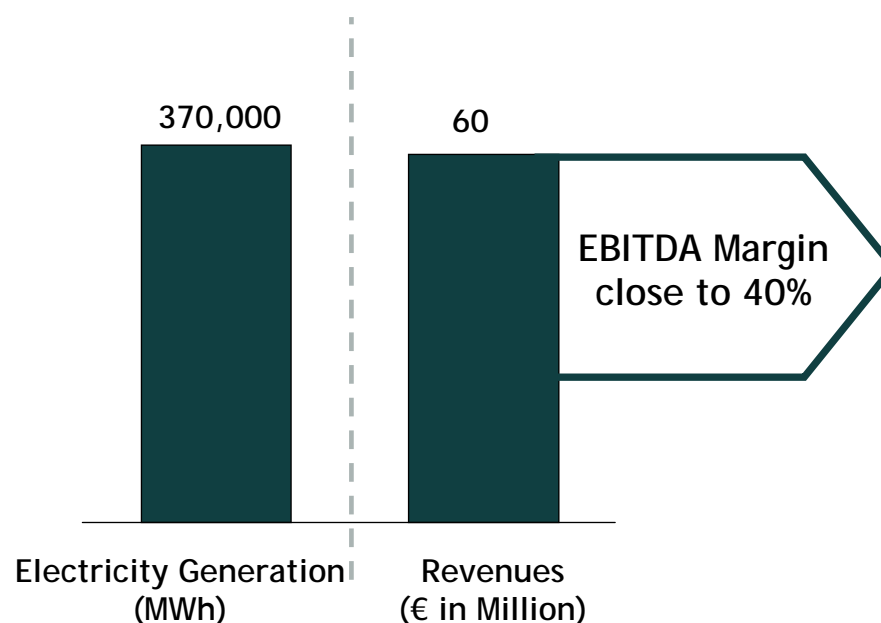
# Transaction Rationale: Prioritizing Business Opportunities



## D Exploiting the Biomass Opportunity: Starting with 50MW in Huelva within a Comprehensive Pipeline of Projects

- **Supply of energy crops**
  - 9k has. transformed into energy crops
  - Dedicated team to expand land available
  - 6 months of biomass consumption already in stock (225,000 Tons)
- **Equipment vendor agreements**
  - Major components already contracted
  - Boiler (Andritz) and turbine (Siemens)
- **Administrative Authorizations**
  - Main administrative authorisations already granted, grid connection in particular
- **Financing**
  - Early round under way
  - €80m total industrial capex, out of which €18m already spent
  - €6m additional equity contribution for a 70%-30% project finance

50 MW Huelva Project - Key Metrics (run-rate)<sup>(1)</sup>



Operational in H2 2010

(1) Excluding inflation adjustment to prices

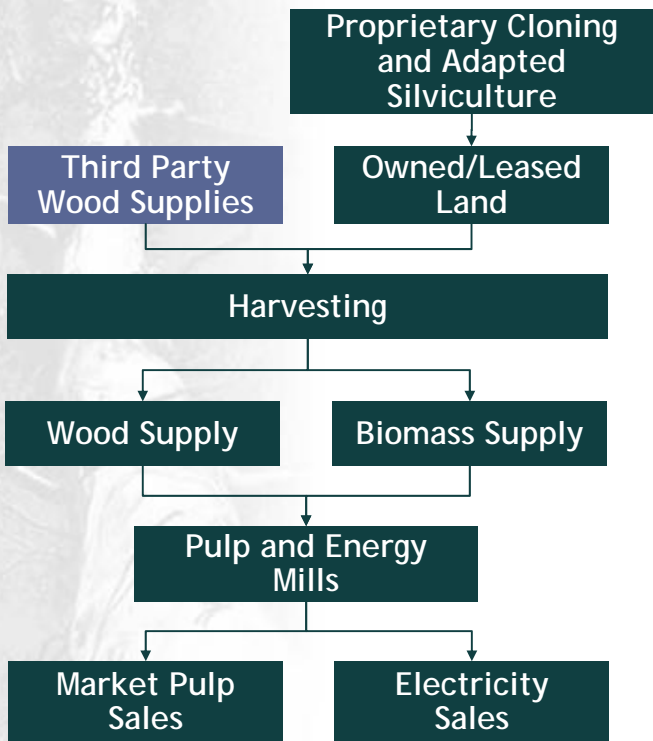


## **4 Pulp Business in Spain: Integrated Competitive Business Model**

# Pulp Business in Spain: Integrated Competitive Business Model of Pulp and Energy Production...



## Integrated Business Model



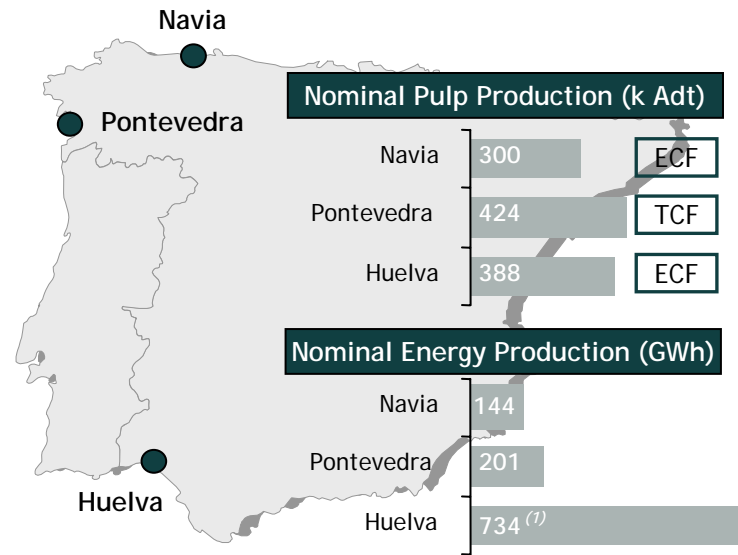
■ ENCE's Core Activities



Higher efficiencies of pulp operations & Better optimization of energy potential



## 2008



1.1m Tn of pulp & 1.1m MWh of electricity production per year

(1) Includes cogeneration with gas

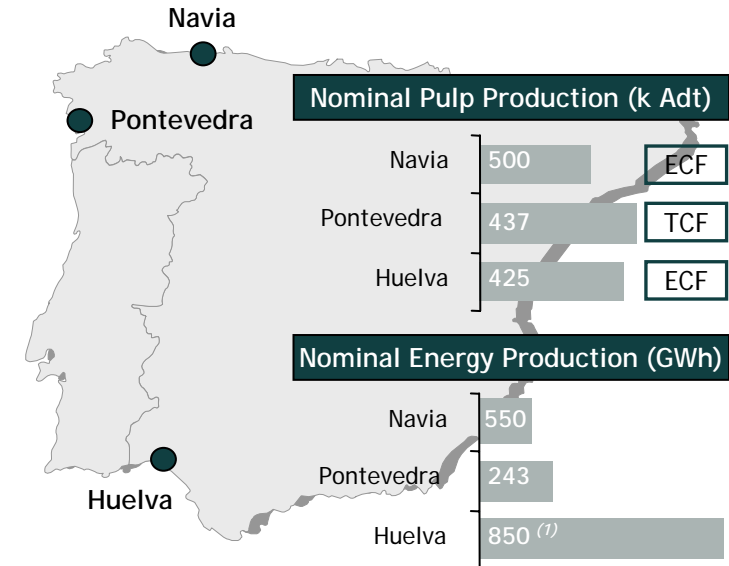
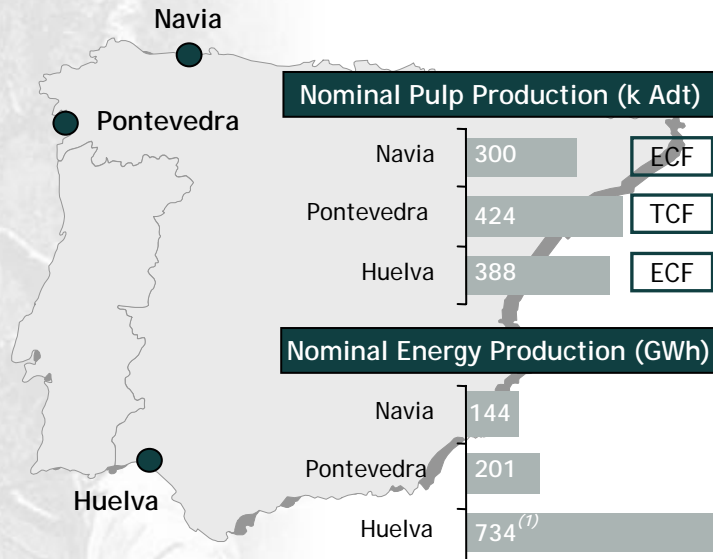
Note: ECF stands for "Elemental Chlorine Free" and TCF for "Totally Chlorine Free"

# ...Strongly Enhanced in the Last Couple of Years...



2008

2009 After Expansion



From 1.1m Tn of pulp & 1.1m MWh of electricity production per year...  
...to 1.4m Tn of pulp & 1.6m MWh of electricity production per year

Fully Financed Capex Effort of €270m  
&  
Cost Management

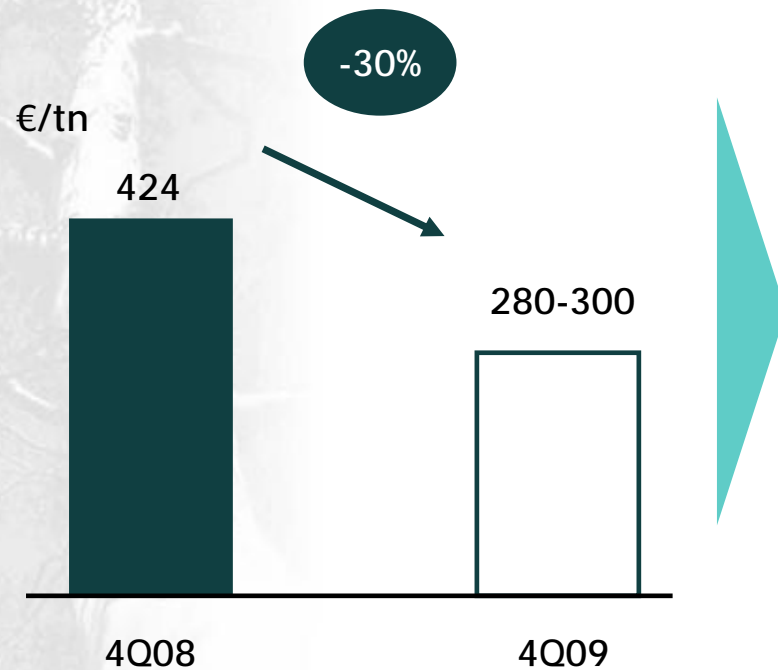
- Achievements of economies of scale
- Reduction in wood consumption and cost
- Achievement of industrial efficiencies (mainly chemicals)

(1) Includes cogeneration with gas

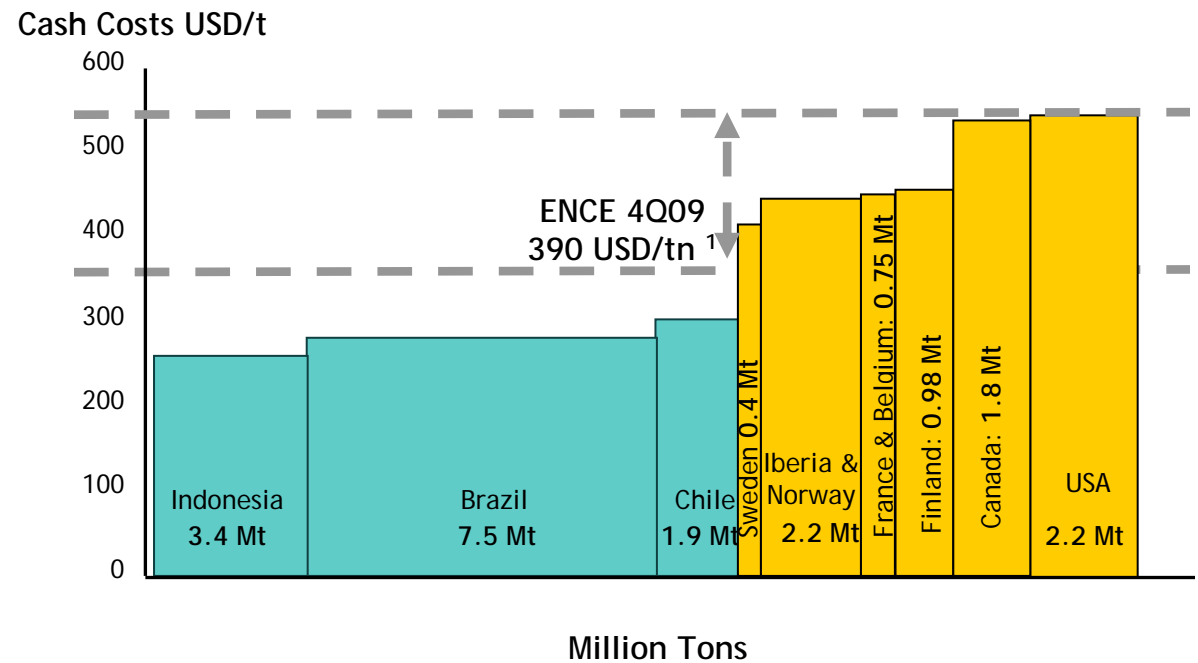
# ... to Develop a Competitive Cost Structure...



ENCE Cash Cost Evolution



Main BHKP Capacity & Cash Cost by Region 2008



40% of worldwide BHKP production above ENCE's cash cost

Source: Hawkins Wright

# ... and Extract Full Value From ENCE's Unique Positioning to Service European Clients



## Strong Pulp Leadership in Europe

- Market pulp producer
- Product quality: three pulp mills - three pulp qualities, diversification of clients
- Differentiated product (*E. globulus*)
- Service quality and technical assistance
- Flexible logistics model allows for enhanced client service based on agility and proximity
  - Top tier transport network: direct charters, combined charters, barges, trains, trucks, etc.
  - Shorter delivery period to Europe

20% Estimated Market Share in Europe  
after Navia Expansion

1

Solid European Pulp Leadership

2

Presence in Paper Segments  
with Higher Growth

3

Diversified and Loyal Client Base

4

Player of Reference  
in Emerging European Countries



**5** Conclusion

# Conclusion



Minimize operational and financial risk

Adapt to current market environment

Value maximized through competitive auction

Retain low-cost strategic assets

Consolidate integrated pulp and energy business model

Invest in renewable energy projects as growth driver

New Strategic Plan based on these guidelines will be announced in the General Shareholders Meeting scheduled on June 29<sup>th</sup>, 2009



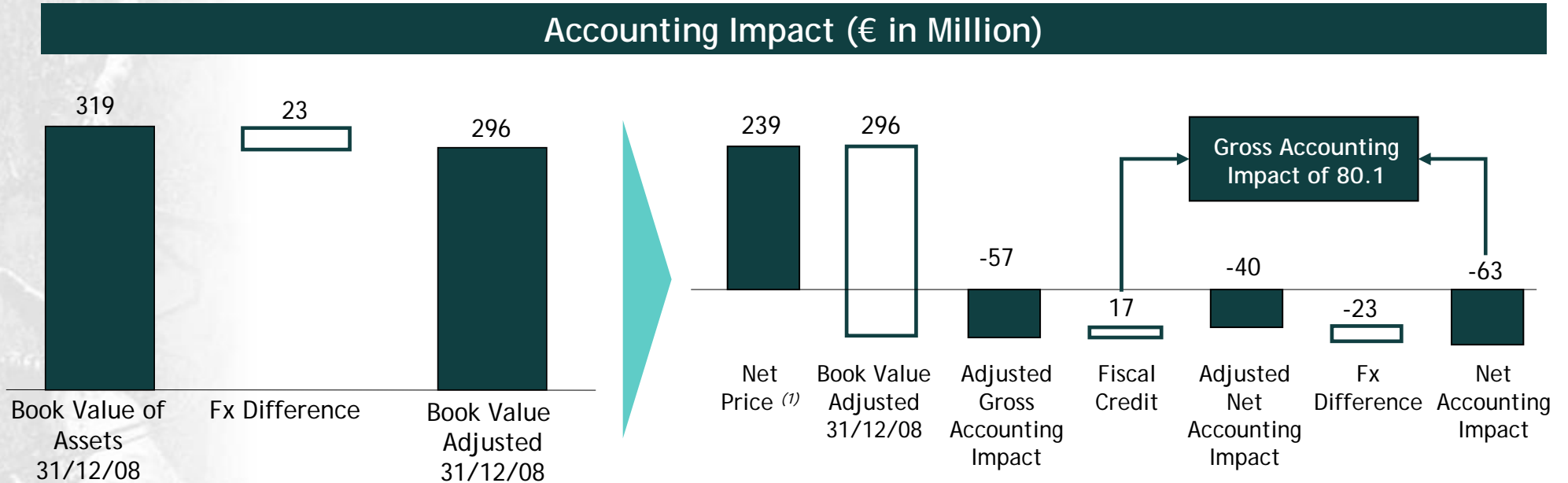
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CE

Q&A



**Annex**

# Transaction Accounting Impact - P&L



## Main Reasons Behind Capital Loss

1

Design and works of pulp mill project not fully valued

- Current pulp market low visibility impacts on the value of industrial project
- Acquirers might adapt the project based on their in-house knowledge and practises

2

Performance of USD/€ exchange rate since ENCE started investing in Uruguay

- Fixed assets valued at historical cost and related tax credits recovered in advance

Note: Exchange rate assumption of EUR/USD 1.3556

(1) Post-transaction related costs