Report on Ence Energia y Celulosa, S.A. and its subsidiaries as of December 31, 2013

Ence Energia y Celulosa, S.A.

Paseo de la Castellana 35, 28046 Madrid, Spain

(Address of Principal Executive Offices)

Securities for which there is a reporting obligation under the Indenture:

€250,000,000 7.25% Senior Secured Notes Due 2020

(Issued by Ence Energía y Celulosa, S.A.)

April 15, 2014

FORWARD-LOOKING STATEMENTS

This Report contains "forward-looking statements" within the meaning of the securities laws of certain jurisdictions, including statements under the headings "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and in other sections. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the words "aims," "believes," "estimates," "anticipates," "expects," "intends," "may," "will," "plans," "continue" or "should" or, in each case, their negative or other variations or comparable terminology or by discussions of strategies, plans, objectives, targets, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy, and the industry in which we operate.

By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. In addition, even if our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this Report, those results or developments may not be indicative of results or developments in future periods. You should not place undue reliance on these forward-looking statements.

Any forward-looking statements are only made as of the date of this Report and we do not intend, and do not assume any obligation, to update forward-looking statements set forth in this Report.

Many factors may cause our results of operations, financial condition, liquidity and the development of the industries in which we compete to differ materially from those expressed or implied by the forward-looking statements contained in this Report.

These factors include, among others:

- the impact of global economic conditions on worldwide demand for our products and services and on our access to financing;
- the deterioration of Spanish economic conditions;
- cyclicality in the market prices for our pulp products;
- increases in the cost of wood, certain chemicals, energy and oil, which are the main raw materials used in our activities;
- volatility in market electricity prices;
- failure to adjust pulp production volumes in a timely or cost-efficient manner in response to changes in demand;
- failure to keep up with technological changes, as well as changes in prices, industry standards and other factors;
- economic, political and social risks in foreign countries;
- significant competition in the industries in which we operate;
- the expiration of the administrative concession related to our Pontevedra facilities in 2018;
- competition for land use;
- significant interruptions to our operations at the pulp production, energy generation, transportation, storage, distribution and port facilities we own or utilize, including those resulting from mechanical failures or difficulties or unplanned or planned shutdowns at our pulp production facilities;

- catastrophes, natural disasters, adverse weather conditions, unexpected geological or other physical conditions, or criminal or terrorist acts;
- interest rate and currency risks;
- risks related to hedging activities;
- any insufficiency of our insurance coverage;
- regulatory changes affecting our electricity generating operations;
- exposure to various administrative controls and extensive governmental regulation;
- the costs of compliance with environmental, health and safety laws and regulations;
- liability and costs in connection with hazardous substances present at certain of our facilities;
- concerns about the effects of climate change;
- changes in the financing conditions for biomass projects;
- failure to satisfy requirements related to substantial capital investments, suitable sites, qualified suppliers and administrative permits and authorizations in our electricity generating activity;
- delays in the completion of our biomass energy projects;
- adverse effects to our electricity generating operations resulting from adverse circumstances affecting our pulp production operations;
- the social, economic and environmental side effects of our electricity generating operations;
- failure to retain key employees;
- wage increases or work stoppages by our unionized employees;
- credit risk of our counterparties;
- risks associated with acquisitions or investments in joint ventures with third parties;
- risks in connection with divestitures; and
- other factors beyond our control.

These risks and others described under “Risk Factors” are not exhaustive. Other sections of this Report describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industries in which we operate. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

This Report includes the audited consolidated annual financial statements of the Issuer and its subsidiaries as of and for each of the years ended December 31, 2012 and December 31, 2013, including the accompanying notes thereto. The audited consolidated financial statements for the years ended December 31, 2012 and December 31, 2013 are herein referred to as the “Consolidated Financial Statements”.

The Consolidated Financial Statements of the Company and its subsidiaries as of and for the years ended December 31, 2012 and December 31, 2013 have been prepared in accordance with International Financial Reporting

Standards as adopted by the European Union ("IFRS"). Except as otherwise indicated, the financial statements and financial information included herein are presented in euro. The euro is the common legal currency of the Member States participating in the third stage of the European Economic and Monetary Union, including Spain.

Energy revenue and production cost figures ("cash cost") are retroactive impacted from 14 July 2013 pursuant to RD-law 9/2013, which establish a new regulatory framework in the energy sector that will be defined by a new RD for renewable energy and a ministerial order that will stipulate the remuneration parameters. The Ministry of Industry, Energy, and Tourism sent to the CNMC on 3 February 2014 a draft proposal of "Order for approval of compensatory parameters for electric energy production facilities based on renewable energy, cogeneration, and waste sources". Management has estimated the quantitative impact of the application of these regulations; as a result, the Group has recognised a provision of €6,6 million, net of the associated electricity generation levy, by reducing revenue from energy sales, and another in the amount of €35,5 million in the form of impairment charges on energy crops and other assets. Given that such tariffs have not been approved by the date of publication of this report and are subject to change, consolidated results and production cost ("cash cost") accounted for in the period may change after the report's publication. (please see "Management's discussion and analysis of financial condition and results of operations - Key Factors Affecting Our Results of Operations - Renewable Energy Production Incentives").

In this Report, we present certain non-GAAP measures, including Adjusted EBITDA, Cash Costs, EBITDA, Gross debt, Mid-cycle EBITDA, Net debt, Other Cash Costs, Unlevered free cash flow (excluding expansion capital expenditure), Wood Costs and Working capital, and certain leverage and coverage ratios that are not required by, or presented in accordance with, IFRS. Our management believes that the presentation of these non-GAAP measures and ratios is helpful to investors because these and other similar measures are widely used by certain investors, security analysts and other interested parties as supplemental measures of performance and liquidity. However, you should not construe these non-GAAP measures and ratios as alternatives to profit and loss from operations determined in accordance with IFRS or to cash flows from operations, investing activities or financing activities, or to any other measure or ratio required by, or presented in accordance with, IFRS. In addition, our non-GAAP measures and ratios may not be comparable to similarly titled measures or ratios used by other companies.

As used in this Report, the following terms have the following meanings:

- "Adjusted EBITDA" means EBITDA adjusted for severance payments, for provisions and other items, for capitalized interest expenses, for results from sale of fixed assets and other extraordinary items and for operational hedging.

- "Cash Costs" means Wood Costs plus Other Cash Costs.

- "EBITDA" means profit and loss from operations adjusted for depreciation and amortization and for impairment and gains or losses on disposals of non-current assets.

- "Gross debt" means current and non-current financial debt plus other financial liabilities. We present our gross debt both including and excluding project finance indebtedness.

- "Mid-cycle EBITDA" means, at any time, senior management's good faith estimate of the consolidated EBITDA of the company based on an estimate of average historical peak and trough pulp prices through the economic cycle.

- "Net debt" means gross debt less cash and cash equivalents. We present our net debt both including and excluding project finance indebtedness.

- "Other Cash Costs" means the cost of chemicals, non-biomass fuels, energy costs (net of energy revenues), commercial expenses, logistics, packaging, fixed production costs and other cash overhead.

- "Unlevered free cash flow (excluding expansion capital expenditure)" means net cash flow from operating activities adjusted for interest paid, interest received, income tax paid (recovered) and maintenance capital expenditure.

- "Wood Costs" means the cost of timber at the mill gate plus the forestry depletion charge.

- “Working capital” means inventories, plus trade and other receivables plus receivables from public authorities, plus other current financial assets, plus other current assets, less trade and other payables, less corporate income tax payable, less other accounts payable to public authorities and less other current liabilities.

Certain data contained in this Report, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables may not conform exactly to the total figure given for that column, row or table, or the sum of certain numbers presented as a percentage may not conform exactly to the total percentage given.

The financial information included in this Report is not intended to comply with the applicable accounting requirements of the U.S. Securities Act and the related rules and regulations of the SEC which would apply if the Notes were being registered with the SEC.

Pursuant to Spanish regulatory requirements, “directors’ reports” are required to accompany our Consolidated Financial Statements and the related auditors’ report and are included in this Report only in order to comply with such regulatory requirements. Investors are strongly cautioned that the directors’ reports contain information as of various historical dates and do not contain a current description of our business, affairs or results. The information contained in the directors’ reports has been neither audited nor prepared for the specific purpose of this Report. Accordingly, the directors’ reports should be read together with the other sections of this Report, and particularly “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Any information contained in the directors’ reports is deemed to be modified or superseded by any information contained elsewhere in this Report that is subsequent to or inconsistent with it. Furthermore, the directors’ reports include certain forward-looking statements that are subject to inherent uncertainty (please see “Forward-Looking Statements”). Accordingly, investors are cautioned not to rely upon the information contained in such directors’ reports.

DEFINITIONS

In this Report:

- References to “Collateral” are to the collateral as described under “Description of the Notes—Credit Enhancement—Security.”

- References to “Consolidated Financial Statements” are to the audited consolidated annual accounts of the Issuer and its consolidated subsidiaries as of and for the years ended December 31, 2012 and December 31, 2013.

- References to “dollar,” “U.S. dollar” or “$” are to the currency of the United States.

- References to “euro” or “€” are to the currency of the Member States of the European Union participating in the third stage of the Economic and Monetary Union.

- References to “Ence,” “we,” “us” and “our” and the “Group” are to the Issuer and its consolidated subsidiaries, unless the context otherwise requires or the meaning is clear from the context.

- References to “EURIBOR” are to the Euro Interbank Offered Rate.

- References to “GAAP” are to Generally Accepted Accounting Principles as used in accordance with IFRS as issued by the International Accounting Standards Board and adopted by the European Union.

- References to the “Guarantees” are to the senior secured guarantees by the Guarantors to guarantee the payment obligations of the Issuer under the Notes.

- References to the “Guarantors” are, collectively, to Celulosa Energía, S.A.U.; Celulosas de Asturias, S.A.U.; Norte Forestal, S.A.U.; and Silvasur Agroforestal, S.A.U., as guarantors of the Notes.

- References to “IFRS” are to International Financial Reporting Standards as adopted by the European Union.

- References to the “Indenture” are to the indenture between, among others, the Issuer, the Security Agent and the Trustee under which the Notes will are issued.

- References to the “Initial Purchasers” are to the firms referred to under the “Plan of Distribution” section in the Offering Memorandum.

- References to the “Intercreditor Agreement” are to the Intercreditor Agreement to entered between, among others, the Issuer, Deutsche Bank AG, London Branch, Banco Español de Crédito, S.A., Bankia, S.A., Banco de Sabadell, S.A., Barclays Bank PLC, CaixaBank, S.A., Citibank International PLC, London and Bankinter, S.A., as revolving lenders; Deutsche Bank AG, London Branch, as facility agent, original issuing bank and security agent; and Deutsche Trustee Company Limited, as secured notes trustee. Please see “Description of Other Indebtedness—Intercreditor Agreement.”

- References to the “Issue Date” are to the date on which the Notes offered hereby were issued.

- References to the “Issuer” are to Ence Energía y Celulosa, S.A.

- References to “LIBOR” are to the London Interbank Offered Rate.

- References to the “Luxembourg Listing Agent” are to Deutsche Bank Luxembourg S.A.

- References to the “Market Tariff” are to the option of receiving the sale price set by the organized market (the pool price) or the price freely negotiated by the owner or representative of the facilities, supplemented, as the case may be, by a premium, subject to applicable caps and floors, for all electricity sold.

- References to the “Notes” are to the 7.25% Senior Secured Notes of the Issuer offered hereby.

- References to the “Offering” are to the offering of the Notes hereby.

- References to the “Paying Agent” are to Deutsche Bank AG, London Branch.

- References to the “Registrar” are to Deutsche Bank Luxembourg S.A.

- References to the “Regulated Tariff” are to the option of receiving a regulated single tariff for all scheduling periods for all electricity sold.

- References to the “Revolving Credit Facility” are to the Super Senior Multicurrency Revolving Facility Agreement entered between, among others, the Issuer, certain subsidiaries of the Issuer, Deutsche Bank AG, London Branch, Banco Español de Crédito, S.A., Bankia, S.A., Banco de Sabadell, S.A., Barclays Bank PLC, CaixaBank, S.A., Citibank International PLC, London and Bankinter, S.A., as arrangers, certain financial institutions listed in Schedule 1 thereto, as original lenders, and Deutsche Bank AG, London Branch, as facility agent, original issuing bank and security agent, providing for a €90.0 million revolving credit facility. Please see “Description of Other Indebtedness.”

- References to the “Security Agent” are to Deutsche Bank AG, London Branch, as security agent under the Indenture.

- References to the “Security Documents” are to the Security Documents defined in the Indenture.

- References to the “Trustee” are to Deutsche Trustee Company Limited, as trustee under the Indenture.

For a glossary of certain industry-related terms used in this Report, please see “Glossary of Selected Terms.”

TABLE OF CONTENTS

	Page
Risk Factors	8
Management's Discussion and Analysis of Financial Condition and Results of Operations	31
Business	52
Regulation	70
Management	74
Principal Shareholders	83
Certain Relationships and Related Party Transactions	84
Description of Other Indebtedness	85
Glossary of Selected terms	101
Financial Statements	102

RISK FACTORS

An investment in the Notes involves a high degree of risk. In addition to the other information contained in this Report, you should carefully consider the following risk factors before purchasing the Notes. If any of the possible events described below occurs, our business, financial condition, results of operations or prospects could be adversely affected. If that happens we may not be able to pay interest or principal on the Notes when due and you could lose all or part of your investment. The risks and uncertainties below are not the only ones we face, but represent the risks that we believe are material. However, there may be additional risks that we currently consider not to be material or of which we are not currently aware that could have the effects set forth above.

This Report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including the risks we face that are described below and elsewhere in this Report.

Risks Relating to Our Business

Difficult conditions in the global economy and in the global markets have caused, and may continue to cause, a sharp reduction in worldwide demand for our products and services, including global demand for our pulp products, and negatively impact our access to the levels of financing necessary for the successful development of our existing and future biomass projects.

Our results of operations have been, and continue to be, materially affected by conditions in the global economy and in the global capital markets. Recently, concerns over commodity prices, energy costs, geopolitical issues and the availability and cost of financing have contributed to increased volatility and diminished expectations for the economy and global markets going forward. These factors, combined with declining global business and consumer confidence and rising unemployment, have precipitated an economic slowdown and have led to a recession. The economic instability and uncertainty is affecting the willingness of companies to make capital expenditures and investment in the markets in which we operate. Poor economic conditions that have impacted, and continue to affect, government budgets also threaten the continuation of certain government subsidies which have benefitted our business. These events and continuing disruptions in the global economy and in the capital markets may, therefore, have a material adverse effect on our business, financial condition and results of operations. Moreover, even in the absence of a market downturn, we are exposed to substantial risk of loss due to market volatility with certain factors, including consumer spending, business investment, government spending and the volatility and strength of financial markets. Generalized or localized downturns in our key geographical areas, such as Western Europe, could also have a material adverse effect on the performance of our business.

In addition, continued disruptions, uncertainty or volatility in capital and credit markets may limit our access to additional capital required to operate our business, including our access to project finance which we use to fund many of our biomass projects. Such market conditions may limit our ability to replace, in a timely manner, maturing liabilities and access the capital necessary to grow our business. As a result, we may be forced to delay raising capital, issue shorter-term securities than we prefer, or bear an unattractive cost of capital which could decrease our profitability and significantly reduce our financial flexibility.

Furthermore, demand for our pulp products is linked to overall economic activity within those international markets in which we sell our products. After a steady period of growth between 2003 and 2007, during which period pulp demand increased with a CAGR of 3.7%, the marked drop in demand resulting from the global economic crisis of 2008, when pulp demand declined by 1.0% year on year, demonstrated the vulnerability of the pulp market to international economic conditions. Through 2010, the global economy continued its recovery and provided improved conditions for the pulp market. In 2011, however, the pulp market had two distinct phases, with demand in the global pulp market increasing during the first half of the year, primarily as a result of strong Chinese demand, but decreasing in the second half of the year, primarily as a result of economic concerns in Europe and the impact of such concerns on the global economy. In 2012 and 2013 the performance of prices have been solid, with prices increasing in the first half and a moderate correction in the second part of the year (due to seasonal demand behavior), based on rising demand and limited increased in capacity due to delays of greenfield projects and closures/conversions of old mills. In the first months of 2013, prices have been stable in spite of price increase announcements, as the expected increase in supply coming from Maranhao and Montes del Plata mills is supporting expectations for a prices correction in the second half of 2014.

Given the current economic environment in the countries where Ence operates, production stoppages could occur as a result of the calling and holding of strikes by transporters, suppliers that provide Ence and / or its employees.

The deterioration of Spanish economic conditions could adversely affect our business.

In 2013, we made 15.0% of our sales of pulp by volume in Spain, and we sold all of our electricity in Spain, where the global economic crisis, together with a domestic real estate crisis, has caused a significant deterioration in the economy since 2009. While our sales are diversified throughout the European Union and Asia, a portion of our business is concentrated in Spain, and we may be affected by the general economic conditions in Spain.

In addition, Spain has recently experienced high unemployment and government debt which we believe could adversely affect our operations in the near future. If Spain's economic conditions deteriorate further, our business, financial condition and results of operations may be adversely affected. Furthermore, economic instability and difficult economic conditions in Spain have resulted in a decline in tax revenue obtained by the Spanish public administration, which has resulted in higher effective tax rates and reduced local financing availability.

The market prices for our pulp products are cyclical.

The prices we are able to obtain for our pulp products, from which we derived 72.0% and 72.1% of our total revenues during the years ended December 31, 2013 and December 31, 2012, respectively, depend on the prevailing world prices for market pulp. The price of pulp is established in an active market, the evolution of which significantly affects our revenues and our earnings. World pulp prices have been considerably volatile in recent years as a result of periodic supply/demand imbalances in the pulp and paper industries and subject to significant fluctuations over short periods of time depending on a number of factors, including: global demand for pulp products; global pulp production capacity and inventories; strategies adopted by major pulp producers; and the availability of substitutes for our pulp products. All of these factors are beyond our control. Price fluctuations occur not only from year to year but also within a given year as a result of global and regional economic conditions, capacity constraints, facility openings and closures, and the supply of and demand for both raw materials and finished products, among other factors. The timing and magnitude of price increases or decreases in the pulp and paper markets have generally varied by region and by type of pulp and paper. Discounts from list prices are frequently granted by sellers to significant purchasers. Although we have long-term relationships with many of our customers, no assurance can be given that prices for pulp will stabilize or not decline further in the future, or that demand for the pulp that we produce will not decline in the future. Furthermore, while most of our pulp sales contracts are one-year sales contracts, the pricing is generally based on a formula linked to the BHKP price and reset on a monthly basis. As a result, no assurance can be given that we will be able to operate our pulp production facilities in a profitable manner in the future. A significant decline in the price of one or more of our pulp products could have a material adverse effect on our net operating revenues, cash flows, operating income and net income.

Increases in our Wood Costs, the cost of certain chemicals, cost of energy and other variable costs could significantly increase our operating costs.

Some of our activities require significant consumption of wood, chemicals (mainly caustic soda), electricity and energy and fuel, and we are vulnerable to material fluctuations in their prices. Eucalyptus timber is the main raw material input for the production of cellulose pulp. Presently, we supply our production facilities mostly with local timber acquired from third-party suppliers and third party suppliers in Spain and Portugal and, to a lesser extent, with timber imported from South America and Africa.

If there is an insufficient supply of eucalyptus timber to meet our demand in certain markets where our facilities are located, we may be required to seek timber from alternative markets at increased purchase prices or with increasing logistical costs. A number of factors can affect the supply of available timber, including climate conditions, fires, pests, droughts, floods, disease, ice, wind storms and other nature and man-made causes, substantial changes in the demand for pulp or other products whose raw material is timber as well as environmental litigation aimed at protecting forests and species habitats or regulatory restrictions that may reduce the amount of timber available for commercial harvest. In addition, future claims and regulations concerning the promotion of forest health and the response to and prevention of wildfires could affect timber supplies in the jurisdictions in which we operate. Any changes or disruptions in the supply of timber due to these or other factors could increase the price of timber and, depending on the availability of alternative sources, make it difficult to find replacement supply channels. In addition, in accordance with our focus on corporate responsibility and the promotion of sustainable forest management, we aim to source a significant proportion of the timber we use from forests that have been certified as managed according to certain international standards of sustainability. In the event of pulp capacity increases or supply disruptions, we may face difficulties finding alternative sources of certified timber in particular. Moreover, increases in the price of timber, whether certified or not, may have a materially adverse effect on our profits and cash flows.

Furthermore, approximately 80% of the chemicals used for the cooking and bleaching process of our products tend to have their prices closely linked to that of petroleum. Significant increases in our wood costs, the cost of chemicals (especially caustic soda) or the cost of energy or oil, or shortages of the supply of any such products, could have a material adverse effect on our business, financial condition and results of operations.

Also, increases in purchase prices and spare parts such as bearings, filters, parts, transportations etc.., could result in an increase in the costs of the Company.

We may not be able to adjust pulp production volumes in a timely or cost-efficient manner in response to changes in demand.

If we have to operate at significant idle capacity during periods of weak pulp demand, we may be exposed to higher Cash Costs since a significant portion of our cost structure is fixed in the short term due to the high capital investment required for our pulp operations. This will also result in lower co-generation of energy. In addition, efforts to reduce costs during periods of weak demand could be limited by labor regulations or previous labor or government agreements. Conversely, during periods of high demand, our ability to rapidly increase production capacity is limited, which could render us unable to satisfy the demand for our pulp products. If we are unable to satisfy excess customer demand, we may lose market share.

We may fail to keep up with and effectively incorporate technological changes into our pulp production and energy-generation processes, as well as changes in prices, industry standards and other factors.

The markets in which our businesses operate change rapidly because of technological innovations and changes, prices, industry standards, product instructions, customer requirements and the economic environment. New technology or changes in industry and customer requirements may render existing products obsolete, excessively costly or otherwise unmarketable. As a result, we must continuously enhance the efficiency and reliability of our existing technologies and seek to develop new technologies in order to remain at the forefront of industry standards and customer requirements. In addition, our renewable energy products and services rely, to a significant extent, on governmental subsidies to remain competitive with conventional energy sources. If we are unable to introduce and integrate new technologies into our products and services in a timely and cost-effective manner, our competitive position will suffer and our prospects for growth will be impaired.

The primary pulp production process applied in our facilities is known as the Kraft or sulphate process (the “Kraft process”) and currently constitutes the dominant technology in the chemical cellulose production industry thanks to its high efficiency in energy and environmental terms and raw material consumption. We cannot guarantee that a new product replacing cellulose pulp will not emerge or that a more competitive production process than the current Kraft process will not be invented. Any new product that competes or replaces cellulose pulp or any innovation in any component of the Kraft process may render our installations less competitive or obsolete and may require substantial investments to update and replace them.

To perform the bleaching of pulp used in paper manufacture, traditionally there are two methods that are being used at the expense of the use of elemental chlorine as a bleaching component: 1) the first, known as Elementary Chlorine Free (ECF), using a chemical called chlorine dioxide to bleach the fibers; and 2) the second method, known as Totally Chlorine Free (TCF) uses no chlorine compound for the bleaching process. Ence, with the strategic vision to meet the needs of customers who require either product, has at its facilities in Huelva Navia and technology necessary for the use of the ECF method, while the technology available for the use of the method TCF is in the factory of Pontevedra.

Given a hypothetical significant changes in the demand for pulp produced with one of this processes, the company could be affected by a reduction in the customer base, having to take the necessary investment in technology in its facilities.

Our exports of pulp expose us to economic, political and social risks in foreign countries.

Our pulp sales outside of Spain, primarily to the European Union and Asia, accounted for 85% and 87% of our total revenue from the sale of pulp during the years ended December 31, 2013 and December 31, 2012, respectively. Our exports expose us to risks not faced by companies operating solely in Spain or in any other single country. For example, our exports may be affected by import restrictions and tariffs, other trade protection measures, import or export licensing requirements, payment collection difficulties, and the absence, loss or non-renewal of favorable treaties or similar agreements with local authorities, or political, social and economic instability. Our future financial performance will depend significantly on economic conditions in our principal export markets. Other risks associated with our international activities include: adapting to the regulatory requirements of such countries, lower global demand for pulp, which could result in a reduction of our sales, operating income and cash flows; changes in foreign currency exchange rates (particularly against the U.S. dollar), currency control measures and inflation in the foreign countries in which we operate; exchange and international trade controls; changes in a specific country's or region's economic conditions, particularly in developing markets; adverse consequences deriving from changes in regulatory requirements, including environmental rules, regulations and certification requirements; difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex international laws, treaties, and regulations; adverse consequences from changes in tax laws; and logistics costs, disruptions in shipping or reduced availability of freight transportation. While we attempt to manage certain of these risks through the use of risk management programs, they cannot and do not fully eliminate these risks. An occurrence of any of these events may negatively impact our ability to transact business in certain existing or developing markets and have a material adverse effect on our business.

We face significant competition, which may adversely affect our market share and profitability.

The pulp industry is highly competitive. In the international pulp market, certain of our competitors may have greater financial strength and access to cheaper sources of capital, and consequently have the ability to support strategic expenditures directed to increase their market share. Our market share may be adversely affected to the extent we are unable to continue to successfully expand our production capacity at the same pace as our competitors.

In addition, most markets for pulp are served by several suppliers, often from different countries. Many factors influence our competitive position, including mill efficiency and operating rates and the availability, quality and cost of wood, energy, water, chemicals, logistics, labor and exchange rate fluctuations. Some of our competitors may have greater financial and marketing resources, operate mills that are lower-cost producers of pulp products than our mills, receive government subsidies or have a greater breadth of product offerings than we do. Some of our competitors may have advantages over us, including lower raw material, energy and labor costs and fewer environmental and governmental regulations with which to comply. As a result, we cannot assure you that each of our mills will remain competitive or that we will be able to take advantage of consolidation opportunities that may arise, or that any failure to exploit opportunities for growth would not make us less competitive. If we are unable to remain competitive with these producers in the future, our market share may be adversely affected. Furthermore, increased competition, including a decrease in import duties in accordance with the terms of free trade agreements, could cause us to lose market share, increase expenditures or reduce pricing, any of which could have a material adverse effect on the results of our operations. In addition, competition may result in our inability to increase the selling prices of our products sufficiently or in time to offset the effects of increased costs without losing market share and aggressive pricing by competitors may force us to decrease prices in an attempt to maintain market share.

Ence produced high quality eucalyptus pulp in its three plants Navia (Asturias), Pontevedra and Huelva, which applies the technologies that respect the environment and adopts continuous improvement processes to enhance the competitiveness and quality of their products. However, given that some facilities have certain age, lack of proper maintenance plan, renovation and investment could affect the proper operation, performance and / or lifetime of the machinery, equipment and facilities of the three plants. This could limit our ability to meet the needs of our customers with sufficient level of quality expected.

Although we endeavor to maintain our competitiveness, no assurance can be given that we will be able to succeed in doing so in the face of current or future competition. Any such failure to compete successfully would negatively impact our ability to grow our business and generate revenue, which could have a material adverse effect on our business, financial condition and results of operations.

Our Pontevedra facilities are constructed on land subject to an administrative concession that is expected to expire in 2018, which may have a material adverse effect on our operations.

Our Pontevedra facilities are situated on a maritime terrestrial public concession awarded to us under a Ministerial Order issued on June 13, 1958. The concession deed did not specify a fixed term for the concession itself and according to the previous Coast Act the expiration date of the concession was July 2018. Nevertheless, on May 2013 the Spanish Parliament approved an amendment of the Cost Act and established a new regulation of the terms and extensions of concessions. This new regulation gives the Ence the right to extend the concession beyond July 2018 and for a maximum of 75 years. On 11 November 2013 Ence asked the State Administration for an extension of the concession for up to maximum term permitted by law. However, there is no guarantee about whether the extension will be granted or about the term of the extension.

Ence is involved in two pending legal proceedings before the national Supreme Court related to the early expiration of the Pontevedra concession. The Court ruling will be based only on formal procedural matters, rather than on substance. Therefore, the Court ruling will not cause the automatic early expiration of the concession, and it may only rule the initiation of the relevant administrative procedures on that matter. If the last were the case, the initiation of the administrative procedure will neither have any automatic effect on the concession and the Company will have a hearing. Furthermore, any final administrative resolution affecting the concession could be judicially challenged by Ence. In addition, the extension of the Integrated Environmental Authorization granted to our Pontevedra facilities on December 31, 2011 has been challenged by a NGO and the town council of Pontevedra and is currently under judicial review by the regional Superior Court of Galicia. The arguments used by the appellants are similar to those referred to in previous similar proceedings which were ruled in favor of Ence.

Competition for land for use as eucalyptus forests for the purposes of pulp production or for other crops, such as soy beans, sugar cane and other commodities, may affect our expansion.

Greater global demand for certain commodities, especially for grains and biofuel, may impact our forestry operations such that greater competition for land could impact the price of such commodities. Grain and biofuel production generally are economically superior to forestry activities and, as a result, prospective increases in land values may inhibit expansion of new forests. For the same reason, we may face difficulties in convincing third-party partners to begin or to expand eucalyptus production for use in the pulp industry.

Current difficulties of finding wood certified according to the standards of the Forest Stewardship Council certification (FSC, global non-profit organization dedicated to promoting responsible forest management worldwide) could challenge our ability to ensure the use of raw materials required by our clients. In the Iberian Peninsula there are very few producers who comply with the above rules, so if the offer is significantly reduced, Ence could be forced to go to the outside market to acquire this type of certified wood, which would lead to a considerable increase in the associated costs. Furthermore, Ence uses eucalyptus wood to manufacture its products. Overall, there is some negative reputation due to their biological features, based on its high efficiency in the utilization of nutrients and moisture from the soil where they are planted. These characteristics of eucalyptus and its effects on the environment could mean the emergence of barriers to the development of such activity, with consequent possible reputational impact on the company.

We may be materially adversely affected if operations at the pulp production, energy generation, transportation, storage, distribution and port facilities we own or utilize were to experience significant interruptions or suffer any mechanical failures or difficulties. In addition, our operations may be affected by unplanned and planned shutdowns at our pulp production facilities.

Our operations are dependent upon the uninterrupted operation of pulp production, energy generation, transportation, storage, distribution and port facilities that we own or utilize. Operations at these facilities could be partially or completely shut down, temporarily or permanently, as a result of any number of circumstances that are not under our control, including catastrophic events, strikes or other labor difficulties and transportation disruptions. Furthermore, we may face issues related to our connection to the main network due to congestion or other factors, mechanical failures or difficulties and the suspension or termination of public concessions (*concesiones administrativas*) granted to us or to our commercial partners or independent contractors relating to the right to provide a specific service. Any significant interruption at any of our facilities or any inability to transport products to or from these facilities (including through exports) or to or from our customers for any reason may materially adversely affect us.

We also depend on connection and access to electricity grids for the sale and transport of the energy we produce. We do not own or control the electricity transport and distribution installations. If the transport and distribution grids suffer from technical capacity restrictions, whether temporary or permanent, our ability to sell electricity will be adversely affected and our operations, revenue and financial condition may suffer as a result.

On occasion, we experience unplanned shutdowns, interruptions or reductions in the rate of pulp production in our pulp production facilities located. For example, in May 2012, an unexpected outage at our Huelva pulp production facility resulting from a mechanical failure led to a shutdown of our pulp production at this facility for 16 days. In addition, every year the pulp production in all three of our facilities is stopped in order to enable us to undertake planned operations and annual maintenance work. Such planned works are carried out during a period of approximately 15 days, with no pulp being produced in the affected facility during such periods. Once the planned works have been completed, it typically takes around one to two days to return the facility to its normal rate of pulp production. Such unplanned and planned shutdowns and interruptions at our pulp production facilities have the effect of reducing the level of income we generate from our pulp production operations, and may affect our business, financial condition and results of operations.

Our business may be adversely affected by catastrophes, natural disasters, adverse weather conditions, unexpected geological or other physical conditions, or criminal or terrorist acts at one or more of our sites or facilities.

If one or more of our sites were to be exposed in the future to fire, flood or a natural disaster, adverse weather conditions, terrorism, power loss or other catastrophe, or if unexpected geological or other adverse physical conditions were to develop at any of our sites, we may not be able to carry out our business activities at those locations or such operations could be significantly reduced. This could result in lost revenue at these sites during the period of disruption and costly remediation, which could have a material adverse effect on our business, financial condition and results of operations. In addition, despite security measures taken by us, it is possible that our sites relating to our pulp facilities or energy generation facilities, or other sites, could be affected by criminal or terrorist acts. Any such acts could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, the Spanish landscape is prone to, and ecologically adapted to, frequent fires. The risk of uncontrolled fires entering and burning significant areas of plantation is high, but under normal weather conditions this risk is managed through comprehensive fire prevention and protection plans. In the last decade, Spain has experienced certain disastrous fires across vast areas of its territory. Furthermore, there is some cause for concern that abnormal weather conditions that lead to such fires may occur more frequently as a result of the impact of climate change. In addition, other catastrophic events, such as pathogen and pest infestations may occur. As a consequence, the risk of plantation fires or other catastrophic events remains high and may be increasing. Continued or increased losses of our wood source could jeopardize our ability to supply our mills with timber from the region.

We are exposed to interest rate and currency risks.

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and foreign currency exchange rate fluctuations. Some of our indebtedness, including our Revolving Credit Facility, bears interest at variable rates, generally linked to market benchmarks such as EURIBOR and LIBOR. Any increase in interest rates would increase our finance costs relating to our variable rate indebtedness and increase the costs of refinancing our existing indebtedness and issuing new debt. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk—Commodity Price Risk."

Furthermore, while the majority of our sales are made in the European market, revenues from sale of cellulose pulp are affected by the U.S. dollar/euro exchange rate, because the benchmark sale price on the international market is in U.S. dollars per tonne and we invoice our customers in U.S. dollars. Insofar as our cost structure is mainly in euro, changes in the U.S. dollar/euro exchange rate can have a significant adverse effect on our earnings. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Quantitive and Qualitative Disclosures About Market Risk—Foreign Exchange Risk."

Our business may be adversely impacted by risks related to hedging activities.

We enter into hedging transactions using financial derivatives instruments to protect against risks related to the fluctuation of interest rates, exchange rates, the price of pulp, the price of gas, fuel oil and electricity used in the production process, equity swaps related to our share price and CO2 forward agreements related to our greenhouse gas emission rights. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Quantitive and Qualitative Disclosures About Market Risk." Among interest rate derivatives, we mostly use financial interest rate swaps. Pulp price derivatives and those of certain energy products are principally swaps and options. Our hedging transactions may not sufficiently or adequately protect us against these risks. Market changes in the future may not be consistent with historical data or our assumptions. If markets move adversely, we may incur financial losses on these hedging transactions.

We account for our derivative instruments in accordance with IFRS. Such methodology could imply a change in the value of the derivative instruments that could have an impact on the profit and loss account. In addition, the value of such instruments may increase or decrease due to fluctuations resulting from changes in economic conditions, investor sentiment, monetary and fiscal policies, the liquidity of global markets, international and regional political events and acts of war or terrorism.

Our insurance coverage may be insufficient to cover our losses.

Our insurance coverage may be insufficient to cover losses that we might incur. We have comprehensive insurance with leading insurers to cover our receivables, damage to our facilities caused by fire, general third-party liability for accidents and operational risks, and international and domestic transportation. We do not maintain insurance coverage against all risks related to our forests, in particular with respect to forest fires. The occurrence of losses or other damages not covered by insurance, or that exceed our insurance limits, could result in unexpected additional costs.

In addition, our insurance policies are subject to review by our insurers. If the level of premiums were to increase in the future, we might not be able to maintain insurance coverage comparable to that currently in effect at a comparable cost, or at all. If we were unable to pass any increase in insurance premiums on to our customers, such additional costs could have a material adverse effect on our business, financial condition and results of operations.

Regulatory changes may have an adverse effect on our electricity generating operations.

Our electricity generating operations have relied on a favorable regulatory regime in Spain and have grown to become increasingly important to our business, because they represent an relevant proportion of our overall sales. Regulatory changes relating to electricity generation may have an adverse effect on our electricity generating operations and ultimately our revenue and financial condition.

In particular, on January 27, 2012, the Spanish Council of Ministers approved the Moratorium, temporarily suspending further generation capacity from being registered under Royal Decree 661/2007, which had provided economic incentives for the construction of new energy facilities that used co-generation, renewable energy sources and waste. Please see "Regulation." Nonetheless, those facilities that had already been registered prior to the passing of the Moratorium, including all of the facilities we currently operate or are in the process of constructing (including our Huelva and Mérida facilities), would continue to benefit from the economic incentives provided by Royal Decree 661/2007. The Moratorium, so long as it remains in effect, therefore removes incentives for growing our electricity generating operations and introduces uncertainty with regard to the development of new facilities, as the suspension period is open-ended and may extend indefinitely.

On December 28, 2012, a new law aimed at reducing the deficit within Spain's subsidized electricity production industry and ensuring the sustainability of Spain's energy supply through the imposition of certain tax measures was published in the Spanish Official Gazette (the "Energy Tax Law"). Please see "Regulation." The Energy Tax Law, which became effective as of January 1, 2013, provides for, *inter alia*, a direct tax on energy generators equal to 7% of the total annual revenues of each energy generation facility and the implementation of a "green cent" (*céntimo verde*) tax on natural gas under certain circumstances (including for the purposes for which natural gas is used in our energy generation facilities) at a rate of €0.65 per gigajoule and on fuel oil (which we use in small amounts to start the boilers necessary to our energy operations) used for the production of electric energy at a rate of €12.00 per tonne. Although both taxes are deductible and the electricity market could pass a portion of these new taxes through the electricity pool prices, the Energy Tax Law is likely to increase our cost of production of energy.

On February 1, 2013, the Royal Decree Law 2/2013 on emergency measures for the electrical sector and the financial system, modified the reference index applicable to RD 661/2007 annual tariff adjustment from the general CPI index to the underlying CPI at constant taxes (excluding tax increases, unprocessed foods and energy products); and the prime economic regimen will be based only on the regulated tariff option (with the pool+premium option eliminated). This regulation is likely to increase our cost of production of energy.

On July 12, 2013, the Royal Decree-Law 9/2013, adopting urgent measures aimed at guaranteeing the financial stability of the electricity system, amends the Electricity Sector Act and the so-called special regime remuneration system. Among other measures, it repeals RD 661/2007 and article 4 of Royal Decree-Law 6/2009, which created the pre-allocation registry, foreshadowing a new remuneration regime that is currently in the process of being drafted. The main characteristic of the new regime is its stated objective of guaranteeing a pre-tax return on investment in renewable energy facilities equivalent to the yield on the 10-year government bond plus 300 basis points, calculated on the basis of standard facility cost and capital expenditure parameters, during the entire regulated life of the facility. It also eliminates the right to receive a supplement for efficiency and a reactive energy rebate pending enactment of the new remuneration regime.

The Spanish Ministry of Industry, Energy and Tourism sent the energy watchdog (the CNMC for its acronym in Spanish) its proposed "Order approving the remuneration parameters for standard facilities applicable to certain power generation facilities fuelled by renewable sources of energy, CHP and waste" on 3 February 2014. This proposal amends the current premium regime and, among other consequences, puts energy crops and forest/agricultural waste in the same category for renewable energy premium calculation purposes, limits the amount of a plant’s energy output entitled to premiums to 80%-90% of nominal capacity and ceases to consider the lignin generated in the pulp production process as biomass entitled to premium remuneration.

Management has estimated the quantitative impact of the application of these regulations; as a result, the Group has recognised a provision of €6.6 million, net of the associated electricity generation levy, by reducing revenue from energy sales, and another in the amount of €35.5 million in the form of impairment charges on energy crops and other assets. If the draft renewable regime legislation and enacting ministerial order stipulating the remuneration parameters were approved as currently worded, the Group’s 2013 revenue would decrease by a further €13,130 thousand and it would be necessary to recognise additional impairment losses on energy crops and other assets in the amount of €32,458 thousand.

Our business is conducted under various administrative controls and subject to extensive governmental regulation.

Our operations are subject to the general supervision of various public administrative authorities, including labor, tax and environmental authorities, as well as to extensive regulation of our business. Such laws and regulations require licenses, permits and other approvals to be obtained in connection with the operations of our business. This regulatory framework imposes significant actual, day-to-day compliance burdens, costs and risks on us. Non-compliance with such regulations could result in the revocation of permits, sanctions, fines or even criminal penalties. Compliance with regulatory requirements may result in substantial costs to our operations that may not be recovered. In addition, we cannot predict the timing or form of any future regulatory or law enforcement initiatives. Changes in existing energy, environmental and administrative laws and regulations may materially and adversely affect our business, products, services, margins and investments. Furthermore, such changes in laws and regulations could increase the size and number of claims and damages asserted against us or subject us to enforcement actions, fines and even criminal penalties.

We believe that we manage our business in a manner that conforms to general practice in our industry and that complies with applicable administrative rules, regulations and procedures. However, we cannot assure you that our interpretation and application of such rules, regulations and procedures will not differ from the views of the relevant public authorities as to their appropriate interpretation and application. These public authorities may audit, review or inspect our activity.

To the extent any such audit, review or inspection reveals discrepancies between the interpretations and applications made by us and those made by the relevant public authority, we may experience a material adverse effect on our business, financial condition, results of operations and cash flows.

In particular, our biomass renewable energy generation facilities are subject to strict international, national, state and local regulations relating to their development, construction and operation (including, among other things, land acquisition, leasing and use, and the corresponding building permits, landscape conservation, noise regulation, environmental protection and environmental permits and energy transmission and distribution network congestion regulations). In addition, the turnover that we generate from our biomass renewable energy projects is significantly dependent on regulated tariffs. Under our agreements with the Spanish public administration, a tariff structure is established, and we have limited, or no, possibility of independently raising tariffs beyond the established rates. In addition, we may be unable to adjust our tariffs as a result of fluctuations in the prices of raw materials, exchange rates, labor and subcontractor costs or any other variations, which may reduce our revenue. Moreover, in some cases, if we fail to comply with certain pre-established conditions, the Spanish government may reduce tariffs payable to us. In addition, during the life of a concession, the Spanish government may unilaterally impose additional restrictions on our tariff rates. The Spanish government may also postpone annual tariff increases until a new tariff structure is approved without compensating us for lost revenue. In the case that any one or more of these events occur, there could be a material adverse effect on our business, financial condition and results of operation.

In addition, we may decide to pursue biomass renewable energy projects in the future in countries in Europe other than Spain. Regulations applicable to the generation of electricity in such countries may vary substantially vis-à-vis Spain, and may be more restrictive or unfavorable to us.

We may face high costs related to compliance with environmental, health and safety laws and regulations.

Our business is subject to extensive environmental, health and safety laws and regulations relating to controlling discharges and emissions of pollutants to land, water and air, the use and preservation of natural resources, the noise impact of our operations and the use, disposal and remediation of hazardous materials. Compliance with these laws and regulations is a significant aspect of our industry, and substantial legal and financial resources are required to ensure compliance and to manage environmental risks. Moreover, environmental laws and regulations applicable to us are likely to become more stringent in the future.

For example, the EU Emissions Trading Scheme, which implements the Kyoto Protocol of 1997 in the countries in which our mills operate, is expected to require progressively increased reductions of carbon dioxide and other greenhouse gas emissions during its third phase of regulation from 2013 to 2020. Until January 2013, under the EU Emissions Trading Scheme, greenhouse gas emission allowances were allocated to us largely free of charge. However, from January 2013 to January 2020, our regulatory allocation of CO2 rights will be reduced to an average of 131,257 tonnes of CO2 rights annually in that period, which creates a deficit for our operational requirements. This reduction and any further limitations applicable to us may require additional material expenditures. In addition, most of our facilities in Spain have been licensed under the EU Integrated Pollution Prevention and Control regime, and conditions imposed by authorities as part of this licensing scheme, or the licensing scheme under its successor, could become more stringent over time and require material capital and other expenditures.

Our industry also faces increasing public and community pressure to consume energy more efficiently, including through the use of renewable fuels, and to reduce waste. In addition, the European paper industry faces increasing pressure to procure wood and pulp from sustainably managed forests through a number of certification schemes. While approximately 29% of the wood used to manufacture our products currently comes from such forests, we may be required to implement additional measures in an effort to address these concerns in the future, which may require us to invest substantial resources in adjusting and modifying our production processes.

The risk of substantial environmental costs and liabilities is inherent in our industry, and there can be no assurance that any incurrence by us of such costs and liabilities, or the adoption of increasingly strict environmental laws, regulations and enforcement policies and practices, will not have a material adverse effect on our financial condition, results of operations or cash flows.

Although we strive to ensure that our facilities comply with all applicable environmental laws and permits required for our operations, we have in the past been, and may in the future be, subject to governmental enforcement actions for failure to comply with environmental regulations. Impacts from historical operations, including the land or water disposal of waste materials, or our own activities may require costly investigation and clean up. In addition, we could become subject to environmental liabilities resulting from personal injury (including from exposure to hazardous materials in the workplace), property damage or natural resources damage and governmental authorities may impose fines, penalties and sanctions, together with tax or other liens on the responsible parties to secure the parties' reimbursement obligations. Expenditures to comply with future environmental requirements and the costs related to any potential environmental liabilities and claims could have a material adverse effect on our business and financial condition.

Environmental regulations also require us to perform environmental impact studies as a condition of obtaining the necessary regulatory licenses, permits and other approvals for future projects. There can be no assurance that governmental authorities will approve these environmental impact studies; or that laws or regulations will not change or be interpreted in a manner that increases our costs of compliance, or materially or adversely affect our operations, facilities or our plans for the companies in which we have an investment or to which we provide our services.

We may incur liability and costs in connection with hazardous substances present at certain of our facilities.

Some of our properties are located on land with a long history of industrial use by us and other companies before us, which has resulted in spills and other releases of hazardous materials (including asbestos) over time. The limited testing for contamination that has taken place at certain of our properties may not be sufficient to ascertain the extent of our obligations with respect to any contamination relating to any of our facilities.

Should we face claims relating to any such hazardous substances, we could incur significant costs defending such claims or damages awards arising from them. Such expenses could have a material adverse effect on our business, financial condition and results of operations.

Concerns about the effects of climate change may have an impact on our business.

Concerns about global warming and carbon footprints, as well as legal and financial incentives favoring alternative fuels, are causing the increased use of sustainable, non fossil fuel sources for electricity generation. Electricity generation companies are competing in the same markets as us for the same raw materials we use in our pulp production process, namely wood and wood chips, driving prices for such materials upwards, especially during the winter in the Northern hemisphere. Climate change could also cause the spread of disease and pestilence into our plantations and fiber sources, far beyond their traditional geographic spreads, increasing the risk that the wood supply necessary to our operations may be negatively impacted. If either of these phenomena intensifies, additional costs or supply shortages could have a material adverse effect on our business, financial condition and results of operations.

Financing conditions for biomass projects may change, affecting the growth and profitability of our electricity generating operations.

Implementation of the electricity generating biomass projects that form part of our growth plan requires the negotiation and closing of project finance structures, reducing future capital commitments. Currently, low interest rates favor the profitability of renewable energy projects, including biomass, and limit the financial attractiveness of alternative investments. We have been and believe that we will continue to be able to reach project finance agreements on favorable terms to us. However, any change in the expected project finance conditions and an increase in interest rates could lead to a reduction of the profitability of new biomass projects and, as a result, negatively affect the prospects for developing this growth opportunity.

Our electricity generating business requires substantial capital investments, suitable sites, qualified suppliers, and administrative permits and authorizations, and we may fail to satisfy these requirements.

The development of electricity production requires a substantial investment of capital, and the period to recover this investment may be long. Under concessions and other agreements, we have committed to make certain future capital expenditures. Any recovery of our capital expenditures and research and development, especially those made in respect of our concessions, will occur over a substantial period of time. Moreover, we may be unable to recoup our investments in these projects due to delays, cost overruns and general timing issues as to when revenue can be derived from these projects. Electricity production also requires the supply and assembly of several technical components, such as turbines and biomass boilers, which are supplied by a small number of suppliers, and large areas of land, which enable the cultivation of bioenergy products as raw materials for the production of energy. A significant increase in the development and construction costs of new installations, difficulties in acquiring or repairing technical equipment and difficulties in finding suitable sites for electricity production could have a significant adverse effect on our business, results of operation and financial condition.

We are also required to obtain administrative permits and authorizations to conduct these activities from various central, regional and local government bodies. We cannot guarantee that the corresponding authorities will approve or grant the necessary permits, licenses and authorizations for our activities or that legislation will not be amended or interpreted in a manner that increases the costs of compliance or causes delays to our projects and investment plans.

Delays in the completion of our biomass projects may have adverse consequences on our business, including the acceleration of the relevant project finance loans and the loss of the preferential tariff.

We may experience delays in the completion of our projects, which in turn may have negative consequences, including the acceleration of the relevant project finance loans and government fines. For example, although we have obtained guarantees from the contractor under our EPC contract for the construction of our new independent biomass energy facility in Mérida, Spain, that the facility will be operational during the fourth quarter of 2014, in the event that this deadline is not met we would not only become subject to a mandatory prepayment of debt under the Mérida project finance loan but may also lose our entitlement to the preferential tariff. Please see “Description of Other Indebtedness—Project Financings—Project Financing for the Mérida Facility” and “Regulation.”

Our electricity generating operations may be adversely affected by any adverse circumstances affecting our pulp production operations.

In 2013, 68.5% of our electricity generation activities were connected with the production of pulp. Consequently, a shutdown, interruption or reduction in the rate of pulp production at any of our facilities could result in a reduction in the volume of electricity production and, as a result, a reduction in the level of income we generate from our electricity generating operations.

The social, economic and environmental impact of our electricity generating operations may have an adverse effect on our business.

Our electricity generating operations may produce environmental side effects. For example, the forestry component of these projects requires devoting large areas of forest for the cultivation of bioenergy products, which occasionally can displace traditional economic activities and affect the local populations, as well as the native animal and plant species of the area. In addition, forest activities necessary for producing timber, such as clearing forests, felling trees and applying chemical treatments to timber, can lead to the loss of natural habitats for local wildlife. Moreover, electricity production facilities may produce negative effects on the environment in the form of atmospheric emissions, waste, water and noise. Public and political opposition to our electricity generating projects based on their real or perceived economic, social and environmental impact may obstruct or increase the cost of obtaining necessary permits to implement projects, and our existing permits and authorizations may be subject to legal challenges by persons who consider that they have been prejudiced by our projects. The real or perceived economic, social or environmental impact of our activities may expose us to negative publicity and to compliance, litigation and reputation costs and, as a result, have an adverse effect on our business, results of operation and financial condition.

As a result, we cannot guarantee that all of the biomass renewable energy generation facilities that we may develop in the future will ultimately be authorized by local authorities or accepted by the local population. For example, the local population could oppose the construction of a biomass renewable energy generation facility at the local government level, which could in turn lead to the imposition of more restrictive requirements.

In certain jurisdictions, if a significant portion of the local population were to mobilize against the construction of a biomass renewable energy generation facility, it may become difficult, or impossible, for us to obtain or retain the required building permits and authorizations. Moreover, such challenges could result in the cancellation of existing building permits or even, in extreme cases, the dismantling of, or the retroactive imposition of changes in the design of, existing biomass renewable energy generation facilities.

Our operations could be adversely affected if we are unable to retain key employees.

We depend on our senior management. Our performance and our ability to implement our strategy depend on the efforts and abilities of our executive officers and key employees. Our operations could be adversely affected if, for any reason, a number of these officers, key employees or valuable local managers with significant experience in a specific market do not remain with us. There may be a limited number of persons with the requisite skills to serve in these positions and we may be unable to replace key employees with qualified personnel on acceptable terms. In addition, our future success requires us to continue to attract and retain competent personnel.

A large percentage of our employees are unionized and wage increases or work stoppages by our unionized employees may have a material adverse effect on our business.

A large percentage of our employees are represented by labor unions under collective bargaining agreements, which need to be renewed from time to time. We are due to renegotiate and/or renew five of our current union agreements in 2014, four of which expired in 2012 and one in 2010. We will seek but may not be able to negotiate more favorable terms for our business and may renew the agreement on the same or similar terms to those currently in place, a result that may be more favorable to our employees. In addition, we have in the past and may in the future seek, or be obligated to seek, agreements with our employees regarding workforce reductions, closures and other restructurings. Furthermore, recent labor law reforms in Spain have reduced the automatic extension of union agreements from two years to only one year from the date of such agreements' respective expiration dates. Although we have agreed with the unions an extension for another year of the agreements, the new law increases employees' incentive to negotiate for more favorable terms since the expiration of such extension would result in the employees becoming subject to the less favorable general labor regulations. We may not be able to negotiate acceptable new collective bargaining agreements or future restructuring agreements, which could result in labor disputes. We may also become subject to material cost increases or additional work rules imposed by agreements with labor unions. This could increase expenses in absolute terms and/or as a percentage of net sales. Although we believe we have good relations with our employees, work stoppages or other labor disturbances may occur in the future which could adversely impact our business. For example, in August 2012, a strike occurred at the work center located in Navia, Spain and, in November 2012, a one-day strike occurred at our pulp production facility in Pontevedra, Spain.

Transactions with counterparties expose us to credit risk which we must effectively manage to mitigate the effect of counterparty defaults.

We are exposed to the default risk of counterparties (a customer, provider, partner or financial entity), which could impact our business, financial condition and results of operations. Although we actively manage this credit risk through the use of nonrecourse factoring contracts, which involve banks and third parties assuming a counterparty's credit risk, and credit insurance, our risk management strategy may not be successful in limiting our exposure to credit risk, which could adversely affect our business, financial condition and results of operations.

We may be adversely affected by risks associated with acquisitions or investments in joint ventures with third parties.

If we decide to make certain acquisitions or financial investments in order to expand or diversify our business, we may take on additional debt to pay for such acquisitions. Moreover, we cannot guarantee that we will be able to complete all, or any, such external expansion or diversification transactions that we might contemplate in the future. To the extent we do, such transactions expose us to risks inherent in integrating acquired businesses and personnel, such as the inability to achieve projected synergies; difficulties in maintaining uniform standards, controls, policies and procedures; recognition of unexpected liabilities or costs; and regulatory complications arising from such transactions. Furthermore, the terms and conditions of financing for such acquisitions or financial investments could restrict the manner in which we conduct our business, particularly if we were to use debt financing. These risks could have a material adverse effect on our business, financial condition and results of operations.

In addition, we may pursue significant investments in certain strategic development projects with third parties. In certain cases, these projects may be developed pursuant to joint venture agreements over which we only have partial or joint control. Investments in projects over which we have partial or joint control are subject to the risk that the other shareholders of the joint venture, who may have different business or investment strategies than we do or with whom we may have a disagreement or dispute, may have the ability to block business, financial or management decisions, such as the decision to distribute dividends or appoint members of management, which may be crucial to the success of the project or our investment in the project, or otherwise implement initiatives that may be contrary to our interests. Our partners may be unable, or unwilling, to fulfill their obligations under the relevant joint venture agreements and shareholder agreements or may experience financial or other difficulties that may adversely impact our investment in a particular joint venture.

We are subject to risks in connection with divestitures.

We are examining the potential sale of some of our forestry assets. In light of the ongoing and possibly worsening economic crisis, we may be unable to realize such divestitures at all or only at lower than anticipated valuation levels. These risks could have material adverse effects on our business, financial condition and results of operations.

Our employees and subcontractors are exposed to accidents related to our activity.

Certain jobs carry inherent risks associated implicitly to the activity itself , such as the positions of managing hazardous substances, the cutting and chopping wood, press operators, workers in forest operational activity , etc. Ence has specific safety and health to prevent these occupational risks. However, these standards minimize but not eliminate entirely possible situations of risk that could occur in any industrial activity of this type, with negative consequences on the health and safety of workers if they materialize.

We may be unable to retain key staff of the company.

Ence depends heavily on its senior management and highly skilled technical staff. The performance and capacity of the company to implement the adopted strategy and to innovate and develop new products, depends on the efforts and abilities of key executives and employees of the company. Operations could be negatively affected if, for any reason, a number of these key employees decide not to remain longer in the organization.

Ence is aware that there may be a limited number of people with specific skills and knowledge necessary to perform these positions, being very difficult, if not impossible, to replace these key employees by hiring other skilled personnel in the same fields. Also future success requires Ence to hire and retain the most competent staff.

Risks Relating to the Notes and Our Structure

Market perceptions concerning the instability of the euro, the potential re-introduction of individual currencies within the countries that utilize the euro as an official currency (the "Eurozone"), or the potential dissolution of the euro entirely, could adversely affect the value of the Notes.

As a result of the credit crisis in Europe, particularly in Greece, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility (the "EFSF") and the European Financial Stability Mechanism (the "EFSM") to provide funding to Eurozone countries in financial difficulties that seek support. In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent stability mechanism, the European Stability Mechanism (the "ESM"), to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries after June 2013.

On February 2, 2012, the Treaty Establishing the European Stability Mechanism (the "ESM Treaty") was signed by each Member State of the Eurozone. The ESM Treaty includes a package of measures, including the provision of financial assistance to its signatories experiencing or being threatened by severe financing problems, where such financial assistance is necessary for the safeguarding of financial stability in the Eurozone as a whole, and entered into force on September 27, 2012. On March 2, 2012, a new fiscal compact, the Treaty on Stability, Coordination and Governance in the Economic Monetary Union (the "Fiscal Compact"), was signed by all Member States of the European Union (the "Member States") (except the Czech Republic and the United Kingdom) and will enter into force on the first day of the month following its ratification by the twelfth Eurozone country. To date, the European Council had received 10 ratification instruments from Eurozone countries. The Fiscal Compact will place deficit restrictions on Member State budgets (other than the United Kingdom and Czech Republic), with associated sanctions for those Member States that violate the specified limits.

Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual Member States. These and other concerns could lead to the re-introduction of individual currencies in one or more Member States, or, in more extreme circumstances, the possible dissolution of the euro entirely. Should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues, could adversely affect the value of the Notes.

Creditors under the Revolving Credit Facility and certain hedging debt are entitled to be repaid with the proceeds of Collateral sold in any enforcement sale in priority to the holders of Notes.

The obligations under the Notes and the Guarantees are secured on a first-ranking basis with security interests over Collateral that also secures our obligations under the Revolving Credit Facility. The Indenture will also permit the Collateral to be pledged to secure additional indebtedness permitted to be incurred and secured, including on an equal and ratable basis or subordinate or junior to the Notes, the Guarantees and the Revolving Credit Facility, in accordance with the terms thereof and of the Intercreditor Agreement.

Pursuant to the Intercreditor Agreement, the liabilities under the Revolving Credit Facility will have priority over any amounts received from the sale of the Collateral pursuant to an enforcement action taken with respect to the Collateral. As such, in the event of a foreclosure of the Collateral, you may not be able to recover on the Collateral if the then outstanding claims under the Revolving Credit Facility and certain hedging arrangements are greater than the proceeds realized. Any proceeds from an enforcement sale of the Collateral by any creditor will, after all obligations under the Revolving Credit Facility and certain hedging arrangements have been discharged from such recoveries, be applied in repayment of the Notes and any other obligations secured by the Collateral on a *pro rata* basis. The Intercreditor Agreement will provide that a common Security Agent, who will also serve as the security agent for the lenders under the Revolving Credit Facility and any additional secured debt permitted to be incurred by the Indenture whose representative accedes as a party to the Intercreditor Agreement, will act only as provided for in the Intercreditor Agreement. In general, there are limitations on the ability of the holders of the Notes to take enforcement action with respect to the Collateral, including a specified consultation period that is required to be observed before enforcement action can commence. For additional details regarding the ability of the holders of the Notes to enforce, please see "Description of Other Indebtedness—Intercreditor Agreement."

The Notes are secured only to the extent of the value of the Collateral that has been granted as security for the Notes and the Guarantees, and such security may not be sufficient to satisfy the obligations under the Notes and the Guarantees.

The holders of the Notes will be secured only by the Collateral. While the Indenture limits the amount of additional debt that can be incurred by the Issuer and its Restricted Subsidiaries, any such debt can be secured by the Collateral, including on an equal and ratable and *pari passu* basis or on a junior or subordinated basis. If there is an Event of Default (as will be defined in the Indenture) on the Notes, there is no guarantee that the value of the Collateral will be sufficient to enable the Issuer to perform its obligations under the Notes. There is no requirement to provide funds to enhance the value of the Collateral if it is insufficient. The proceeds of any sale of the Collateral following an Event of Default with respect to the Notes may not be sufficient to satisfy, and may be substantially less than, amounts due under the Notes as well as other indebtedness secured by the Collateral, including indebtedness under the Revolving Credit Facility as well as *pari passu* debt. The amount of proceeds realized upon the enforcement of the security interests over the Collateral or in the event of liquidation will depend upon many factors, including, among others, whether or not our business is sold as a going concern, the jurisdiction in which the enforcement action or sale is completed, the ability to readily liquidate the Collateral, the availability of buyers and the condition of the Collateral, and exchange rates. Furthermore, there may not be any buyer willing and able to purchase our business as a going concern, or willing to buy a significant portion of its assets in the event of an enforcement action. The book value of the Collateral should not be relied on as a measure of realizable value for such assets. Portions of the Collateral may be illiquid and may have no readily ascertainable market value. In addition, the Collateral excludes leases as well as intellectual property rights, licenses, concessions, contracts or other agreements. Some of these contracts may be material to the Issuer or the Guarantor or may be necessary to operate essential facilities, or conduct to its business operations, and such exclusion or termination could have a material adverse effect on the value of the Collateral or the ability to enforce or realize it.

By its nature, some or all of the Collateral may not have a readily ascertainable market value or may not be salable or, if salable, there may be substantial delays in its disposal. To the extent that liens, security interests and other rights granted to other parties encumber assets owned by the Issuer or the Guarantors, those parties have or may exercise rights and remedies with respect to the property subject to their liens, security interests or other rights that could adversely affect the value of that Collateral and the ability of the Security Agent, acting on behalf of the Trustee or investors as holders of the Notes to realize or enforce that Collateral. If the proceeds of any sale of Collateral are not sufficient to repay all amounts due on the Notes and the Guarantees, investors (to the extent not repaid from the proceeds of the sale of the Collateral) would have only an unsecured claim against the Issuer's and the Guarantors' remaining assets. Each of these factors or any challenge to the validity of the Collateral or the Intercreditor Agreement could reduce the proceeds realized upon enforcement of the Collateral. In addition, there can be no assurance that the Collateral could be sold in a timely manner, if at all. Proceeds from enforcement sales of capital stock and assets that are part of the Collateral must first be applied in satisfaction of obligations under the Revolving Credit Facility and certain hedging arrangements and thereafter towards repayment of the obligations of the Issuer and the Guarantor under the Notes on a *pari passu* basis. In addition, the Indenture will allow the incurrence of certain additional permitted debt in the future that is secured by the Collateral on a priority or *pari passu* basis. Such additional secured debt may be substantial. The rights of a holder of Notes to the Collateral may be diluted by any increase in the debt secured by the Collateral or a reduction of the Collateral securing the Notes.

To the extent that other first-priority security interests, preexisting liens, liens permitted under the Indenture and other rights encumber the Collateral securing the Notes, those parties may have or may exercise rights and remedies with respect to the Collateral that could adversely affect the value of the Collateral and the ability of the Security Agent to realize or foreclose on the Collateral.

The Issuer and the Guarantors have control over the Collateral securing the Notes, and the sale of particular assets could reduce the pool of assets securing the Notes.

The Security Documents will allow the Issuer and the Guarantors to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from the Collateral securing the Notes. So long as no default or event of default under the Indenture would result therefrom, the Issuer and the Guarantors may, among other things, without any release or consent by the Security Agent, conduct ordinary course activities with respect to the Collateral, such as selling, factoring, abandoning or otherwise disposing of Collateral and making or collecting ordinary course cash payments, including repayments of indebtedness.

The value of the Collateral may decrease because of obsolescence, impairment or certain casualty events.

The value of the properties that the Issuer and the other Guarantors own or lease and the real estate serving as Collateral may be adversely affected by depreciation and normal wear and tear or because of certain events that may cause damage to these properties. Although the Security Documents contain certain covenants in relation to the maintenance and preservation of assets, the Issuer and the Guarantors are not required to improve the Collateral. The Issuer is obligated under the Security Documents to maintain insurance with respect to the Collateral, but the proceeds of such insurance may not be sufficient to rebuild or restore such properties to their original condition prior to the occurrence of the events that caused the insured damages. Those insurance policies will most certainly not cover all the events that may conceivably result in damage to the Collateral.

It may be difficult to realize the value of the Collateral securing the Notes.

The Collateral securing the Notes is subject to any and all exceptions, defects, encumbrances, liens and other imperfections permitted under the Indenture and/or the Intercreditor Agreement and accepted by other creditors that have the benefit of first priority security interests in the Collateral securing the Notes from time to time, after the Issue Date. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral securing the Notes, as well as the ability of the Security Agent to realize or foreclose on such Collateral. Furthermore, the first-priority ranking of security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or recharacterization under the laws of certain jurisdictions.

The security interests of the Security Agent may be subject to practical problems generally associated with the realization of security interests over real or personal property such as the Collateral. For example the Security Agent may need to obtain the consent of a third party to enforce a security interest. We cannot assure you that the Security Agent will be able to obtain any such consents. We also cannot assure you that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. Accordingly, the Security Agent may not have the ability to foreclose upon those assets, and the value of the Collateral may significantly decrease.

In addition, we are required to register our various operations with national regulators. Such requirements may prohibit foreclosure on the share capital of the Guarantors or may require us to incur significant cost and expense due to such requirements. Furthermore, there can be no assurance that any applicable governmental authorities will consent to such action. If any regulatory approvals that are required are not obtained or are delayed, the foreclosure may be delayed, a temporary shutdown of operations may occur and the value of the Collateral may be significantly decreased.

The security interests in the Collateral are not directly granted to the holders of the Notes.

The security interests in the Collateral that secure the obligations of the Issuer under the Notes and the obligations of the Guarantors under the Guarantees are not granted directly to the holders of the Notes but are granted only in favor of the Trustee and the holders of the Notes in accordance with the Indenture and the Intercreditor

Agreement, holders of the Notes will not have direct security interests and will not be entitled to take enforcement action in respect of the Collateral securing the Notes, except through the Trustee, who will (subject to the provisions of the Indenture) provide instructions to the Security Agent in respect of the Collateral.

The enforcement of the Collateral may be restricted by Spanish law.

Spanish Insolvency Law imposes a moratorium on the enforcement of secured creditors' rights (*in rem* security) in the event of insolvency. Once the debtor is declared insolvent, the enforcement of security interests over assets owned by the debtor and used for its professional or business activities (presumably most of the debtor's assets) is stayed until the first of the following circumstances occurs: (a) approval of a creditors' composition agreement (unless the content has been approved by the favorable vote of the secured creditors, in which case it will be bound by whatever has been agreed in the composition agreement); or (b) one year has elapsed since the declaration of insolvency without liquidation proceedings being initiated. Enforcement will be stayed even if at the time of declaration of insolvency the notices announcing the public auction have been published. The stay will only be lifted when the court hearing the insolvency proceedings determines that the asset is not used for the debtor's professional or business activities or is not necessary for the survival of the debtor's business. When it comes to determining which assets of the debtor are used for its professional or business activities, courts have generally embraced a broad interpretation and will likely include most of the debtor's assets. Finally, enforcement of the Collateral will be subject to the provisions of Spanish Procedural Law and Spanish Insolvency Law (where applicable) and this may entail delays in the enforcement.

Applicable law requires that a security interest in certain assets can only be properly perfected (or registered or other foreign equivalent) and its priority retained through certain actions undertaken by the secured party. The liens on the Collateral securing the Notes from time to time owned by us or the Guarantors may not be perfected (or registered or other foreign equivalent), which may result in the loss of the priority, or a defect in the perfection (or registration or other foreign equivalent), of the security interest for the benefit of the Trustee and holders of the Notes to which they would have been otherwise entitled. Neither the Security Agent nor the Trustee will be obligated to create or perfect any of the security interests in the Collateral.

Spanish law does not contemplate the concept of "security agent." Although this by itself does not prohibit this agent to be set in place, the fact that there is a lack of regulation on the matter provides uncertainty as to how a Spanish court would recognize the acting of the Security Agent in an enforcement situation. Since holders of the Notes will not have any independent power to enforce the Collateral securing the Notes, except through the Security Agent following the instructions of the Trustee, there is some uncertainty as to whether a Spanish court would recognize the authority of the Security Agent or whether lack of recognition would entail delays in the enforcement or even the consequence of the Collateral not being able to be enforced on the same terms as provided for in the Security Documents.

For more information, please see "Offering Memorandum- Certain Insolvency Law and Enforceability Considerations."

The Collateral may be released without the consent of the holders of the Notes.

The Collateral may be released in certain circumstances, including in the event the Collateral is sold pursuant to an enforcement sale in accordance with the Intercreditor Agreement. If such Collateral consists of all of the shares of a Guarantor, then such Guarantor's Guarantee might also be released under such circumstances. Please see "Description of the Notes—Credit Enhancement—Release of Guarantees" and "Description of the Notes—Credit Enhancement—Release of Collateral."

Additionally, the Indenture will permit us to release and retake the security interest granted over the Collateral in order to issue additional Notes pursuant to the Indenture. Upon the issuance of additional Notes pursuant to the Indenture, there may be a time period imposed by applicable laws between the release and retaking of the security interest during which there is no security interest over the Collateral. In some circumstances, such as if we were to file for bankruptcy after the issuance of additional Notes, a hardening period may apply and retroactively void the retaking of the security interest in favor of the holders of the Notes. Accordingly, there is a risk that, should we issue additional Notes pursuant to the Indenture, the Collateral could be released and its subsequent retaking voided. Please see "Description of the Notes—Certain Covenants—Impairment of Security Interest."

Our substantial indebtedness may make it difficult for us to service our debt, including the Notes, and to operate our business.

We have a significant amount of indebtedness. As of December 31, 2013, we would have had €376.8 million of indebtedness, of which €250.0 million would have been represented by the Notes. We anticipate that our substantial indebtedness will continue for the foreseeable future. Our substantial indebtedness may have important negative consequences for you, including:

- making it more difficult for us and our subsidiaries to satisfy our obligations with respect to our debt, including the Notes and other liabilities;
- requiring that a substantial portion of the cash flow from operations of our operating subsidiaries be dedicated to debt service obligations, reducing the availability of cash flow to fund internal growth through working capital and capital expenditures, and for other general corporate purposes;
- increasing our vulnerability to economic downturns in our industry;
- exposing us to interest rate increases;
- placing us at a competitive disadvantage compared to our competitors that have less debt in relation to cash flow;
- limiting our flexibility in planning for or reacting to changes in our business and our industry;
- restricting us from pursuing strategic acquisitions or exploiting certain business opportunities; and
- limiting, among other things, our and our subsidiaries' ability to borrow additional funds or raise equity capital in the future and increasing the costs of such additional financings.

In the worst case, an actual or impending inability by us or our subsidiaries to pay debts as they become due and payable could result in our insolvency.

In addition, the Indenture and the Revolving Credit Facility contain restrictions that substantially limit our financial and operational flexibility and that of our subsidiaries. In particular, these agreements place limits on our ability to incur additional indebtedness; grant security interests to third persons; dispose of material assets; undertake organizational measures such as mergers, changes of corporate form, joint ventures or similar transactions; and enter into transactions with related parties.

Despite our current substantial indebtedness, we may be able to incur more debt in the future, including on a secured basis over the Collateral or otherwise, which could further exacerbate the risks of our indebtedness.

We may incur more debt in the future. The Revolving Credit Facility provides for total commitments of up to €90.0 million, and no cash drawings were outstanding as of December 31, 2013. The Indenture limit our ability to incur additional debt but not prohibit us from doing so. We may incur additional debt in the future, secured by the Collateral or otherwise, which could mature prior to the Notes, and such debt could be secured on an equal, ratable and *pari passu* basis with the Notes and the Guarantees. Any non-Guarantor subsidiary could also incur additional debt, and the Notes and Guarantees would be structurally subordinated to any such debt.

Furthermore, while our management intends to stand by its publicly communicated strategy, as of the date of this Report, to maintain a maximum leverage of 2.5x net debt/Mid-cycle EBITDA going forward, since 2010, when management first announced this strategy, our leverage ratio has been subject to significant movements. We cannot be sure that we will be able to implement our strategy, which is subject to numerous known and unknown risks and uncertainties.

Future defaults under our project finance indebtedness could adversely affect us.

Under the terms of our existing project financing guarantees related to the Huelva and Mérida facilities, the Issuer undertakes under certain circumstances the obligations of the respective project companies, including in the event of cost overruns related to the construction of the facilities, non-completion of the facilities by a specified date or failure to meet certain requirements under the EPC contracts. In addition, in connection with each of the Huelva and Mérida project finance debt, we have agreed to maintain a minimum biomass stock equivalent to 670,000 tonnes and 200,000 tonnes, respectively, and, in the event stocks fall below these limits, we have undertaken to set aside in a special account sufficient funds to purchase the difference, with a cap of €25.0 million and € 4.3 million, respectively. Even though we now have back-to-back guarantees with the contractor under our EPC contracts, we may not be able to enforce these back-to-back guarantees against the EPC contractor and the EPC contractor may not be able to fulfill those guarantees. For a more detailed description of the terms of these project financing agreements, please see "Description of Other Indebtedness—Project Financings—Project Financing for the Huelva Facility" and "Description of Other Indebtedness—Project Financings—Project Financing for the Mérida Facility."

As of December 31, 2013, we had €362.4 million of outstanding indebtedness on a consolidated basis, of which €102.9 million (net of €3.7 million of unamortized transaction costs) was project finance debt.

Defaults by our project finance companies can have important consequences for the Issuer and the restricted group, including, without limitation: (i) reducing the restricted Group's receipt of dividends, fees, interest payments, loans and other sources of cash since the project company will typically be prohibited from distributing cash to the Issuer and its restricted subsidiaries during the pendency of any default; (ii) causing the Issuer to record a loss in the event the lender forecloses on the assets; and (iii) causing the loss or impairment of investor confidence in the Issuer.

The Issuer is dependent on payments from its subsidiaries in order to be able to make payments on the Notes, and the Issuer's subsidiaries may not be permitted or otherwise able to make payments to the Issuer.

Even if our subsidiaries generate sufficient cash from their operations, their ability to provide funds to the Issuer is subject to, among other things, local tax restrictions and local corporate law restrictions related to earnings, the level of legal or statutory reserves, losses from previous years and capitalization requirements for our subsidiaries. As a result, although we may have sufficient resources, on a consolidated basis, to meet our obligations, our subsidiaries may not be able to make the necessary transfers to us to permit us to satisfy our obligations under the Notes or otherwise. In particular, our subsidiaries may be restricted from providing funds to us under some circumstances. These circumstances include:

- restrictions under the corporate law of the jurisdictions in which our subsidiaries are based. The relevant laws could require, among other things, that our subsidiaries retain a certain percentage of annual net income in a legal reserve, that our subsidiaries maintain the share capital of a limited liability company and that, after payment of any divided, the relevant subsidiary's shareholders' equity exceed its share capital. For example, Spanish law limits our subsidiaries' ability to provide funds to the Issuer due to restrictions that require, among other things, each of our Spanish subsidiaries to retain at least 10% of its annual net income in a legal reserve until the reserve reaches at least 20% of such company's share capital and that, after payment of any dividend, shareholders' equity (after subtracting goodwill and start-up expenses) must exceed the company's share capital. Moreover, the by-laws of each of our Spanish subsidiaries may provide for additional reserves that must be retained prior to providing funds to us;

- restrictions under foreign exchange laws and regulations that could limit or tax the remittance of dividends or transfer payments abroad; and

- existing and future contractual restrictions, including restrictions in credit facilities, cash pooling arrangements and other indebtedness that affect the ability of our subsidiaries to pay dividends or make other payments to us in the future.

We require a significant amount of cash to service our debt and for other general corporate purposes. Our ability to generate sufficient cash depends on many factors beyond our control.

Our ability to make payments on our debt, and to fund working capital and capital expenditures, will depend on our future operating performance and ability to generate sufficient cash. This depends, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control, as well as the other factors discussed in these "Risk Factors" and elsewhere in this Report.

Our business may not generate sufficient cash flows from operations, and additional debt and equity financing may not be available to us in an amount sufficient to enable us to pay our debts when due, including the Notes, or to fund our other liquidity needs. For a discussion of our cash flows and liquidity, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

If our future cash flows from operations and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities and capital expenditures;
- sell assets;
- obtain additional debt or equity financing; or
- restructure or refinance all or a portion of our debt, including the Notes, on or before maturity.

We may not be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. In addition, the terms of our debt, including the Revolving Credit Facility and the Notes, and any future debt that we may incur, may limit our ability to pursue any of these alternatives.

The Guarantees are significantly limited by applicable laws and are subject to certain limitations or defenses.

The Guarantors will guarantee the payment of the Notes as described in "Description of the Notes—Credit Enhancement—Guarantees." The Guarantees provide the holders of the Notes with a direct claim against the relevant Guarantor. However, the obligations of each Guarantor under its Guarantee are limited under the Indenture to an amount that has been determined so as to ensure that amounts payable will not result in violations of laws relating to corporate benefit, capitalization, capital preservation (under which, among others, the risks associated with a guarantee or grant of security on account of a parent company's debt need to be reasonable and economically and operationally justified from the guarantor's or grantor's perspective), thin capitalization, corporate purpose, financial assistance or transactions under value, or otherwise cause the Guarantor to be deemed insolvent under applicable law or such Guarantee to be deemed void, unenforceable or *ultra vires*, or cause the directors of such Guarantor to be held in breach of applicable corporate or commercial law for providing such Guarantee. If these limitations were not observed, the Guarantees and the grant of security interests by the Guarantors could be subject to legal challenge.

As a result, a Guarantor's liability under its Guarantees could be materially reduced or eliminated depending upon the amounts of its other obligations and upon applicable laws. In particular, in certain jurisdictions, a guarantee issued by a company that is not in that company's corporate interests or the burden of which exceeds the benefit to the company may not be valid and enforceable. It is possible that a Guarantor, a creditor of a Guarantor or the insolvency administrator, in the case of an insolvency of a Guarantor, may contest the validity and enforceability of the respective Guarantee and that the applicable court may determine that the Guarantee should be limited or voided. In the event that any Guarantee is deemed invalid or unenforceable, in whole or in part, or to the extent that agreed limitations on the Guarantee apply, the Notes would not be guaranteed by such Guarantee.

For more information on the specific limitations under applicable law of the respective jurisdictions of incorporation of the Guarantors and certain contractual limitations to be confirmed in the Indenture, please see "Offering Memorandum-Certain Insolvency Law and Enforceability Considerations."

Fraudulent conveyance laws may limit your rights as a holder of Notes.

Although laws differ among various jurisdictions, in general, under fraudulent conveyance laws, a court could subordinate or void a Guarantee if it found that:

- the Guarantee was incurred with an actual intent to hinder, delay or defraud creditors or shareholders of the Guarantor;
- the Guarantee was granted within two years prior to the insolvency declaration of the Guarantor and it is detrimental for the Guarantor's state; or
- the Guarantor did not receive fair consideration or reasonably equivalent value for the Guarantee and the Guarantor:

- was insolvent or was rendered insolvent because of the Guarantee;
- was undercapitalized or became undercapitalized because of the Guarantee; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay at maturity.

The measure of insolvency for purposes of fraudulent conveyance laws varies depending on the law applied. Generally, however, a Guarantor would be considered insolvent if it could not pay its debts as they become due. If a court decided that any Guarantee was a fraudulent conveyance and voided such Guarantee, or held it unenforceable for any other reason, you would cease to have any claim in respect of the Guarantor of such Guarantee and would be a creditor solely of the Issuer and the remaining Guarantors. Please see "Offering Memorandum-Certain Insolvency Law and Enforceability Considerations."

In an insolvency proceeding, it is possible that creditors of the Guarantors or the appointed insolvency administrator may challenge the Guarantees, and intercompany obligations generally, as fraudulent transfers or conveyances or on other grounds. If so, such laws may permit a court, if it makes certain findings, to: (i) avoid or invalidate all or a portion of a Guarantor's obligations under its Guarantee; (ii) direct that holders of the Notes return any amounts paid under a Guarantee to the relevant Guarantor or to a fund for the benefit of the Guarantor's creditors; and (iii) take other action that is detrimental to you.

Local insolvency laws may not be as favorable to you as U.S. bankruptcy laws or those insolvency laws of another jurisdiction with which you may be more familiar.

The Issuer is incorporated in Spain, and the Guarantors are organized under the laws of Spain. Accordingly, any insolvency proceedings against the Issuer and the Guarantors would likely be based on Spanish insolvency laws. The insolvency laws of Spain may not be as favorable to holders of the Notes as the laws of the United States or some other jurisdictions. Certain provisions of Spanish Insolvency Law could affect the ranking of the Notes and the Guarantees or claims relating to the Notes and the Guarantees on an insolvency of the Issuer or the Guarantors, as the case may be. In particular, under Spanish law, a creditor's rights will be subordinated to the preferential and ordinary debts of a debtor in an insolvency proceeding if such creditor is determined to be a "specially related" party to the debtor. One factor considered in determining if a party is "specially related" is (i) whether such party holds more than 10% of the capital of the debtor (for companies that are not listed) or 5% (for companies that are listed, as in the case of the Issuer) by the time the credit right under dispute in the insolvency scenario arises; or (ii), in the event of companies pertaining to the same group as the insolvent debtor and their common shareholders, provided that such shareholders meet the minimum shareholding requirements set forth before. Payments made under an equitably subordinated loan preceding the bankruptcy of an obligor may in certain circumstances be clawed back. Please see "Offering Memorandum-Certain Insolvency Law and Enforceability Considerations—Spain—Spanish Insolvency Law."

Not all of our subsidiaries will guarantee the Notes, and any claim by us or any of our creditors, including the holders of the Notes, against such non-Guarantor subsidiaries will be structurally subordinated to all of the claims of creditors of those non-Guarantor subsidiaries.

Not all of our existing and future subsidiaries will guarantee the Notes. On a consolidated basis as of December 31, 2013, we had total assets of €1,362.3 million and total debt of €362.4 million. On an aggregated basis, we estimate that the Issuer and the Guarantors together would have accounted for approximately 81.4% of the total assets, 87.5% of the revenue and 87.5% of the EBITDA of the Issuer and its subsidiaries as of and for the twelve months ended December 31, 2013. In addition, the subsidiaries of the Issuer that will not guarantee the Notes would have had €102.9 million of debt outstanding as of December 31, 2013 on a consolidated basis. The Indenture does not limit the transfer of assets to, or the making of investments in, any of our restricted group members, including our non-guarantor subsidiaries. Please see "Description of the Notes—Certain Covenants." Accordingly, even though any subsidiary whose EBITDA for the most recently completely fiscal year represents the greater of: (i) 5% or more of the consolidated EBITDA of the Issuer and the subsidiaries that will be Restricted Subsidiaries under the Indenture; or (ii) €5.0 million, will be required to provide an additional Guarantee for the benefit of the Notes, non-Guarantor subsidiaries could account for a higher portion of our assets, liabilities, revenues and net income in the future.

In the event that any of our non-Guarantor subsidiaries becomes insolvent, liquidates, reorganizes, dissolves or otherwise winds up, the assets of such non-Guarantor subsidiary will not be subject to claims from the holders of the Notes to satisfy their respective credits against us and will be used first to satisfy the claims of the non-Guarantor subsidiary's creditors, including trade creditors, banks and other lenders. Consequently, any claim by us or our creditors against a non-Guarantor subsidiary will be structurally subordinated to all of the claims of the creditors of such non-Guarantor subsidiary.

We may not have the ability to raise the funds necessary to finance a change of control offer.

Upon the occurrence of certain change of control events as described in the Indenture, we will be required to offer to repurchase all of the Notes in cash in an amount equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase. The requirement that we offer to repurchase the Notes upon a change of control is limited only to the transactions specified in the definition of "Change of Control" within the Indenture. Please see "Description of the Notes—Change of Control." We may not have sufficient funds at the time of any such event to make the required repurchases. Additionally, certain change of control events would be prepayment events under the Revolving Credit Facility. In the event this results in an event of default thereunder, the lenders under the Revolving Credit Facility may accelerate such debt, which could also cause an event of default under the Indenture.

The source of funds for any repurchase required as a result of any such event will be available cash or cash generated from operating activities or other sources, including borrowings, sales of assets and sales of equity or funds provided by subsidiaries. Sufficient funds may not be available at the time of any such events to make any required repurchases of the Notes tendered.

You may be unable to enforce judgments against us, the Guarantors or our respective directors and officers.

Neither the Issuer nor any of the Guarantors are incorporated in the United States. In addition, all of the Group's assets are outside the United States and all of the Group's directors and officers live outside the United States, primarily in Spain. The Issuer's and the Guarantors' auditors are also organized outside the United States. As a result, it may be difficult or impossible to serve process against any of these persons in the United States. Furthermore, because all or substantially all of the assets of these persons are located outside of the United States, it may not be possible to enforce judgments obtained in courts in the United States predicated upon civil liability provisions of the federal securities laws of the United States against these persons. Additionally, there is doubt as to the enforceability in many foreign jurisdictions, including Spain, of civil liabilities based on the civil liability provisions of the federal or state securities laws of the United States against the Issuer, the Guarantors, the directors, controlling persons and management and any experts named in this Report who are not residents of the United States. Please see "Offering Memorandum-Service of Process and Enforcement of Civil Liabilities."

Our significant shareholders may sell their stake in the near future, which may ultimately affect our results of operations and increase the volatility of our share price.

Some of our current significant shareholders may suffer financial distress and may need to sell their stake in the Issuer in the market. In order to avoid negative distortions to and minimize the volatility of our share price derived from any such sales, we may decide from time to time to acquire such shares for our treasury stock, which would result in a substantial cost for us and may affect our results of operations.

There are risks related to withholding tax in Spain, including in conjunction with the collection of certain documentation from the Paying Agent.

Under new Spanish tax regulations established by Royal Decree 1065/2007, as amended by Royal Decree 1145/2011, income obtained in respect of the Notes will not be subject to withholding tax in Spain only if certain requirements are met, including that the Paying Agent provides us, in a timely manner, with a duly executed and completed statement providing certain details relating to the Notes (the "Payment Statement"). Accordingly, if we do not receive the Payment Statement from the Paying Agent in a timely manner, income in respect of the Notes will be subject to withholding tax in Spain, currently at the rate of 21%. Please see "Offering Memorandum-Certain Tax Considerations—Spanish Tax Considerations" for a more detailed explanation. The Issuer will not gross up payments in respect of any such withholding tax.

It is expected that the Paying Agent will follow certain procedures to facilitate the timely provision by the Paying Agent to us of a duly executed and completed Payment Statement in connection with each payment of income under the Notes. Please see "Offering Memorandum-Certain Tax Considerations—Spanish Tax Considerations." If such procedures are not followed, however, the Issuer will withhold tax at the applicable rate (currently 21%) from any income payment in respect of the Notes. Such procedures may be revised from time to time in accordance with changes in the applicable Spanish laws and regulations or administrative interpretations thereof. Accordingly, while the

Notes are represented by a Global Note (as defined herein), holders of the Notes must rely on such procedures in order to receive payments under the Notes free of any Spanish withholding tax, to the extent applicable. Prospective investors should note that neither the Issuer nor the Underwriters will be liable for any damage or loss suffered by any beneficial owner who would otherwise be entitled to an exemption from Spanish withholding tax because these procedures prove ineffective. Moreover, the Issuer will not pay any additional amounts with respect to any such withholding. Therefore, to the extent a payment of income in respect of the Notes is not exempt from Spanish withholding tax, including due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, beneficial owners may have to apply directly to the Spanish tax authorities for any refund to which they may be entitled.

There are certain risks relating to the Euro MTF Market not being regarded as an organized secondary market.

Pursuant to Law 13/1985 of May 25 on Investment Ratios, Own Funds and Information Obligations of Financial Intermediaries, as amended ("Law 13/1985"), the application of the tax regime described under "Offering Memorandum-Certain Tax Considerations—Spanish Tax Considerations" requires, among other conditions, that the Notes be listed on an organized secondary market (*mercado secundario organizado*). However, Law 13/1985 does not clarify how this term should be interpreted and neither the Spanish tax authorities nor the Spanish courts have issued an opinion with respect to this matter so far. While there is a reasonable basis to believe that multilateral trading facilities, such as the Euro MTF Market of the Luxembourg Stock Exchange, satisfy the requirements for such a facility to be considered an "organized secondary market," there is a possibility that the Spanish tax authorities could take a different position and assert that only "regulated markets" (as this term is defined by the EU Directive 2004/39/EC) meet the "organized secondary market" requirement established by Law 13/1985. If the Notes are not deemed to be listed on an organized secondary market, Law 13/1985 will not apply to the Notes, which may have a material adverse effect on our results of operations.

There are certain risks relating to the interplay between certain provisions of U.S. and Spanish law.

In Spain, issuers of debt securities such as the Notes are generally required to have a syndicate of holders (*Sindicato de Obligacionistas*) that is represented by a commissioner (*Comisario*). However, because the Indenture governing the Notes will contain mandatory provisions relating to the appointment of a Trustee, there will be neither a Syndicate of Holders nor a commissioner. As a result, a holder of Notes will not benefit from: (i) any rights as a holder of Notes arising from Article 411 of the Spanish Capital Companies Law (*Ley de Sociedades de Capital*); (ii) the constitution of a Syndicate of Holders; and (iii) the appointment of a commissioner (with respect to (ii) and (iii), both as regulated by Articles 419 and 429 *et seq*. of the Spanish Capital Companies Law), and will be deemed to have irrevocably instructed the Trustee to take any action and/or to execute and deliver any documents or notices that may be necessary or desirable to comply with, and give effect to, the preceding sentence. Notwithstanding the foregoing, the effectiveness of certain amendments, consents, waivers or other actions of the holders of the Notes taken pursuant to the Indenture or the lack of a syndicate of holders or of an express appointment of a commissioner may be challenged under Spanish law.

There is no existing public trading market for the Notes and the ability to transfer them is limited, which may adversely affect the value of the Notes.

There is no existing trading market for the Notes and there can be no assurance that a trading market for the Notes will develop. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market or how liquid that trading market might become. Although the Initial Purchasers have advised us that they intend to make a market in the Notes, they are not obligated to do so and may stop at any time. The market price of our Notes may be influenced by many factors, some of which are beyond our control, including:

- changes in demand, the supply or pricing of our products;
- general economic conditions, including raw material prices;
- the activities of competitors;
- our quarterly or annual earnings or those of our competitors;
- investors' perceptions of us and the pulp industry;

- the failure of securities analysts to cover our Notes or changes in financial estimates by analysts;
- the public's reaction to our press releases or our other public announcements;
- future sales of Notes; and
- other factors described under these "Risk Factors."

As a result of these factors, you may not be able to resell your Notes at or above the purchasing price. In addition, securities trading markets experience extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of a particular company. These broad market fluctuations and industry factors may materially reduce the market price of our Notes, regardless of our operating performance. If an active trading market does not develop, you may have difficulty selling any Notes that you buy.

The Notes have not been and will not be registered under the U.S. Securities Act or any U.S. securities laws and we have not undertaken to effect any exchange offer for the Notes in the future. You may not offer the Notes for sale in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws, or pursuant to an effective registration statement. The Notes and the Indenture will contain provisions that will restrict the Notes from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other exceptions under the U.S. Securities Act. Furthermore, we have not registered the Notes under any other country's securities laws. It is your obligation to ensure that your offers and sales of the Notes within the United States and other countries comply with applicable securities laws. Please see "Offering Memorandum-Notice to Investors."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations as of and for the years ended December 31, 2012 and December 31, 2013. The following discussion contains certain forward-looking statements that reflect our plans, estimates and beliefs. Our results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Report.

Overview

Our Company

We are the largest BHKP producer in Europe, with an annual maximum installed capacity of 1.34 million tons of pulp as of December 31, 2013. We also have a significant co-generation and renewable energy generation business, with an installed capacity of approximately 280 MW as of December 31, 2013 and total energy sales of 1,896 GWh for the twelve months ended December 31, 2013. Our integrated pulp and energy business model takes advantage of our strong positioning in forestry supply management, both with respect to managing forest plantations and crops for the production of wood and cultivated biomass and with respect to sourcing wood from third-party sources as required for our business. As of December 31, 2013, we managed approximately 88,266 hectares of plantations, of which we owned approximately 56%.

We are publicly listed on the Madrid Stock Exchange (*Bolsa de Valores de Madrid*) with a market capitalization of €682.0 million as of December 31, 2013. For the twelve months ended December 31, 2013, we generated revenue of €853.0 million, Adjusted EBITDA of €158.0 million and unlevered free cash flow (excluding expansion capital expenditure) of €152.7 million.

Key Factors Affecting Our Results of Operations

Our results of operations are driven by a combination of factors affecting the pulp and energy industries, including, in addition to general macroeconomic conditions, cyclicality in the pulp industry, costs of raw materials such as wood, non-biomass fuels and chemicals, energy costs, the effects of currency fluctuations and government incentives relating to renewable energy production and co-generation. Our results of operations are also impacted by company-specific structural and operational factors, as well as acquisitions, dispositions and changes in business focus. Set forth below is an overview of the key drivers that have affected the historical results of operations of our business and/or are expected to affect our consolidated results of operations in future periods.

Cyclicality in the Pulp Industry

Our results of operations are affected significantly by cyclicality in the pulp industry. Long-term demand for pulp is driven by global economic and demographic trends, technological developments and trends in end-user preferences and therefore the demand for paper products and the adjustment of production capacity to changes in demand. In addition, greater pulp production capacity, and hence an increased amount of available pulp supplies, on a global basis can also impact the supply and demand balance. Profitability in the pulp industry is highly sensitive to changes in prices, and industry cycles reflect the constantly shifting balance between supply and demand for pulp, as well as changes in inventory levels. Periods of industry-wide investment in new production capacity or significant contractions in demand due to weak economic conditions have in previous industry cycles led to decreases in product prices. Over the last three years, BHKP prices in Europe fluctuated from $648 per ton to $877 per ton during 2011; and from $649 per ton to $786 per ton during 2012; and from $768 per ton to $821 per ton during 2013.

We are dependent on pulp sales which as of 2013, accounted for 71.7% of our revenues. The international market prices of pulp have historically fluctuated significantly, and we believe that they will continue to do so due to global economic developments, such as changes in demand for pulp in China and in other countries which are significant consumers of pulp. Significant increases in the international market price of pulp, and consequently, the prices that we are able to charge customers, would likely increase our net revenues and our results of operations to the extent that we are able to maintain our operating margins and such increased prices do not reduce sales volumes of the pulp that we produce. Conversely, however, significant decreases in the international market price of pulp, and consequently, the prices that we are able to charge customers, would likely reduce our net revenues and our results of operations to the extent that we are not able to increase our operating margins and/or such reduced prices do not result in increased sales volumes of our products.

Costs of Raw Materials

Our results of operations are impacted by the prices we pay for the raw materials used to manufacture our products, including, in particular, for wood sourced from third parties, certain non-biomass fuels and chemicals (including caustic soda). Raw material costs are a significant component of our Cash Costs (defined as Wood Costs plus Other Cash Costs).

The principal raw materials used in the manufacture of our products are as follows:

- *Wood.* Wood Costs accounted for more than half of our Cash Costs 2012 and 2013. Eucalyptus wood is the principal raw material used by us to manufacture pulp. Of the total amount of wood supplied 84.9% and 82.7% was obtained from local suppliers or landowners in the Iberian Peninsula in the years ended December 31, 2012 and December 31, 2013, with for these same periods 3.7% and 6.4%, respectively, coming from our own plantations in the Iberian Peninsula and 11.4% and 10.9%, respectively, being imported from South America or Africa (including our plantations in Uruguay). The price we pay for local wood is dependent on a number of factors related to local supply and demand dynamics (including the demand for wood from other industries that consume wood and the potential impact on wood supply of natural phenomena such as forest fires and insect infestations) as well as the species of eucalyptus from which the wood was obtained, the characteristics of the land the wood is grown upon, the type of forestry sustainability certifications provided and, more generally, pulp prices on the current local market. The price we pay for imported wood, by contrast, is more dependent on global macroeconomic conditions, the current demand for wood from certain emerging markets with limited local supplies and fluctuations in the value of the U.S. dollar, the reference currency for trading in wood pulp.

- *Non-biomass fuels.* Non-biomass fuels are comprised primarily of fuel-oil, propane and petroleum coke. Non-biomass fuels accounted for approximately 6.8% and 5.6% of our Cash Costs in years ended December 31, 2012 and December 31, 2013. Although our increased focus on developing our biomass-fuelled energy generation capacity in recent years currently enables us to self-supply all of the electricity and heat we require for our industrial operations, our energy production activities require us to complement the biomass being used as fuel with certain fossil fuels which, unlike biomass, are not generated through our other activities.

- *Chemicals.* Chemicals accounted for approximately 11.0% and 10.3% of our Cash Costs in the years ended December 31, 2012 and December 31, 2013, respectively. We use a number of chemicals, including caustic soda, cryogenic oxygen, ethylenediaminetetraacetic acid (“EDTA”), sodium chlorate, hydrogen peroxide, sulfate and lime, during the conversion of wood into pulp, particularly during the cooking and bleaching stages of this process. A small amount of various antifoaming and dispersion agents is also necessary to complete the pulp production process. Approximately 80% of the chemicals we use tend to have their prices closely linked to that of petroleum.

We are focused on tightly controlling our raw material costs as well as diversifying our supplier base and reducing our dependency on imports. We are in the process of implementing a number of cost-saving measures focused on the continuous improvement of our operations, as part of our “Total Quality Management” program first introduced in 2011, a strategic program aimed at ensuring maximum efficiency and quality in all of our business processes, including through the reduction of wood, non-biomass fuel, chemical and energy costs as well as the total consumption thereof. For example, the program intends to reduce the use of higher-cost imported wood in our pulp production processes by diversifying our local supply sources through the increased use of small suppliers, as well as increasing the volume of standing timber purchased directly from landowners and forest proprietors’ associations. These measures allow us to better control our harvesting and transportation logistics costs which would otherwise be included in the price of already-cut wood purchased by us from other suppliers.

Energy Costs

Energy costs for electricity and natural gas also constitute a significant component of our costs, particularly for our pulp production processes. Due to our energy generation activity, in general, as our energy costs increase, so do our revenues. In 2013, energy costs were equivalent to 26.8% of our consolidated revenues.

We do not currently enter into any hedging activities in relation to electricity in 2013. However, as all our generation assets will received in the future a Regulated Tariff after Royal Decree 2/2013 approved in February 2013, we could consider engaging in electricity hedging activities.

In 2013 we acquired natural gas under one-year agreements with prices updated on a quarterly basis, linked to crude oil, on a "take or pay" basis. We did not enter into any hedging activities in relation to natural gas. This is because the tariff for natural gas co-generation was linked to natural gas prices and adjusted on a quarterly basis, providing a natural hedge to natural gas price volatility. For 2014, we aim to close quarterly agreements without "take or pay" obligations as, under the proposed regulatory framework we will limit our generation to days with high pool prices, introducing volatility in the consumption of natural gas.

Effect of Currency Fluctuations

Our sales of pulp are primarily denominated in U.S. dollars. Because our principal product, pulp, is a commodity whose reference sale price in the international market is denominated in U.S. dollars per ton, our revenues from pulp sales are impacted by the U.S. dollar/euro exchange rate since the price of pulp even when denominated in euro per ton is a reflection of this price in U.S. dollar per ton. Our sales of energy, as well as most of our costs, are primarily denominated in euro.

As such, when the U.S. dollar appreciates against the euro, assuming international market prices of pulp remain constant in U.S. dollars, our net sales revenue from pulp sales would increase. By contrast, when the U.S. dollar depreciates against the euro, our net sales revenue from pulp sales would decrease.

We continuously analyze our U.S. dollar/euro exchange rate risk based on our net cash flow expectations in U.S. dollars over the subsequent twelve months, and selectively enter into hedging agreements to mitigate this risk.

Renewable Energy Production Incentives

Our energy generation segment depends significantly on regulations and economic incentives and subsidies aimed at promoting the greater use of renewable energies. Currently, the income obtained from our production of electricity depends to a large extent on the economic regime established in Spain to incentivize renewable energy generation and co-generation. New regulations reducing or eliminating these incentives, such as those adopted in response to the current fiscal crisis in Spain, could have a negative impact on our financial condition and result of operations.

In 2013, a set of regulatory provisions was approved modifying the remuneration outline and applicable tax regime for renewable energy power generation, including biomass generation:

• Law 15/2012 of 27 December, on fiscal measures for energy sustainability for which, as from 1 January 2013, a new general tax was imposed on electricity output equivalent to 7% of revenue from power generation. Likewise, tax rates established for natural gas and fuel consumption are modified, removing exemptions for energy products used in electricity production and electricity cogeneration.

Application of this regulation since 1 January 2013 has had a negative impact on Group energy revenues, net of electricity taxes, of -€20.6 M in the fiscal year.

• Royal Decree Law 2/2013 dated 1 February, regarding urgent measures in the electricity and financial sectors, which establishes the replacement of the CPI with the underlying CPI (for constant taxes not including non-processed food or energy products) as a tariff update formula.

• Royal Decree Law 9/2013, dated 12 July, regarding urgent measures to ensure Spanish Electricity System stability, which repealed RD 661/2007 and introduced a new economic regime for renewable energies to ensure generators a return equivalent the yield on 10-year bonds plus 300 basis points, calculated before taxes and referring to the operating costs and investments for a standard facility for its entire useful regulatory life. In addition, payment of the efficiency and reactive energy bonuses has been eliminated in anticipation of the approval of the mentioned new financial regime starting on 14 July 2013. Elimination of these complements means a reduction of electricity energy revenue net of electricity tax of -€11.4 M in the 14 July 2013 – 31 December 2013 period.

As of 3 February 2014, the Ministry of Industry, Energy, and Tourism had sent a proposal to the National Market and Competition Commission (CNMC) for an "Order approving remuneration parameters for standard facilities for specific electrical energy production facilities using renewable energy sources, cogeneration, and waste". This proposal, which takes into account a new premiums scheme, would modify the regulatory environment applicable to the company's power generation activities once it is approved. It would do so in three principal aspects with a retroactive effect as of 14 July 2013: (i) elimination of specific energy crop tariffs that would ultimately have the same remuneration as forestry and agricultural waste; (ii) set a maximum number of hours that renewable power generation installations have premium rights, which would be equivalent to 80-90% of nominal annual power plant utilization ratio and; (iii) exclude the lignin obtained in the process of pulp production from the biomass category eligible for a regulated premium price.

The Ministerial Order proposal has not been approved yet and it is opened to the contribution of several advisory bodies and allegations from companies and sectors affected, as a consequence of which the estimated impacts registered in this report may be changed substantially. Ence has estimated the quantitative impact of the application of these regulations; as a result, the Group has recognised a provision of €6.6 million, net of the associated electricity generation levy, by reducing revenue from energy sales, and another in the amount of €35.5 million in the form of impairment charges on energy crops and other assets.

	Draft Ministerial Order Financial Impact
	(€ in millions)
Sales (Net of electricity tax)	6.6
Impairments-	35.5
Energy crops (*)	26.9
Energy assets	5.7
Other assets	2.9
Total	**42.1**

(*) Includes €5.2 M as the rescission costs and abandonment of crop plots

If the draft renewable regime legislation and enacting ministerial order stipulating the remuneration parameters were approved as currently worded, the Group's 2013 revenue would decrease by a further €13,130 thousand and it would be necessary to recognise additional impairment losses on energy crops and other assets in the amount of €32,458 thousand.

Operational Productivity and Efficiency

Our profitability can be affected by the productivity and efficiency of our operations. Accordingly, we are implementing our "Total Quality Management" program across our different business activities in order to optimize our cost structure and increase the productivity, efficiency and fully leverage the complementary nature of our pulp manufacturing, energy generating and forestry activities. We are also optimizing capital expenditure in our pulp production facilities and co-generation and renewable energy generation facilities scheduled for maintenance and environmental upgrades in the near future, and more generally focusing on preventive maintenance versus corrective maintenance to enhance the stability of our production processes.

In terms of direct cost savings from raw material costs, we have diversified, and intend to continue diversifying, our base of raw material suppliers, and particularly wood suppliers, thereby allowing us to benchmark our suppliers' pricing more broadly. Diversification away from larger suppliers has been achieved by creating a team focused on developing relationships with forest owners and small suppliers, including through offering support to forest owners to improve their plantations (including through the use of more advanced clone trees and silviculture techniques), which in turn enables us to better understand the forest resources available in the areas supplying our facilities and to improve the quality of our wood supply and the competiveness of our production costs. The diversification of suppliers has also been facilitated by our ongoing initiatives to increase the number of different eucalyptus species. In addition, we continue our efforts to develop rapid-growth clone trees and energy crops better adapted to climatic conditions and the soil of both us and our third-party suppliers, thereby reducing the costs associated with producing such wood and energy crops.

In addition, in our complementary forestry activity, we have developed and implemented mechanized harvesting techniques, in lieu of the manual felling that was commonly used in the sector, aimed at improving overall productivity and reducing operating costs. We have also sought to improve the logistics for the transportation of the wood and energy crops to our production facilities, including through increased monitoring of the transportation of such materials by subcontractors in order to decrease inefficiencies.

Acquisitions, Dispositions and Changes in Business Focus

Acquisitions and dispositions can have a substantial impact on our results of operations. In recent years, we have acquired and disposed of significant assets, particularly assets used in conjunction with our forestry activities. For example, in 2009, 2010 and 2012, we divested forestry-related assets in Uruguay and, most recently, in December 2013, we closed an agreement to fully divest forestry-related assets in Portugal. These disposals are in line with our strategy to optimize and diversify our local forestry supply management with a focus on reducing wood imports and fixed assets.

More generally, changes in our business focus can also impact our results of operations. Currently, we have expanding our presence in the biomass energy sector, including through a new independent biomass energy facility in Huelva, Spain for which we expect transfer of ownership in the first quarter of 2013, and a second independent biomass energy facility, in Mérida, Spain, which is expected to become operational during the fourth quarter of 2014. Moreover, in our forestry activity, in addition to our focus on reducing fixed assets, we are also gradually disengaging from sales of wood to third parties and our forestry consultancy services business, including through our 2011 restructuring of Ibersilva, S.A.U., our forest services and civil works subsidiary, to enable an increased focus on the provision of intragroup forestry services.

Other Financial Measures

In this Report, we present certain non-GAAP measures, including Adjusted EBITDA, Cash Costs, EBITDA, Gross debt, Mid-cycle EBITDA, Net debt, Other Cash Costs, Unlevered free cash flow (excluding expansion capital expenditure), Wood Costs and Working capital and certain leverage and coverage ratios that are not required by, or presented in accordance with, IFRS. Our management believes that the presentation of these non-GAAP measures and ratios is helpful to investors because these and other similar measures and ratios are widely used by certain investors, security analysts and other interested parties as supplemental measures of performance and liquidity. However, you should not construe these non-GAAP measures and ratios as an alternative to net income determined in accordance with IFRS or to cash flows from operations, investing activities or financing activities, or to any other measure or ratio required by, or presented in accordance with, IFRS. In addition, our non-GAAP measures and ratios may not be comparable to similarly titled measures or ratios used by other companies.

Explanation of Line Items

Our pulp production activities are inseparably associated with our energy generation, because the process by which we generate energy is integrated with our pulp production process. In addition, the wood we use to produce pulp is sourced by our forestry activities and we have independent energy generation facilities that use biomass fuel sourced through our forestry activities. Because our pulp production and energy generation activities are so closely integrated, the results of the activities carried out by each of them are analyzed jointly by our management, and, except for revenue, there is no separate financial information for each of them. Furthermore, because the majority of our revenues from forestry activities is generated within the Group, it is not possible and would not be representative to indicate an EBITDA figure exclusively associated with sales to third parties.

The following is a brief description of the line items that are included in our consolidated income statements.

Revenue

Our revenue represents the combined results of our three business activities: pulp, energy and forestry.

Revenue from pulp is calculated from the volume of pulp sold in the period multiplied by a net price in euros. The net price, in turn, is calculated through the conversion of the reference price in U.S. dollars agreed with the customer into euros and applying the agreed commercial discount.

Under previous regulation, revenue from energy was calculated by multiplying the volume of electricity sold to the grid at a Regulated Tariff plus efficiency and reactive bonuses. Under the proposed draft for the remuneration scheme (which will impact retroactively our results since July 14), power plants will receive a payment for capacity and a premium added to pool prices per MWh sold to the grid. Current regulations allow us to sell 100% of our electricity production at the regulated price and buy the energy we consume from the grid at market prices (plus an access toll). During 2013, we produced approximately 2.6 times the amount of electricity than we consumed.

Revenue from forest management relates to our sales to third parties and is comprised of revenues derived from our forestry services, civil works activities, wood trading activities (which, historically, have primarily been comprised of sales of wood from Uruguay to third parties), and wood swaps with Spanish and Portuguese companies. The impact of this activity on our operating profit has historically been marginal, and we expect our revenue from our forest management activity to further reduce with the sale of our Uruguayan forestry assets in December 2012, as well as the restructuring of Ibersilva, S.A.U., our forest services and civil works subsidiary, in 2011, to enable it to focus on intragroup forestry services.

Gains or losses on hedging operations

Gains or losses on hedging operations represents the results of our hedging operations, primarily our foreign exchange hedging operations, which we enter into to protect against exchange rate volatility between the U.S. dollar (the currency in which our pulp sales are conducted) and the euro (with the general exception of imported wood, petrochemicals and certain fuels, the currency in which most of our costs are incurred). Our foreign exchange hedges are short term, typically for approximately twelve months. To a lesser extent, and although we currently do not have any material hedging arrangements in place, we also sometimes enter into hedging arrangements to reduce our exposure to pulp prices.

Changes in inventories of finished goods and work in progress

Change in inventories of finished goods and work in progress consists of variations in the level of inventories of finished goods and work in progress at the end of the most recent period compared with the end of the prior period.

Procurements

Procurements are comprised primarily of costs relating to purchases of raw materials, including wood, from third-party suppliers, as well as non-biomass fuels and chemicals.

Group work on non-current assets

Group work on non-current assets includes the capitalization of expenses related to our property, plant and equipment and biological assets (eucalyptus plantations and energy crop plantations). Items capitalized in relation to plantations include rental properties, treatments related to the clearing and preparation of land, irrigation, the phytosanitation of land, the planting and replanting of land, herbicides, and fertilizer.

Other operating income

Other operating income includes rental income and other extraordinary income, compensation provided by insurance on property damage for loss of profits and reversals of provisions that were not applied.

Capital grants transferred to profit and loss

Capital grants transferred to profit and loss relate to investments in our production centers, certain grants related to greenhouse gas emissions and, to a lesser extent, subsidies for operations. The most significant subsidy recently received in this regard is a subsidy granted by IDEPA (the regional government of Asturias) in 2011 for €8.5 million in conjunction with expansion works that were undertaken in our Navia pulp production facility. We also receive free CO_2 rights on an annual basis pursuant to the Spanish National Allocation Plan (Law 1/2005). These are recorded as a capital grant at the value of the CO_2 rights as of January 1.

Staff costs

Staff costs include wages and salaries, social security costs and other personnel costs. Staff costs also include the termination benefits to employees terminated under certain circumstances. The termination benefits that can be reasonably quantified are recognized as an expense in the year in which the decision to terminate the employment relationship is taken.

Depreciation and amortization charges

Depreciation and amortization charges are comprised primarily of the depreciation of our industrial assets, together with the depreciation of wood originating on our own plantations, which is considered a reduction in the value of our biological assets, also known as forestry depletion. Forestry depletion is the cost allocated to felled timber, based on the aggregate costs incurred to the date of felling and the residual value of the plantation.

Impairment and gains or losses on disposals of non-current assets

Impairment and gains or losses from disposal of non-current assets relates to the impairment loss in respect of, or gains/losses upon disposal of, intangible assets, property, plant and equipment and investment property.

Other operating expenses

Other operating expenses includes cost of transport, freight and marketing, utilities, repairs and maintenance, leases and royalties, insurance, costs associated with the CO_2 emission rights used, professional services, communication and indirect taxes. The key line items included in the other operating expenses are: (i) transport, freight and marketing costs (primarily comprised of the delivery cost of wood and other raw materials to our industrial facilities, and the supply of finished pulp to our end-customers); (ii) utilities and supplies (primarily comprised of electricity costs incurred to run our industrial operations); and (iii) repairs and maintenance costs (incurred for the general upkeep and maintenance of our production facilities).

Finance income

Finance income includes income from cash deposits.

Change in fair value of financial instruments

Change in fair value of financial instruments includes the gains or losses derived from changes in the fair value of financial instruments mainly related to: (i) interest rate swap derivative used to hedge our bank debt, which due to a repayment during 2009, ceased to qualify for hedge accounting and (ii) an equity swap we entered into in 2007 for the purpose of hedging the potential increase in the value of stock options awarded to the management that were subsequently not granted, although the equity swap remained in place.

Finance costs

Finance costs include expenses due to interest and similar expenses, including interest on our outstanding corporate indebtedness. Finance costs also include the interest related to factoring and confirming lines entered into in the ordinary course of business.

Exchange differences

Exchange differences include gains and losses originating from exchange differences related to assets and liabilities denominated in currencies other than euro (primarily related to our Uruguay operations).

Income tax

Income tax includes all current and deferred taxes, as calculated in accordance with relevant tax laws in force in the jurisdictions in which we operate.

Results of Operations

Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

The following table sets out selected items from our consolidated income statements for the periods indicated and the percentage change from period to period, and shows these items as a percentage of total revenues.

	2012	2013	Percentage change
			(%)
Operating Data:			
Pulp sales ('000 tonnes)	1,248	1,270	1.8%
Electricity sales (GWh)	1,617	1,896	17.2%
Wood supply to the industrial process ('000 m3)	3,643	3,795	4.2%
Income Statement Data:			
Revenue	**827.6**	**853.1**	**3.1%**
Gains or losses on hedging operations	(27.6)	12.1	n.s.
Changes in inventories of finished goods and work in progress	0.8	2.1	154.8%
Procurements	(408.0)	(427.8)	4.8%
Gross Margin	**392.8**	**439.5**	**11.9%**
Group work on non-current assets	24.2	14.8	-39.0%
Other operating income	2.3	7.5	232.7%
Capital grants transferred to profit and loss	4.3	6.3	47.7%
Staff costs	(82.1)	(80.5)	-2.0%
Depreciation and amortization charge	(63.4)	(78.3)	23.6%
Impairment and gains or losses on disposals of non-current assets	6.3	(37.5)	n.s.
Other operating expenses	(202.1)	(240.0)	18.7%
Profit/(Loss) from operations	**82.3**	**31.8**	**-61.3%**
Finance income	0.7	2.0	173.0%
Change in fair value of financial instruments	6.8	1.8	-73.1%
Finance costs	(24.4)	(30.8)	26.2%
Exchange differences	(1.8)	0.6	n.s.
Financial Loss	**(18.6)**	**(26.3)**	**40.9%**
Net results from the valuation of non-current assets classified as held for sale	(0.7)	0.0	n.s.
Profit/(Loss) before tax	**63.0**	**5.6**	**-91.2%**
Income tax	(19.9)	(1.3)	-93.7%
Profit/(Loss) for the period from continuing operations	**43.0**	**4.3**	**-90.0%**
Profit/(Loss) for the period	**43.0**	**4.3**	**-90.0%**

Revenue

Our revenues increased by €25.6 million to €853.1 million in the year ended December 31, 2013 from €827.6 million in the year ended December 31, 2012, a 3.1% increase. The increase in energy sales thanks to better volumes (+17.2%), was offset by the decreasing sales from forestry-related activities to third parties.

The table below shows the split of our total consolidated revenue generated by each of our three business activities—pulp, energy and forestry—for the year ended December 31, 2013 and the year ended December 31, 2012, respectively:

	Year ended December 31, 2012		Year ended December 31, 2013		
	Revenue by activity	Revenue by activity	Revenue by activity	Revenue by activity	Percentage Change
	(€ in millions)	(%)	(€ in millions)	(%)	(%)

Pulp sales	597.0	72.1%	611.4	71.7%	2.4%
Electricity sales	208.4	25.2%	233.7	27.4%	12.2%
Wood and forestry services	22.3	2.7%	8.0	0.9%	-64.1%
Revenue	**827.6**		**853.1**		3.1%

Our revenues from pulp sales amounted to € 611.4 million in 2013, 2.4% above 2012, thanks to an increase in sales volumes of 1.7% to 1,270 thousand tons in 2013 from 1.249 thousand tons in 2012. Prices stayed stable in 2013 at 479 €/t when compared to 2012.

Our revenues from energy sales increased by €25.4 million to €233.7 million in 2013 from €208.4 million in 2012, a 12.2% increase. This increase is attributable to a 17.2% increase in electricity sold to the grid to 1,896 GWh in 2013 from 1,617 GWh in 2012 (as a result of the contribution of our new 50MW power plant in Huelva (operational since September 2012). Average electricity prices decreased by 4.3% to 123.3 €/MWh in 2013 from 128.8 €/MWh in 2012 due to the impact of the draft for the new tariff scheme.

Our revenues from forestry sales decreased by €14.3 million to €8.0 million in 2013 from €22.3 million in 2012, a 64.1% decrease. This decrease is attributable to our decision to gradually disengage from this activity.

Gains or losses on hedging operations

We recorded a €12.1 million gain in the year ended December 31, 2013, compared to a €27.6 million loss in the year ended December 31, 2012. During the year ended December 31, 2013, we realized a gain when we settled forward pulp sale contracts in respect of $222 million of foreign exchange contracts at an average strike price of 1.236 ($/€) (compared to an average exchange rate of 1.325 ($/€)).

During the year ended December 31,2012, we realized a loss when we settled $233 million of foreign exchange contracts at an average strike price of 1.379 ($/€) (compared to an average exchange rate of 1.390 ($/€)).

Changes in inventories of finished goods and work in progress

Changes in inventories of finished goods and work in progress were a € 2.1 million increase in the year ended December 31, 2013 compared to a €0.8 million increase in the year ended December 31, 2012.

Procurements

Procurements during the year ended December 31, 2013 increased by €19.8 million to €427.8 million from €408.0 million in the year ended December 31, 2012, a 4.8% increase. This increase was due to a 10.9% increase in purchases (mainly wood) related to a 1.7% increase in pulp production is spite of a reduction of raw materials and other materials of €3.2 million. Other external expenses were reduced by -5.9% to €52 million related to a reduction in the use of outsourcing for forestry works.

The following table sets forth the items that constituted our procurements in the periods presented:

	Year ended December 31,		
	2012	**2013**	**Percentage change**
	(€ in millions)		**(%)**
Purchases	336.2	372.7	10.9%
Changes in inventories of raw materials, other materials and merchandise	16.7	3.2	-80.8%
Other external expenses	55.2	52.0	-5.9%
Total	**408.0**	**427.8**	4.8%

Own work capitalized

Own work capitalized decreased by €9.4 million to €14.8 million in the year ended December 31, 2013 from €24.2 million in the year ended December 31, 2012, a 39.0% decrease. This decrease was primarily attributable to our decreased investments in energy crops for the supply to our energy generation facilities due to the uncertainty on energy regulation.

Other income

Other operating income increased by €5.3 million to €7.5 million in year ended December 31, 2013 from €2.3 million in year ended December 31, 2012, a 232.7% increase. This is due to the cancellation of a provision no longer required.

Capital grants transferred to profit and loss

Capital grants transferred to profit and loss increased by €2.0 million to €6.3 million in the year ended December 31, 2013 from €4.3 million in the year ended December 31, 2012, a 47.7% increase. This increase was primarily attributable to the increase in the value of the CO_2 rights received mainly in previous years.

Staff costs

Staff costs decreased by €1.6 million to €80.5 million in year ended December 31, 2013 from €82.1 million in the year ended December 31, 2012, a 2.0% decrease. This decrease was primarily due to a reduction in the average number of workers to 1,048 in the year ended December 31, 2013 from 1,270 in the year ended December 31, 2012 as a result of an agreement with the Union to reduce the number of employees in order to improve efficiency.

The following table sets forth the items that constituted our staff costs in the periods presented:

	Year ended December 31,		
	2012	2013	Percentage change
	(€ in millions)		(%)
Wages and salaries	60.0	58.2	-3.0%
Social security costs	13.9	13.6	-2.3%
Pension contributions and other employee benefit costs	3.5	3.3	-5.5%
Termination benefits	4.7	5.4	14.4%
Total	**82.1**	**80.5**	**-2.0%**

Depreciation and amortization charge

Depreciation and amortization charge increased by €15.0 million to €78.3 million in year ended December 31, 2013 from €63.4 million in the year ended December 31, 2012, a 23.6% increase due to the new 50MW power plant in Huelva. The Group began to operate this plant from February 2013.

Impairment and gains or losses on disposals of non-current assets

We recorded a €37.5 million loss in the year ended December 31, 2013 compared to a €6.3 million gain in the year ended December 31, 2012. The loss in year ended December 31, 2013 was primarily due to an impairment loss on energy crops plantations and irrigation equipment, based on the draft for new electricity tariffs, while the gain in 2012 was linked to the reversion of provisions.

Other operating expenses

Other operating expenses increased by €37.9 million to €240.0 million in the year ended December 31, 2013 from €202.1 million in year ended December 31, 2012, a 18.7% increase. This increase was primarily attributable to the new electricity tax (7% on energy sales) and €5.2 million corresponding to the estimated cost of terminating estate lease agreements, mainly linked to energy crop plantations. Also to a €6.5 million impairment on wood inventories.

The following table sets forth the items that constitute our other operating expenses in the periods presented:

	Year ended December 31,		
	2012	2013	Percentage change
	(€ in millions)		(%)
Outside services:			
Transport, freight and marketing costs	60.4	57.9	-4.2%
Utilities	60.8	59.0	-2.9%
Repairs and maintenance	16.5	21.5	30.3%
Leases and royalties	7.7	7.6	-1.5%
Insurance premiums	5.3	5.3	1.0%
Independent professional services	6.9	9.0	29.3%
Banking and similar services	2.5	2.2	-11.7%
Advertising, publicity and public relations	1.0	1.1	12.0%
Research and development expenses	0.1	0.5	414.0%
Other services	26.1	23.5	-9.7%
Total outside services	**187.3**	**187.6**	**0.2%**
Use of emission allowances	3.0	8.7	187.6%
Taxes other than income tax and other management charges	6.7	4.6	-31.2%
Electricity generation levy	-	16.3	n.s.
Change in impairment provisions for inventories and bad debt	-1.4	5.8	n.s.
Other non-recurring charges	6.3	17.0	168.7%
Total	**202.1**	**240.0**	**18.7%**

Profit from operations

Profit from operations decreased by €50.4 million to a €14.0 million in the year ended December 31, 2013 from €82.3 million in the year ended December 31, 2012. This decrease was primarily attributable to the impact of regulatory changes in electricity and impairments linked to these.

Finance income

Finance income increased by €1.3 million to €2.0 million in year ended December 31, 2013 from €0.7 million in the year ended December 31, 2012, a 173.0% increase. The improvement is based on the higher cash levels following divestment in plantations and cash flow generation in the period.

Change in fair value of financial instruments

We recorded a €1.8 million gain in the year ended December 31, 2013 compared to a €6.8 million gain in the year ended December 31, 2012. The gain in 2013 was primarily linked to the equity swap after the good performance on Ence share. The gains in 2012 were primarily due to the settlement of the interest rate swap related to our syndicated credit facility.

In May 2008, we entered into an interest rate swap to hedge 60% of our bank debt. This debt substantially changed in 2009 due to a repayment (from the Uruguay disposal proceeds). As a result, the interest rate swap ceased to qualify for hedge accounting on October 16, 2009. Since that date, changes in the value of this instrument were recognized in the change in fair value of financial instruments. These changes were due to interest payments or movements of the interest rate curve. On 1 February 2013, Ence cancelled the syndicated loan as well as the associated interest rate swap after the issuance of a €250 million corporate bond.

Finance costs

Finance costs increased by €6.4 million to €30.8 million in year ended December 31, 2013 from €24.4 million in the year ended December 31, 2012, a 26.2% increase. This increase was primarily attributable to the cancellation of the previous syndicated loan (mainly opening fees) after the issuance of a €250 million corporate bond and lower capitalization of interest expenses related to the new biomass power plant in Huelva after the start of operations.

Exchange differences

We recorded a €0.6 million gain in the year ended December 31, 2013 compared to a loss of €1.8 million in the year ended December 31, 2012. The gain in 2013 was due to the translation impact of foreign exchange fluctuations (mainly in dollars) in relation to our account receivables and trade creditors.

Financial gain/(loss)

Financial loss increased by €7.6 million to €26.3 million in the year ended December 31, 2013 from €18.6 million in the year ended December 31, 2012, an 40.9% increase, primarily due to lower positive impact of the changes in valuation of financial instruments.

Profit /(loss)before tax

Profit before tax decreased by €57.4 million to €5.6 million in the year ended December 31, 2013 from €63.0 million in the year ended December 31, 2012. This decrease was primarily due to the impact of the draft for the new electricity regulation.

Income tax

Income tax decreased by €18.7 million to €1.3 million income in year ended December 31, 2013 from €19.9 million expense in the year ended December 31, 2012. This decrease was primarily attributable to the decrease in profit before tax.

Profit from continuing operations

Profit from continuing operations decreased by €38.7 million to €4.3 million in the year ended December 31, 2013 from €43.0 million profit in the year ended December 31, 2012.

Liquidity and Capital Resources

Overview

Liquidity and capital resources describe the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations, including working capital needs, capital expenditures, debt service obligations, other commitments, contractual obligations and acquisitions. Our principal sources of liquidity have historically been cash generated from our operating activities, cash raised through bank borrowings and from the equity capital markets. For example, in 2010 we completed an equity raising in which we issued 83,112,890 ordinary shares of the company in exchange for gross proceeds of €130 million, which were used to reduce our indebtedness. Our principal uses of cash are for capital expenditure related to the maintenance of our pulp production and energy generating facilities, the improvement of the productivity and efficiency of our pulp production facilities, our further expansion into the biomass energy sector and distributions to our shareholders.

Cash flows

We believe that our operating cash flows and our borrowing capacity under our credit facilities, will be sufficient to meet the cash requirements of our business operations for the foreseeable future.

However, our ability to generate cash from our operations depends on future operating performance, which in turn depends, to a certain extent, on general economic, financial, competitive market, legislative, regulatory and other factors, many of which are beyond our control, as well as other factors discussed in the sections "Risk Factors" and "Business." Moreover, we cannot assure you that future debt or equity financing will be available to us. If our cash flows are lower than expected or the cash requirements of our business exceed our projections, we may be required to seek additional financing, which may not be available on commercially reasonable terms, if at all. Our ability to arrange financing generally and our cost of capital depend on numerous factors, including general economic conditions, the availability of credit from banks, other financial institutions, and the capital markets, restrictions in the instruments governing our debt, and our general financial performance.

	Year ended December 31,		
	2012	2013	Percentage change
	(€ in millions)		(%)
Cash Flow Data:			
Cash flows from/used in operating activities:			
Consolidated profit for the year before tax	63.0	5.6	-91.2%
Adjustments for:			
Depreciation and amortization charge	53.3	61.7	15.8%
Depletion of forestry reserve	9.1	15.2	66.9%
Amortization of intangible assets	1.0	1.4	46.9%
Changes in provisions and other deferred expenses (net).	3.7	22.0	497.0%
Gains/losses on disposal of non-current assets	(3.0)	35.9	n.s.
Finance income	(0.7)	(2.0)	173.0%
Finance costs	18.0	28.7	59.1%
Grants and subsidies transferred to profit and loss	(1.2)	(1.3)	3.8%
Changes in working capital:			
Trade and other receivables	(24.0)	29.8	n.s.
Current financial and other assets	18.2	(2.9)	n.s.
Current liabilities	(13.8)	4.7	n.s.
Inventories	18.3	10.4	-43.4%
Other cash flows from operating activities:			
Interest paid	(21.5)	(18.0)	-16.2%
Interest received	0.7	2.0	172.8%
Income tax recovered (paid)	(9.4)	(17.1)	81.8%
Net cash flows from/used in operating activities	**111.6**	**175.9**	**58%**
Cash flows from/used in investing activities:			
Investments:			
Property, plant and equipment	(104.4)	(112.8)	8.1%
Intangible assets	(16.1)	(0.9)	-94.4%
Other financial assets	(0.2)	1.3	n.s.
Disposals:			
Property, plant and equipment	0.4	64.4	n.s.
Other financial assets	0.2	0.0	-100.0%
Net cash flows from/used in investing activities	**(120.1)**	**(48.0)**	**-60%**
Cash flows from financing activities:			
Proceeds and payments relating to equity instruments:			
Purchase of treasury shares	(41.7)	(26.5)	-36.4%
Disposal of treasury shares	1.3	27.5	2001.3%
Proceeds and payments relating to financial liability instruments:			
Increase/(decrease) in bank borrowings, net of loan arrangement costs	37.4	7.4	-80.4%
Grants and subsidies received	-	0.1	
Dividends	(16.5)	(16.2)	-2.2%
Financial instruments (equity swaps)	(3.3)	(12.0)	265.2%
Translation difference	(0.2)	(0.0)	-78.9%
Financial deposit	-	(45.0)	
Net cash flows from financing activities	**(22.9)**	**(64.7)**	**182%**

Net cash flows from operating activities

During year ended December 31, 2013, our cashflow from operating activities was €175.9 million, compared to €111.6 million during the year ended December 31, 2012. This €64.3 million increase was primarily due to the positive impact of the fx hedge in 2013 and an increase in changes in working capital of €41.9 million in the year ended December 31, 2013, compared to a €1.3 million decrease in changes in working capital in the year ended December 31, 2012.

Net cash flows from Investing Activities

During year ended December 31, 2013, our cash flow used in investing activities was €48.0 million, compared to €120.1 million during the year ended December 31, 2012. The decrease is mainly related to €53.8 million and €11.0 million proceeds from the sale of assets in Uruguay and Portugal respectively.

Net cash flows from Financing Activities

During the year ended December 31, 2013, our cash flow used in financing activities was €64.7 million, compared to €22.9 million for the year ended December 31, 2012, or €41.8 million higher. Our principal sources and uses of cash in the financing activities were:

- a €1.0 million net sale of treasury shares in year ended December 31, 2013, compared to net purchase €40.4 million in the year ended December 31, 2012.

- a €16.2 million dividend payment to our shareholders in the year ended December 31, 2013 compared to €16.5 million in the year ended December 31, 2012;

- a €7.4 million net borrowing in the year ended December 31, 2013, resulting from a €7.5 million drawing under our project finance arrangements offset by €0.1 million of debt repayments in the year ended December 31, 2013 compared to €37.4 million net borrowing in the year ended December 31, 2012 when we borrowed € 41.3 million drawing under our project finance arrangements offset by €3.8 million of debt repayments.

- a €45.0 million financial investment in long term deposits in the year ended December 31, 2013.

Working Capital

The movement in components of net working capital is as shown in the table below for each of the periods indicated.

	Year ended December 31,		
	2012	**2013**	**Percentage change**
	(€ in millions)		**(%)**
Inventories	87.6	71.0	-18.9%
Trade and other receivables	138.6	114.4	-17.5%
Receivables from public authorities	29.7	18.6	-37.3%
Other current financial assets	7.6	55.9	637.6%
Other current assets	0.9	1.0	6.4%
Trade and other payables	(201.9)	(204.3)	1.2%
Corporate income tax payable	(1.3)	(0.0)	-97.0%
Other accounts payable to public authorities	(8.5)	(11.3)	33.6%
Other current liabilities	(0.5)	(0.7)	55.0%
Working capital	**52.1**	**44.5**	**-15%**
Change in working capital as per cash flow statement	**(1.3)**	**41.9**	**n.s.**

We define "working capital" as inventories, plus trade and other receivables, plus receivables from public authorities, plus other current financial assets, plus other current assets, less trades and other payables, less corporate income tax payable, less other accounts payable to public authorities and less other current liabilities. Our working capital levels vary as a result of several factors, including the impact of raw material prices and selling prices, production stoppages and maintenance works, changes in payment terms in the case of key suppliers, foreign exchange rates, our decisions to hold inventories and the operating level of our business.

As of December 31, 2013 we had nonrecourse factoring facilities in place under which we are allowed to factor up to €83.0 million of which €30.5 million was drawn. As of December 31, 2013 we also had confirming lines (reverse factoring) in place with an aggregate limit of €114.0 million of which €63.9 million was drawn.

Capital Expenditures

	Year ended December 31,	
	2012	2013
Capital expenditures	113.0	113.2
of which maintenance capital expenditure	36.5	57.0

Our principal uses of cash are for capital expenditures related to maintenance capital expenditure, development of biomass energy plants at Huelva and Mérida. During 2013, capital expenditures stayed at €113.2 million, in line with 2012. Investments related to the maintenance of our pulp activity and to our biomass expansion increased to €57.0 million in 2013 from €36.5 in 2012 respectively, due to an increase in environmental investments in our plants.

Financial Liabilities

Our financial liabilities decreased to €362.4 million as December 31, 2013 from €344.6 million as of December 31, 2012. This increase is due to the refinancing of the previous sindicated loan with the placement of a €250 million bond issue and the higher use of the project financing for Mérida.

Financial and Other Material Contractual Obligations

Financial Obligations

The following table summarizes the aggregate principal amount of our financial liabilities as of December 31, 2013 and the related amounts falling due within the periods indicated:

	Payments Due by Period				
Maturities of Financial Liabilities	**2014**	**2015**	**2016**	**2017**	**2008-**
			(€ in millions)		
Loans and credit facilities	0.4	0.4	0.3	-	-
Project finance[1]	5.7	8.1	8.8	9.3	74.6
Bono High Yield	-	-	-	-	250.0
CDTI and other indebtedness	2.0	1.5	1.2	1.2	5.9
Interest and other payables	7.3	-	-	-	-
Total Financial Liabilities	**15.4**	**10.0**	**10.3**	**10.5**	**330.5**

(1) Represents the project finance arrangements for the Huelva and Mérida independent biomass energy facilities.

Other Material Contractual Obligations

We are party to a long-term take-or-pay contracts for the supply of natural gas. Under the terms of that contract, we are committed to acquire 201 GW of natural gas per annum (maturing in February 2016) and 144 GW of natural gas until December 2013.

As of December 31, 2013, our lease payments until December 31, 2018 will be €28.4 million and thereafter €34.1 million (not including common expenses, future increases for inflation or future contractual rent rises). As of December 31, 2013, we leased 27,701 hectares of forest land for the cultivation of standing timber. These leases have an average term of 30 years.

In addition to the above obligations, we enter into a large number of short- and long-term agreements for the purchase of standing timber. However, we do not consider that any of these agreements individually to be a material obligation.

Our ability to make scheduled payments of principal of, or to pay the interest on, or to refinance, our indebtedness (including the Notes), or to fund our other contractual obligations, will depend on our future operating performance, which in turn depends, to a certain extent, on general economic, financial, competitive market, legislative, regulatory and other factors, many of which are beyond our control, as well as other factors discussed in "Risk Factors" and "Business."

Off-Balance Sheet Arrangements

Under the Spanish Greenhouse Regulations, we are required to obtain certain greenhouse gas emission authorizations. We have contractually committed to the forward purchase of allowances covering a total of 601,000 tonnes: 200,000 tonnes at a price of €15.52/tonne exercisable in December 2014 and 401,000 tonnes at €15.69/tonne exercisable in December 2015. Going forward, we will continue to enter into forward contracts to acquire additional CO_2 rights, and management believes we have contracted, or will be able to contract, sufficient rights to meet our operational needs for 2014 through 2016. Please see "Summary—Recent Developments—Greenhouse Gas Emissions Rights" and "Regulation."

Other than this forward contract for CO_2 emission authorizations, we do not have any material off-balance sheet finance activities.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed in varying degrees to a variety of market risks. The Board of Directors, with the assistance of senior management, defines our risk management criteria and approves the specific policies applied to manage commodity price, exchange rate, interest rate, credit and liquidity risks, and the use of derivative financial instruments for risk management purposes.

The following table summarizes our estimated derivative positions as of December 31, 2012, as adjusted to give effect to the issuance of the Notes issued hereby and the use of the proceeds therefrom:

	As of December 31, 2013		
Liabilities/Assets	Current Assets	Non-current liabilities	Current liabilities
		(€ in millions)	
Huelva interest rate swap	-	4.7	2.3
Mérida interest rate swap	-	0.0	0.6
Equity swap	-	2.7	1.6
Total	**0.0**	**7.4**	**4.5**

The main financial risks facing the Group, and the policies and controls adopted to mitigate them, are as follows.

Commodity Price Risk

Pulp price

The price of pulp is established in an active market, the evolution of which significantly affects our revenues. Changes in pulp prices affect the cash flows obtained from sales. Pulp prices display a cyclical nature, and there has been considerable price volatility in recent years. Price movements are associated with changes in volumes or the conditions dictating supply and demand, as well as the financial situation of firms operating in the market.

In order to mitigate this risk, we have made significant investments in recent years to raise productivity and improve the quality of the products we sell to the market. We estimate that a 5% increase in the international pulp price in euro would have increased our consolidated revenues by approximately 3.6% in the year ended December 31, 2013.

As of December 31, 2013, the Group had no pulp price hedge agreement.

Timber supplies

Eucalyptus timber is the main raw material input in the production of pulp, and its price is subject to fluctuations due to regional changes in the balance of supply and demand, and the need to access markets in other regions when local supplies are insufficient to meet demand, resulting in higher logistical costs. We also maximize the value added in our products by increasing our use of certified timber, which is more costly. A 5% increase in the price per cubic meter of eucalyptus timber for use in the productive process would decrease operating income by approximately €13 million.

Foreign Exchange Risk

Although the majority of our sales are made in the European market, revenues from sales of pulp are affected by the U.S. dollar/euro exchange rate because the benchmark sale price of pulp on the international market is calculated in U.S. dollars per ton. Since our cost structure is primarily in euros, changes in the U.S. dollar exchange rate can have a significant impact on earnings volatility. We estimate that a 5% appreciation of the U.S. dollar against the euro would have increased our consolidated revenues by approximately 3.6%.

We continuously monitor our foreign exchange risk and enter into hedging transactions if deemed appropriate to minimize our exposure to currency fluctuations. All hedging schemes are subject to the approval of our Board of Directors.

As of December 31, 2013, the Group had no foreign exchange hedge agreement.

Interest Rate Risk

We have limited exposure to floating interest rate debt. To the extent we are exposed to floating rate debt, we use interest rate swap contracts to manage our exposure to interest rate movements on portions of our existing debt. We have entered into hedges associated with the project financing of our Huelva and Mérida plants. As of December 31, 2013, these hedges amounted to a liability of €7.4 million.

Equity Swap

On October 25, 2007, the Issuer arranged an equity swap with Bankia, S.A. for a total amount of 5.1 million shares of the Issuer, at a base price of €4.40 per share, in order to comply with certain terms and conditions set forth in the management incentive plan of our senior management. The terms of this equity swap were amended in March 2010 as a result of our share capital increase, at a base price of €4.11 per share, and in June 2012, by extending its term until 2015, with partial cancellation of 1.0 million shares in each of March 2013 and March 2014 and 1.8 million shares in March 2015. In addition, March 15, 2015 was designated as the new termination date. As of December 31, 2013, the fair value of the instrument was negative €4.3 million.

Credit Risk

We are exposed to credit risk in respect of outstanding balances receivable from customers, particularly in our pulp business. We manage this risk by entering into credit insurance policies, which assign credit limits to each of our customers based on their credit quality as determined by the insurer. These policies provide cover for between 75% and 90% of our trade receivables associated with the sale of pulp. Provisions are made for overdue balances where there is evidence of impairment, as well as for all receivables overdue by twelve months or more that are not covered by credit insurance policies. With respect to credit risk relating to our energy generation business, payment is obtained from the Iberian electricity system.

Liquidity and Asset Management Risk

We are exposed to both liquidity and asset management risk. We manage these risks by closely monitoring the maturities of our bank borrowings and ensuring that there are sufficient committed loan facilities (including refinancing, if necessary) to cover forecasted cash requirements, as well as taking such risks into account in our consideration of any dividends to be distributed.

Critical Accounting Estimates and Judgments

Our consolidated financial statements are prepared in accordance with IFRS. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates and judgments could cause actual results to differ.

Our accounting policies are more fully described in Note 4 of our audited consolidated financial statements for the year ended December 31, 2013. We believe the following policies to be the most significant policies that require management to consider matters that are inherently uncertain or to make subjective and complex judgments.

Note in respect of the abovementioned renewable regime legislation, including the ministerial order defining the related remuneration metrics, that these standards are not currently in effect; rather they are proposals or drafts, subject to parliamentary processing. The Group has legitimate and reasonable expectations that the pleas presented will ultimately result in the amendment of the proposed regulations that result in a shift in bias towards its business interests and a more favourable remuneration regime than is currently proposed for its power co-generation facilities and businesses. Management has estimated the quantitative impact of the application of these regulations; as a result, the Group has recognised a provision of €6,584 thousand, net of the associated electricity generation levy, by reducing revenue from energy sales, and another in the amount of €35,498 thousand in the form of impairment charges on energy crops and other assets. The impact of the regulatory changes in energy are fully described in Note 5.1 of our audited consolidated financial statements for the year ended December 31, 2013.

Assessment of Possible Impairment Losses on Certain Assets

We test tangible and intangible assets for impairment to determine whether the recoverable amount of the assets has been reduced below their carrying amount. The recoverable amounts are calculated for each of our cash-generating units. The recoverable amount is the higher of fair value less costs to sell and value in use. In order to calculate value in use, the estimated cash flows from the cash-generating unit are discounted applying a discount rate representing the cost of capital, taking into account the cost of borrowing and business risks. Where it is estimated that the recoverable amount of an asset is less than its carrying amount, the latter is written down to the recoverable amount and an impairment loss is recognized in the consolidated income statement. If an impairment loss subsequently reverses, the carrying amount of the cash-generating unit is increased to the revised estimate of the recoverable amount such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years. A reversal of an impairment loss is recognized as income.

Useful Life of Property, Plant and Equipment and Intangible Assets

We calculate the depreciation of our property, plant and equipment on a straight-line basis at annual rates based on the years of estimated useful life of the assets, as follows:

	Estimated Years of Useful Life
Buildings	25–60
Plant and machinery	8–20
Other fixtures, tools and furniture	11
Other items of property, plant and equipment	5–10

While land is considered to have an indefinite useful life and is therefore not depreciated, investments made in buildings constructed on land granted under administrative concessions are recognized under “Buildings.” This cost and the cost of any other permanent fixtures located on concession land is depreciated over the shorter of the asset’s useful life or the term of the concession.

Fair Value of Financial Assets, Financial Instruments and Derivatives

Financial Assets

We classify our financial assets into two categories:

(i) *Loans and receivables*: trade receivables and financial assets with fixed or determinable payments arising from non-trade operations arising from the sale of goods or the provision of services.

(ii) *Available-for-sale financial assets*: these include debt securities and equity instruments of other companies that are not classified in any other category.

Financial assets are initially recognized at the fair value of the consideration given plus any directly attributable transaction costs. Loans and receivables are measured at amortized cost. We also recognize impairment losses in the consolidated income statement where it is determined that the financial assets present recoverability risks.

Available-for-sale financial assets are measured at fair value, and the gains and losses arising from changes in fair value are recognized in consolidated equity until the asset is disposed of or it is determined that it has become permanently impaired, at which time the cumulative gains or losses previously recognized are taken to the net consolidated profit or loss for the year.

We derecognize a financial asset when it expires or when the rights to the cash flows from the financial asset have been transferred and substantially all the risks and rewards of ownership have been transferred. However, in transfers of financial assets in which substantially all the risks and rewards of ownership are retained, we do not derecognize such financial assets and recognize a financial liability for an amount equal to the consideration received.

Financial Liabilities

Financial liabilities include accounts payable by us that have arisen from the purchase of goods and services in the normal course of business, and those which, not having commercial substance, cannot be classified as derivative financial instruments.

Accounts payable are initially recognized at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortized cost. We derecognize financial liabilities when the obligations giving rise to them cease to exist.

Derivative financial instruments and hedge accounting

We use financial derivative instruments to hedge against exposures to certain financial and market risks, including foreign exchange, commodity and interest rate risks. These financial instruments are initially recognized at their cost of acquisition and the necessary valuation adjustments are subsequently made to reflect their fair value at any given time. Write-downs are recognized under “Derivatives” in the consolidated balance sheet, and any eventual write-backs are recognized under “Financial assets—Derivatives.” The gains or losses on these changes in value are recognized in the consolidated income statement, unless the derivative has been designated as a hedging instrument, in which case it is recognized as follows:

(i) *Fair value hedges*: both the hedged item and the hedging instrument are measured at fair value, and any changes in the value of either are recognized in the consolidated income statement. Effects are offset in the same caption of the consolidated income statement.

(ii) *Cash flow hedges*: Changes in the fair value of financial derivatives are recognized in “Equity—Valuation adjustments.” The cumulative loss or gain recognized under this heading is transferred to the consolidated income statement to the extent the underlying has an impact on the consolidated income statement, so that both effects are offset.

In order for these financial instruments to qualify for hedge accounting, they are initially designated as such and the hedging relationship is documented. We also verify, both at inception and periodically over the term of the hedge, that the hedging relationship is effective, i.e., that it is prospectively foreseeable that changes in the fair value or cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument, and that, retrospectively, the gain or loss on the hedge was within a range of 80–125% of the gain or loss on the hedged item. The part of the hedging instrument that is determined to be ineffective is immediately recognized through the consolidated income statement.

The fair values of the different financial derivative instruments is calculated by discounting expected cash flows based on conditions in both spot and futures markets at the calculation date. All of the methods used are generally accepted by financial instrument analysts.

Hedge accounting is discontinued when the hedge is no longer highly effective. In this case, the cumulative gain or loss arising on the hedging instrument that was recognized directly in equity is maintained until the expected commitment or transaction materializes, when it is transferred to the consolidated income statement. Where the commitment or transaction envisaged is not expected to occur, any accumulated gain or loss previously recognized in equity is taken to the consolidated income statement.

The fair value of financial instruments of this kind which are not traded on an active market is calculated applying measurement techniques that maximize the use of observable market data, and to a lesser extent, estimates. On this basis, the measurement techniques applied to derivative financial instruments are, in general, second-level methods, because the key data employed to calculate fair value *(interest rate curves and the cellulose pulp price curve) are observable.*

Equity instruments

An equity instrument represents a residual ownership interest in the equity of the Issuer once all of its liabilities have been deducted. The equity instruments issued by the Issuer are recognized in equity for the amount of the proceeds received, net of issuance costs. Treasury shares acquired by the Issuer are recognized at the value of the consideration paid and are presented as a reduction in equity. The gain or loss arising on the purchase, sale, issue or redemption of treasury shares is recognized directly in equity. No amounts are recognized in the income statement in this respect.

Commitments with Employees

Share-based payments

At the Parent's Annual General Meeting of 30 March 2007, the Company's shareholders ratified a "Special Bonus Plan for Executives" for 2007–2011, which was updated at the Annual General Meeting of 22 June 2010 and renamed the "Long-term Bonus Plan of Ence Energía y Celulosa S. A." for 2010-2015 (hereinafter, the Plan), the bonus plan currently in effect. To date, 485,895 stock options have been granted in respect of 2010 and are pending exercise at a strike price of €2.44 per share, 753,225 in respect of 2011 at a strike price of €1.95 per share and 809,098 in respect of 2012 at a strike price of €2.28 per share.

The fair value of the American options in the stock option plans was determined using the Barone-Adesi and Whaley method, a generally accepted method for valuing financial instruments of this kind. Applying this valuation method, the expense accrued in this respect in 2013 was €465 thousand (€160 thousand at year-end 2012). The liability accrued at year-end stood at €625 thousand (€160 thousand at year-end 2012).

Long-term bonus plan

The Parent's shareholders approved a "Long-term bonus plan for 2013-2015" at the Annual General Meeting of 22 March 2013 designed to orient the management team towards delivery of the targets set by the Board of Directors for the term of the scheme and to retain talent. The bonus payment contemplated consists of a percentage of average annual fixed remuneration in 2013-2015 (100% in the case of the CEO, 75% for the members of the Executive Committee and 50% for the other executives).

The fair value of the portion of the Plan corresponding to targets tied to the Parent's share price performance, both in absolute terms and relative to a benchmark basket of comparable stocks, was determined using the Monte Carlo method for quanto basket options, a generally accepted method for valuing financial instruments of this kind. Elsewhere, the liability associated with the target of increasing the company's theoretical value was estimated assuming that this objective is met. Using these valuation methods, the expense accrued in this respect in 2013 was €589 thousand while the liability recognised at year-end similarly stood at €589 thousand.

Provisions

The consolidated financial statements include all provisions where there is a likelihood an obligation will have to be settled. Contingent liabilities are not recognized in the consolidated financial statements but rather are disclosed in the accompanying notes, unless the possibility of an outflow in settlement is not considered remote.

Provisions, including variable employee remuneration, are measured based on the present value of the best estimate possible of the sum necessary to cancel or transfer the obligation, taking into account the information available on the event and its consequences. Adjustments to provisions are recognized as finance costs as they are accrued.

Deferred tax assets

Deferred tax expenses or income relate to the recognition and derecognition of deferred tax assets and liabilities. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability settled. Deferred tax assets are recognized to the extent that it is considered probable that the Group will have taxable profits in the future against which the deferred tax assets can be utilized. Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognized in equity. The deferred tax assets recognized are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that they will be recovered through future taxable profits.

Recent Developments

Current Trading Update

Although our financial results for the first quarter of 2014 are not yet available, we believe our revenue and EBITDA for the first quarter of 2014 will be below than our revenue and EBITDA for the fourth quarter of 2013. This is primarily due to the impact of depressed pool prices in the first quarter of 2013, what will reduce our electricity sales.

BUSINESS

Our Company

We are the largest BHKP producer in Europe, focused on eucalyptus pulp, with an annual maximum installed capacity of 1.34 million tons in our three pulp production facilities in Huelva, Navia and Pontevedra (Spain) and an aggregate production of 1.27 million tons in 2013, representing a utilization rate of 95%. We exported 85% of our eucalyptus pulp sales by volume, primarily to the European market, the largest global pulp market and a net importer of market pulp, where we have a market share of 16%. We also have a significant co-generation and renewable energy generation business, with an installed capacity of approximately 280 MW as of December 31, 2013 and total energy sales of 1,896 GWh for the twelve months ended December 31, 2013. Our integrated pulp and energy business model takes advantage of our strong positioning in forestry supply management, both with respect to managing forest plantations and crops for the production of wood and cultivated biomass and with respect to sourcing wood from third-party sources as required for the sustainability of our business. As of December 31, 2013, we managed approximately 88,266 hectares of plantations (excluding our forestry assets in Uruguay), of which we owned approximately 56%.

We are publicly listed on the Madrid Stock Exchange (*Bolsa de Valores de Madrid*) with a market capitalization of €682.0 million as of December 31, 2013. For the twelve months ended December 31, 2013, we generated revenue of €839.0 million, Adjusted EBITDA of €158.0 million and unlevered free cash flow (excluding expansion capital expenditure) of €152.7 million.

Formation

The origins of our company date back to 1957, when Empresa Nacional de Celulosa de Pontevedra, Empresa Nacional de Celulosa de Huelva and Empresa Nacional de Celulosa de Motril were created by the *Instituto Nacional de Industria* (an industrial holding institute owned and managed by the Spanish government). In 1968, these companies merged, creating Empresa Nacional de Celulosa, S.A., our predecessor company. Our predecessor company was set up at its inception with an export focus that we continue to maintain today. In 1987, the Motril facility was sold, and, in 1999, we acquired full ownership of Celulosas de Asturias, S.A.U., the owner of the Navia facility. We underwent two partial privatizations in 1990 and 1995 (which included public listings), and were fully privatized in 2001. The configuration of our pulp production and forestry activities took place in 1995, and we started generating renewable energy in 1997.

Company Transformation Process

Our company has undergone a significant transformation and change in strategy over the last five years. Between 2007 and 2009, our management was focused on several capital intensive growth projects running in parallel (including a brownfield pulp and energy capacity expansion at Navia and Huelva, Spain and a greenfield pulp production project in Uruguay, as well as a pipeline of biomass projects), which were managed with internal financial and construction resources, with only limited focus on the efficiency and profitability of the existing operations. With respect to our energy generation business, our energy generation revenue represented approximately 10% of our total revenue in 2007 and we financed our biomass expansion projects on our balance sheet. As a consequence of this focus on growth, we also had high financial leverage. Additionally, we operated a forestry ownership business model with a lesser focus on wood sourcing from third parties.

From 2010 onwards, our management's focus and strategy shifted from capacity expansion to cost optimization and efficiency improvements across our pulp production facilities to exploit the business cash flow potential and to better protect our financial performance from cyclicality. As a result, we reduced fixed costs and introduced our Total Quality Management program in 2011, which was designed to drive operational efficiencies, balance maintenance capital expenditure requirements across our facilities and significantly improve utilization rate and productivity levels.

In forestry, we now operate a forestry supply management business model, sourcing our supplies of wood through various local third parties (primarily forest owners and traders), and acting across the value chain (from standing timber through to harvesting and transportation) in order to reduce costs and to ensure the sustainability and security of our wood supply. Our revenue from energy generation has increased, and, for the twelve months ended September 30, 2012, it represented 25% of our total revenue, enabling us to improve our cost competitiveness in the pulp production business as well as providing greater stability and long term visibility to our future cash flow generation capabilities. With respect to growth projects, which are limited to independent biomass energy generation expansion opportunities, we have started outsourcing their execution to EPC providers in order to improve our risk profile. We currently finance independent biomass energy generation projects under long-term project finance arrangements. We also operate a forestry consultancy services business, although, in line with the restructuring of our Ibersilva, S.A.U. subsidiary in 2011, we intend to exit this business in the near future.

Through cash proceeds from internal cash flow generation, selected asset disposals in 2009 and 2012 (including divestment of the Uruguayan companies Eufores, S.A., Celulosa y Energía Punta Pereira, S.A., Zona Franca Punta Pereira, S.A. and Zona Franca Bopicua, S.A.) and a € 130 million capital increase, which we implemented in 2010, we have also successfully reduced our net debt from €471.8 million, or 5.3x net debt/Adjusted EBITDA, as of December 31, 2008 to €203.1 million, or 1.3x net debt/Adjusted EBITDA (including 0.7x in relation to our project finance debt), as of December 31, 2013. We operate a conservative financial policy, characterized by low leverage and adequate liquidity, which is a fundamental element of our strategy to further enhance the resilience of our business. The company's financial strategy is to maintain, going forward, a maximum leverage of 2.5x net debt/Mid-cycle EBITDA, including project finance debt. We define "Mid-cycle EBITDA" as, at any time, senior management's good faith estimate of the consolidated EBITDA of the company based on an estimate of average historical peak and trough pulp prices through the economic cycle. Any strategy is forward-looking in nature, and as such is subject to risk and uncertainties. Please see "Forward-Looking Statements."

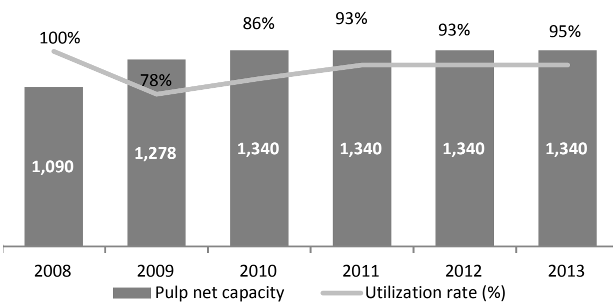
Industrial Footprint

We have a high-quality asset base underpinning our strong operating and environmental performance, having invested over €506 million in our asset base since 2008, excluding our investments in our new independent biomass energy facilities at Huelva and Mérida, Spain and Uruguay assets.

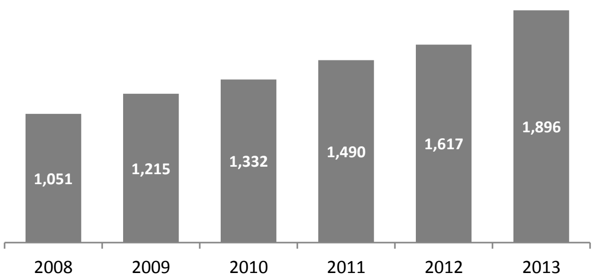
Our installed pulp production capacity has increased by 23% since 2008, with a historically stable pulp production profile. In addition, our energy sales have increased consistently year-on-year since 2008 and our renewable energy generation business continues to grow, with 1,051 GWh of energy sold in 2008, 1,617 GWh of energy sold in 2012 [a] and 1,896 GWh of energy sold in 2013, the highest level that we have ever sold.

(a) includes 74.6 MWh of energy sold in Huelva 50MW biomass plant. Sales were fully capitalized in 2013

Pulp Production Capacity and Utilization Rate[1]



Energy Sold (GWh)



(1) The decline in the 2009 utilization rate for pulp production was driven by stoppages at the Navia pulp production facility due to capacity expansion works we undertook, as well as a temporary, extraordinary shutdown of one of our two production lines at our Huelva pulp production facility due to low pulp prices.

Source: Company.

Our industrial infrastructure is comprised of three pulp production facilities located in Huelva, Navia and Pontevedra, Spain, where we also own and operate seven energy facilities which co-generate and generate energy by taking advantage of synergies from the industrial process. Each of these facilities is also strategically located in close proximity to our forestry assets and to shipment ports, in order to allow us to operate our business with reduced inventory levels as well as to allow efficient and timely deliveries of our pulp products at a competitive cost. In addition, the ownership of the independent 50 MW biomass energy facility in Huelva, Spain was transferred from our EPC contractor to us in the February 7, 2013. This new independent biomass energy facility is located in close proximity to our pulp production facility in Huelva, Spain. Furthermore, we are currently constructing another independent biomass energy facility in Mérida, Spain, which is expected to become operational by the third quarter of 2014.

We comply with internationally recognized standards on health and safety and with respect to the environment and pollution prevention, and internationally recognized guidelines on corporate responsibility and sustainability. As of December, 2013, 67% of our forestry assets were certified under the PEFC scheme and 30% under the FSC scheme, both of which are internationally recognized certification schemes promoting sustainable forest management. We intend to continue focusing on the sustainability of our production as well as to comply with strict environmental standards.

Excluding expansion programs, our maintenance capital expenditure (including investment in pulp facilities, energy and forestry activities to produce wood for pulp) have remained consistently in the €40 million per annum range since 2007, although in 2013 increased to €57 million due to environmental investment to reduce the generation of odors and noise.

Our Sites and Facilities

Navia

Our Navia facilities are situated on land owned by us which measures approximately half a million square meters. The pulp production facility has a capacity of approximately 500,000 tonnes of pulp annually. Two electricity facilities with a total installed nominal power of 76.98 MW are also located on-site: CEASA NAVIA I (an electrical biomass co-generation facility, with a) and BIOMASA CEASA (an electrical biomass co-generation facility, with a nominal installed power of), with a nominal installed power of 40.33 MW and 36.65 MW respectively.

Pontevedra

Our pulp production facility has a maximum production capacity of 430,000 tonnes of pulp annually. At the Pontevedra site, we also have two electrical biomass co-generation facilities (7.95 MW and 26.62 MW, respectively) with a combined total installed nominal power of 34.57.

The Pontevedra facilities are situated on a maritime terrestrial public concession awarded to us under a Ministerial Order issued on June 13, 1958. The concession deed did not specify a fixed term for the concession itself and according to the previous Coast Act the expiration date of the concession was July 2018. Nevertheless, on May 2013 the Spanish Parliament approved an amendment of the Cost Act and established a new regulation of the terms and extensions of concessions. This new regulation gives the Ence the right to extend the concession beyond July 2018 and for a maximum of 75 years. On 11 November 2013 Ence asked the State Administration for an extension of the concession for up to maximum term permitted by law. However, there is no guarantee about whether the extension will be granted or about the term of the extension. Please see "Risk Factors—Risks Relating to Our Business—Our Pontevedra facilities are constructed on land subject to an administrative concession that is expected to expire in 2018, which may have a material adverse effect on our operations."

Huelva

Our Huelva pulp production facility has a maximum production capacity of approximately 410,000 tonnes annually. We also have three electricity generation facilities situated on this site: CENER I (a natural gas co-generation facility with an installed nominal power of 49.94 MW), CBIO (electrical biomass co-generation facility, with a nominal installed power of 27.50 MW) and CENER II (a condensation installation which uses biomass as fuel, with a nominal installed power of 40.95 MW), with a combined total installed nominal power of 118.4 MW and total energy sales in 2012 of 813.3 GWh.

In September 2012, a new 50 MW independent biomass generation facility at Huelva, Spain became operational following the completion of its construction, through Ence Energía Huelva, S.L.U. This facility was specifically designed to produce electricity from energy crops and forestry waste, and had a production of 376 GWh in 2013. The test phase for this facility was completed in December 2012 and its ownership has been transferred from our EPC contractor to us in the February 7, 2013. This new independent biomass renewable energy generation facility in Huelva is not impacted by the Moratorium.

Mérida

We are currently constructing, through Ence Energia Extremadura, S.L.U., a second independent biomass generation facility at Mérida, Spain, which is expected to enter into production by the fourth quarter of 2014. This facility, like our independent biomass generation facility in Huelva which recently entered into production, is also designed to produce electricity from energy crops and forestry wastes, and will have a projected annual production of 158 GWh. This facility will have a capacity of 20 MW. Our independent biomass generation facility at Mérida is not impacted by the Moratorium.

Other Assets

The headquarters of the Issuer are located in Madrid, Spain, at Paseo de la Castellana, 35. This property was leased in 2009 for a term of five years, and later extended for another three years.

Business Activities

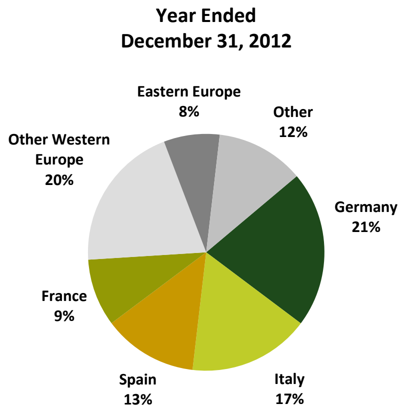
We organize our economic activities into three distinct but closely interrelated and complementary business areas:

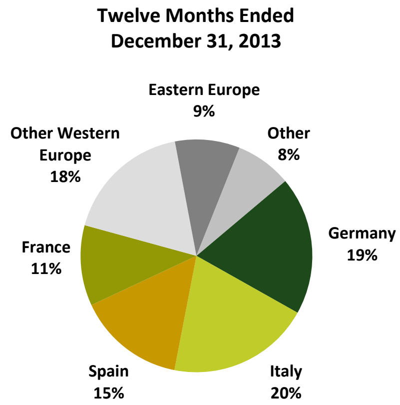
Pulp Activity

Our pulp activities comprise managing the production of pulp at our three pulp production facilities in Spain, located in Navia, Huelva and Pontevedra, as well as the sales of the produced pulp. The combined nominal production capacity of our three pulp production facilities is 1.34 million tonnes/per annum and, during 2013, the combined utilization level was 95% (including maintenance stoppages). For the twelve months ended December 31, 2013, our pulp production activities generated revenue of €611.4 million, representing 71.7% of our total revenue.

We principally sell to European countries where we are able to better leverage our logistical advantages with a strategy aimed to diversify our customer base. In the twelve months ended December 31, 2013, we exported 85% of our eucalyptus pulp sales by volume, primarily to the European market, the largest global pulp market and a net importer of market pulp, where we have a market share of 16%. We held a significant market share by volume for BHKP in each of Germany, Italy, Spain and France, the principal markets for our pulp products, which accounted for 19%, 20%, 15% and 11% of our volume, respectively, for the twelve months ended December 31, 2013. During the same period, we also exported our pulp products to other Western European countries (18%) and to Eastern Europe (9%), as well as selectively outside of Europe (8%, primarily to Turkey).

The destination markets of our pulp products during the twelve months ended December 31, 2013 compared to the year ended December 31, 2012, were as follows:

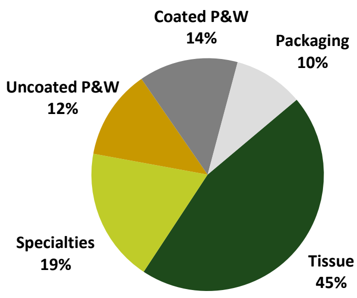




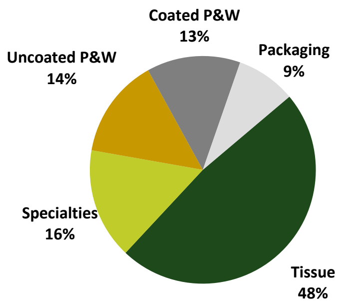
Our sales are focused on end-market paper segments with high forecasted growth rates. Our biggest end-market by volume is the tissue segment (the end products of which mainly include paper towels for kitchen, bathroom and toilet paper), which represented 48% of our pulp sales by volume for the twelve months ended December 31, 2013. According to RISI, the tissue segment benefits from a resilient and stable end-customer demand, and is forecasted to grow globally at a compound annual growth rate ("CAGR") by volume of 4.1% per annum over the period from 2012 to 2017, which is, according to RISI, the highest forecasted CAGR among the various paper segments by global demand during such period. Of the remaining 52% of our pulp sales by volume for the twelve months ended December 31, 2013, 24% came from certain specialty paper and packaging segments (including packaging for beauty products, labels, cigarette papers, currency, coasters and décor paper), including beauty products and white-top packaging, while approximately 28% came from the printing and writing paper ("P&W") segment, which, according to RISI, are expected to grow globally at a CAGR by volume of 3.2% and 1.1%, respectively, over the period from 2012 to 2017.

The following charts show the percentage of our sales by volume generated from each end-market in the twelve months ended December 31, 2013 compared to the year ended December 31, 2012:

Year Ended
December 31, 2012



Twelve Months Ended
December 31, 2013



Customers

In 2013, our top ten customers by pulp volume sold accounted for 52.5%, and our top 50 customers accounted for 92.9%, of our consolidated revenues from sales of pulp.

We have long-term sales relationships with most of our pulp customers in the domestic and international markets. Generally, we sign contracts with customers during the last quarter of the year for their requirements during the next year, which can account for up to 100% of our yearly pulp sales. These contracts outline agreed sales volumes and also provide the basis for any agreed commercial discounts that will be applied to any purchases by a particular customer. These contracts usually provide for prices to be reviewed on a monthly basis and linked to a certain benchmark such as the listed market price of the pulp or a foreign exchange rate. Our prices are usually set on a Cost, Insurance and Freight ("CIF") basis, i.e., including freight and insurance, meaning that if a certain customer wants us to arrange the logistics for the actual delivery of the pulp, an additional fee is charged to that customer.

Logistics

Most of our pulp deliveries are to customers within Europe and we use third parties to transport our products in Europe by sea, truck or rail. We also use third parties to ship our products by sea to customers outside of Europe.

Our pulp production facilities are strategically located near well-invested port terminals to cover the European market. Due to our presence on the ground in Europe, we can offer certain logistical solutions that increase our competiveness over Latin American producers, such as the use of coastal vessels of a size more adapted to customer demand, enabling a quicker response to their needs. Furthermore, the north-south flow of goods around Spain and Portugal is greater than the reverse, which enables us to operate in a market with a surplus of logistical resources otherwise forced to return to northern Europe under ballast, enabling us to obtain lower logistics costs.

Our Huelva pulp production facility is located ten kilometers from the port of Huelva, which enables this facility to competitively supply the Mediterranean zone. Our Pontevedra pulp production facility is located two kilometers from the port of Marín where there is a covered terminal, which enables large cargo ships to be loaded on their arrival, irrespective of weather conditions. There is also container shipping capacity in this port. Finally, the Navia pulp production facility is 35 kilometers from the port of Ribadeo, which to date has acted as the logistics base for the dispatch of products sold by this particular facility.

We also use warehouses in different European ports, from which we can efficiently distribute products to our customers' installations by land or by a combination of trucks and barges.

Our three-pulp production facility layout, in combination with our relative proximity to the majority of our clients, provides us with the manufacturing flexibility to tailor our pulp products to the specifications of our clients. This gives us an advantage over our Latin American competitors, who, given their logistical difficulties in accessing Europe, tend to ship pulp of a single grade in bulk.

Production Process

We produce short fiber chemical pulp exclusively from eucalyptus timber. We use the Kraft process, which consists of treating the wood chips with a mixture of sodium hydroxide and sodium sulfide to break the bonds linking the lignin to the cellulose, in our pulp production facilities. Our pulp production facilities in Huelva and Navia, Spain produce pulp by using the elemental chlorine free ("ECF") process, a technique that uses chlorine dioxide instead of elemental chlorine gas during the bleaching process, preventing the formation of dioxins and other carcinogens. Our pulp production facility in Pontevedra, Spain, on the other hand, produces pulp by using the totally chlorine free ("TCF") process, a technique that bleaches pulp through the use of an oxygen bleaching process (typically using hydrogen peroxide) instead of the chlorine dioxide that is used in the ECF process. Both the ECF and TCF processes were developed during the 1990s to replace a chlorine gas-based process, which was more harmful to the environment.

The installed capacity, production and percentage utilization as of and for the twelve months ended December 31, 2013 for each of our facilities are detailed below:

Type of Bleaching Process Used/Facility	Installed capacity (tonnes/year)	Production (tonnes)	Percentage utilization (twelve-month average)
Huelva[(i)]	410,000	368,938	90%
Navia	500,000	484,121	97%
Total ECF	**910,000**	**853,059**	**94%**
Pontevedra	430,000	418,329	97%
Total TCF	**430,000**	**418,329**	**97%**
Total	**1,340,000**	**1,271,389**	**95%**

In addition to eucalyptus timber, received in the form of logs (mainly with bark) or in the form of chippings (typically timber imported from South America), the principal raw materials used in the pulp production process are as follows:

- *Non-biomass fuels.* These fuels consist primarily of fuel oil. Small amounts of propane and petroleum coke are also used.

- *Chemicals.* These primarily consist of oxygen produced on site and cryogenic oxygen, oxygenated water, caustic soda, sulphuric acid, sodium chlorate, EDTA, lime and sulphur dioxide. In addition, small quantities of additives such as talc, antifoaming and dispersion agents are also used.

The timber received at the facility is debarked and chipped prior to being subjected to a controlled steaming process, which uses an alkali additive produced on site. The steaming dissolves the lignin (a component that holds together the cellulose fibers) present in the wood, thus causing the cellulose fibers to separate. The resulting mixture is washed with water in a virtually closed circuit, separating the dissolved lignin from the suspended cellulose fibers and leaving a residual cellulose paste. The cellulose paste is then subjected to a bleaching process prior to being dried, cut and packaged in order to facilitate its transportation to its point of use as raw material in the production of paper, cardboard, card, packaging and related materials.

The separated lignin together with the chemical products used in the steaming of the wood are concentrated in a multiple-effect evaporation train in order to facilitate combustion. We harness the energy generated during the combustion process, in the form of steam, in our co-generation facilities. Additionally, we use the bark of the wood as fuel for our biomass generation facilities. Finally, the processes we use allow us to regenerate the alkali component necessary for the steaming of the wood from our waste streams with minimum contributions to the circuit to replace losses.

Each pulp production facility undergoes, on an annual basis, an approximately 15-day-long maintenance shutdown.

Regulation

We continuously monitor environmental parameters at each of our pulp production facilities in terms of their liquid and atmospheric effluents (for example, waste and noise), verifying and taking the necessary steps to ensure that they are within the limits required in each case. The monitoring procedures and operating guidelines are set forth in our pulp production facility management systems. Furthermore, since December 2008, all of our pulp facilities have been required to receive a corresponding Integrated Environmental Authorization, certifying that the facility complies with certain environmental and anti-pollution regulations.

We are also subject to Law 13/2010, which modifies Law 1/2005 governing the scheme for greenhouse gas emissions trading and Royal Decree 1722/2012, approved on December 28, which develops certain aspects of the allocation of allowances (the "Spanish Greenhouse Regulation") implementing Directive 2009/29/EU with regard to greenhouse gas emission rights for carbon dioxide. Under the Spanish Greenhouse Regulations we are required to obtain certain greenhouse gas emission authorizations. We were allocated 657,970 tonnes of emission rights annually for the 2008 to 2012 period. From January 2013 to January 2020, our regulatory allocation of CO_2 rights will be reduced to an average of 131,257 tonnes of CO_2 rights annually, which creates a deficit for our operational requirements. However, we have secured, and we expect to secure in the future, sufficient emissions rights to conduct our activities, including through the purchase of such rights. In December 2012, we acquired 506,202 tonnes of greenhouse gas emission rights for CO_2 emissions at a price of €24.7 per right in settlement of a forward agreement entered into in June 2008, for purposes of meeting our emissions rights consumption requirements arising from our production activities in 2012 and going forward. The Group has contractually committed to the forward purchase of allowances covering a total of 601,000 tonnes: 200,000 tonnes at a price of €15.52/tonne exercisable in December 2014 and 401,000 tonnes at €15.69/tonne exercisable in December 2015. The aim is to cover the Group's future consumption of emission allowances. Going forward, we will continue to enter into forward contracts to acquire additional CO_2 rights, and management believes we have already contracted sufficient rights to meet our operational needs for 2013 through 2016.

Energy Activity

Energy Generation

With respect to our energy generation activities, we are primarily a biomass renewable energy generator. We generate renewable energy in two ways: (i) co-generation of electricity and steam (that are used in the pulp production processes) integrated with our existing pulp production facilities, given the nature of the pulp production process, mainly fuelled through the use of the black liquor produced in the extraction of cellulose; and (ii) electricity generation independent from our pulp production, using biomass from energy crops and forestry residues (primarily consisting of wood barks and other wood-based residues related to harvesting activities). In addition, we co-generate electricity and steam using natural gas. All electricity produced by us is sold to the national electricity grid in Spain.

We operate seven co-generation and biomass generation assets at each of our three sites in Spain, located at Navia, Pontevedra and Huelva. Our efforts are focused on reducing steam consumption in order to maximize the amount of electricity that will be sold to the grid. In addition, the Navia and Huelva complexes have condensing turbines to maximize the quantity of energy generated from biomass, while Huelva also has a natural gas co-generation installation to support the pulp production process. All of our facilities use an "all-all" sale and purchase system, such that all energy generated at our plants is sold at a regulated preferential rate and all electricity required by the facilities to cover production needs is subsequently repurchased at a market rate (plus an access toll).

Our energy sales by location and installed capacity during 2013, by location, were as follows:

	Twelve months ended December 31, 2013	**Twelve months ended December 31, 2013**
	(total sales in GWh)	**(installed capacity in MW)**
Huelva	806.9	118.4 MW
Pontevedra	207.6	34.6 MW
Navia	504.9	77.0 MW
Huelva 50 MW	376.1	50.0 MW
Total	**1,895.5**	**280.0 MW**

Our energy sales during 2013, by generation type, were as follows:

	Twelve months ended December 31, 2013
	(total sales in GWh)
Generation with biomass[(1)]	854.9
Co-generation with biomass[(2)]	663.0
Co-generation with gas[(3)]	377.6
Total	**1,895.5**

(1) "Generation with biomass" is defined as electricity generated through the use of condensing turbines which are powered by steam produced from the combustion of biomass.

(2) "Co-generation with biomass" is defined as electricity generated through the use of back pressure turbines powered by steam produced from the combustion of biomass.

(3) "Co-generation with gas" is defined as electricity generated through the use of back pressure turbines powered by natural gas.

For the twelve months ended December 31, 2013, our energy generation activities produced revenue of €233.7 million, representing 27.4% of our total revenue.

On the basis of our position and experience in the forestry sector in the Iberian Peninsula and our expertise in the development of short-rotation energy crops, we have developed a strategy for further expansion into independent biomass plants in order to grow organically and to reduce earnings volatility. These plants are financed under long-term project finance arrangements and built through an EPC contract in order to eliminate the construction risk. The first power plant was a 50 MW biomass energy facility close to our existing facilities in Huelva, which became operational in September 2012. We took ownership of this facility from our EPC in the February 7, 2013, following the successful completion of a test phase in December 2012. We are also in the process of constructing a further 20 MW biomass energy facility in Mérida, Spain, which we expect to be operational by the third quarter of 2014. The renewable energy facilities in Huelva and Mérida are not affected by the Moratorium imposed by the Spanish government on new renewable energy facilities in Spain. Please see "Regulation."

Regulation

All of our energy generation facilities are included under Royal Decree 661/2007, which enables us to sell the electricity we generate to the Spanish electricity grid at a Regulated Tariff, with priority access to the distribution grid, guaranteeing the sale of all of the energy produced. However, the regulatory scheme will be changed retroactively from 14 July pursuant to Royal Decree-Law 9/2013, limiting the number of years eligible for premium. For further information on this regulation, please see "Regulation.". Please see "Risk Factors—Risks Relating to Our Business—Regulatory changes may have an adverse effect on our electricity generating operations."

Conversely, we acquire the electricity necessary to supply our production processes at the pool price plus an access toll (payable by persons accessing the grid). Given the positive difference between the price at which we sell electricity and the price at which we buy electricity, all of our facilities use an "all-all" sale and purchase system, meaning that all electricity generated at the facilities is sold to the grid and all electricity required by the facilities to cover production process needs is purchased. During 2013, we produced 2.6 times the electricity than we consumed.

All facilities with an installed capacity exceeding 10 MW (and groupings of power generation plants amounting to 10 MW or more) must be built or be connected to a generation control center (*centro de control de generación*), which must liaise with the system operator, sending information in real time from the facilities and making sure that the system operator's instructions are executed to ensure reliability of the electricity system at all times. We have our own generation control center which is responsible for the operation as well as the negotiation of energy in the electricity market. Our generation control center participates in the daily power market, making daily and intra-day bids for the purchase and sale of electrical energy to the market operator *Operador del Mercado Ibérico de la Electricidad Polo Español, S.A.* ("OMEL"), responsible for managing the bid system, and also interfaces with the system operator Red Eléctrica de España, S.A.U. ("REE"), the CNE, the Ministry of Industry, Energy and Tourism and other industry public authorities. Please see "Regulation."

Biomass generation process

Biomass covers a large group of materials of different origins and with very different characteristics, from the waste from forest exploitations and agricultural crops to waste from garden pruning, waste from agricultural forestry industries, crops for energy purposes, liquid fuels deriving from agricultural products, and waste of animal or human origin, among others.

The biomass which we currently use as raw material for renewable energy generation originates from the following principal sources:

- *Lignin.* This is biomass generated from a delignification process where wood fibers are separated through a cooking process, which is a part of the pulp production process. The resulting black liquor—essentially, lignin mixed with the chemical products used to cook the wood—is used as fuel in recovery boilers generating steam for electricity generation. Additionally, after combustion, the cooking chemicals are recovered in the lime kiln for re-use during the production process, thereby contributing to an elimination of waste generation for the environment and increased efficiency in the pulp production process.

- *Forest wastes (solid biomass).* This is biomass generated during the management and harvesting of the plantations (such as branches and stumps) as well as through the debarking of the timber, before chipping and sending the wood to the digestor for the cooking process. This biomass is burned in a biomass boiler to generate steam for electricity production, thus increasing the efficiency of the process.

- *Energy crops (solid biomass).* Crops (eucalyptus and poplar) specifically cultivated to be used as fuel in order to generate electricity.

We have experience and know-how in management of the biomass supply chain and, with access to our own forest resources and through arrangements with our suppliers, we believe we have guaranteed sufficient biomass resources for our biomass generation assets in the medium and long terms. In addition, since we own or manage more of our biomass resources, we can harvest our forest biomass at a more efficient cost.

Our investment in R&D&I, particularly in energy crops, has also reduced the acquisition cost of our raw materials compared with the cost of purchasing from suppliers. Improvements in productivity of the crops have allowed us to reduce our dependence on suppliers and have given us greater control over our supply chain. As of December 31, 2013, we managed 17,520 hectares planted with energy crops, out of which we owned 8,847 hectares. Of these, 7,679 hectares (primarily non-irrigated land) are ring-fenced for the supply of the 50 MW independent biomass energy facility in Huelva, and are equivalent to 45% of our estimated annual requirements for biomass of that installation. The remaining volume relates to the initial activities for development of biomass crops for our remaining projects.

However, according to the proposal for new remuneration parameters sent on 3 February 2014 by the Ministry of Industry, the specific energy crop tariffs would be eliminated and would ultimately have the same remuneration as forestry and agricultural waste, damaging the profitability of these plantations. Ence has estimated the quantitative impact of the application of these regulations; as a result, the Group has recognised a provision of €26,9 million in the form of impairment charges on energy crops and other assets.

Development of Biomass Energy Facilities

The process of constructing a new biomass energy facility in Spain usually requires a number of years. First, the proposed biomass energy facility must receive an administrative authorization, including planning permission by the town council in the area where the facility will be built, and an integrated environmental permit from the relevant regional administration. The facility must also obtain a water concession from the relevant water administration, together with a connection to the electricity grid from REE, the Spanish grid manager.

After these permits are granted, the proposed facility then must be registered in the pre-allocation registry of the state Ministry of Industry, guaranteeing that the power plant will sell the electricity at the regulated preferential rate. Before or at approximately the same time as the pre-allocation registration, the project finance documentation, the EPC contract(s) and the operation and maintenance contract in relation to the facility are negotiated with the lenders, the construction company or companies and the operator, respectively. Once all such agreements have been negotiated and signed, the developers of the facility must then construct it so that it may be commissioned, registered on a definitive basis with the registry of the state Ministry of Industry under the Special Regime (*Registro de*

Instalaciones de Producción en Régimen Especial) ("RIPRE") and start selling energy. The facility must start selling energy within a period of 36 months as from the date of registration in the pre-allocation registry. After the construction phase is completed and the facility is tested (which occurs after the start of operations), the completed facility is delivered to its owner.

Our presence in all stages of the biomass supply chain and our experience in developing energy crops, including optimizing the productivity of the different types of crop used and their calorific power, together with our knowledge of the forest industry in Spain, where we believe we are the most significant buyer of wood, provides us with an advantage to benefit from the regulatory support given to biomass as a renewable source of energy. However, because the Moratorium recently imposed by the Spanish government pursuant to Royal Decree 661/2007 prevents further renewable generation capacity from being registered, further development of independent biomass energy facilities (aside from the independent biomass renewable energy generation facility that we have recently completed in Huelva, Spain and the independent biomass renewable energy generation facility that we are constructing in Mérida, Spain, both of which were not affected by the Moratorium) has been temporarily put on hold. Please see "Risk Factors—Risks Relating to Our Business—Regulatory changes may have an adverse effect on our electricity generating operations."

Forestry Activity

We have over 55 years of experience in the forestry business. Our forestry activity focuses on three distinct activities: (i) management of eucalyptus plantation assets (which are comprised primarily of the globulus eucalyptus variety) as well as energy crop plantations, which are mainly comprised of eucalyptus or poplar, depending on the location of the land; (ii) facilitating the sourcing, purchase and supply of eucalyptus timber (both from our own forestry assets and the purchase and supply from third parties, sourced both locally and, to a significantly lesser extent, internationally) to our facilities by managing the harvesting and/or transport of such timber to these facilities; and (iii) to a lesser extent, selling timber to third parties. Our forest management activity also provides forestry and environmental consultancy services.

Wood represents the largest portion of the cost of production of pulp. We source wood in several ways, including direct purchases from landowners through large and small suppliers and through imports, and from our own forestry assets. By increasing the proportion of our total wood supply sourced locally, we expect to reduce our reliance on wood imports in the coming years, since, in the recent past, wood imports have proven to be more expensive than locally sourced wood. We also sell timber and provide forestry services to third parties on a limited scale, an activity which generated revenue of € 8.0 million for the twelve months ended December 31, 2013, representing only 0.9% of our total revenue.

Forestry Management Activities

As of December 31, 2013, we managed approximately 88,266 hectares of forest plantations (excluding Uruguay), of which we owned approximately 55.6%, with the remainder being managed in collaboration with third parties. Under typical management arrangements, the land continues to be owned by a third party, while we manage the preparation, planting and maintenance of the land only. These arrangements typically have a duration of two to three rotation cycles, or approximately 30 years.

Where we manage forests on behalf of third parties, the owner will retain the ownership of the land while we are typically responsible for land preparation, planting and maintenance. At the time of felling, the owner receives an agreed percentage of the timber extracted from the area, or an amount corresponding to this percentage valued at market price. These arrangements benefit us by ensuring the sustainability of our future supply of timber without requiring us to invest in the underlying property. Although the saplings are normally supplied by us, in some circumstances, the owner will take responsibility for certain planting and/or maintenance tasks in exchange for an additional premium, which is paid to the owner at the time of felling. The duration of these arrangements is typically for two to three rotation cycles, or approximately 30 years, which allows the owner to benefit from our experience and expertise in forestry management and logistics.

The principal activities of the forestry activity are as follows:

- *Nursing and Planting.* We reforest our assets in parallel with the harvesting of the prior crop. Our reforestation program seeks to achieve greater productivity of future assets by applying forestry technology (primarily consisting of planting techniques and treatments, land preparation, fertilization and pest control) and advanced cloning (primarily consisting of the selection of trees, their cloning in nurseries and the raising of the clones in greenhouses). We have greenhouses located in Pontevedra, Huelva and Navia, Spain. We planted 580 hectares during 2013.

- *Maintenance.* We carried out conservation and forestry work on 33,578 hectares during 2013.

- *Harvesting.* The crop cycle for pulp wood is 10 to 14 years and the crop cycle for wood for energy generation from biomass is 3 to 5 years. We harvested 228 thousand m^3 from our owned plantations during 2013.

We apply sustainability criteria in managing our forestry assets with the goal of managing and using our plantations while maintaining their biodiversity, productivity and regeneration capacity and viability, as well as enhancing their ecological, social and economic functions.

As of December 31, 2013, our forestry assets under management in Spain and Portugal (excluding forestry assets to be used solely for biomass generation) were as follows:

Geographical area	Hectares under management	Of which hectares owned	% in ownership
Northwest Spain	13,859	2,928	21%
Southwest Spain	52,355	37,282	71%
Portugal	4,532	0	-
Total	**70,746**	**40,210**	**57%**

In addition, as of December 31, 2013, we managed 17,520 hectares, of which we owned 8,852 hectares, of energy crop plantations to be used as fuel for our biomass generation facilities.

During 2013, our total investments in forests in the Iberian Peninsula amounted to €18.0 million. 41% of new investments were allocated to the cultivation of energy crops, primarily through the leasing of land on which to conduct such activities as well as the management of these assets.

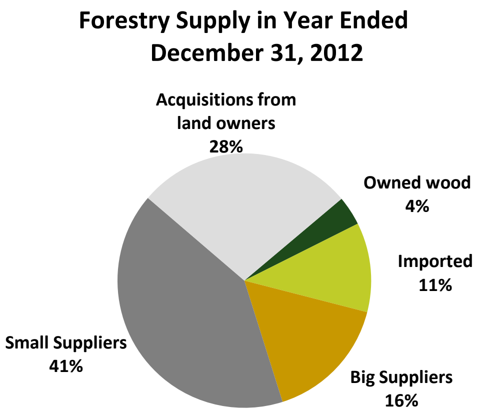
Our forestry assets in Uruguay were classified in our financial statements for the year ended December 31, 2011 as held for sale. We entered into an agreement to divest these assets on December 14, 2012 for a total consideration of approximately $77.3 million (€59.1 million) at the applicable €/$ exchange rate on December 14, 2012. Closing was done by March 7, 2013 after the receipt of certain regulatory approvals and the making of required anti-trust notifications to the Uruguayan authorities, as well as other customary conditions (including a customary material adverse change clause).

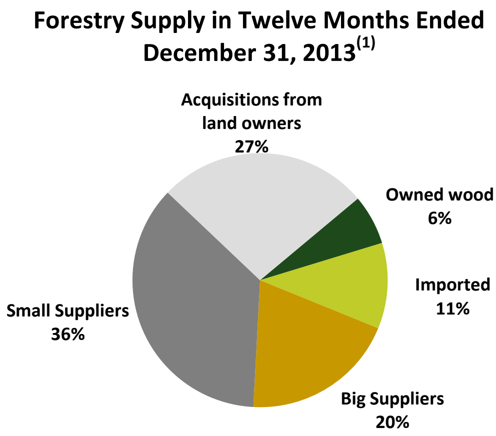
For the supply of biomass, given the shorter crop cycles (3 to 5 years) of energy crops compared to pulp wood (9 to 12 years) and the availability of highly productive irrigated land for rent due to the reduction of agriculture subsidies, we directly manage our biomass forestry assets and intend to continue to develop energy crops to ensure self-sufficiency for our energy generation facilities.

We also engage in research, development and innovation ("R&D&I") activities related to our forestry activities as well as activities focusing on health and safety at work and environmental, quality and forestry activity sustainability management systems (all of which are fully integrated in the day-to-day management of our forestry activities). As of December 31, 2013, the net book value of the standing timber in our owned forest plantations was €207.9 million.

Timber Supply Activities

Our forestry activity also involves the sourcing and supply of timber to our pulp production facilities and biomass generation facilities. We source our timber from our own forestry assets as well as through direct acquisitions from forest owners, imports (historically from South America, particularly Uruguay, and Africa) and certain third-party suppliers. In the twelve months ended December 31, 2013, we sourced our timber as follows as compared to the twelve months ended December 31, 2012:





(1) We define "small suppliers" as those supplying less than 3,000m^3 of timber per month and "large suppliers" as those supplying more than 3,000m^3 of timber per month.

Source: Company.

The majority of the eucalyptus timber consumed in Spain and Portugal is located in the northern and Atlantic zone, where there is a well-developed market due to the favorable conditions for the development of forest plantations, and where current wood growth and availability is in excess of our timber requirements. However, in the catchment area in which the Huelva facility is located, the eucalyptus timber market is much smaller, resulting in a dependence on timber from other areas to maintain current production levels.

- *Own wood.* Although we have been providing for part of our timber supply requirements from timber from our own land assets since 1977, our current strategy is to reduce the level of timber self-supply in order to reduce the capital investment involved in owning the underlying forestry assets and in order to increase our overall liquidity. Please see "Summary—Our Strategy—Optimize Forestry Supply Management with a Focus on Reducing Fixed Assets."

- *Direct acquisitions from forest owners.* We purchase wood directly from forest owners and meet the costs associated with the harvesting and logistics of transporting this timber to the mill gates. Given the traditionally high fragmentation of land ownership in the Iberian Peninsula, our strategy is to increase the amount of timber sourced directly from forest owners through the development of new purchasing and harvesting teams in order to achieve better knowledge of wood availability, reduce harvesting and logistics costs, and help forest owners increase the productivity of their plantations through the sharing of our experience and expertise, improved eucalyptus clones and best forestry practices (including the implementation of advanced silvaculture techniques). In the longer term, we believe that this strategy will enable us to improve the quality of the wood used in our production processes and the competitiveness of our production process.

- *Imports.* We define "imports" as timber sourced from outside Spain and Portugal. In the case of timber originating from Uruguay and other countries, vessels normally transport both our own timber and that acquired from third parties. Our current strategy is to reduce the level of imports of timber, and correspondingly increase our sourcing of less-expensive wood from smaller local suppliers, given that imports have proven to be more expensive and inefficient than other sources of timber available to us.

- *Small and large suppliers.* We purchase already-harvested timber from suppliers located within Spain and Portugal, which is normally delivered to us at our facilities. The purchase price for such timber typically reflects the costs associated with felling the standing timber through to its transport to our facilities. Our current strategy is to increase the amount of timber sourced from small suppliers versus large suppliers in order to enable us to diversify our supplier base while simultaneously reducing costs. We are not reliant on any particular supplier and we believe we have access to significant quantities of timber for the foreseeable future.

Our forestry activity is also responsible for the harvesting of timber and the logistics of delivering this timber to our facilities in cases in which these services are not provided by the seller of the wood. We are focusing on the mechanization of the harvesting process in order to generate cost savings, and, in cases in which the timber must be manually harvested, outsourcing the harvesting. On the logistics side, we are currently focused on monitoring the transportation of wood by subcontractors in order to decrease inefficiencies. In addition, we are currently implementing a new logistics scheme to supply wood to the Huelva facility from northwestern Spanish woodlands, thereby eliminating the need to import wood from overseas and decreasing our exposure to volatile international markets and currency risks.

Ancillary Activities

In addition to our three primary activities, we also have several ancillary activities, including our R&D&I activity, health and safety at work and environmental, quality and forestry activity sustainability management systems (all of which are fully integrated in the day to day management of our activities) and corporate support activities, including financial, capital and human resources, legal and corporate services activities.

Our R&D&I activity covers the whole spectrum of our activities, from the cultivation of raw materials through to the production process. Our R&D&I activity focuses its efforts on three basic objectives:

- in pulp production, producing ecological paper pastes of improved quality, at competitive costs through the improvement of pulp manufacturing processes;

- in energy generation, optimizing renewable energy products and increasing the productivity of crops devoted to renewable energy production, measured in Kcal per hectare per year, through two principal programs based on the production of short rotation woody crops and another for use of waste biomass; and

- in forest management, increasing forestry productivity measured in tonnes of final cellulose per hectare planted per year.

In addition to the R&D&I activities we conduct in our own centers, we maintain ongoing collaborations with several public and private universities and research centers, both in Spain and internationally, including through the use of research agreements.

Our Strategy

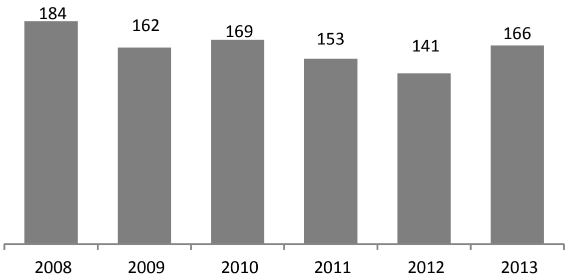
Our overall strategy is to further develop our complementary, integrated business model in terms of cash generation, profitability and return on investment. We intend to achieve this strategy through the continuous improvement of the operational performance of our existing pulp production facilities by focusing on cost reduction and efficiency, stability of production, delivering superior customer satisfaction and maintaining efficient forestry supply management, and by focusing on growth through the selective expansion of our renewable energy generation business. In addition, we intend to continue to maintain our focus on maximizing cash flow generation through controlled capital expenditures and a conservative financial policy.

Maintain Low-Cost, Efficient Pulp Production and focus on Cash Generation

We believe that we are among the lowest-cost pulp producers in Europe, largely as a result of our integrated business model and our significant past investments in our production facilities, resulting in well-invested, cost-efficient production facilities with high utilization rates and expected low maintenance capital expenditure. Our cost leadership is also underpinned by the strategic location of our production facilities. We seek to further optimize our production process and improve the cost efficiency at all of our facilities. Our strategy is to do so by leveraging our integrated business model and our energy generation and forestry activities, thereby minimizing further investments and increasing our competitiveness, profitability and cash generation. We strive to continuously increase the productivity of our pulp business (as measured by tons produced per employee) and at the same time maintain the competitive performance of our production facilities against internal and external industry benchmarks relating to key operational indicators and raw material consumption.

Our efficient facilities and production processes allow us to continue to operate during periods of low pulp prices. We have continuously maintained a focus on cost reduction across all our business activities, by improving the cost base and production efficiency of our pulp production facilities, increasing the energy contribution from our renewable energy generation activities, shifting from a forestry ownership to a forestry management business model, divesting non-core assets, increasing and stabilizing production and reducing overhead costs. As a result of these initiatives, since 2008, our Other Cash Costs (our Cash Costs excluding Wood Costs) declined by 23% to €141 per tonne in 2012. However, the estimated impact of proposed retribution changes in the energy sector would increase this figure to €166 per tonne.

Evolution of Other Cash Costs (Cash Costs Excluding Wood Costs) €/ton



Source: Company.

Since 2001, we have not needed to shut down pulp production as a result of economic factors except in 2009 when, as the result of extraordinarily low pulp prices, we temporarily closed one of our two production lines at our pulp production facility in Huelva, Spain.

Increase the Geographical Diversification of Revenues while Focusing on Key Growth Segments of the Paper Market

While we exported 85% of our eucalyptus pulp sales by volume primarily to Western European markets for the twelve months ended December 31, 2013, since 2011 we have focused on further diversifying our revenues by increasing our exposure to high-growth markets in Eastern Europe, particularly Poland and Slovenia, and selectively selling to non-European markets, particularly China, to take advantage of the more favorable supply/demand dynamics in these markets. In parallel, we have reduced our exposure to the Spanish market from 19% of sold volumes in 2010 to 15% during the twelve months ended December 31, 2013.

Our hardwood eucalyptus pulp is highly suited to the tissue segment, which accounted for 48% of our pulp sales by volume in 2013. We will continue to focus on tissue, as this segment is less commoditized, benefitting from a resilient and stable end-customer demand, according to RISI, and is forecasted to grow globally at a CAGR by volume of 4.1% per annum over the period from 2012 to 2017.

Optimize Forestry Supply Management with a Focus on Reducing Fixed Assets

Our Wood Costs are the largest component of our cost base and represented in 2013, more than 50% of our Cash Costs. We intend to continue to focus on increasing direct purchases of standing timber from landowners so as to reduce costs derived across the entire wood value chain and increase our visibility on the availability of wood for our facilities and stimulate supply. Leveraging upon our 55 years of experience in the forestry business, we aim to further increase our collaboration with plantation owners through long term agreements, thereby ensuring the availability of wood from local supplies and sharing our know-how on forestry management and logistics directly with the owners for their benefit. We also intend to continue to focus on increased purchases from small suppliers in order to increase our purchasing power and diversify our wood supply sources. As a result of these measures, the proportion of imported wood (up to 50% more expensive than domestic due to transportation costs) within our total wood supply decreased to 11% of our total wood supply during 2013, compared to 18% of our total wood supply during 2007.

Our increasing ability to source wood at competitive prices from local wood suppliers and landowners and the low contribution of our owned plantations in the supply mix (wood from our plantations accounted for 6% of our total wood supply during the twelve months ended December 31, 2013) has led us to look for opportunities to divest our forestry asset base. We entered into an agreement to divest 27,780 hectares in Uruguay in December 2012 and 2,608 hectares in Portugal in December 2013. We will continue to look for opportunities to reduce our forestry asset base in Spain and Portugal.

For the supply of biomass, given the shorter crop cycles (3 to 5 years) of energy crops as compared to pulp wood (9 to 12 years) and the availability of highly productive irrigated land for rent due to the reduction of agriculture subsidies, we directly manage our biomass forestry assets.

Continue to Focus on Strong Cash Flow Generation and Follow a Conservative Financial Policy

Our overall strategy across our three main business activities, underpins our focus on continued strong free cash flow generation, while maintaining a conservative financial policy. We seek to further optimize capital expenditures and working capital so as to maintain our leading cash conversion capabilities among our European peers. Our management has publicly communicated that the company's financial policy strategy, going forward, is to maintain a maximum leverage of 2.5x net debt/Mid-cycle EBITDA, including project finance debt. We define "Mid-cycle EBITDA" as, at any time, senior management's good faith estimate of the consolidated EBITDA of the company based on an estimate of average historical peak and trough pulp prices through the economic cycle.

Over the past five years, through cash proceeds from internal cash flow generation, selected Uruguay asset disposals in 2009 and a €130 million capital increase implemented in 2010, we have successfully reduced our net debt from €471.8 million (or 5.3x net debt/Adjusted EBITDA) as of December 31, 2008 to €203.1 million as of December 31, 2013 (or 1.3x net debt/Adjusted EBITDA, including 0.7x in relation to our project finance debt).

For the twelve months ended December 31, 2013 and for the year ended December 31, 2012, we generated unlevered free cash flow (excluding expansion capital expenditure) of €152.7 million and € 88.8 million, respectively.

Other Business Considerations

Availability of Raw Materials

The principal raw materials used to manufacture our products are wood, energy, water and chemicals. We believe we have access to adequate sources of the raw materials necessary to ensure that there is no interruption to our required supply for the foreseeable future. The prices of certain raw materials are subject to commodity price fluctuations. Due to competitive pressures, the prices of our products are not always correlated with increases and decreases in the cost of raw materials.

Competitors

We sell the majority of the pulp we produce to the European market, due to a shortage of fiber in Europe, which only produces two-thirds of the market pulp that it consumes. This shortage is expected to last for a number of years. Therefore, we face competition from other BHKP producers selling to the European market, particularly Altri and Portucel in Portugal and Fibria, Suzano, Eldorado and Cenibra in Latin America.

While historically Latin American producers have been the low variable cost producers in the industry, inflationary pressures and currency appreciation have reduced the gap between Latin American producers and Iberian producers. Although high capital expenditure requirements and increasing costs challenge the development of new pulp production capacity, more pulp production facilities are expected to be built in Latin America in the coming years, thereby increasing the availability of pulp sold in the European market.

Competition in the pulp industry is primarily based on price. Nonetheless, our proximity to European clients is an advantage to us because we are able to offer a better service with lower logistical costs.

In our electricity generating business, we do not compete with other electricity producers, as the current regulatory framework guarantees that all of the renewable energy that we produce will be sold to the Spanish electricity system.

Seasonality

The demand for our pulp is not subject to seasonality in any material way. In addition, since all of the electricity that we generate is sold to the Spanish national grid, our electricity sales also do not experience seasonality.

Intellectual Property

We seek to protect our intellectual property rights in Spain, Portugal and other markets. We also hold various patents relating to our forestry operations, cellulose production operations and our energy generation operations. In addition, we have non registered intellectual property rights, including trade secrets, proprietary technology, know-how and processes, many of which are related to our forestry, production and generation operations. Consistent with the industry in which we operate, our operations are not dependent to a significant extent on our protected intellectual property rights. Although our intellectual property portfolio as a whole is material, we do not believe that any individual intellectual property right or group of such rights is material to our business.

Loss Prevention and Insurance

We believe that we maintain insurance coverage that reflects the risks, size and requirements of our business operations and that is comparable to the insurance coverage maintained by other companies operating in our industry. Please see “Risk Factors—Risks Relating to Our Business—Our insurance coverage may be insufficient to cover our losses.” We currently carry property, loss of profits, general liability, product liability, transportation, environmental impairment and management liability insurance.

We maintain insurance coverage for all of our properties and facilities and all of our properties and facilities are valued at their reinstatement value. On a consolidated basis, in 2013, the total amount we paid for insurance premiums in relation to policies held by us was €3.7 million.

We believe that prevention, protection and employee training are key means of defending ourselves against loss from workplace incidents. Please see “Risk Factors—Risks Relating to Our Business—Our insurance coverage may be insufficient to cover our losses.”

Employee Matters

For the twelve months ended December 31, 2013, we had an average of 1,048 employees as computed on a full-time equivalent basis with 941 full-time equivalent employees and 107 temporary employees. Our employees participate in defined contribution and defined benefit post-employment plans. Certain executives also participate in a long-term incentive plan consisting of the granting of options over shares.

We believe that we have good relations with our employees and their representatives. However, in August 2012, a strike occurred at our pulp production facility in Navia, Spain, and in November 2012, a one-day strike occurred at our pulp production facility in Pontevedra, Spain. In addition, the works committees at our Huelva and Pontevedra facilities convened strikes on February 18 and 19, 2010 after raising certain questions in relation to the safety policies implemented within these workplaces. We consider that we have complied with our health and safety at work standards in all material respects, including having applied safety standards higher than those laid down by legislation, as accredited by the certification obtained by us under the OHSAS 18000 series of international standards.

Substantially all of our employees are represented by labor unions pursuant to collective bargaining agreements. We observe local practice and legislation in our labor relations matters and in negotiating collective bargaining agreements, and in this respect we are due to renegotiate and/or renew in 2013 five of our current collective bargaining agreements, four of which expired in 2012 and one in 2010. Although Ence has agreed an extension of the agreements until the end of 2014, the recent labor law reforms in Spain reduced the automatic extension of union agreements to only one year from the date of their expiration date, providing an incentive to employees to negotiate a new labor agreement as the expiration of the previous one would result in such employees becoming subject to less favorable general labor regulations. After the regulatory changes in the electricity sector and due to the negative impact expected in the profitability of the company, the company is negotiating with the Unions changes in the labor agreements conditions and a workforce optimization in order to maintain the competitiveness of the operations. This could lead to strikes during the years as the negotiation process keeps ongoing.

Environmental, Health and Safety Regulation

We operate in industries that are subject to extensive environmental regulation, including those pertaining to the storage, handling, treatment, transportation and disposal of hazardous materials, the construction and operation of our facilities (including the noise and odor impact of our operations), the protection of natural resources and endangered species, and our emissions and discharges of pollutants to air and water. Environmental, health and safety standards applicable to us are established by the laws of the European Union and the Member States in which we operate (primarily Spain), standards adopted by regulatory agencies and our permits and licenses, each of which is subject to periodic and increasingly more stringent modifications and requirements. Violations of these laws, regulations or permits and licenses may result in substantial fines and penalties, as well as orders to cease the violating operations or to conduct or pay for corrective works. In some instances, violations may result in the suspension or revocation of permits and licenses.

All of our pulp production facilities have environmental management systems in place that are presently certified to the ISO 14001 standard of the International Organization for Standardization. Each of our pulp production facilities has also obtained registration of its environmental management standards under the European Union's Eco-Management and Audit Scheme. Nonetheless, the risk of environmental, health and safety infractions is inherent in our industry, and from time to time we have experienced non-compliance with such laws and regulations and may do so again in the future.

In addition, pursuant to the requirements of sustainable forest management and best practices in establishing the chain of custody of wood used, we do not use wood that is not from legitimate sources (including wood that could originate from genetically modified trees or from an area in which the rights of local people to their resources may have been violated). Our forest management subsidiaries in Spain in particular have been pioneers in the implementation of forest certification programs, and were the first companies in the Iberian Peninsula to obtain a certificate from the Programme for Endorsement of Forest Certification, which includes a certification as to the chain of custody.

The environmental management systems in place for our forest management subsidiaries have also been certified to the ISO 14001 standard of the International Organization for Standardization.

We also endeavor to ensure that our suppliers and contractors adhere to the same environmental standards.

The health and safety of persons is a priority objective in our management systems and is included as a fundamental aspect of our day-to-day work at all levels, with our management and training adapted to the different activities carried out by us, both in the forestry and industrial and corporate fields.

We have implemented a system of health and safety at work management that is developed and improved continuously in accordance with the OHSAS 18000 series of international standards. The industrial complexes at our forestry subsidiaries Norte Forestal, S.A.U. and Silvasur Agroforestal, S.A.U. are certified in accordance with these standards, and our remaining workplaces are in the process of receiving such certification.

We operate a health and safety joint prevention service which clearly defines roles and responsibilities at all hierarchical levels within our Group on matters relating to health and safety. This means that there is greater integration of health and safety in all tasks and decisions carried out by us and the system extends to activities and work conducted by contractors and suppliers to ensure compliance with established standards. The joint prevention service covers all four preventative specialties: workplace safety; industrial hygiene; ergonomics and applied psychosociology; and health monitoring.

Legal Proceedings and Tax Audits

We are party to pending legal proceedings, including tax audits, arising in the ordinary course of business. While the results of such proceedings cannot be predicted with certainty, we do not believe any of these matters will be material to our business, financial condition or results of operations, except the matters described below.

The following legal proceedings concern the facilities in Pontevedra:

- Ence is involved in two pending legal proceedings before the Supreme Court related to the early expiration of the Pontevedra concession. The Court ruling will be based only on formal procedural matters, rather than on substance. Therefore, the Court ruling will not cause the automatic early expiration of the concession, and it may only rule the initiation of the relevant administrative procedures on that matter. If the last were the case, the initiation of the administrative procedure will neither have any automatic effect on the concession and the Company will have a hearing. Furthermore, any final administrative resolution affecting the concession could be judicially challenged by Ence.

- The extension of the Integrated Environmental Authorization granted to our Pontevedra facilities on December 31, 2011 has been challenged by a NGO and the town council of Pontevedra and is therefore under judicial review by the regional Superior Court of Galicia. The arguments used by the appellants are similar to those referred to in previous proceedings and which were ruled in favor of Ence.

Eufores, S.A., a former Uruguayan subsidiary which was sold by us pursuant to a share purchase agreement dated May 17, 2009, is involved in various litigation regarding claims for damages resulting from breach of contracts. On the basis of the share purchase agreement dated May 17, 2009, we may be liable for the outcome of these proceedings.

Additionally, claims have been brought against us for breach of representations and warranties under the share purchase agreement dated May 17, 2009 for the aggregate amount of US$3,758,511, and we have opposed these claims. However, no arbitral proceedings have yet started as a result of these claims.

We are also subject to tax audits from time to time. Among other tax audits, the Spanish tax authorities are currently conducting an inspection, which began in 2012, of the corporate income tax (Impuesto sobre Sociedades) returns filed by our Group for the tax years 2007, 2008 and 2009. The Spanish tax authorities concluded several tax inspections encompassing the Parent and several Group companies during the first half of 2013. These inspections affected the income tax filings made between 2007 and 2009, VAT filings and withholdings in 2008 and 2009, the so-called special electricity tax from 2008 until 2010, and trade tax for 2009-2012. The income tax assessment for 2007-2009, seeking a settlement in respect of unpaid taxes and late-interest payment of €6,730 thousand (in the opinion of the inspection team, the Group is not subject to a fine under this assessment) has been signed under protest; of this balance, just €3,616 thousand would result in an outflow of cash.

REGULATION

Overview

Our business is highly regulated. Our activities are subject to both national and international regulatory regimes. Because most of our activities are carried out in Spain, the regulatory environment of our business activities is shaped by EU directives and regulations, which are either implemented in the individual Member States through national legislation or have direct application to the Member States or individuals.

Each of our business activities—pulp production, energy generation and forestry—is subject to a different but sometimes overlapping set of regulations, at both EU and national levels. The following is a description of the primary industry-related regulations applicable to our businesses and currently in force in Spain, which is the principal market in which we operate.

European Union and Spanish Regulation Governing Our Production Processes Generally

IPPC Directive, LCP and IED Directive

The Integrated Pollution Prevention and Control (the "IPPC") Directive" (Directive 2008/1/EC of the European Parliament and of the Council of January 15, 2008 concerning integrated pollution prevention and control, repealing the Council Directive 96/61/EC) mandates a single integrated permit for air and water discharges, soil management, waste management activities, energy efficiency, noise, the use of raw materials, the prevention of accidents, the impact of operations on the environment, plant closure and restoration.

The IPPC Directive has been implemented in Spain through Law 16/2002 approved in July 2002. All of our installations in Spain have been granted permits in accordance with this law.

Our operations are also subject to the EU Large Combustion Plant Directive (the "LCP Directive") (Directive 2001/80/EC on the limitation of emissions of certain pollutants into the air from large combustion plants, as amended). The LCP Directive applies to plants with a thermal input of 50 MW or greater and establishes strict limits on specific emissions values, including for sulfur dioxide, nitrogen oxides and particulates.

In Spain, the LCP Directive has been implemented by Royal Decree 430/2004, as amended by Royal Decree 687/2011. All of our installations with a thermal capacity over 50 MW are in compliance with the limits imposed by Royal Decree 430/2004.

The Industrial Emissions Directive 2010/75/EU (the "IED") was entered into force in January 2011 and will gradually replace the current IPPC Directive and the sectorial directives (including the LCP Directive). The IED Directive has been implemented in Spain through Law 5/2013, approved in June 2013, which modifies Law 16/2002. Accordingly, our permissions are being reviewed in order to update them with the IED requirements.

Environmental Liability Directive

Directive 2004/35/EC on environmental liability with regard to the prevention and remedying of environmental damage (the "Environmental Liability Directive") implements a "polluter pays" principle for remedying environmental damage. Its fundamental aim is to hold operators whose activities have caused environmental damage financially liable for remedying the damage. In addition, the Environmental Liability Directive holds those whose activities caused an imminent threat of environmental damage liable to taking preventative actions.

The Environmental Liability Directive was implemented in Spanish law by the provisions of Law 26/2007 on environmental liability, approved on October 27, 2007. Law 26/2007 upholds the polluter pays principle and imposes strict prevention, avoidance and remedy obligations on operators for damage and threat of damage to the environment. The Spanish regulation is stricter than the minimum requirements imposed by the Environmental Liability Directive because it promotes necessary awareness and responsibility within the private sector for damages and risks to the environment that its activities carry. Law 26/2007 has been developed by Royal Decree 2090/2008, approved on December 22, 2008.

Emissions Trading System

Our operations are covered by the EU Emissions Trading System (the "EU ETS"), which is an EU-wide system of trading allowances that are allocated by Member States to cover industrial greenhouse gas emissions. Industrial sites to which the EU ETS applies receive a certain number of allowances to emit carbon dioxide or other greenhouse gases and must surrender one allowance for each tonne of a greenhouse gas emitted. Sites that emit fewer tonnes of greenhouse gases than their allowances cover are able to sell the excess allowances in the open market, whereas those that emit more must buy additional allowances through the EU ETS. Non-compliance is subject to penalties. Phase I of the EU ETS covered emissions in calendar years 2005 to 2007 and Phase II covered the period from 2008 to 2012.

By virtue of Directive 2009/29/EC of the European Parliament and of the Council of April 23, 2009 amending Directive 2003/87/EC, the European Union has extended the EU ETS for a third phase covering emissions in calendar years 2013 to 2020. Our plants will be covered by the EU ETS in this phase. The main changes for Phase III include the introduction of a single EU-wide cap on emissions that will decrease annually, extending the system over other industrial sectors, and the gradual replacement of the free allocation of allowances with an auctioning system pursuant to which, beginning in 2013, Member States will be required to auction all allowances not allocated free of charge. During Phase III, the allocation of allowances will decrease each year at a preset rate, resulting in only 30% of allowances allocated freely by 2020, and none by 2027. Accordingly, as a result of the more stringent emissions limits and the move to the auctioning system, we will be required to purchase an increasing number of our emissions allowances. Please see "Business—Principal Activities—Energy Activity."

In Spain, requirements of the Directive 2009/29/EC are implemented into national law by the amendment of Law 13/2010, approved on July 5, 2010, which modifies Law 1/2005 governing the scheme for greenhouse gas emissions trading and the Royal Decree 1722/2012, approved on December 28, 2012, which develops certain aspects of the allocation of allowances.

Regulation Promoting Renewable Energy and Biomass Generation

European Union Regulation

The Kyoto Protocol, ratified by the European Union and its Member States on May 31, 2002, imposed on the European Union a target of reducing its emissions of greenhouse gasses by 8%. On November 26, 1997, the European Union published a white paper (the "White Paper") which outlined a strategy and a community-wide action plan aimed at doubling energy production from renewable energy sources in the European Union to 12% of total energy consumption by 2010 from 6% in 1996. The White Paper proposed a number of measures to promote the use of renewable energy sources, including measures designed to provide better access for renewable energy sources to the electricity market.

Directive 2001/77/EC of the European Parliament and Council of September 27, 2001 (the "2001 Renewable Energy Directive") encouraged the development of electricity produced from renewable energy sources (non-fossil fuel sources, such as wind, solar, hydropower, biomass and relief gas) by requiring Member States to set indicative national targets for the consumption of electricity produced from renewable energy sources consistent with the European Commission's target of generating 12% of the European Union's energy and 22% of the European Union's electricity from renewable energy sources by 2010.

In 2009, the European Parliament and Council adopted the 2009 Renewable Energy Directive (2009/28/EC), which repealed the 2001 Renewable Energy Directive and set mandatory national overall targets consistent with at least a 20% share of energy from renewable energy sources in the European Union's gross final consumption of energy in 2020. Member States are required to prepare individual action plans for the implementation of their national targets.

A recent directive on energy efficiency, 2012/27/EU, establishes a common framework of measures for the promotion of energy efficiency within the European Union in order to achieve the 20% target on energy efficiency by 2020 and to pave the way for further energy efficiency improvements beyond that date. Each Member State will be obliged to set an indicative national energy efficiency target, based on primary or final energy consumption, primary or final energy savings, or energy intensity.

Directive 2004/8/EC on the promotion of co-generation based on a useful heat and electricity demand in the internal energy market, obliges Member States to analyze the potential of co-generation in their own country and to provide support mechanisms to encourage the technology into the market.

Spanish Regulation

On 27 January 2012, the Spanish Parliament passed Royal Decree-Law 1/2012 with the effect of temporarily suspending the procedure for pre-qualifying new renewable capacity for remuneration premiums and thereby eliminating other financial incentives formerly awarded to power generation facilities that use co-generation, renewable energy sources or waste that were not included in the register of pre-qualified facilities at time this legislation came into effect. In addition, Law 15/2012 of 27 December 2012, on fiscal measures towards energy sustainability, introduces, with effect from 1 January 2013, tax modifications that affect the Group's business, specifically creating a levy on the value of electric energy sold affecting the entire energy sector equivalent to 7% of revenue from generation activities. This legislation also had the effect of amending the tax rates levied on natural gas and eliminating the exemptions formerly in place for energy products used to produce electric energy and in co-generation processes. Elsewhere, Royal Decree-Law 2/2013 of 1 February 2013, on urgent electricity system and financial sector measures, stipulated that all remuneration calculation formulae benchmarked to headline CPI be revised going forward on the basis of consumer price inflation excluding energy and unprocessed foods at constant tax rates and eliminated the ‘pool-plus-premium’ remuneration regime so that renewable facilities can only be remunerated at the regulated tariff going forward.

Royal Decree-Law 9/2013, of 12 July, adopting urgent measures aimed at guaranteeing the financial stability of the electricity system, amends the Electricity Sector Act and the so-called special regime remuneration system. Among other measures, it repeals RD 661/2007 and article 4 of Royal Decree-Law 6/2009, which created the pre-allocation registry, foreshadowing a new remuneration regime, which is pending approval. The main characteristic of the new regime is its stated objective of guaranteeing a pre-tax return on investment in renewable energy facilities equivalent to the yield on the 10-year government bond plus 300 basis points, calculated on the basis of standard facility cost and capital expenditure parameters, during the entire regulated life of the facility. It also eliminates the right to receive a supplement for efficiency and a reactive energy rebate pending enactment of the new remuneration regime.

A new piece of legislation, the Electricity Sector Act 24/2013, was published in Spain on 27 December 2013, replacing almost all of Law 54/1997. This new legislation introduces the following key changes that affect the Group’s businesses:

- Establishment the economic and financial stability of the electricity system, limiting structural tariff deficits, as governing principle.

- Elimination of the distinction between the ‘ordinary’ (conventional generation) and ‘special’ (renewable and CHP) regimes and introduction of a single body of regulations, notwithstanding specific technology considerations that may be subsequently introduced.

- In accordance with the line of reasoning introduced in Royal Decree-Law 9/2013, of 12 July 2013, the remuneration regime for energy produced from renewable sources, co-generation and waste is to be based on these facilities’ participation in the wholesale market, topped up by specific regulated remuneration designed to allow these technologies to compete on an even footing with the rest of the generation technologies. The legislation specifies priority grid access and dispatch criteria for the electricity generated using these technologies, in line with the provisions laid down in European Community directives. The new legislation enshrines the ‘reasonable return’ principle and provides for the revision of remuneration parameters every six years.

For further details regarding the impact of these regulatory changes, (please see “Management’s discussion and analysis of financial condition and results of operations-Overview-Key Factors Affecting Our Results of Operations-Renewable Energy Production Incentives”).

Forestry Management Regulation

European Union regulation

EU timber regulation 995/2010 imposes the following key obligations:

- It prohibits the placing of illegally harvested timber and products derived from such timber on the EU market, whether they are of domestic or imported origin.

- Timber accompanied by a FLEGT (Forest Law Enforcement, Governance and Trade) or CITES (Convention on International Trade in Endangered Species) license will be accepted as legal. In all other cases, operators must exercise "due diligence" when they sell imported and domestic timber or timber products.

- Traders (those after the operators in the supply chain) must keep records of their suppliers (and customers), so that the operators can always be traced.

Regulation 995/2010 does not need to be implemented into Spanish law because the regulation is binding in its entirety and directly applicable in all Member States. Some of the provisions (mainly related to Members States' obligations) applied from December 2, 2010, but the principal provisions apply from March 3, 2013.

Spanish Regulation

In addition, in Spain the legal framework consists of the Hillside Act 43/2003, approved on November 21, 2003 (*Ley de Montes*) as amended by Law 10/2006, approved on April 28, 2006 (and the Second Additional Provision of Law 10/2006), the Water Royal Decree Law approved on July 20, 2001, Royal Decree Law 1/2008 on Environmental Impact approved on January 11, 2008 and the rules concerning the Organization of Hillsides (*Ordenación de Montes*), both nationwide and at the autonomous community level. Local environmental, waste and labor regulations also apply to activities carried out in rural and forest environments.

Pursuant to these regulations, it is necessary to develop forest management plans that are submitted for public consultation and that must be officially and regularly approved by the Official Hillside Association (*Colegio Oficial de Montes*) and the pertinent public authorities.

Internationally Recognized Initiatives

In addition to European Union and Spanish regulations applicable to forestry management activities, there is a set of sustainable forest management practices and criteria internationally accepted and acknowledged by the FAO since 1981, which have been subsequently promoted since the Río de Janeiro Earth Summit of 1992. Over the years, they have been implemented and broadened on a regulatory and voluntary basis in successive international summits and by means of non-governmental initiatives.

The most common forest certification system worldwide is the PEFC, with 223 million certified hectares. Furthermore, the FSC has 112 million certified hectares.

We have the UNE-EN-ISO 14001-2004 environmental certification with regard to all of our forest activities in Spain. Moreover, our forest assets in Spain are certified in accordance with the PEFC systems and the FSC to a lesser extent.

MANAGEMENT

The Issuer

The Board of Directors of the Issuer

The Board of Directors of the Issuer (the "Board of Directors") has the power and duty to manage our corporate affairs. The Board of Directors elects its president and can select one or more vice presidents. Except for matters reserved by law and the articles of association to the general shareholders' meeting (the "General Shareholders' Meeting"), the Board of Directors is the highest decision-making body of the Issuer.

Meetings shall be called by the president or by directors constituting at least one-third of the Board of Directors. The attendance quorum necessary for a Board of Directors meeting is the majority of the Board of Directors. If the number of directors on the board is uneven, the necessary quorum shall be more than 50% of the board. Resolutions of a Board of Directors meeting are adopted by an absolute majority of the members present at such meeting, unless the law requires a different majority.

The following table sets forth, as of the date of this Report, the name, age and title of each member of the Board of Directors, and is followed by a brief summary of biographical information of each director.

Name	Age	Position
Juan Luis Arregui Ciarsolo	70	Chairman
Ignacio de Colmenares y Brunet	52	Chief Executive Officer
Retos Operativos XXI, S.L., represented by Oscar Arregui Abendivar	43	External Director
Pascual Fernández Martínez	53	External Director
Javier Echenique Landiribar	53	External Director
José Carlos del Álamo Jiménez	62	Independent Director
Fernando Abril-Martorell Hernández	51	Other External Director
Gustavo Matías Clavero	61	Independent Director
José Guillermo Zubía Guinea	67	Independent Director
José Manuel Serra Peris	54	Independent Director
Pedro Barato Triguero	54	Independent Director
Isabel Tocino Biscarolasaga	65	Independent Director

Juan Luis Arregui Ciarsolo is Chairman of the Board of Directors, Chairman of the Executive Committee and member of the Advisory Committee for Forestry and Regulatory Policies of the Issuer. He joined us in February 2006.

Mr. Arregui Ciarsolo has a degree in technical engineering from the Higher School of Engineering of Bilbao, a diploma in numerical control from Wandsdorf (Germany) and a master's degree in micro-mechanical engineering from Besançon (France). He began his professional career in 1975 by founding Gamesa, a company that would later become the Gamesa group, specializing in aeronautics, robotics, composites and wind turbines. He was Chairman of Gamesa until 1995 and is currently Vice Chairman and a member of both the appointments and remuneration committee and the executive committee of Gamesa. In 1994, following the integration of Gamesa with Iberdrola, he became a board member of Iberdrola, serving until 2009 as Senior Deputy Chairman and a member of its executive committee. In 1995, he took charge of the Guascor company, a manufacturer of internal combustion engines, complementing the engines with co-generation installations. In 1998, he created CESA, a corporation dedicated solely to the production of wind energy. In 2001, he founded Foresta Capital, S.L. for the production of hardwood trees. In 2002, he created Foresta Biomasa, which became the world leader in the production of plants with *in vitro* technology. In 2006, he became our Chairman and has led the diversification of our activities with the production of renewable energy through forest biomass. He has also been Senior Deputy Chairman of Cartera Industrial Rea, S.A. since 2008 and is a board member of various funds that invest in energy and activities related to modern technology.

Ignacio de Colmenares y Brunet is a member of our Board of Directors, our Executive Committee and our Advisory Committee for Forestry and Regulatory Policies. He is also our Chief Executive Officer. He joined us in December 2010.

Mr. de Colmenares y Brunet has an undergraduate degree in law from the Central University of Barcelona and a master's degree in Economics and Business Management from IESE. He has extensive experience in the steel and renewable energy industries, having helped to develop international business projects with a focus on revenue growth, investment optimization, process improvements and cost control as a way of increasing competitiveness.

Oscar Arregui Abendivar is the representative of Retos Operativos XXI, S.L., which is a member of our Board of Directors and our Appointments and Remuneration Committee. He joined us in April 2013.

Mr. Arregui Abendivar has a degree in technical engineering from the Higher School of Engineering of Bilbao and a MBA from IESE Business School. He has worked in the Guascor group, occupying a variety of positions including the research and development area as well as responsibility for the group´s expansion in America.

Pascual Fernández Martínez is currently a member of our Board of Directors, as well as a member and the secretary of our Appointments and Remuneration Committee and a member of the Advisory Committee for Forestry and Regulatory Policies. He joined us in May 2005.

Mr. Fernández Martínez has a doctorate in economics and business and has carried out his professional career primarily in public administration, both as a professor and researcher, at the Autónoma University of Madrid, Rey Juan Carlos University and the University of Valladolid, and in management for the autonomous communities of Castilla y León and Madrid as well as for the Spanish Ministry of the Economy and Treasury and the Ministry of Environment. He is a lecturer of applied economics at Rey Juan Carlos University, a lecturer in the Executive Master in Public Administration (EMPA) program at the Instituto de Empresa Business School, a lecturer in the Master's program in Infrastructure and Public Service Management of the School of Civil Engineering at the Universidad Politécnica de Madrid; director of the "Economy of Madrid" Center for Studies at the Rey Juan Carlos University, Chairman of the Economics and Environment Commission of the Association of Economists of Madrid, and a member of the Association of European Conjuncture Institutes (*l'Association D'Instituts Européens de Conjoncture Economique (AIECE)*). He has served on the boards of directors of a number of companies, including Sodical, Renfe (serving as Chairman from 1997 to 2001), Instituto de Crédito Oficial (ICO), Gran Telescopio de Canarias, Sociedad Gestora de Planes de Pensiones de Caja Madrid and Gamesa (serving as chairman of the appointments and remuneration committee from 2006 to 2010).

Javier Echenique Landiribar is an external proprietary member of our Board of Directors and a member of our Executive Committee and Audit Committee. He joined us in December 2005.

Mr. Echenique Landiribar has a degree in economics and actuarial sciences and has been a board member and managing director of Allianz-Ercos and managing director of the BBVA group. He is currently Vice-Chairman of Banco Sabadell, S.A. and a board member of Repsol S.A., ACS Actividades de Construcción y Servicios, S.A., ACS Servicios, Comunicaciones y Energía, S.L., Telefónica Móviles México y Celistics S.L. and Calcinor, S.A. He is also a member of the advisory council of Telefónica Europa and a delegate of the board of Telefónica, S.A. in the Basque country and trustee of the Novia Salcedo Foundation and the Altuna Foundation.

José Carlos del Álamo Jiménez is an independent external member of our Board of Directors and a member of the Advisory Committee for Forestry and Regulatory Policies. He joined us in June 2009.

Mr. del Álamo Jiménez has a degree in forestry from Madrid Polytechnic University and a diploma from ESADE. He is also a lecturer in the Energy Efficiency and Climate Change Master Degree at the Environmental Sciences University Institute, part of Madrid's Complutense University, a lecturer in the Environmental Project Engineering Master degree at the Universidad Politécnica of Madrid and a lecturer in Carolina Foundation's Higher Course on Forestry Management Policies and Instruments as well as a professor at the San Pablo CEU University and other academic institutions.

He has held positions of responsibility both in the central government, for which he served as Director-General of Nature Conservation (Ministry of Environment), and at the autonomous community level, where he founded the Regional Ministry of Environment of Galicia and was board member from 1997 to 2003 and Director General of Forest and the Natural Environment from 1990 to 1996. He was also Vice-Chairman of the Autonomous National Parks Authority, president of the trusteeship of the Islas Atlánticas National Park, member of the Environmental Advisory Board of the Ministry of Environment and Chairman of the Galician Environmental Council. He is also president of the Professional Union of Engineering Associations (UPCI), president and dean of the College and Association of Forestry Engineers, secretary of the "Forests and Climate Change" forum, president of the "Environmental Forum for Economic and Social Progress" and a board member of the Regional Hunting Council of the regional government of Castilla y León. He is currently Chairman and CEO of Tecnoma, S.A., an environmental consulting and engineering firm, Chairman of Tecnoma Energía Sostenible, S.A., Chairman of Tecnoma Aprovechamientos Energéticos, S.L. and Chairman of Estadística y Servicios, S.A., all of which belong to the TYPSA group, of which he is also a board member.

Fernando Abril-Martorell Hernández is an external member of our Board of Directors, Chairman of our Appointments and Remuneration Committee and a member of our Executive Committee. He joined us in March 2007.

With a degree in law and economics and business from the Pontifical Comillas University, Mr. Abril-Martorell Hernández began his professional career at JP Morgan where he held various positions in the company's financial markets division from 1986 to 1996. In 1996, he joined the Telefónica group as its CFO. In 1998, he was named president of TPI Páginas Amarillas, and in 2000 he was made managing director of the group, a position he held through the end of 2003. In 2002 he was named managing director of the Credit Suisse group in Spain and Portugal. He currently holds the position of Chief Executive Officer to the managing director of the Prisa group and is a member of the board of directors of Telecomunicaciones de São Paulo. He is also a trustee of the Comillas University Foundation, the Familia Foundation and the Fernando Abril-Martorell Foundation.

Gustavo Matías Clavero is an independent external member of our Board of Directors and a member of our Appointments and Remuneration committee. He joined us in March 2007.

Mr. Matías Clavero has a doctorate in economics and business from the Universidad Autónoma of Madrid and a degree in information sciences from the Complutense University of Madrid. He is a lecturer on international economic organization at the Universidad Autónoma of Madrid, where he has been teaching since 1986, and for the Balance Sheet Analysis Master Degree of the Instituto de Empresa Business School (1982). He is a member of various expert panels on economic client and economic consensus, an evaluator of three scientific publications and a regular contributor to the magazine *Consejeros* and the digital publication *Intercampus*. As a consultant and researcher, he is primarily concerned with the new economy of information and knowledge (about which he taught doctoral courses for ten years at the Universidad Autónoma of Madrid and has published a dozen books and pamphlets), healthcare, education and sustainable development.

He was a visiting professor at CUNEF for three years, at Universidad de Nebrija for another three years, at the European Business School, at the School of Industrial Organization (*Escuela de Organización Industrial*) and at the School of Telecommunications Engineers (*Escuela de Ingenieros de Telecomunicación*). He has co-directed or taught summer courses at Universidad Autónoma of Madrid, the Complutense University, the Universidad del País Vasco, Valladolid University, and UIMP and Segovia universities. A managing advisor to the Telematics master's program (Caixa Galicia), and he has also directed a dozen courses for the European Social Fund and others on sustainable development and its indicators. He has been a member of the group for Regulation of Telecommunications (GRETEL), vice-president of the Spanish Telecommuting Association, director of the Spanish Association of Telecommunications and Information Technology Law, an economics journalist for *Europa Press, El País* and *Gaceta de los Negocios* as well as a columnist for *El Mundo-Nueva Economía*, media for which he has published more than 3,000 articles.

In 1978, he was awarded the Order of Agricultural Merit and has received a number of national awards from the National Institute of Statistics and for economic journalism.

José Guillermo Zubía Guinea is an independent external member of our Board of Directors and is a member of our Executive Committee and secretary of our Audit Committee. He joined us in March 2007.

Mr. Zubía Guinea has a degree in law from the Complutense University in Madrid. He also studied economics at the Complutense University and taxation at the Center for Economics and Tax Studies (*Centro de Estudios Económicos y Tributarios*). He has been a business owner and consultant and board member for various public and private firms. He was secretary general of the Alava Business Union (SEA) from 1979 to 1995. He was general secretary of the Basque business confederation (Confebask) from October 1995 to March 2011. He also regularly participates in various courses and conferences at the Universidad Internacional Menéndez Pelayo University, the summer courses of El Escorial and the summer university of the País Vasco University. He is also a member of the standing committee at the Andalusia School of Economics, a member of the Economic and Social Council of Spain and of its economic and labor relations committees.

José Manuel Serra Peris is an independent external member of our Board of Directors and Chairman of our Audit Committee. He joined us in October 2000.

Mr. Serra Peris received a degree in law from Valencia University in 1981 and has been a state attorney since 1984. He was active in the administration, first as a state attorney in the regional office of the Spanish treasury in Valencia and in the courts of the regional government of Valencia (1986 to 1996), and later held various positions in the state administration, primarily in the Ministry of Industry, Trade and Tourism, where he served as general technical secretary (1996–1998), undersecretary (1998) and finally Secretary of State for Industry and Energy (1998–2000), a position he left at his own behest. He has also been president of the Spanish Patent and Trademark Office, president of the Center for Energy, Environment and Technology Research (CIEMAT) and president of the Spanish Center for Industrial and Technological Development (CDTI).

He has sat on the boards of directors of Sociedad Estatal de Participaciones Industriales (SEPI) and Sociedad Estatal de Participaciones Patrimoniales (SEPPA), companies responsible for the privatization of public companies such as Iberia Líneas Aéreas de España, S.A., Endesa, Red Eléctrica de España, S.A., Uralita, S.A. and Cable y Televisión de Cataluña, S.A. (MENTA) of the Auna group. He has also sat on the boards of Líneas Aéreas de España, S.A. and Bankia, S.A.

Pedro Barato Triguero is an independent external member of our Board of Directors and Chairman of the Advisory Committee for Forestry and Regulatory Policies. He joined us in June 2008.

Mr. Barato Triguero has a degree in law and has been a member of the National Confederation of Farmers and Livestock Owners since 1978 and the national president of the Agricultural Association of Young Farmers (ASAJA) since 1990. He is also a board member of the Spanish Confederation of Business Organizations (CEOE), a member of the presidium of the Committee of Agricultural Organizations (COPA) of the European Union, a member of the CAP advisory committee of the European Commission, president of the Inter-trade Organization of Spanish Olive Oil, president of the Occupational Accident Insurance Association (AMAT), president of the National Confederation of Beet and Sugar Cane Growers and president of the Spanish Federation of Self-employed Persons (CEAT). He was a member of the European Economic and Social Committee from 1997 to 2007 and a member of the Spanish Economic and Social Council from 1991 to 2007.

Isabel Tocino Biscarolasaga is an independent external member of our Board of Directors and a member of the Advisory Committee for Forestry and Regulatory Policies. She joined us in March 2013.

Ms. Isabel Tocino Biscarolasaga is Doctor in Law and has undertaken graduate studies in business administration at IESE and the Harvard Business School. She has been Spanish Minister for the Environment, chairwoman of the European Affairs Committee and of the Foreign Affairs Committee of the Spanish Congress and chairwoman for Spain and Portugal and vice-chairwoman for Europe of Siebel Systems. She is currently a full professor at Universidad Complutense de Madrid, an elected member of the Spanish State Council, director of Banco Santander S.A., member of the Advisory Board of Accenture a member of the Royal Academy of Doctors.

The Senior Management of the Issuer

Our senior management team is led by Juan Luis Arregui Ciarsolo. The following table sets forth our current senior management team and their respective ages and positions.

Name	Age	Position
Juan Luis Arregui Ciarsolo	70	Chairman
Ignacio de Colmenares y Brunet	52	Chief Executive Officer
Diego Maus Lizariturry	44	Chief Financial and Corporate Development Officer
Jaime Argüelles Alvarez	50	Chief Operating Officer
Javier Arregui Abendivar	39	Chief Forestry Officer
Álvaro Eza Bernaola	39	Chief Procurement Officer
María José Zueras Saludas	53	Chief Human Resources Officer
Luis Carlos Martínez	54	Chief Communications Officer
Guillermo Medina Ors	46	Vice Secretary and General Counsel

The following is the biographical information for each of the members of our senior management team who do not also serve on our Board of Directors:

Diego Maus Lizariturry is our Chief Financial Officer. He joined us in June 2007 as advisor to the Chairman and Head of Corporate Development.

Mr. Maus Lizariturry holds a business degree from the Colegio Universitario de Estudios Financieros (CUNEF) in Madrid and is a Certified European Financial Analyst (CEFA). Prior to joining us, he occupied several roles at Telefónica, including Sub-director for Investment Control and Analysis of Telefónica Internacional, Director of Investor Relations of Telefónica and controller of Telefónica.

Jaime Argüelles Alvarez is the Chief Operating Officer. He joined us in February 2010.

Mr. Argüelles Alvarez holds a degree in industrial engineering from the Escuela Técnica in Gijón as well as a general management course in IESE. Prior to joining us, he worked from 2003 to 2010 at Grupo Celsa and from 1997 to 2003 at Robert Bosch.

Javier Arregui Abendivar is the Chief Forestry Officer. He joined us in May 2013.

Mr.Arregui Abendivar holds a Business Administration degree from University of Missouri. Prior to joining us, he dedicated his efforts in different areas among others in the development of 10.000 ha of Palm Oil Plantations in Ecuador, management and development of 180 MM euro hard wood plantation in USA and Spain and intensive olive oil plantations.

María José Zueras Saludas is the Chief Human Resources Officer. She joined us in November 2007.

Ms. Zueras Saludas holds law degrees from the Facultad de Derecho de Zaragoza and the Universidad Complutense in Madrid and a Masters degree in Human Resources Management from CESEM. She has also completed a general management course at ESADE in Barcelona. Prior to joining us, over the course of her career she held senior human resource management and labor relations roles at AXA Winterthur, Telefónica de España, Arcelor and Aceralia. She has also held roles at TENEO and the State Industrial Agency in Spain.

Alvaro Eza Bernaola is the Chief Procurement Officer. He joined us in November 2011.

Mr. Eza holds a BSc in Electrical Engineering, and an MBA in the IESE Business School in Navarra. Prior to joining us, he was the Managing Director of Cosidesa (part of the Celsa group) between 2004 and 2008. Prior to that, he was the Procurement Director at Celsa.

Luis Carlos Martínez is our Chief Communications Officer. He joined us in January 2012.

Mr. Martínez holds a degree in economics and business from the Universidad Complutense de Madrid and an Executive MBA from the Instituto de Empresa in Madrid. Prior to joining us, from 1986 to 2011, he held a number of positions at Iberdrola (formerly Hidroeléctrica Española), including Director of the Iberdrola Foundation and Director of Communications Strategy.

Guillermo Medina Ors is our General Counsel, Vice Secretary of the Board of Directors and Secretary of Advisory Committee for Forestry and Regulatory Policies. He joined us in June 2009.

Mr. Medina Ors holds degrees in law and in business administration from ICADE-Pontificial University of Comillas (Madrid, 1990) as well as master's degrees in Financial Economy (ICADE–Madrid) and Political and Institutional Communication (Carlos III University–Madrid). He has also undertaken doctoral studies in law at Universidad Complutense and Universidad San Pablo-CEU (Madrid). He worked as an associate at the law firm Iberforo–Alzaga, Caro, Marañón, Sánchez-Terán & Asociados and a partner at the law firm Cremades & Calvo-Sotelo. Previously, he served as in-house legal counsel at the Spanish branch of Commerzbank and at Telefónica, where he held the positions of Deputy Director of Legal and Regulatory Affairs at Telefónica Internacional (Madrid, Spain) and Deputy General Counsel at Unisource (Zürich, Switzerland).

Corporate Governance

The Board of Directors comprises executive directors (*consejeros executivos*), representative external directors (*consejeros dominicales*) and independent external directors (*consejeros independientes*) and other external directors (otros consejeros externos). Executive board members are the managing directors and those others who carry out executive functions or maintain a stable contractual relationship with us or our subsidiaries other than as a director. Representative external directors are those proposed by shareholders by reason of a stable holding in our capital. Independent external directors are professionals of acknowledged prestige who can contribute their experience and knowledge to corporate governance and who fulfill the remaining conditions required by the regulations, including not being connected to the executive team or to significant shareholders. Finally, other external directors are those external directors that, due to a previous relationship with the Issuer or with the Major Shareholders, cannot be classified as independent directors.

Our Board of Directors believes that its actions, composition, organization, remuneration and responsibilities comply with existing corporate governance recommendations in accordance with the specific indications set forth in our annual corporate governance report.

We include all documentation relating to our annual corporate governance report on our website, *www.ence.es*, in accordance Article 539 of the Spanish Companies Act and the Unified Code of Good Governance approved by the board of the Spanish Securities Commission.

Board Practices

According to our by-laws, our Board of Directors consists of a minimum of eight and a maximum of sixteen directors. The term of office of directors is three years. The annual General Shareholders' Meeting has the power to appoint and remove directors. The Board of Directors may fill any vacancies that may arise from among the shareholders using the co-option procedure on an interim basis until the next annual General Shareholders' Meeting is held.

In any event, the proposals for the appointment of directors submitted by the Board of Directors to the annual General Shareholders' Meeting and the appointment decisions adopted by the Board of Directors in accordance with its powers of co-option legally attributed to the same shall be preceded by the relevant proposal to the Appointments and Remuneration Committee. Where the Board of Directors opts not to follow the recommendations of the Appointments and Remuneration Committee, it shall explain the reasons for its actions and shall include the same in the minutes.

The Board of Directors and the Appointments and Remuneration Committee shall seek to ensure the candidates selected are persons of recognized solvency, competence and experience, and shall proceed with due caution in relation to procedures to cover vacancies for independent directors.

In accordance with applicable board regulations, the Board of Directors shall seek to ensure that independent and non-executive directors represent an ample majority among the members of the Board of Directors and, in general, that the different categories of directors are in line with best corporate governance practice in terms of proportionality and characteristics. In order to establish a reasonable balance between proprietary and independent directors, the Board of Directors shall consider our ownership structure so that the ratio of each class of directors to each other shall reflect the relationship between stable and floating capital.

In addition, in accordance with applicable board regulations, the Board of Directors is required to evaluate its own functioning and the quality and effectiveness of its work at least once per year, as well as the performance of the Chairman of the Board of Directors and our Chief Executive Officer, as well as the functioning of the board committees based on the reports submitted by the same. On February 19, 2013 the Board of Directors proceeded with the self-assessment procedure in accordance with the terms of the applicable board regulations. Approval of the self-assessment for 2013 is pending.

Board Committees

The Board of Directors has established four committees to conduct our operations: the Executive or Delegate Committee; the Audit Committee; the Appointments and Remuneration Committee; and the Advisory Committee for Forestry and Regulatory Policies.

Executive or Delegate Committee

The Executive Committee is in charge of all of the tasks delegated by the Board of Directors, which can delegate all the responsibilities allowed to be delegated by it according to Spanish law, our by-laws and board regulations.

In accordance with our by-laws, the Executive Committee shall be composed of a minimum of four directors and a maximum of eight, including the Chairman. Within these limits, the number of committee members shall be decided by our Board of Directors in view of changing circumstances, seeking at all times to ensure that the Executive Committee reproduces a reasonable balance between the different types of directors.

The Executive Committee is currently comprised of Juan Luis Arregui Ciarsolo (Chairman), Ignacio de Colmenares y Brunet, Javier Echenique Landiríbar, Fernando Abril-Martorell Hernández, and José Guillermo Zubía Guinea.

Audit Committee

The Audit Committee assists the Board of Directors in the functions of oversight and control, supervising the effectiveness of our internal controls, internal audits and the processes involved in the preparation and presentation of financial information.

In accordance with our by-laws, the Audit Committee shall be composed of a minimum of three and a maximum of seven directors, the majority of whom must be non-executive directors. In addition, at least one of the members of the Audit Committee shall be an independent director and shall have competence in accounting and/or auditing. Within these limits, the number of committee members shall be decided by the Board of Directors, which shall ensure that independent directors are appropriately represented.

The Audit Committee is currently comprised of José Manuel Serra Peris (Chairman), Javier Echenique Landiríbar and José Guillermo Zubía Guinea.

Appointments and Remuneration Committee

The Appointments and Remuneration Committee’s role is to propose a system and an amount of annual remuneration for directors to the Board of Directors; oversee compliance with our remuneration policy; and propose measures to safeguard the transparency of remuneration and compliance therewith.

In accordance with the board regulations, the Appointment and Remuneration Committee shall be formed by non-executive directors and shall have the number of members decided by the Board of Directors, with a minimum of three members. The committee’s membership shall include appropriate representation of independent directors.

The Appointments and Remuneration Committee is currently comprised of Fernando Abril-Martorell Hernández (Chairman), Retos Operativos XXI, S.L. (represented by Oscar Arregui Abendivar), Gustavo Matías Clavero, and Pascual Fernández Martínez.

Advisory Committee for Forestry and Regulatory Policies

The Advisory Committee for Forestry and Regulatory Policies’ role is to advise on the policies and regulations related to our activities, to establish the strategies relating to such policies and regulations, and to promote and develop relationships with policymakers and regulators as well as the related administrations and institutions.

The Advisory Committee for Forestry and Regulatory Policies is currently comprised of Pedro Barato Triguero, Juan Luis Arregui Ciarsolo, Ignacio de Colmenares y Brunet, José Carlos del Álamo Jiménez, Pascual Fernández Martínez and Isabel Tocino Biscarolasaga.

Director and Executive Compensation

Director Compensation

The office of director is remunerated by way of a regular allocation of fixed remuneration and allowances for attendance at meetings of the Board of Directors and of the board committees. The amount of remuneration payable by the Company on an annual basis to its directors in respect of these items may not exceed the sum earmarked for such purposes by the annual General Shareholders’ Meeting, without prejudice to conditions related to the system for pensions payable in the case of death, superannuation, invalidity, incapacity to hold office or retirement and to the share options or other financial instruments which may be approved by the General Shareholders’ Meeting. The amount so determined shall be maintained until such time as it may be modified by a new resolution of the annual General Shareholders’ Meeting.

The exact amount payable within that limit, the distribution thereof among the directors and the timing of payments shall be decided by the Board of Directors. The annual General Shareholders' Meeting held on June 29, 2006 established a maximum annual limit on directors' remuneration of €1,500,000, and this limit currently remains in force because it has not been changed by any subsequent annual General Shareholders' Meeting.

In accordance with applicable board regulations, a director shall be entitled to receive the remuneration set by the applicable board regulations in accordance with the provisions of the by-laws and subject to a prior report of the Appointments and Remuneration Committee. The Board of Directors shall ensure that the director's remuneration is moderate in view of market circumstances and that it is in line with such circumstances. Where the Board of Directors understands in any given year that strict application of the statutory rules would result in remuneration that might not be in line with moderate criteria, it shall resolve to waive the payment of the amount considered excessive. Such waiver shall be submitted to the annual general meeting responsible for deciding on remuneration.

The remuneration of each director shall be transparent. For this purpose, the Board of Directors shall prepare an annual report on the remuneration of directors in addition to the annual corporate governance report, the contents and structure of which shall be as established by law. This report shall inform the shareholders at the General Shareholders' Meeting and it shall be subjected to a vote at the same on a consultative basis as a separate item on the agenda. In accordance with this requirement, the Board of Directors prepared and approved the annual report on directors' remuneration for 2012 at its meeting of February 19, 2013. Approval of the annual report on directors' remuneration for 2013 is pending.

With regard to the remuneration of independent directors, the board regulations require the Board of Directors to adopt all available measures, with the advice of the Appointments and Remuneration Committee, to ensure that the remuneration of independent directors is appropriate and offers incentives for their dedication but without impairing their independence.

Finally, in accordance with the by-laws, the directors may be compensated, in addition to and independently of the remuneration referred to above, by way of the delivery of shares or share options, or using any other remuneration system that is based on the value of our shares. The application of such remuneration systems shall be agreed by the General Shareholders' Meeting in accordance with the Spanish Companies Act (*Ley de Sociedades de Capital*), which was approved by the Legislative Royal Decree 1/2010 dated July 2, 2010 (the "Spanish Companies Law"). Statutory limits on remuneration of this kind payable in general to executive directors are regulated in the applicable board regulations. Exceptionally, our shares may be delivered to non-executive directors by way of remuneration, providing the same are held until these directors cease to hold office.

Management Incentive Plan

On March 30, 2007, our Board of Directors approved a Management Incentive Plan (the "First Plan"), which was modified and restated during the shareholders meeting held on November 30, 2010.

The purpose of the First Plan is to incentivize management for the achievement of objectives that were set out for the financial years 2010, 2011 and 2012, and shall be in force until June 30, 2015, the date on which all the granted options shall be exercised (and all non-exercised options will expire). For such purposes, each year the Beneficiaries (as defined below) will receive a number of options over shares of the Company, subject to certain limits for each member of management. The Beneficiaries of the First Plan include our Chief Executive Officer, members of our Management Committee, managers within the so-called "second rank management level" (*Segundo Nivel Directivo*), as well as any other manager that the Board of Directors may designate from time to time (the "Beneficiaries").

The maximum number of shares granted to the Beneficiaries of this First Plan is limited to 3,850,000 shares, which represent approximately 1.5% of our total share capital. The maximum number of options over shares to be granted in favor of our Chief Executive Officer is limited to 1,000,000 shares. The strike price for the options corresponding to the 2010 financial year will be the average price of the stock of the Issuer within the 20 business days prior to June 22, 2010. For the options corresponding to financial years 2011 and 2012, the strike price will be the average price of the stock of the Issuer within the first 20 days of March 2011 and the first 20 days of March 2012, respectively. The options shall be cumulative for the Beneficiaries, and may be exercised after the second anniversary from the date in which such options were granted, only if (i) the Beneficiary maintains a work or service relationship with the Issuer, from the time of joining the First Plan to the date on which the options are exercised (i.e., two years after the granting of such options), and (ii) at the time of exercising the option, the Issuer has reestablished a regular dividend policy.

Additionally, General Shareholders' Meeting held on March 21, 2013 approved a new Management Incentive Plan (the “Second Plan”).The purpose of the Second Plan is to incentivize management for the achievement of objectives that were set out for the financial years 2013, 2014 and 2015, and shall be in force until December 31, 2015. The amount of the long term incentive shall be as determined by the board of directors according to the level of goal achievement by the Company and the level of management occupied by the beneficiary. In any case, the maximum amount of incentive that beneficiaries may receive shall never exceed 120% of a yearly payment of average compensation over years 2013, 2014 and 2015 for each level of management. The Beneficiaries of the Second Plan include our Chief Executive Officer, members of our Management Committee, as well as any other managers to be determined by the board of directors at the proposal of the appointments and remuneration committee, according to their ability to directly influence the success of the strategic plans (the “Beneficiaries”).

The criteria for awarding of the incentive, whose consideration will fall to the board of directors, shall be as follows: a) The increase in the value of Ence stock in the periods, percentages and other terms to be determined by the board of directors (the baseline of the Ence stock for purposes of calculating the incentive shall be the average value of Ence shares in the last quarter of 2012 in terms of market capitalization); b) The increase in the value of Ence stock (calculated to the baseline mentioned in the preceding section) in comparison to the increase in stock value of the companies in the sector on the terms and conditions as established by the board of directors; and c) The increase in the value of the Company as to 31 December 2015 calculated on the terms agreed to by the board of directors taking into account the EBITDA achieved and the outstanding debt respect to market value of the Company at 31 December 2012.

The board of directors of the Company is given the authority, with express powers by proxy in the Executive Committee, to adopt any agreements and sign any documents, public or private, as may be necessary or convenient to develop, execute and formalize the Incentive Plan, being particularly able, though not limited to: a) Implement the Incentive Plan as it sees fit and in the specific manner it deems appropriate; b) identify what persons in their role as directors of the company will be designated as beneficiaries of the Incentive Plan, and specify what levels to which each one will be added; c) develop and set the specific terms of the Incentive Plan where the agreement does not specify, including particularly but not limited to, the development of the criteria for awarding the incentive, the specific terms of payment of the incentive beneficiaries, the possibility of establishing events that lead to early payment of the Incentive Plan and the power to set the requirements that beneficiaries must meet in order to receive the incentive.

Employment Agreements

Several of the members of our senior management team have employment agreements that include provisions for special severance payments in addition to those required under applicable law. The aggregate value of the severance payments under these agreements was €1.5 million as of December 31, 2013.

PRINCIPAL SHAREHOLDERS

Our major shareholders as of the date of this Report remain fully committed to the business. They participated in our €130 million capital increase implemented in March 2010, which underscored their continued conviction and confidence in our business. Our two largest shareholders, Retos Operativos XXI, S.L. and Alcor Holding, S.A., have each held a shareholding interest in excess of 19% of our shares since 2007. In addition, Juan Luis Arregui, who represents the interests of our largest shareholder, Retos Operativos XXI, S.L., which owns 25.6% of our shares, is currently the Chairman of our Board of Directors.

As of December 31, 2013 the authorized share capital of Ence Energía y Celulosa, S.A. was €225,245,250, consisting of 250,272,500 fully paid-up shares, forming part of the same series, each with a par value of €0.9. The following table sets forth information regarding the beneficial ownership of Ence Energía y Celulosa, S.A. as of December 31, 2013.

	As of December 31, 2013	
Owner	**Number of Shares held**	**Percent**
Retos Operativos XXI, S.L.	64,032,845	25.6%
Alcor Holding, S.A.[(a)]	42,765,916	17.1%
La Fuente Salada, S.L.	12,520,000	5.0%
Asua Inversiones, S.L.	12,513,238	5.0%
Liberbank, S.A[(a)].	12,513,626	5.0%
Public float	98,676,368	39.4%
Treasury stock[(b)]	7,250,507	2.9%
Total	**250,272,500**	**100.0%**

(a) Shareholders are under no legal obligation to disclose their shareholdings, unless they cross a certain threshold; figures are based on the information provided in the annual accounts; Liberbank communicated on January 13, 2014 to the Spanish Stock Market Regulator (Comisión Nacional del Mercado de Valores) the sale of its stake in Ence, Energía y Celulosa, SA. Amber Capital UK LLP acquired a 4.0% stake from Liberbank

(b) Treasury Stock figures based on the information provided in the annual accounts

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In the ordinary course of our business, we carry out transactions with related parties in accordance with established market practice and specific legal requirements.

We carried out the following transactions with related parties in the years ended December 31, 2013, December 31, 2012, December 31, 2011, December 31, 2010 and December 31, 2009:

Acquisition of the Foresta Group's Energy Crops Technology

On December 20, 2012, we entered into an agreement to acquire the energy crops-related technology of the Foresta Group, including certain technology related to research and development, *in vitro* technology and a poplar clone for an initial payment of approximately €3.4 million to be paid at signing, with up to €3.1 million in additional consideration to be paid subject to certain agreed terms and conditions.

On December 20, 2012, we also entered into a services agreement which will require making a payment of €0.25 million per year under the services agreement for the next two years. On May 5, 2013, this services agreement was amended to require making a payment of €0.12 million per the second year and €0.20 million per the third year.

Transaction with Atalaya de Inversiones, S.L.

In July 2011, we acquired a total of 9,701,770 shares, representing 3.76% of our share capital, from our former shareholder Atalaya de Inversiones, S.L. for a total consideration of €26.4 million at a price of €2.72 per share.

Share Repurchase from Fidalser, S.L.

On December 7, 2012, we acquired a total of 12,815,353 shares, representing 5.12% of our share capital, from our former shareholder Fidalser, S.L. These shares were purchased for a total consideration of €25.3 million.

Treasury share sale to La Fuente Salada. S.L. y Asua Inversiones, S.L.

On 13 June, 2013, 12,513,625 treasury shares were sold, representing 5% of share capital, for a total amount of €27,404,838.75, at a price of 2.19 € per share. The shares were acquired with a view to long-term permanence and stability in the Company's shareholder structure, half by Asúa Inversiones, S.L. and La Fuente Salada, S.L..

DESCRIPTION OF OTHER INDEBTEDNESS

The following summary of the material terms of certain financing arrangements to which the Issuer and certain of its subsidiaries are a party does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. For further information regarding our existing indebtedness, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Senior Notes due 2020

€250.0 million 7.25% senior secured notes due 2020.

In February 2013, Ence Energia y Celulosa SA issued €250 million Senior Notes due 2020, maturing in February 15, 2020 and priced at 100%. The notes pay an interest rate of 7.25% per annum with payment dates being Semi-annually in arrears on February 15 and August 15 of each year, commencing August 15, 2013.

Ranking of the Notes

The Notes will:

- be general, senior obligations of the Issuer, secured by first-ranking security interests in the Collateral as set forth below under "—Security";
- rank pari passu in right of payment with any existing and future indebtedness of the Issuer that is not subordinated to the Notes (including the Revolving Credit Facility);
- rank senior in right of payment to any existing and future obligations of the Issuer that are expressly subordinated to the Notes;
- be effectively subordinated to any existing and future secured indebtedness of the Issuer and its subsidiaries that is secured by property or assets that do not secure the Notes, to the extent of the value of the property or assets securing such indebtedness, including our project finance debt; and
- be structurally subordinated to any existing and future indebtedness of the subsidiaries of the Issuer that do not guarantee the Notes.

Please see "Risk Factors—Risks Relating to the Notes and Our Structure—Local insolvency laws may not be as favorable to you as U.S. bankruptcy laws or those insolvency laws of another jurisdiction with which you may be more familiar."

Guarantees

The Notes will be guaranteed on a senior secured basis (the "Guarantees") by the following subsidiaries of the Issuer (the "Guarantors") on the Issue Date:

- Celulosa Energía, S.A.U.;
- Celulosas de Asturias, S.A.U.;
- Norte Forestal, S.A.U.; and
- Silvasur Agroforestal, S.A.U.

On an aggregated basis for the twelve months ended December 31, 2013, the Issuer and the Guarantors have generated 87.5% of our EBITDA and 87.5% of our revenue and would have held 81.4% of our total assets.

Any other subsidiary (other than a subsidiary engaged in biomass renewable energy generation) the EBITDA of which in any completed fiscal year after the Issue Date represents the greater of (i) 5% or more of the consolidated EBITDA of the Issuer and its restricted subsidiaries; or (ii) €5.0 million, will also be required to provide an additional Guarantee.

The obligations of each Guarantor under its Guarantee will be limited to an amount that can be guaranteed under applicable laws, and will not apply to the extent a Guarantee would be illegal or unenforceable under applicable local and bankruptcy laws. Please see "Risk Factors—Risks Relating to the Notes and Our Structure—Local insolvency laws may not be as favorable to you as U.S. bankruptcy laws or those insolvency laws of another jurisdiction with which you may be more familiar" and Annex A of the Offering Memorandum.

Ranking of the Guarantees

Each Guarantee will:

- be a general senior obligation of the relevant Guarantor, secured by first ranking security interests in the Collateral as set forth under "—Security";
- rank pari passu in right of payment with any existing and future indebtedness of that Guarantor that is not subordinated to such Guarantor's Guarantee
- rank senior in right of payment to any existing and future obligations of that Guarantor that are expressly subordinated to such Guarantee; and
- be effectively subordinated to any existing and future indebtedness of that Guarantor that is secured by property or assets that do not secure that Guarantor's Guarantee, to the extent of the value of the property or assets securing such indebtedness

Please see "Risk Factors—Risks Relating to the Notes and Our Structure—Local insolvency laws may not be as favorable to you as U.S. bankruptcy laws or those insolvency laws of another jurisdiction with which you may be more familiar."

The Guarantees will be subject to the terms of the Intercreditor Agreement. Please see "Description of Other Indebtedness—Intercreditor Agreement."

The Guarantees will be subject to release under certain circumstances. Please see "Risk Factors—Risks Relating to the Notes and Our Structure—The Collateral may be released without the consent of the holders of the Notes" and "Description of the Notes—Credit Enhancement—Release of Guarantees."

Security

The Notes and Guarantees will be secured by a first-ranking security interest in the collateral (the "Collateral"), which will include:

- all present and future shares of capital stock of each of the Guarantors;
- all present and future debt of the Issuer or a restricted subsidiary owing to and held by the Issuer or any of the Guarantors (other than debt owed by our subsidiaries engaged in independent biomass renewable energy generation);
- subject to certain exceptions, all present and future receivables (excluding receivables subject, or to be subject, to factoring) owed to the Issuer or any of the Guarantors; and
- all present and future cash and cash equivalents held in bank or investment accounts of the Issuer or any of the Guarantors.

Any additional security interests that may in the future be pledged to the Security Agent (or another security agent to be appointed for this purpose), to secure obligations under the Indenture would also constitute Collateral.

The obligations of the Issuer and of each subsidiary of the Issuer providing a first-ranking security interest in the Collateral (or to perfect any liens on such Collateral) may be limited under applicable laws or in accordance with the terms of the security documents relating to the Collateral and may be released under certain circumstances. Please see "Risk Factors—Risks Relating to the Notes and our Structure—The enforcement of the Collateral may be restricted by Spanish law," "Risk Factors—Risks Relating to the Notes and our Structure—The Collateral may be released without the consent of the holders of the Notes," "Description of Other Indebtedness—Intercreditor Agreement," "Description of the Notes—Credit Enhancement—Release of Collateral" and Annex A to the Offering Memorandum.

Intercreditor Agreement

The first-ranking security interest in the Collateral will also be granted to secure indebtedness under the Revolving Credit Facility and certain hedging obligations. In addition, the Indenture will permit us to secure additional indebtedness with liens on the Collateral under certain circumstances. These intercreditor relationships will be governed by an intercreditor agreement (the "Intercreditor Agreement"). Pursuant to the terms of the Intercreditor Agreement, any liabilities in respect of obligations under the Revolving Credit Facility and certain hedging arrangements will receive priority with respect to any recoveries received upon enforcement over any such Collateral, as described in more detail under "Description of Other Indebtedness—Intercreditor Agreement."

Optional Redemption

At any time prior to February 15, 2016, the Issuer will be entitled, at its option, on one or more occasions to redeem the Notes in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the Notes with the net proceeds of certain equity offerings at a redemption price equal to 107.25% of the principal amount of the Notes plus accrued and unpaid interest and additional amounts, if any, to the date of redemption; provided that at least 65% of the original principal amount of each of the Notes remains outstanding after the redemption.

In addition, at any time prior to February 15, 2016, the Issuer may redeem all or part of the Notes at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest, and additional amounts, if any, to the date of redemption, plus the Applicable Premium (as defined under "Description of the Notes—Optional Redemption").

At any time prior to February 15, 2016, the Issuer may also redeem up to 10% of the principal amount of the Notes in each 12-month period commencing on February 15, 2013 at a redemption price equal to 103% of the principal amount of the Notes plus accrued and unpaid interest, and additional amounts, if any.

At any time on or after February 15, 2016, the Issuer may also redeem all or part of the Notes at the redemption prices listed under "Description of the Notes—Optional Redemption" plus accrued and unpaid interest, if any, to the date of redemption.

Additional Amounts

Any payments made by the Issuer with respect to the Notes or a Guarantor in respect of any Guarantee will be made without withholding or deduction for taxes in any relevant taxing jurisdiction unless required by law. If Spanish withholding or deduction is required by law, subject to certain exceptions (including those referred to under "—Spanish Tax Law Requirements" below), the Issuer or the relevant Guarantor, as applicable, will pay additional amounts so that the net amount you receive is no less than the amount which you would have received in the absence of such withholding or deduction. Please see "Description of the Notes—Additional Amounts."

Spanish Tax Law Requirements

Under regulations established by Royal Decree 1065/2007, as amended by Royal Decree 1145/2011, income obtained in respect of the Notes will not be subject to withholding tax in Spain, provided certain requirements are met, including that the Paying Agent provides the Issuer, in a timely manner, with a duly executed and completed Payment Statement. Please see "Offering Memorandum—Certain Tax Considerations—Spanish Tax Considerations—Compliance with Certain Requirements in Connection with Income Payments."

The Payment Statement shall contain certain details relating to the Notes, including the relevant payment date, the total amount of income to be paid on such payment date and a breakdown of the total amount of income corresponding to Notes held through each clearing agency located outside Spain.

The Issuer and the Paying Agent have entered into an agreement whereby the Paying Agent undertakes to implement certain procedures for the timely provision by the Paying Agent to the Issuer of a duly executed and completed Payment Statement in connection with each payment of income under the Notes. Please see "Offering

Memorandum—Certain Tax Considerations—Spanish Tax Considerations—Compliance with Certain Requirements in Connection with Income Payments."

If a payment of income in respect of the Notes is not exempt from Spanish withholding tax, including due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, such payment will be made net of Spanish withholding tax, currently at the rate of 21%. If this were to occur due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, affected beneficial owners will receive a refund of the amount withheld, with no need for action on their part, if the Paying Agent submits a duly executed and completed Payment Statement to the Issuer no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, following the 20th calendar day of the month immediately following the relevant payment date, beneficial owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the "Procedures for Direct Refund from the Spanish Tax Authorities" set forth in Annex B of the Offering Memorandum. The Issuer will not pay Additional Amounts in respect of any such withholding tax.

Beneficial owners should note that none of the Issuer or the Initial Purchasers assume any responsibility relating to the procedures established for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes. Accordingly, none of the Issuer or the Initial Purchasers will be liable for any damage or loss suffered by any beneficial owner who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because these procedures prove ineffective.

Optional Tax Redemption

The Issuer may also redeem the Notes in whole, but not in part, at any time, upon giving proper notice, if certain changes in law impose certain withholding taxes on amounts payable on the Notes. If the Issuer decides to do this, the Issuer must pay you a price equal to the principal amount of the Notes plus accrued and unpaid interest and certain additional amounts, if any, to the date of redemption. Please see "Description of the Notes—Optional Tax Redemption."

Change of Control

If a Change of Control occurs, the Issuer will be required to offer to repurchase the Notes at 101% of their aggregate principal amount, plus accrued and unpaid interest and certain additional amounts, if any, to the date of repurchase. Please see "Description of the Notes—Change of Control."

Certain Covenants

The Issuer will issue the Notes under the Indenture. The Indenture will limit, among other things, the ability of the Issuer and its restricted subsidiaries to:

- incur more debt;
- pay dividends, repurchase stock, and make distributions and certain other payments and investments;
- create or permit to exist certain liens;
- enter into transactions with affiliates;
- transfer or sell assets other than in the ordinary course of business;
- impair security interests for the Notes;
- provide guarantees of other debt;
- agree to restrictions on dividends or other payments by certain subsidiaries to the Issuer; and
- merge or consolidate.

Transfer Restrictions

The Notes have not been, and will not be, registered under the U.S. Securities Act or any state securities law or regulation and may not be offered or sold, except pursuant to an exemption from, or in a transaction not subject to the registration requirements of, the U.S. Securities Act. The Issuer has not agreed, or otherwise undertaken, to register the Notes under the U.S. Securities Act or any state securities law or regulation.

Revolving Credit Facility

The Issuer, as original borrower and guarantor, entered into a Revolving Credit Facility agreement (the "RCF Agreement") between, among others certain subsidiaries of the Issuer listed in Schedule 1 thereto, Deutsche Bank AG, London Branch, Banco Español de Crédito, S.A., Bankia, S.A., Banco de Sabadell, S.A., Barclays Bank PLC, CaixaBank, S.A., Citibank International PLC, London and Bankinter, S.A. as arrangers, and certain financial institutions listed in Schedule 1 thereto as original lenders and Deutsche Bank AG, London Branch, as facility agent, original issuing bank and security agent. The RCF Agreement provides for a €90.0 million committed revolving credit facility (the "Revolving Credit Facility"). In the event that the €90.0 million committed revolving credit facility is reduced by reason of a lender defaulting or it becomes unlawful for a lender to provide or continue to provide funding, the borrower is entitled to request that the aggregate commitments are increased to permit another lender or lenders to provide a commitment equal to the commitment of the defaulting lender. The Issuer may, with 15 business days' prior written notice, request that the amount of the Revolving Credit Facility be increased by up to an additional €5.0 million to up to €95.0 million in total. Such increased commitment (the "Increased Revolving Credit Facility Amounts") will be provided by one or more existing or new lenders of the Revolving Credit Facility and/or by another appropriate entity selected by the Issuer. Debt incurred under the Revolving Credit Facility, including any Increased Revolving Credit Facility Amounts, will rank *pari passu* with the Notes.

Interest and Maturity

The loans under the RCF Agreement will bear interest at LIBOR or, in relation to any loan in euro, EURIBOR, plus a margin of 4.00% per annum (plus the mandatory cost, if any) payable on the last day of each applicable interest period (as determined in accordance with the terms of the RCF Agreement); provided that at the end of the first quarter, following the anniversary of the date of completion of the Offering and at the end of each quarter thereafter, the margin will fluctuate with and be tied to our ratio of net debt to EBITDA (as both terms are defined in the RCF Agreement) at a rate per annum of between 4.00% and 3.00%. The lower margin will be applicable if our ratio of net debt to EBITDA is less than 1.50:1, while the higher margin will be applicable if our ratio of net debt to EBITDA is greater than or equal to 2.00:1.

The termination date of the Revolving Credit Facility is the fifth anniversary of the date the RCF Agreement is signed.

Covenants and Events of Default

The RCF Agreement contains certain restrictive covenants and events of default which, subject to conforming amendments, reflect the covenants and events of default contained in the Indenture. The RCF Agreement also contains certain customary representations and warranties for facilities of this type. In addition, the Issuer shall not, and shall procure that none of its subsidiaries shall, repay, prepay, purchase, defease (or otherwise retire for value) or directly or indirectly acquire any of the Notes or offer to do so unless (to the extent such Notes purchases made since the date of the RCF Agreement have resulted in the aggregate principal amount outstanding under the Notes being 40% or less than the aggregate principal amount outstanding under the Secured Notes on the Issue Date) the commitments under the RCF Agreement are also cancelled in a pro rata amount.

Security and Guarantees

Our obligations under the RCF Agreement will be secured by first-priority security interests over the same assets as those securing the Notes. Guarantees, subject to certain limitations in relation to unlawful financial assistance, will be jointly and severally provided by the same subsidiaries guaranteeing the Notes.

In particular, the obligations and liabilities of any Spanish Guarantor shall not include any obligation which if incurred would constitute financial assistance within the meaning of article 150 of the Spanish Companies Law (*Ley de Socidades de Capital*).

Voluntary Prepayments

The Issuer and the other borrowers of the Revolving Credit Facility (the "Borrowers") have the option to voluntarily prepay or cancel all or part of the Revolving Credit Facility in tranches of at least €250,000 (and in multiples of €250,000 if more) with five business days' notice for each of cancellation and prepayments. The Issuer and the Borrowers have the option to voluntarily prepay an individual lender or issuing bank in the event that any sum payable to that lender or issuing bank is required to be increased due to a tax gross-up or indemnification or where increased costs are payable in certain circumstances.

Mandatory Prepayments

Mandatory prepayment and cancellation of the Revolving Credit Facility will, reflecting the covenants contained in the Indenture, occur upon (i) certain change of control events and a sale of substantially all of our assets or (ii) it being illegal for a lender to provide or continue to provide funding (such prepayment will be limited to such lender's share). In the case of any prepayment, the Issuer and the other Borrowers would be required to pay accrued interest on the amount prepaid and break costs.

Project Financings

Project Financing for the Huelva Facility

On June 21, 2011, Ence Energía Huelva, S.L.U., an indirectly wholly-owned subsidiary of the Issuer, entered into a €101.3 million credit facility agreement (the "Huelva Senior Credit Agreement") with Banco Español de Crédito, S.A., Caja de Ahorros y Pensiones de Barcelona (currently, CaixaBank, S.A.), Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., Bankia, S.A., Instituto de Crédito Oficial and Banco Sabadell, S.A. to finance the development, construction and commissioning of its Huelva biomass energy facility. The availability under the Huelva Senior Credit Agreement is expected to be reduced to €81.3 million.

Construction of this facility, which has a capacity of 50 MW and a forecast annual production of approximately 340 million kWh, was completed in September 2012, with a test phase completed in December 2012 and we took possession of the facility in February 7, 2013. The Huelva Senior Credit Agreement provides for the financing of 75% of the project costs (excluding applicable VAT) with the remainder financed through equity and subordinated debt.

The financing period is twelve years, including two years for the construction period and a ten-year amortization period over the facility's commercial operation. The Huelva Senior Credit Agreement bears an interest rate equal to EURIBOR plus a margin of 3.25% during years 1 through 4, 3.50% during years 5 through 8 and 3.75% from year 9 onwards, and its maturity date is December 22, 2022.

The Huelva Senior Credit Agreement contains certain customary events of default, including, among others, and subject to certain exceptions and grace periods, defaults in the payment or prepayment of any amounts payable, breach of obligations or undertakings provided for in the project finance documentation, misrepresentation, enforcement of security, failure to comply with certain financial covenants, cross-default under other indebtedness related to project finance and occurrence of certain bankruptcy and insolvency events.

In connection with the Huelva Senior Credit Agreement, we granted security over certain assets of particular companies of our Group, including, among others, a pledge over the shares of the project special purpose vehicle (Ence Energía Huelva, S.L.U.) granted by Ence Energía, S.L.U., a pledge over the credit rights arising from certain project agreements related to the processing plant and the facility, a chattel mortgage commitment over the processing plant and the facility, a pledge over biomass stock and a pledge on certain bank accounts related to the project.

In addition, we entered into a commitment and guarantee agreement (*contrato de compromisos y garantias*) pursuant to which we granted the following guarantees within the framework of the Huelva Senior Credit Agreement and also undertook to comply with certain obligations customary for this kind of project, many of which are backed by the terms of the EPC contract:

- *Limited Recourse in Force Until the Completion Date:* Under the Huelva Senior Credit Agreement, the Issuer may be required to pay any cost overrun related to the project without any limitation with respect to the amount of liability.

The Issuer may be required to prepay certain amounts drawn under the Huelva Senior Credit Agreement (including related breakage costs) in the event of (i) the non-completion of the project by June 14, 2013, (ii) acceleration by the lenders under the Huelva Senior Credit Agreement before the Completion Date, and (iii) changes in the tariff applicable to the facility or the approval of amendments to Royal Decree 661/2007 that would have an impact on the economic feasibility of the facility and/or the ability of the project special purpose vehicle to comply with its obligations under the Huelva Senior Credit Agreement.

- *Limited Recourse in Force After Completion but Subject to Expiration Date:* The Issuer may be required to prepay certain amounts drawn under the Huelva Senior Credit Agreement (including related breakage costs) in the event of (i) failure to meet certain requirements under the EPC contract, and (ii) shortfalls in the electricity production of the facility.

In addition, the Issuer may be required to prepay 40% of the amounts drawn under the Huelva Senior Credit Agreement in the event that the plan for growing crops agreed between us and the lenders in connection with the Huelva Senior Credit Agreement is not complied with, which requirement will expire on January 1, 2014. If certain other technical conditions are met, the guarantee (i) will be reduced to 20% of the amounts drawn under the Huelva Senior Credit Agreement if 80% of the plan for growing crops has been complied with and (ii) will expire upon completion of 90% or more of the plan for growing crops. Because of the regulatory uncertainty prevailing in the last year, this commitment has not been met.

- *Limited Recourse Without Applicable Expiration Date:* The Issuer may be required to prepay certain amounts drawn under the Huelva Senior Credit Agreement (including related breakage costs) in the event that the biomass supply plan agreed between us and the lenders in connection with the Huelva Senior Credit Agreement is not complied with, with a maximum amount of liability limited to € 25 million. In addition, the Issuer may be required to increase the amount of biomass supplied to the project special purpose vehicle on an ongoing basis if a regulatory amendment approving a reduction in permitted fossil fuel uses for electricity generation through biomass transformation is enacted.

  The Issuer may be required to guarantee any damages and loss of profits during the whole operation period of the facility arising from a breach of the availability parameters required in connection with the operation and maintenance contract, with a maximum amount of liability equal to the price applicable under the operation and maintenance contract.

  The Issuer may be required to cover the tax consequences of improved profits and/or extra losses as a result of the inclusion of the project special purpose vehicle into the tax group of the Issuer for corporate tax purposes, provided that certain circumstances occur. This guarantee is not subject to any cap on its amount. In addition, the Issuer may be required to pay taxes chargeable to the project special purpose vehicle as a result of the creation of the chattel mortgage over the facility.

Project Financing for the Mérida Facility

On June 15, 2012, Ence Energía Extremadura, S.L.U., an indirectly wholly owned subsidiary of the Issuer, entered into a €60.7 million credit facility agreement (the “Mérida Senior Credit Agreement”) with Banco Español de Crédito, S.A., Banco Bilbao Vizcaya Argentaria, S.A. and CaixaBank, S.A. to finance the development, construction and commissioning of its Mérida biomass energy facility. The availability under the Mérida Senior Credit Agreement is expected to be reduced to €31.7 million.

The facility, which has a capacity of 20 MW and an expected annual production of 158 GWh, is expected to become operational during the last quarter of 2014. The Mérida Senior Credit Agreement provides for the financing of 75% of the project costs (excluding VAT), with the remainder financed through equity and subordinated debt.

The financing period is 15 years, including two years for the construction period and a 13-year amortization period over the facility’s commercial operation. The Mérida Senior Credit Agreement bears an interest rate equal to EURIBOR plus a margin of 3.5% during years 1 through 5 and 4.0% from year 6 onwards, and its maturity date is June 15, 2027.

The Mérida Senior Credit Agreement contains certain customary events of default, including, among others, and subject to certain exceptions and grace periods, defaults in the payment or prepayment of any amounts payable, breach of obligations or undertakings provided for in the project finance documentation, misrepresentation, enforcement of security, failure to comply with certain financial covenants, cross-default under other indebtedness related to project finance and occurrence of certain bankruptcy and insolvency events.

In connection with the Mérida Senior Credit Agreement, we granted security over certain assets of particular companies of the Group, including, among others, a pledge over the shares of the project special purpose vehicle (Ence Energía Extremadura, S.L.U.) granted by Ence Energía, S.L.U., a pledge over the credit rights arising from certain project agreements, a pledge over bank accounts related to the project, a promissory pledge commitment without transfer of possession over biomass stock, a promissory pledge over certain credit rights derived from the sale of energy and a mortgage commitment over the facility's site.

In addition, we entered into a shareholders' support agreement (*contrato de apoyo de socios*) pursuant to which we granted the following guarantees within the framework of the Mérida Senior Credit Agreement and also undertook to comply with certain obligations customary for this kind of project, many of which are backed by the terms of the EPC contract.

- *Limited Recourse in Force Until the Completion Date:* Under the Mérida Senior Credit Agreement, the Issuer may be required to contribute equity to the project special purpose vehicle in such amount as is required to ensure that the maximum gearing ratio applicable under the Mérida Senior Credit Facility does not exceed 75/25.

  The Issuer may be required to pay any cost overrun related to the project without any limitation with respect to the amount of liability.

  The Issuer may be required to prepay certain amounts drawn under the Mérida Senior Credit Agreement (including related breakage costs) in the event of (i) the non-completion of the project by March 31, 2015, (ii) non-registration of the facility with the Spanish Registry of Electricity Production Installations under Special Regime (*Registro de Instalaciones de Producción en Régimen Especial*) (RIPRE) by October 31, 2014, (iii) acceleration by the lenders under the Mérida Senior Credit Agreement before the completion date, and (iv) approval of any changes in the applicable regulatory regime or enactment of any regulation that creates an increase in the project costs (including, *inter alia*, the creation of any tax on revenues from electricity generation) and/or a decrease in the net electricity remuneration. In addition, the Issuer may be required to service any amount owed under the Mérida Senior Credit Agreement until September 30, 2014.

  The Issuer may be required to prepay 45% of the amounts drawn under the Mérida Senior Credit Agreement in the event that the plan for growing crops agreed between us and the lenders in connection with the Mérida Senior Credit Agreement is not complied with. If certain other technical conditions are met, this guarantee (i) will be reduced to 20% of the amounts drawn under the Mérida Senior Credit Agreement where 80% of the plan for growing crops has been complied with and (ii) will expire upon completion of 90% or more of the plan for growing crops. As of December 31, 2013, we had complied with approximately 28% of such plan.

- *Limited Recourse in Force After Completion but Subject to Expiration Date:* The Issuer may be required to prepay certain amounts drawn under the Mérida Senior Credit Agreement (including related breakage costs) in the event of shortfalls in the facility's electricity production. The guarantee will expire 24 months after the completion date.

- *Limited Recourse Without Applicable Expiration Date:* The Issuer may be required to prepay certain amounts drawn under the Mérida Senior Credit Agreement (including related breakage costs) in the event that the biomass supply plan agreed between us and the lenders in connection with the Mérida Senior Credit Agreement is not complied with, with the maximum amount of liability being limited to €4.3 million.

The Issuer may be required to cover the tax consequences of improved profits and/or extra losses as a result of the inclusion of the project special purpose vehicle into the tax group of the Issuer for corporate tax purposes. In addition, the Issuer may be required to make payments in order to cover a more-adverse tax treatment and/or position that may result under the interest barrier rules applicable in Spain (as a consequence of including the project special purpose vehicle within the tax group of the Issuer for corporate tax purposes). None of these guarantees have any limitation with respect to amount of liability.

Intercreditor Agreement

In connection with entering into the RCF Agreement and the Indenture, the Issuer and the Guarantors entered into the Intercreditor Agreement to govern the relationships and relative priorities among: (i) the lenders under the Revolving Credit Facility (the "RCF Lenders"); (ii) any persons that accede to the Intercreditor Agreement as providers of hedging which is permitted to be secured *pari passu* with the Revolving Credit Facility (the "Hedge Counterparties") pursuant to certain hedging agreements, as permitted in the relevant finance documents (collectively, the "Hedging Agreements"); (iii) the Trustee, for itself and on behalf of the holders of the Notes (the "Noteholders"); and (iv) subsidiaries of the Issuer which are borrowers or guarantors of the Revolving Credit Facility (each an "Obligor" and together the "Obligors").

The Issuer and each of its restricted subsidiaries that provides a guarantee under the RCF Agreement or the Indenture is referred to in this description as a "Guarantor" and are referred to collectively as the "Guarantors." In this description "Group" refers to the Issuer and its Restricted Subsidiaries.

The Intercreditor Agreement sets forth:

- the relative ranking of certain indebtedness of the Obligors;
- the relative ranking of certain security granted by the Obligors;
- when payments can be made in respect of certain indebtedness of the Obligors;
- when enforcement actions can be taken in respect of that indebtedness;
- the terms pursuant to which certain indebtedness will be subordinated upon the incurrence of certain insolvency events;
- turnover provisions; and
- when security and guarantees will be released to permit a sale of any assets subject to security (the "Collateral").

The Intercreditor Agreement contains provisions allowing future indebtedness that may be incurred by the Obligors or another group company and that is permitted by the RCF Agreement and the Indenture to rank *pari passu* with the Revolving Credit Facility and the Notes and be secured by the Collateral, subject to the terms of the Intercreditor Agreement (such debt being "*Pari Passu* Liabilities" and the creditors of such debt being "*Pari Passu Creditors*").

The Intercreditor Agreement also allows, under certain conditions, additional advances under the Revolving Credit Facility and additional Notes to rank *pari passu* with the Revolving Credit Facility and the Notes and be secured by the Collateral. The Intercreditor Agreement allows for a refinancing in full or in part of the Notes or the Revolving Credit Facility or any *Pari Passu* Liabilities.

The following description is a summary of certain provisions, among others, contained in the Intercreditor Agreement. It does not describe the Intercreditor Agreement in its entirety, and we urge you to read that document because it, and not the description that follows, defines your rights as holders of the Notes.

Ranking and Priority

The Intercreditor Agreement provides that the liabilities of the Obligors with respect to the Revolving Credit Facility (the "RCF Liabilities") and certain hedging agreements (to the extent secured, the "Hedging Liabilities" and, together with the RCF Liabilities, the "Super Senior Liabilities"), the liabilities of the Obligors in respect of the Notes (the "Notes Liabilities"), the *Pari Passu* Liabilities and the liabilities of the Obligors under certain intercompany loans, including those relating to the on-lending of the proceeds of the Notes, the repayment of which is needed to enable an Obligor to repay any of the Notes Liabilities ("Structural Intercompany Liabilities"), will rank in right and priority of payment in the following order:

- first, the Super Senior Liabilities, the Notes Liabilities, the *Pari Passu* Liabilities (together with the Super Senior Liabilities and the Notes Liabilities, the "Secured Liabilities") and the Structural Intercompany Liabilities *pari passu* and without any preference between them; and

- second, certain intercompany liabilities of the Obligors under intercompany loans that are not Structural Intercompany Liabilities (the "Non-Structural Intercompany Liabilities").

Under the Intercreditor Agreement, all proceeds from enforcement of the Collateral will be applied as provided under "—Application of Proceeds."

Permitted Payments of Subordinated Debt

The Intercreditor Agreement permits, among other things, payments to be made by the Obligors in respect of the RCF Liabilities, the Notes Liabilities, the *Pari Passu* Liabilities and Structural Intercompany Liabilities. The Intercreditor Agreement also permits payment of Non-Structural Intercompany Liabilities from time to time when due to members of the Group owed Non-Structural Intercompany Liabilities ("Non-Structural Intercompany Liabilities Payments") if at the time of payment no acceleration event has occurred in respect of any RCF Liabilities, Notes Liabilities or *Pari Passu* Liabilities (an "Acceleration Event"). The Intercreditor Agreement permits Non-Structural Intercompany Liabilities Payments if such an Acceleration Event occurs (i) prior to the date on which all Super Senior Liabilities are discharged in full and the RCF Lenders have no further obligations under the Revolving Credit Facility documents and the hedge counterparties have no further obligations under the agreements governing the Hedging Liabilities (the "Super Senior Discharge Date"), with the consent of the RCF Agent (as defined below); (ii) prior to the date on which all the Notes Liabilities are discharged (the "Notes Discharge Date"), with the consent of the Trustee; and (iii) prior to the date on which the *Pari Passu* Liabilities have been discharged in full and the *Pari Passu Creditors* have no further obligation in respect of the *Pari Passu* Liabilities (the "*Pari Passu* Discharge Date"), with the consent of the creditor representative of the *Pari Passu Creditors* (the "*Pari Passu* Representative").

Creditor Representative

Under the Intercreditor Agreement (or, in respect of the RCF Agent, under the RCF Agreement), the parties appoint various creditor representatives (each a "Secured Representative") being:

(i) in relation to the RCF Lenders, the Revolving Credit Facility agent (the "RCF Agent");

(ii) in relation to the Noteholders, the Trustee; and

(iii) in relation to the *Pari Passu Creditors*, the *Pari Passu* Representative.

Each Hedge Counterparty shall be its own creditor representative.

Entitlement to Enforce Collateral

The Security Agent may refrain from enforcing the Collateral unless otherwise instructed by:

(i) prior to the Super Senior Discharge Date, the *Pari Passu* Discharge Date, the Notes Discharge Date and the date falling six months after the occurrence of any relevant Acceleration Event which is continuing (the "Six Months Date"), the Notes/*Pari Passu* Required Holders (as defined below) and, if the RCF Agent's instructions (acting on instructions from the Majority Super Senior Creditors (as defined below)) are consistent with those of the Notes/*Pari Passu* Required Holders, the RCF Agent (acting on instructions from the Majority Super Senior Creditors);

(ii) after the Super Senior Discharge Date but prior to the Notes Discharge Date and the *Pari Passu* Discharge Date, the Notes/*Pari Passu* Required Holders; or

(iii) prior to the Super Senior Discharge Date but after the first to occur of (A) the Six Months Date and (B) the first date on which both the *Pari Passu* Discharge Date and the Notes Discharge Date have occurred, the RCF Agent (acting on instructions from the Majority Super Senior Creditors), and *provided* that, so long as neither the Super Senior Discharge Date, nor the *Pari Passu* Debt Discharge Date nor the Notes Discharge Date has occurred, such instructions are consistent with certain principles (the "Security Enforcement Principles"). Please see "—Limitation on Enforcement by Super Senior Creditors and Noteholders." The Security Agent may disregard any instructions from any other person to enforce the Collateral and may disregard any instructions to enforce any Collateral if those instructions are inconsistent with the Intercreditor Agreement. The Security Agent is not obligated to enforce the Collateral if it is not appropriately indemnified (including by way of pre-funding) by the relevant creditors.

"*Pari Passu* Debt Required Holders" means, in respect of any direction, approval, consent or waiver, the *Pari Passu Creditors* of the principal amount of *Pari Passu* Liabilities required to vote in favor of such direction, consent or waiver under the terms of the relevant *Pari Passu* Liabilities documents or, if the required amount is not specified, the holders holding at least the majority of the principal amount of the then outstanding *Pari Passu* Liabilities. For the avoidance of doubt, in determining whether the *Pari Passu Creditors* of the required principal amount of *Pari Passu* Liabilities have concurred in any direction, waiver or consent, *Pari Passu* Liabilities owed by any member of the Group, or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with any Obligor, will be considered as though not outstanding.

"Notes/*Pari Passu* Required Holders" means:

(i) the Notes Required Holders (as defined below); and

(ii) if applicable and if the aggregate amount of *Pari Passu* Liabilities is equal to or more than €50,000,000, the *Pari Passu* Debt Required Holders,

provided that, if the instructions are received from only the Notes Required Holders or (subject to paragraph (ii) above) only the *Pari Passu* Debt Required Holders, the instructions of that responding class will prevail, and in the event that there is an inconsistency in instructions received from the Notes Required Holders and (subject to paragraph (ii) above) the *Pari Passu* Liabilities Required Holders:

(i) if the Notes Liabilities are equal to or greater than the *Pari Passu* Liabilities, the instructions of the Notes Required Holders will prevail; and

(ii) if the *Pari Passu* Liabilities are greater than the Notes Liabilities, the instructions of the *Pari Passu* Liabilities Required Holders will prevail.

"Notes Required Holders" means, in respect of any direction, approval, consent or waiver, the Noteholders of the principal amount of Notes required to vote in favor of such direction, consent or waiver under the terms of the Notes or, if the required amount is not specified, the Noteholders holding at least the majority of the principal amount of the then outstanding Notes, in accordance with the Indenture. For the avoidance of doubt, in determining whether the Noteholders of the required principal amount of Notes have concurred in any direction, waiver or consent, Notes owned by any member of the Group will be considered as though not outstanding.

"Majority Super Senior Creditors" means, at any time, those RCF Lenders and Hedge Counterparties whose Super Senior Credit Participations at that time aggregate more than $66^2/_3$% of the total Super Senior Credit Participations at that time.

"RCF Discharge Date" means the first date upon which the RCF Liabilities have been unconditionally discharged in full and the RCF Lenders are owed no further obligations under the Finance Documents.

"Super Senior Credit Participation" means, in relation to an RCF Lender or Hedge Counterparty, the aggregate of:

(a) on or prior to the RCF Discharge Date, each RCF Lender's aggregate Commitments (as defined in the RCF Agreement and, in the event of any Refinancing permitted in accordance with the RCF Agreement, "Commitments" as defined in any applicable replacement facility agreement);

(b) in respect of any hedging transaction of a Hedge Counterparty under any Hedging Agreement that has, as of the date the calculation is made, been terminated or closed out in accordance with the terms of the Intercreditor Agreement, the amount, if any, payable to that Hedge Counterparty under any Hedging

Agreement in respect of that termination or close-out as of the date of termination or close-out (and before taking into account any interest accrued on that amount since the date of termination or close-out) to the extent that amount is unpaid (that amount to be certified by the relevant Hedge Counterparty and as calculated in accordance with the relevant Hedging Agreement); and

(c) after the RCF Discharge Date only, in respect of any hedging transaction of a Hedge Counterparty under any Hedging Agreement that has, as of the date the calculation is made, not been terminated or closed out:

(i) if the relevant Hedging Agreement is based on a 1992 ISDA Master Agreement or a 2002 ISDA Master Agreement the amount, if any, which would be payable to it under that Hedging Agreement in respect of that hedging transaction, if the date on which the calculation is made was deemed to be an Early Termination Date (as defined in the relevant ISDA Master Agreement) for which the relevant Obligor is the Defaulting Party (as defined in the relevant ISDA Master Agreement); or

(ii) if the relevant Hedging Agreement is not based on an ISDA Master Agreement, the amount, if any, which would be payable to it under that Hedging Agreement in respect of that hedging transaction, if the date on which the calculation is made was deemed to be the date on which an event similar in meaning and effect (under that Hedging Agreement) to an Early Termination Date (as defined in any ISDA Master Agreement) occurred under that Hedging Agreement for which the relevant Obligor is in a position similar in meaning and effect (under that Hedging Agreement) to that of a Defaulting Party (under and as defined in the same ISDA Master Agreement),

that amount, in each case, to be certified by the relevant Hedge Counterparty and as calculated in accordance with the relevant Hedging Agreement.

Limitation on Enforcement by Super Senior Creditors and Noteholders

If the RCF Agent or the Trustee or the *Pari Passu* Representative wishes to instruct the Security Agent to commence enforcement of any Collateral in the manner described under "—Entitlement to Enforce Collateral," the RCF Agent, the Trustee and the *Pari Passu* Representative (the "Secured Representatives") must consult with one another and with the Security Agent in good faith with a view to coordinating these instructions for 30 days or such other period as the Secured Representatives may agree.

None of the Secured Representatives shall be obliged to consult before giving instructions to enforce the Collateral in the manner described above if:

(i) the relevant Collateral has become enforceable as a result of any insolvency proceedings relating to the Obligor against which the acceleration action has been taken or the debt accelerated; or

(ii) a Secured Representative determines in good faith (and notifies each other Secured Representative and the Security Agent) that to enter into such consultations and thereby delay the commencement of enforcement of the Collateral could reasonably be expected to have an adverse effect on:

(A) their ability to enforce any of the Collateral; or

(B) the realization proceeds of any enforcement of the Collateral in any material respect.

Until the Notes Discharge Date, if the Security Agent has received conflicting enforcement instructions from the Secured Representatives then the Security Agent will promptly notify the Secured Representatives and such Secured Representatives will consult with each other for a period of 15 days or such other period as the Secured Representatives may agree with a view to resolving the conflict in such instructions (the "Further Consultation Period").

The Further Consultation Period will end immediately if:

(i) the relevant Collateral has become enforceable as a result of insolvency proceedings relating to the Obligor against whom the enforcement action has been taken or the debt has been accelerated; or

(ii) a Secured Representative determines in good faith (and notifies each other Secured Representative and the Security Agent) that to enter into such consultations and thereby delay the commencement of enforcement of the Collateral could reasonably be expected to have an adverse effect on:

(A) their ability to enforce any of the Collateral; or

(B) the realization proceeds of any enforcement of the Collateral in any material respect.

The Security Agent will only enforce Collateral in accordance with instructions the Security Agent has received from the Notes/*Pari Passu* Required Holders to enforce or direct the enforcement of the Collateral (regardless of whether or not the Security Agent has received conflicting instructions or sole instructions from the RCF Agent (acting on instructions from the Majority Super Senior Creditors) to enforce or direct the enforcement of the Collateral (save if the *Pari Passu* Discharge Date and Notes Discharge Date or the Six Months Date has occurred, whereupon the Security Agent shall enforce or direct the enforcement of such Collateral in accordance with the instructions it has received from the RCF Agent)).

A Creditor Representative may only give enforcement instructions that are consistent with the Security Enforcement Principles, including that:

(i) it shall be the primary and overriding aim of any enforcement of the Collateral to achieve the security enforcement objective (being to maximize so far as is consistent with prompt and expeditious realization of value from enforcement of the Collateral, the recovery by the RCF Lenders, the Hedge Counterparties, the Noteholders and the *Pari Passu Creditors* (together the "Secured Creditors") such objective being, the "Security Enforcement Objective");

(ii) the Collateral will be enforced and other enforcement action will be taken such that either:

(A) all proceeds of enforcement are received by the Security Agent in cash for distribution in accordance with the Intercreditor Agreement (please see "—Application of Proceeds"); or

(B) sufficient proceeds from enforcement will be received by the Security Agent in cash to ensure that when the proceeds are applied in accordance with the Intercreditor Agreement (please see "—Application of Proceeds"), the Super Senior Liabilities are repaid and discharged in full (unless the RCF Agent agrees otherwise);

(iii) the enforcement actions are prompt and expeditious to the extent reasonably achievable provided that they are consistent with the Security Enforcement Objective;

(iv) to the extent that the Collateral that is the subject of the proposed enforcement action is:

(A) over assets other than shares in a member of the Group where the aggregate book value of such assets exceeds €10,000,000 (or its equivalent) ("Material Collateral"); or

(B) over some or all of the shares in a member of the Group,

then the Security Agent shall (unless it is unnecessary in respect of enforcement proceedings in a relevant jurisdiction or the enforcement proceedings are by way of public auction or through a court supervised process) appoint a "big four" accounting firm, any reputable and independent international investment bank or other reputable and independent professional services firm with experience in restructuring and enforcement (a "Financial Advisor") to opine (the "Financial Advisor's Opinion") as expert on:

(A) the optimal method of enforcing the Collateral so as to achieve the Security Enforcement Principles and maximize the recovery of any such enforcement action;

(B) that the proceeds received from any such enforcement are fair from a financial point of view after taking account all relevant circumstances; and

(C) that such sale is otherwise in accordance with the Security Enforcement Objective;

(v) the Financial Advisor's Opinion (or any equivalent opinion obtained by the Security Trustee will be conclusive evidence that the Security Enforcement Objective has been met; and

(vi) in the event than an enforcement of the Collateral is over assets or shares referred to in paragraph (iv) above and such enforcement is conducted by way of public or court auction, any equity investors of the Group shall, subject to compliance with applicable law, be entitled to participate in such auction.

The Trustee will be under no obligation to take any action under the Intercreditor Agreement unless it is indemnified or secured to its satisfaction in accordance with the Indenture in respect of all costs, expenses and liabilities which it would in its opinion thereby incur. No provision of the Intercreditor Agreement shall require either of the Trustee or the Security Agent to do anything which might, in its opinion, constitute a breach of any law or regulation of be otherwise actionable at the suit of any person.

Application of Proceeds

The Intercreditor Agreement provides that amounts received from the realization or enforcement of all or any part of the Collateral will be applied in the following order of priority:

(i) first, in payment of the fees, costs, expenses and liabilities of the RCF Agent, the Security Agent, the *Pari Passu* Representative and of any receiver, delegate, attorney or agent appointed under any Collateral documents or the Intercreditor Agreement or the *Pari Passu* Liabilities documents or the Intercreditor Agreement and of the Trustee *pari passu* and ratably between such parties;

(ii) second, in payment of the balance of the costs and expenses of the RCF Lenders and the Hedge Counterparties (together, the "Super Senior Creditors") (other than the Security Agent, any receiver or delegate) in connection with such realization or enforcement *pari passu* and ratably between such parties;

(iii) third, in payment to the RCF Agent and the Hedge Counterparties for application towards the balance of each of the RCF Liabilities and the Hedging Liabilities arising under:

  (A) any interest rate and currency swap hedging in respect of debt;

  (B) the Revolving Credit Facility; and

  (C) certain other hedging arrangements provided that the amount of such hedging arrangements secured (or portion thereof) does not exceed € 95.0 million less the principal amount of the Revolving Credit Facility at the relevant time;

(iv) fourth, in payment pari passu and pro rata of the balance of:

  (A) the costs and expenses of the Trustee on behalf of each Noteholder; and

  (B) the *Pari Passu* Representative on behalf of each *Pari Passu Creditor*; and

(v) fifth, in payment: pari passu and pro rata to:

  (A) the Trustee for application towards the balance of the Notes Liabilities; and

  (B) the *Pari Passu* Representative for application towards the balance of the *Pari Passu* Liabilities.

Additional Indebtedness

In the event that any Obligor incurs any additional indebtedness that is permitted under the terms of the Notes and the RCF Agreement to be secured by the Collateral, the creditors in respect of such additional liabilities will share in the proceeds of any enforcement of Collateral on the basis and to the extent permitted under the terms of the Notes and the RCF Agreement.

Release of the Guarantees and the Security

Where a disposal of an asset is being effected, the Intercreditor Agreement provides that the Security Agent is authorized (i) to release the Collateral or guarantee (and the relevant Obligors shall release any Collateral given to them) where such releases are required to give effect to the Intercreditor Agreement and the documents governing the Secured Liabilities and/or where such releases are connected to a sale, transfer or other disposal of any assets, undertaking or business that is not prohibited or is expressly permitted under the terms of the Finance Documents, and (ii) on commencement of enforcement action in order for a disposal of assets or shares in the capital of an Obligor to be fully effective to release that Obligor and any subsidiary of that Obligor from all or any part of its liabilities to a member of the Group or a Secured Creditor such that no Secured Liabilities remain attached to those assets being disposed of or any Obligor or subsidiary of that Obligor in which shares are being disposed of.

Amendment

The Intercreditor Agreement provides that it may only be amended with the consent of the Security Agent, the Notes/*Pari Passu* Required Holders (acting through the Trustee and/or the *Pari Passu* Representative), the RCF Agent, the Trustee and the Hedge Counterparties save in respect of administrative changes or to correct manifest errors on the instructions of the RCF Agent, the *Pari Passu* Representative and the Trustee.

Option to Purchase: RCF Liabilities and Hedging Liabilities

After enforcement action has been taken against an Obligor, the Trustee and the *Pari Passu* Representative, at the direction and expense of the Noteholders and the *Pari Passu* Creditors (as applicable), will, subject to meeting certain conditions, have the right to acquire or procure that a nominee acquires all (but not part only) of the Super Senior Liabilities.

Any such purchase will be on terms which will include, without limitation, payment in full in cash of an amount equal to the Super Senior Liabilities then outstanding, including in respect of any broken funding costs, as well as certain costs and expenses of the Super Senior Creditors; after the transfer, no Super Senior Creditor will be under any actual or contingent liability to any person under the Intercreditor Agreement; the purchasing Noteholders and *Pari Passu* Creditors indemnify each Super Senior Creditor for any actual or alleged obligation to repay or claw back any amount received by such Super Senior Creditor; and the relevant transfer shall be without recourse to, or warranty from, any Super Senior Creditor save as to title and the absence of third-party interests, power and authority and completion of know-your-customer checks.

CDTI Agreements

As of December 31, 2013, we had approximately €10.5 million of principal outstanding relating to loans granted by CDTI, a public institution attached to the Spanish Ministry of Economy and Competitiveness, whose purpose is to encourage the innovation and technological development of Spanish companies by providing financing. Under the terms of these loans, we undertook to comply with certain restrictive covenants, including restrictions on the creation of any personal guarantees, mortgages or pledges on our assets. Furthermore, as a result of such loan agreements, the CDTI was granted *pari passu* status with respect to any security granted in connection with any of our existing and/or future borrowings. The granting of the security over the Collateral securing the Notes, the Revolving Credit Facility and other secured indebtedness of the Issuer will required the consent of the CDTI, which was obtained in January 25, 2013.

Local Facility

We have a small local facility with an aggregate principal amount outstanding as of December 31, 2013 of €1.1 million.

Equity Swap Arrangement

On October 25, 2007, the Issuer arranged an equity swap with Bankia S.A. for a total amount of 5.1 million shares of the Issuer, at a base price of €4.40 per share, in order to comply with certain terms and conditions set forth in the management incentive plan of our senior management. The terms of this equity swap were amended in March 2010 as a result of our share capital increase, at a base price of €4.11 per share, and in June 2012, by extending its term until 2015, with partial cancellations of 1.0 million shares in each of March 2013 and March 2014 and 1.8 million shares in March 2015. In addition, March 15, 2015 was designated as the new termination date. As of December 31, 2013, the fair value of the instrument was negative €4.3 million.

GLOSSARY OF SELECTED TERMS

The following terms used in this Offering Memorandum have the meanings assigned to them below:

"BEKP"...	Bleached Eucalyptus Kraft Pulp.
"BHKP"	all grades of Bleached Hardwood Kraft Pulp, including BEKP, birch, SMHW and NMHW.
"biomass"..	all materials of biological origin excluding those which have been encompassed in geological formations undergoing a mineralization process, which include coal, oil and gas (in accordance with European Technical Specification CEN/TS 14588).
"BSKP"...	Bleached Softwood Kraft Pulp.
"ECF"..	Elemental Chlorine Free.
"EDTA"	Ethylenediaminetetraacetic acid.
"EPC"..	Engineering, procurement and construction.
"Forestry depletion"	the depreciation of biological assets (plantations) as related to the harvesting of pulp plantations.
"Kraft process".................................	the process for the conversion of wood into almost pure cellulose fibers through the use of sodium sulfate, which breaks the bonds that link lignin to the cellulose.
"Ktpa"	thousands of tonnes per annum.
"Moratorium"	the elimination of economic incentives for the implementation of special regime energy production facilities and the suspension of the proceedings for registration with the pre-allocation registries, vested by the Royal Degree Law 1/2012.
"NMHW"..	Northern Mixed Hardwood (kraft) pulp.
"SMHW"...	all Mixed Hardwood kraft pulp produced in the United States.
"TCF"	Totally Chlorine Free.

ENCE Energía y Celulosa, S.A. and subsidiaries

Consolidated financial statements for 2013 prepared under the International Financial Reporting Standards adopted by the European Union, the Group Management Report and the Audit Report

(Translation of financial statements originally issued in Spanish and prepared in accordance with IFRS. In the event of a discrepancy, the Spanish-language version prevails.)

Consolidated financial statements for 2013

(Translation of financial statements originally issued in Spanish and prepared in accordance with IFRS. In the event of a discrepancy, the Spanish-language version prevails.)

pwc

AUDITOR'S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

This version of our report is a free translation from the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

To the shareholders of ENCE Energía y Celulosa, S.A.:

We have audited the consolidated annual accounts of ENCE Energía y Celulosa, S.A. (the "Company") and its subsidiaries (the "Group"), consisting of the consolidated balance sheet at 31 December 2013, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As explained in Note 3.1 the Directors of the Company are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2013 present fairly, in all material respects, the consolidated financial position of ENCE Energía y Celulosa, S.A. and its subsidiaries at 31 December 2013 and the consolidated results of its operations and the consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

Without qualifying our audit opinion, we draw the attention to what is described in Note 5.1 of the accompanying consolidated annual accounts, which states that in July 2013, the Royal Decree-Law 9/2013 of July 12th, by which the remuneration regime system of the power generation facilities fuelled by renewable sources of energy has been modified, and in February 2014, the CNMC ("Comisión Nacional de los Mercados y de la Competencia") has submitted a drafted Ministerial Order developed by the regulations contained in the aforementioned Royal Decree-Law, and sets the new compensation parameters for such electric power facilities from July 14th, 2013 onwards. Even though at the date of preparation of these consolidated annual accounts this Ministerial Order among other policy developments are pending of approval, they have been considered by the Group when estimating their impacts on the consolidated statement of financial position and the consolidated income statement in these consolidated annual accounts at December 31st, 2013. Once the final approval of this regulation is in force, the final impacts on the Group's financial information, which could differ from those recorded in the accompanying consolidated annual accounts, will be known then.

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 913 083 566, www.pwc.es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

The accompanying consolidated Directors' Report for 2013 contains the explanations which the Directors of ENCE Energía y Celulosa, S.A. consider appropriate regarding the Group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated Directors' Report is in agreement with that of the consolidated annual accounts for 2013. Our work as auditors is limited to checking the consolidated Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the accounting records of ENCE Energía y Celulosa, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Mar Gallardo
Partner

27 March 2014

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2013 AND 2012

Thousands of euros	Note	At 31 Dec 2013	At 31 Dec 2012
NON-CURRENT ASSETS:			
Intangible assets	7	19,057	21,556
Property, plant and equipment	8	776,246	774,179
Investment properties	4	1,967	2,078
Biological assets	9	154,145	170,958
Other financial assets	19	2,918	4,144
Deferred tax assets	21	35,557	30,580
		989,890	**1,003,495**
CURRENT ASSETS:			
Non-current assets held for sale	28	-	59,345
Inventories	13	70,989	87,575
Trade and other receivables	14	114,364	138,580
Receivable from public authorities	21	18,592	28,626
Income tax receivable from the tax authorities	21	8,204	1,031
Current financial assets:			
Derivatives	12	-	10,721
Other financial assets	19	55,876	7,575
Cash and cash equivalents	19	103,391	40,205
Other current assets		953	896
		372,369	**374,554**
TOTAL ASSETS		**1,362,259**	**1,378,049**
EQUITY:			
Share capital	16	225,245	225,245
Share premium	16	210,037	230,221
Parent company reserves	16	117,458	99,916
Reserves in fully-consolidated companies	16	126,422	112,543
Valuation adjustments	16	48,807	52,992
Profit/(loss) for the year attributable to owners of the parent		4,311	43,031
Translation differences	4	(2,218)	(2,011)
Own shares - parent company shares	16	(19,762)	(37,213)
Equity attributable to owners of the parent		**710,300**	**724,724**
TOTAL EQUITY		**710,300**	**724,724**
NON-CURRENT LIABILITIES:			
Bonds and other marketable securities	19	240,679	-
Bank borrowings	19	98,258	309,632
Grants	17	15,209	20,076
Derivative financial instruments	12	7,393	16,627
Other financial liabilities	20	8,546	9,291
Deferred income tax liabilities	21	27,633	31,745
Non-current provisions	18	18,505	13,258
		416,223	**400,629**
CURRENT LIABILITIES:			
Bank borrowings	19	12,925	24,108
Derivative financial instruments	12	4,534	14,886
Other financial liabilities	20	1,962	1,562
Trade and other payables	15	197,179	201,902
Income tax payable to the tax authorities	21	39	1,313
Other payables to public authorities	21	11,318	8,472
Other current liabilities		699	453
Current provisions	18 & 22	7,080	-
		235,736	**252,696**
TOTAL EQUITY AND LIABILITIES		**1,362,259**	**1,378,049**

The accompanying notes 1 to 32 are an integral part of the consolidated statement of financial position at 31 December 2013

(Translation of financial statements originally issued in Spanish and prepared in accordance with IFRS. In the event of a discrepancy, the Spanish-language version prevails.)

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR YEAR ENDS 2013 AND 2012

Thousands of euros	Note	Year ended 2013	Year ended 2012
Continuing operations:			
Revenue	22	853,136	827,578
Gain (loss) on hedging transactions	12	12,102	(27,567)
Changes in inventory of finished goods and work in progress		2,117	831
Cost of sales	23	(427,836)	(408,048)
GROSS PROFIT		**439,519**	**392,794**
Own work capitalised	8 & 9	14,757	24,183
Other income		7,543	2,267
Government grants taken to income	17	6,320	4,280
Employee benefit expense	24	(80,459)	(82,262)
Depreciation and amortisation charges	7 & 8	(63,133)	(54,262)
Depletion of forest reserve	9	(15,205)	(9,110)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	5, 7, 8, 9 & 18	(37,516)	6,329
Other operating expenses	25	(240,008)	(201,953)
OPERATING PROFIT		**31,818**	**82,266**
Finance income		2,039	747
Change in fair value of financial instruments	12	1,830	6,799
Other finance costs	26	(30,762)	(24,371)
Exchange differences		641	(1,803)
NET FINANCE COST		**(26,252)**	**(18,628)**
Net gain/(loss) on assets classified as non-current assets held for sale		-	(660)
PROFIT BEFORE TAX		**5,566**	**62,978**
Income tax	21.3	(1,255)	(19,947)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**4,311**	**43,031**
PROFIT FOR THE YEAR	27	**4,311**	**43,031**
Earnings per share:			
Basic	13	**0.02**	**0.16**
Diluted	13	**0.02**	**0.16**

Accompanying notes 1 to 32 are an integral part of the consolidated 2013 income statement

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR-ENDS 2013 AND 2012

Thousands of euros	Note	Year ended 2013	Year ended 2012
CONSOLIDATED PROFIT FOR THE YEAR (I)	**16**	**4,311**	**43,031**
Income and expense recognised directly in equity:			
Cash flow hedges (*)		3,340	(2,527)
Translation differences (*)		(207)	(1,420)
Tax effect		(1,001)	758
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY (II)	**16**	**2,132**	**(3,189)**
Amounts transferred to the consolidated income statement			
- Cash flow hedges (*)		(8,271)	30,920
- Other adjustments (*)		-	(54)
- Tax effect		2,479	(9,260)
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS (III)	**16**	**(5,792)**	**21,606**
TOTAL COMPREHENSIVE INCOME (EXPENSE) (I+II+III)		**651**	**61,448**

Accompanying notes 1 to 32 are an integral part of the consolidated 2013 statement of comprehensive income

(*) Items that may be subsequently be reclassified to profit or loss

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR-ENDS 2013 AND 2012

2013 (thousands of euros)	Balance at 1/1/2013	Total recognised income/ (expense)	Issuance / (cancellation) of equity	Appropriation of prior-year profit/(loss)	Dividends	Trading in own shares	Distribution of own shares	Balance at 31/12/2013
Share capital	225,245	-	-	-	-	-	-	225,245
Share premium	230,221	-	-	-	-	-	(20,184)	210,037
Legal reserve	42,876	-	-	2,174	-	-	-	45,050
Other parent company reserves	57,040	-	-	27,710	(16,154)	2,109	1,703	72,408
Reserves in fully-consolidated companies	112,543	732	-	13,147	-	-	-	126,422
Translation differences	(2,011)	(207)	-	-	-	-	-	(2,218)
Own shares	(37,213)	-	-	-	-	(1,030)	18,481	(19,762)
Valuation adjustments	52,992	(4,185)	-	-	-	-	-	48,807
Profit/(loss) for the year attributable to owners of the parent	43,031	4,311	-	(43,031)	-	-	-	4,311
	724,724	651	-	-	(16,154)	1,079	-	710,300

2012 (thousands of euros)	Balance at 1/1/2012	Total recognised income/ (expense)	Issuance / (cancellation) of equity	Appropriation of prior-year profit/(loss)	Dividends	Trading in own shares	Distribution of own shares	Balance at 31/12/2012
Share capital	232,212	-	(6,967)	-	-	-	-	225,245
Share premium	254,328	-	-	-	(14,484)	-	(9,623)	230,221
Legal reserve	39,766	-	-	3,110	-	-	-	42,876
Other parent company reserves	66,864	-	(9,861)	27,993	(23,203)	(356)	(4,397)	57,040
Reserves in fully-consolidated companies	102,454	-	-	10,089	-	-	-	112,543
Translation differences	(591)	(1,420)	-	-	-	-	-	(2,011)
Own shares	(49,217)	-	16,828	-	21,173	(40,017)	14,020	(37,213)
Valuation adjustments	33,155	19,837	-	-	-	-	-	52,992
Profit/(loss) for the year attributable to owners of the parent	41,192	43,031	-	(41,192)	-	-	-	43,031
	720,163	61,448	-	-	(16,514)	(40,373)	-	724,724

Accompanying notes 1 to 32 are an integral part of the consolidated 2013 statement of changes in equity

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR-ENDS 2013 AND 2012

Thousands of euros	Year ended 2013	Year ended 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated profit/(loss) for the year before tax	5,566	62,978
Adjustments for:		
Depreciation	61,696	53,284
Depletion of forest reserve	15,205	9,110
Amortisation	1,437	978
Changes in provisions and other deferred expense (net)	21,962	3,679
Changes in impairment charges and gains/(losses) on disposals of non-current assets	35,890	(2,975)
Finance income	(2,039)	(747)
Finance costs	28,699	18,044
Government grants taken to income	(1,290)	(1,243)
	161,560	80,130
Changes in working capital:		
Trade and other receivables	29,791	(24,047)
Financial and other current assets	(2,939)	18,184
Trade payables, other payables and other liabilities	4,657	(13,775)
Inventories	10,359	18,314
	41,868	**(1,324)**
Other cash flows from operating activities:		
- Interest paid	(18,048)	(21,542)
- Interest received	2,038	747
- Income tax received (paid)	(17,120)	(9,416)
	(33,130)	**(30,211)**
Net cash generated from operating activities (I)	**175,864**	**111,573**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments:		
Property, plant and equipment and biological assets	(112,844)	(104,387)
Intangible assets	(893)	(16,052)
Other financial assets	1,347	(173)
	(112,390)	**(120,612)**
Disposals:		
Property, plant and equipment and biological assets	64,397	361
Other financial assets	0	161
	64,397	**522**
Net cash used in investing activities (II)	**(47,993)**	**(120,090)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from and payments for equity instruments		
Buyback of own equity instruments	(26,505)	(41,693)
Disposal of own equity instruments	27,506	1,309
	1,001	**(40,384)**
Proceeds from and repayments of financial liabilities:		
Proceeds from issuance of bonds and other marketable securities, net of issuance costs	239,454	-
Increase (decrease) in bank borrowings, net of issuance costs	(232,101)	37,428
Repayment of other borrowings and cancellation of derivatives	(11,965)	(3,276)
Grants received	115	-
	(4,497)	**34,152**
Dividends and payments on other equity instruments		
Dividends	(16,155)	(16,514)
	(16,155)	**(16,514)**
Translation differences	(34)	(161)
Other cash received from (paid on) financing activities		
Fixed-term deposits	(45,000)	-
	(45,000)	**-**
Net cash used in financing activities (III)	**(64,685)**	**(22,907)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)	**63,186**	**(31,424)**
Cash and cash equivalents at beginning of year	40,205	71,629
Cash and cash equivalents at end of year	103,391	40,205

Accompanying notes 1 to 32 are an integral part of the consolidated 2013 statement of cash flows

Notes to the consolidated 2013 financial statements

(Translation of financial statements originally issued in Spanish and prepared in accordance with IFRS. In the event of a discrepancy, the Spanish-language version prevails.)

Contents

1. Group information 2
2. Group companies 3
3. Basis of preparation and consolidation 5
4. Measurement rules 9
5. Accounting estimates and judgements 23
6. Risk factors 26
7. Intangible assets 31
8. Property, plant and equipment 33
9. Biological assets 37
10. Leases 40
11. Financial instruments by category – Fair value 40
12. Derivative financial instruments 42
13. Inventories 45
14. Trade and other receivables 46
15. Trade and other payables 47
16. Equity 48
17. Grants 52
18. Provisions, guarantees and contingent liabilities 52
19. Borrowings and cash and cash equivalents 54
20. Other financial liabilities 59
21. Tax matters 59
22. Revenue 65
23. Cost of sales 66
24. Employee benefit expense 66
25. Other operating expenses 68
26. Finance costs 69
27. Earnings by Group company 69
28. Non-current assets held for sale 70
29. Operating segments 71
30. Director and key management personnel pay and other benefits 76
31. Related-party transactions 78
32. Environmental disclosures 78

Organisational structure 1

Business activity 1

Business performance and financial results 2

Environmental disclosures 4

(Translation of financial statements originally issued in Spanish and prepared in accordance with IFRS. In the event of a discrepancy, the Spanish-language version prevails.)

Employee benefit expense 4
Liquidity 7
Key risks and sources of uncertainty 8
Events after the reporting date 15
R&D activities 15
Purchase-sale of own shares 16
Other information 16

ENCE Energía y Celulosa, S.A. and subsidiaries

Notes to the 2013 consolidated financial statements

1. Group information

Ence Energía y Celulosa, S.A. (hereinafter "ENCE", the "Company" or the "Parent") was incorporated in 1968. Its registered office is located at Paseo de la Castellana, 35 in Madrid. It formerly went by the name of Empresa Nacional de Celulosas, S.A. until 1999 and Grupo Empresarial ENCE, S.A. until 2012.

Its corporate purpose, as per its bylaws, consists of:

a) the manufacture of cellulose pulp and derivatives thereof, the obtainment of the products and other elements necessary to this end and the use of the sub-products of both;

b) the production by any means, sale and use of electric energy and other sources of energy and of the materials and primary energies needed for its generation, as permitted under prevailing legislation; and the marketing, sale-purchase and supply thereof under any of the formulae permitted under law;

c) the cultivation, exploitation and use of forests and forest land, afforestation work and the provision of expert forestry-related services and works; the preparation and transformation of forestry products; the use and exploitation for commercial and business purposes of all manner of forestry products (including biomass and forest energy products), their derivatives and their sub-products; forestry studies and projects;

d) the planning, development, construction, operation and maintenance of the facilities referred to in sections a), b) and c) above.

The Group's core business is the production of bleached eucalyptus kraft pulp (BEKP) from eucalyptus timber by means of elementary chlorine free (ECF) and totally chlorine free (TCF) bleaching sequences. To carry out this business, the Group has three factories in Spain, specifically in the provinces of Asturias, Pontevedra and Huelva, with combined capacity of approximately 1.3 million tonnes per annum.

To complement its core business, the Group uses the wood that cannot be transformed into pulp, essentially lignin and biomass, along with other fuels, to generate electric power. The Group's aggregate nominal installed power generation capacity is approximately 280 megawatts (MW), divided between seven facilities.

In addition, the Group leverages the know-how built up in the forestry sector and in developing quick-rotation energy crops to develop power generation projects fuelled by biomass derived from energy crops and forestry/agricultural waste. Against this backdrop, it commissioned a plant in Huelva with installed capacity of 50 MW in February 2013 and is in the process of building a 20-MW facility in Mérida that is expected to begin to operate during the third quarter of 2014.

In order to lock in the timber supplies needed for the pulp manufacturing process and to meet the power generation plants' biomass requirements, the Group manages 88,266 hectares of forested land in Spain and Portugal, 49,062 hectares of which it owns.

The land under management includes 2,608 hectares located in Portugal that the Group sold in 2013, having entered into an agreement with the buyer covering the purchase by the Ence Group, at market prices, of the wood produced from the land sold for a terms of 20 years.

All the Company's shares are represented by book entries and are officially listed on the Madrid stock exchange and traded on the continuous market (SIBE for its acronym in Spanish).

2. Group companies

The following subsidiaries, 100% directly or indirectly owned by the Parent, are fully consolidated in the accompanying 2013 consolidated financial statements:

2013

Company	Registered office	Business activity	Thousands of euros – Investee equity – Share capital	Share premium and reserves	Profit (loss) for the year
Subsidiaries:					
Celulosa Energía, S.A.U. (a)	Paseo de la Castellana, 35 (Madrid)	Generation and sale of electric energy	3,756	24,154	(1,043)
Celulosas de Asturias, S.A.U. (a)	Armental s/n Navia (Asturias)	Generation and sale of pulp and electric energy	37,863	56,602	33,040
Silvasur Agroforestal, S.A.U. (a)	Paseo de la Castellana, 35 (Madrid)	Forest land management	39,666	(6,057)	(5,574)
Ibersilva, S.A.U. (a)	Avda de Alemania, 9 (Huelva)	Forestry services	10,000	(9,031)	(694)
Norte Forestal, S.A.U. (a)	Paseo de la Castellana, 35 (Madrid)	Forest land management	2,464	21,187	(1,433)
Ence Investigación y Desarrollo, S.A.U. (a)	Pontecaldelas (Pontevedra)	Research into and development of new materials, products and processes	1,208	108	(1,913)
Iberflorestal, S.A.U. (a)	Lisbon (Portugal)	Purchase-sale of wood	55	2,378	(1,384)
Las Pléyades, S.A. (SAFI) (c)	Montevideo (Uruguay)	Export of wood	2	2,562	78
Maderas Aserradas del Litoral, S.A. (b) (c)	Montevideo (Uruguay)	Inactive	6,419	(7,180)	(109)
Sierras Calmas, S.A. (b) (c)	Montevideo (Uruguay)	Forest management	1,393	4,673	(1,114)
Ence Energía S.L.U. (a)	Paseo de la Castellana, 35 (Madrid)	Generation and sale of electric energy	7,506	28,602	(19,452)
Ence Energía Huelva, S.L.U. (a)	Paseo de la Castellana, 35 (Madrid)	Generation and sale of electric energy	6,757	24,817	(3,464)
Ence Energía Extremadura, S.L.U. (a)	Paseo de la Castellana, 35 (Madrid)	Generation and sale of electric energy	3,179	12,585	(821)

(a) Financial statements audited by PwC

(b) Financial statements for the year ended 31 December 2013 in respect of which PwC has conducted a limited review

(c) Equivalent amounts in euros translated at closing exchange rate

2012

			Thousands of euros		
			Investee equity		
Company	Registered office	Business activity	Share capital	Share premium and reserves	Profit (loss) for the year
Subsidiaries:					
Celulosa Energía, S.A.U. (a)	Ctra Madrid-Huelva Km. 630. (Huelva)	Generation and sale of electric energy	3,756	18,928	5,225
Celulosas de Asturias, S.A.U. (a)	Armental s/n Navia (Asturias)	Generation and sale of pulp and electric energy	37,863	24,243	47,360
Silvasur Agroforestal, S.A.U. (a)	Avda de Andalucía s/n. (Huelva)	Forest land management	39,666	181	(6,238)
Ibersilva, S.A.U. (a)	Avda de Alemania, 9 (Huelva)	Forestry services	10,000	(9,700)	668
Norte Forestal, S.A.U. (a)	Marisma del Lourizán s/n (Pontevedra)	Forest land management	2,464	21,370	(661)
Norfor Maderas, S.A.U.	Marisma del Lourizán s/n (Pontevedra)	Forest land management	601	479	-
Ence Investigación y Desarrollo, S.A.U.	Pontecaldelas (Pontevedra)	Research into and development of new materials, products and processes	1,208	(664)	(52)
Iberflorestal, S.A.U. (a)	Lisbon (Portugal)	Purchase-sale of wood	55	2,205	174
Las Pléyades, S.A. (SAFI) (b) (c)	Montevideo (Uruguay)	Export of wood	2	2,686	(127)
Maderas Aserradas del Litoral, S.A. (b) (c)	Montevideo (Uruguay)	Inactive	5,551	(3,845)	(167)
Sierras Calmas, S.A. (b) (c)	Montevideo (Uruguay)	Forest management	1,538	10,199	(2,888)
Ence Energía S.L.U. (a)	Paseo de la Castellana, 35 (Madrid)	Generation and sale of electric energy	7,506	29,139	(536)
Ence Energía Huelva, S.L.U. (a)	Paseo de la Castellana, 35 (Madrid)	Generation and sale of electric energy	6,757	26,358	(1,541)
Ence Energía Extremadura, S.L.U. (a)	Paseo de la Castellana, 35 (Madrid)	Generation and sale of electric energy	735	2,927	(119)

(a) Financial statements audited by PwC
(b) Financial statements for year-end 2012 in respect of which PwC has conducted a limited review
(c) Equivalent amounts in euros translated at closing exchange rate

In addition, the Group comprises the following dormant companies that are wholly-owned by the Parent: Electricidad de Navia, S.L.U, Celulosas de M´Bopicuá, S.A., Las Pléyades Argentina, S.A., Las Pléyades Uruguay, S.A. and Zona Franca M´Bopicuá, S.A.

Elsewhere, the Group has non-controlling interests in certain companies that have not been consolidated on account of their scant materiality: Imacel, A.E.I.E., a dormant company that is 50%-owned by the Parent, Sociedad Andaluza de Valorización de la Biomasa, S.L., in which the Parent holds a 6% interest, and Electroquímica de Hernani, S.A., in which it owns a 5% shareholding.

3. Basis of preparation and consolidation

3.1 Basis of preparation

The 2013 consolidated financial statements have been prepared from the accounting records and annual financial statements of the Parent and Group companies. They were prepared in accordance with the prevailing financial reporting framework, specifically the International Financial Reporting Standards (IFRS) adopted by the European Union, as provided for in Regulation (EC) No. 1606/2002 of the European Parliament and Spanish Law 62/2003 (30 December 2003) on tax, administrative and corporate measures, to give a true and fair view of the Group's financial position at 31 December 2013 and of its financial performance and cash flows for the year then ended.

Note 4 summarises the most significant mandatory accounting policies and measurement criteria applied.

The Group's consolidated financial statements for 2013, which have been authorised for issue by the Parent's directors, will be submitted for shareholder approval at the Annual General Meeting at which they are expected to be ratified without modification. The Group's consolidated financial statements for 2012 were approved at the Annual General Meeting held by the Parent on 21 March 2013.

The Group's functional currency is the euro and the consolidated financial statements are accordingly stated in euros.

3.2 New and amended standards taking effect in 2013

The following new and amended standards took effect in 2013 and were applied in preparing the accompanying consolidated financial statements:

- Amendment to IAS 1, *Presentation of other comprehensive income*

  This amendment has changed the presentation of the items presented in 'other comprehensive income' on the basis of whether or not they are potentially reclassifiable to profit or loss subsequently.

- Amendment to IAS 12, *Income tax – Deferred tax on investment properties*

  This amendment introduces an exception to the principles in existing IAS 12 by introducing the presumption that an investment property measured at fair value is recovered entirely through sale; this exception affects the deferred taxes related with the investment properties carried by the Group at fair value in keeping with the fair value model provided for in IAS 40, *Investment property*.

- Amendment of IAS 19, *Employee benefits*

The main change introduced by the amended IAS 19 relates to the accounting treatment of defined benefit plans by eliminating the 'corridor approach' which had formerly enabled the deferral of a certain amount of actuarial gains and losses. From 1 January 2013, all actuarial gains and losses are recognised when they arise in 'other comprehensive income'. In addition, the interest cost and expected return on plan assets are replaced by a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The amended standard also introduces changes to how benefit costs are presented.

- IFRS 13, *Fair value measurement*

  The new definition of the fair value of a liability given in IFRS 13, based on the transfer of the liability being measured to a market participant, confirms that an entity's own credit risk needs to be reflected in the fair value measurement of its liabilities. Consistent with the definition of the fair value of a liability formerly provided in IAS 39, *Financial instruments*, the Group had taken the approach of not including the impact of own credit risk in valuing these instruments.

  Accordingly, from 1 January 2013, it is necessary to include own credit risk when measuring financial liabilities at fair value, which in the case of the Group are only derivatives. As prescribed in IFRS 13, the impact of the first-time application of this standard is reflected prospectively in the income statement together with the rest of changes in the fair value of its derivatives.

  Note 4.7 outlines the assumptions and methodology used to measure the Group's derivatives in general and the own credit risk aspects in particular.

- Amendment of IFRS 7, *Financial instruments*: Disclosures - Offsetting financial assets and financial liabilities

  This amendment introduces new specific disclosure requirements when financial assets and financial liabilities are offset and for other instruments subject to an enforceable master netting agreement.

3.3 Standards and interpretations issued but not yet effective

At the date of authorising the accompanying consolidated financial statements for issue, the most significant standards and interpretations published by the International Accounting Standard Board (IASB) but not yet effective, either because they have yet to be adopted by the European Union or because their date of effectiveness is subsequent to that of authorisation, are the following:

Standard	Content	Effective for annual periods beginning on or after
IFRS 9, *Financial instruments:* Classification and measurement	Replacement of the financial asset and liability classification and measurement requirements prescribed by IAS 39	1 January 2015
IFRS 10, *Consolidated financial statements* (published in May 2011)	Replacement of current consolidation requirements under IAS 27	1 January 2014
IFRS 11, *Joint arrangement* (published in May 2011)	Replacement of IAS 31 with respect to joint ventures	1 January 2014
IFRS 12, *Disclosures of interests in other entities* (published in May 2011)	Single standard establishing disclosure requirements in respect of all forms of interests in other entities, including subsidiaries, joint arrangements and off-balance sheet vehicles	1 January 2014
IAS 27 (revised), *Separate financial statements* (published in May 2011)	Revision of this standard which, in the wake of IFRS 10, will only encompass an entity's separate financial statements	1 January 2014
IAS 28 (revised), *Investments in associates and joint ventures* (published in May 2011)	Parallel revision in conjunction with the issuance of IFRS 11, *Joint arrangements*	1 January 2014
Amendment of IAS 32, *Financial instruments: Presentation - Offsetting financial assets and financial liabilities*	Additional clarification on the rules for offsetting financial assets and liabilities	1 January 2014

The Group is in the process of analysing what impact these new standards could have on its consolidated financial statements if adopted.

3.4 Key IFRS-related decisions

In presenting the consolidated financial statements and accompanying notes, the Group took the following decisions:

a. The presentation of the consolidated statement of financial position distinguishes between current and non-current amounts. The consolidated income statement is presented using the nature of expense method.

b. The Group has chosen to present its consolidated statement of cash flows using the indirect method.

3.5 Consolidation

Subsidiaries

'Subsidiaries' are investees over which the Parent has the power to exercise effective control; this power is presumed to exist, in general albeit not exclusively, when it owns, either directly or indirectly, at least 50% of the voting rights of the investee or, even if this percentage is lower, there are agreements with other investee shareholders that grant it control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are consolidated with those of the Parent using the full consolidation method. As a result, material inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation.

Whenever the Parent acquires a subsidiary, it calculates the fair value of the acquiree's assets, liabilities and contingent liabilities at the acquisition date, the date on which it takes control, in accordance with IFRS 3, *Business combinations*. Any excess of the cost of acquisition over the fair value of the identifiable net assets is recognised as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets, the resulting gain is recognised directly in the income statement.

The results of subsidiaries acquired during the year are fully consolidated from the acquisition date until year-end. In parallel, the results of any subsidiaries disposed of during the year are consolidated only from the beginning of the year until the disposal date.

In the accompanying consolidated financial statements, all the companies comprising the consolidation scope are accounted for using the full consolidation method.

Associates

Associates are all entities over which the Parent has significant influence but not control or joint control. The power to exercise significant influence is usually associated with interests (held directly or indirectly) of 20% or more of an investee's voting rights.

Associates are accounted for using the equity method, i.e., at the carrying amount of the Group's share of the associate's equity, restated for any dividends received and other adjustments to equity.

Adjustments to conform with the Group's accounting policies

The consolidation of the entities comprising the consolidation scope was carried out on the basis of their respective separate financial statements, which are prepared under the Spanish General Accounting Plan for companies resident in Spain and local accounting standards for the foreign subsidiaries. The directors have made all the material adjustments needed to adapt these separate financial statements to IFRS and/or to align them with the Group's accounting policies as part of the consolidation process.

Changes in consolidation scope and in ownership interests

2013

In 2013 Norfor Maderas, S.A.U. merged into its sole shareholder, Norte Forestal, S.A.U.

2012

Ence Energía Extremadura, S.L.U. was added to the consolidation scope in 2012. This company was incorporated in 2009 and began to build a 20-megawatt electric power plant in 2012.

3.6 Comparative information

The information provided in these financial statements in respect of 2012 is presented to enable a reader comparison with the equivalent 2013 figures.

3.7 Seasonal nature of the Group's transactions

Given the nature of the Group companies' business operations, its transactions are not cyclical or seasonal in nature. Specific seasonality disclosures are accordingly not provided in these financial statements.

Note, however, that the production of pulp and energy requires annual stoppages of between 10 and 15 days for maintenance purposes. The Group carried out these annual stoppages during the first half of 2013.

3.8 Changes in accounting estimates and policies and correction of fundamental errors

The impact of any change in accounting estimates is accounted for prospectively in the same income statement heading in which the previously estimated item of expense or income is recognised.

Meanwhile, changes in accounting policies and the correction of fundamental errors are accounted for as follows insofar as material: the accumulated impact at the beginning of the year is adjusted in reserves and the impact in the year of the restatement is recognised in the income statement for the year. In these instances, the financial information for the comparative year presented alongside that corresponding to the reporting period is restated.

No significant changes in accounting estimates or policies or corrections of errors affect either the 2013 or the 2012 financial statements.

4. Measurement rules

The main measurement rules used to prepare the Group's consolidated financial statements, as provided in the International Financial Reporting Standards adopted by the European Union, are summarised below:

4.1 Intangible assets

Intangible assets are initially recognised at acquisition or production cost. Subsequent to initial recognition, they are measured at cost less accumulated amortisation and any impairment losses.

The Group's intangible assets have finite useful lives and are accordingly amortised on a straight-line basis over the best estimate of such useful life.

Research and development costs:

Research expenditure is recognised as an expense in the year it is incurred.

Development costs are capitalised when their cost is identifiable and the technical feasibility and financial profitability of the project can be demonstrated. Development costs that do not meet these criteria are recognised as an expense in the year in which they are incurred.

These costs are amortised on a straight-line basis over five years.

Computer software:

The Group recognises the costs incurred to acquire software and the associated user rights under this heading. Software maintenance costs are expensed currently.

Costs that are directly associated with the internal development of software are recognised as intangible assets insofar as their cost is clearly identifiable and it is deemed probable that the developments will generate economic benefits beyond one year.

Software is amortised using the straight-line method over a five-year period.

Greenhouse gas emission allowances for own use:

Every year the Group obtains carbon allowances free of charge under the so-called National Allocation Plan.

These allowances are recognized upon allocation under "Intangible assets – Greenhouse gas emission allowances" at their market value. In parallel, the Group recognises a non-repayable grant in the same amount; this grant is recycled to "Government grants taken to income" in the consolidated income statement as the subsidised allowances are used. Elsewhere, allowances acquired on the market are recognized as an asset at their acquisition cost.

The expense associated with the consumption during the year of allowances, measured at the amount at which they were granted if the Group holds such allowances or otherwise measured using the best estimate of the cost to be incurred to cover the allowance shortfall, are recognised when used under "Non-current provisions" in the consolidated statement of financial position, with a charge to "Other operating expenses".

The provision so recognised and the intangible assets recognised upon receipt of the allowances are derecognised when the allowances are returned to the carbon allowance managing body (allowances equivalent to the emissions made during the year have to be delivered during the first nine months of the following year).

Subsequent to initial recognition, carbon allowances are measured at cost less any accumulated impairment losses (they are not amortised).

4.2 Property, plant and equipment

These assets are recognised initially at acquisition or production cost and are subsequently carried net of accumulated depreciation and any impairment losses, applying the impairment criteria outlined later on in this note.

Asset extension, upgrade or improvement costs that represent an increase in productivity, capacity or efficiency or an extension of the useful life of assets are capitalised as an increase in the cost of the corresponding assets.

Preservation and maintenance expenses incurred during the year are recognised in the consolidated income statement.

Capitalised costs for items of property, plant and equipment which require more than one year to ready for use – qualifying assets - include borrowing costs accrued prior to readying the assets for use when such expenses have been invoiced by the supplier or correspond to specific or generic borrowings or other external financing directly attributable to the acquisition or production of the asset. The interest rate used for this purpose is either that corresponding to the specific borrowings financing the asset or, if there is no such funding, the Group's average borrowing cost (note 19).

Own work performed by the Group on property, plant and equipment is recognised at production cost (external costs plus in-house costs, determined on the basis of in-house warehouse material consumption and manufacturing costs allocated using hourly throughput rates similar to those used for inventory valuation purposes).

Other than land, which is deemed to have an indefinite useful life and is therefore not depreciated, the Group companies depreciate their property, plant and equipment using the straight-line method, distributing the cost of the assets over the following years of estimated useful life:

	Estimated years of useful life
Buildings	25-60
Plant and equipment	8-20
Fixtures, fittings, tools and equipment	11
Other tangible assets	5-10

Investment in buildings built on land used under a concession arrangement is recognised under "Buildings". This cost, coupled with that corresponding to the rest of the permanent facilities located on the land held under concession, is depreciated over the shorter of the building's remaining useful life and the term of the concession agreement.

Similarly, investments in plant and equipment located on land owned by third parties include the initially estimated costs of dismantling such assets and rehabilitating the asset sites; these costs are recognised and measured in keeping with the criteria for measuring provisions (note 4.12). In light of the length of time until the concession for the use of the land on which the Pontevedra plant is located is expected to terminate, management estimates that these costs will not be material.

Items of property, plant and equipment funded by project finance

The Ence Group has funded its investments in biomass-fuelled power generation assets using project finance arrangements.

This form of structured finance is used to fund projects that generate sufficient cash on a standalone basis as to provide the lenders with sufficient reassurance as to the repayment of their loans. This form of non-recourse financing tends to be secured by pledges over the developer's shares and the future cash flows to be generated by the project itself and typically imposes restrictions on the use of the project assets and subordinates the payment of interest and dividends to shareholders to compliance with certain financial ratios.

These assets are measured at the direct costs incurred, net of any income generated during testing, that can be directly attributed to their construction up until the asset is ready for its intended use; these costs include studies and plans, expropriations, restoration of affected services, construction work and facility and building oversight, administration and management, among others. The capitalised amounts also include the borrowings costs of specific financing expressly earmarked for acquisition of the asset accrued until the asset is ready for use, including payments under cash flow hedges arranged to mitigate interest-rate risk on such borrowings.

Impairment of intangible assets and property, plant and equipment

At each reporting date, the Group reviews the carrying amounts of its property and equipment, biological assets, investment properties and intangible assets for indications of impairment.

Whenever it identifies indications of impairment, the Group proceeds to test its assets for impairment, restating them to their recoverable amount if this is determined to be below their carrying amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

In testing its assets for potential impairment, management analyses macroeconomic variables and the outlook for the sector, as gleaned from forecasts for supply and demand, regulatory changes, costs and the availability of the key raw materials, etc.

The procedure used by the Company's directors to test for impairment is as follows:

They calculate each cash-generating unit's recoverable amount, the cash-generating units (CGUs) being the Group's various pulp factories and power plants. The transfer prices in place are designed to enable the recovery of the value of the forestry assets allocated to guarantee supply to the various CGUs.

Each year, the Group prepares a business plan for each CGU which generally covers a five-year projection period. The business plan materialises in financial projections that are prepared by the Group's management on the basis of prior experience and best available estimates with respect to growth rates, planned capacity increases associated with new investments, expected changes in sales prices and the cost of the main raw materials, all of which underpinned by consensus market estimates, working capital trends and discount rates.

With the exception of projects financed on a non-recourse basis, terminal value is calculated as a function of 'normalised' cash flow in the last year of the projection period, extrapolated at a rate of growth in perpetuity that ranges between 0% and 2% and is in no instance higher than estimated long-term growth for the market in which the Group operates. The cash flows used to calculate the terminal value factor in the maintenance capital expenditure required to ensure the business's continuity.

In the case of assets associated with projects funded on a non-recourse basis, for which cash flows during the construction and operating phases can be estimated with a certain amount of precision, the recoverable amount is calculated using estimated cash flows projected until the end of the asset's life. Accordingly, no terminal value is factored in. The projections are based on known quantities, based on the project agreements, as well as key assumptions underpinned by specific studies compiled by production experts and estimates. They also reflect forecast macroeconomic variables such as core inflation, benchmark interest rates, etc. Sensitivity analysis is conducted to determine the impact of changes in all the key inputs that could have a significant impact on asset valuations.

To calculate value in use, the cash flows so estimated are discounted using a discount rate that represents the weighted average cost of capital, factoring in the cost of the liabilities and the business risks associated with the business being valued in the market in question. The discount rates applied in the pulp business range between 7.5% and 9%; in the power generation segment a discount rate equivalent to the yield on 10-year Spanish government bonds plus 300 basis points is used.

If the estimated recoverable amount of an asset is lower than its carrying amount, the latter is written down to the former by recognising the corresponding impairment loss in the consolidated income statement, unless the asset in question is carried at a revalued amount, in which case the impairment loss is treated as a reduction in the corresponding revaluation reserve.

When an impairment loss subsequently reverts, the carrying amount of the CGU is written up to its recoverable amount, so long as the restated carrying amount does not exceed the carrying amount that would have been recognised had no impairment loss been recognised in prior years. The reversal of an impairment loss is recognised in the income statement.

4.3 Investment properties

"Investment property" in the accompanying consolidated statement of financial position includes the values, net of any accumulated depreciation, of the land and buildings held to earn rentals or for capital appreciation.

Investment property is measured following the same criteria as are used to measure fixed assets of the same class, as outlined in "Property, plant and equipment" above.

4.4 Biological assets

The Group grows several species of trees, mainly eucalyptus, which are used as the raw material for producing pulp and energy. Against this backdrop, the trees in a forest plantation, or forest cover, are considered a biological asset. Forest land is measured in keeping with IAS 16, *Property, plant and equipment* and is recognized within the eponymous heading of the consolidated statement of financial position (note 8).

At present there is neither an active market in these species in Spain nor any valid information that would enable the estimation of their fair value. Moreover, in light of the average length of time required for forest cover to mature, cycles of between two and four rotations that can be as long as 40 years, and the impact of the various inputs affecting using discounted cash flow valuation methodology, it is not possible to reliably determine the fair value of these assets using this method. As a result, the Group has decided to value its forest cover using the historical cost approach (cost less accumulated depreciation less any accumulated impairment losses). It performs sensitivity analysis on the value of these assets using certain indicators and acquisition multiples, the result of which ratifies the validity of the criteria currently in use.

Investment in forest assets is measured by capitalising all the costs incurred directly in acquiring and developing them, including land rents, site cleaning and preparation costs, plantation costs, fertilisers and forest care and preservation expenses. The Group also capitalises a variable and individually determined percentage of the carrying amount of the forest cover as borrowing costs, up to the limit of their estimated realisable value. The interest rate used is the Group's average borrowing cost (note 19).

When the plantations are harvested, the value of the asset cover is reduced with a charge to "Biological assets – Depletion of forest reserve" along with the recognition of a corresponding expense under "Depletion of forest reserve" in the consolidated income statement at incurred production costs. The criteria for allocating costs to trees felled takes into consideration total costs incurred as of the date the wood is cut and the residual value of the plantation.

In addition, when a plantation comes to the end of its productive cycle, the amount of recognised forest cover net of accumulated depreciation/depletion is derecognised.

4.5 Leases

The Group holds certain assets under lease. All of the lease arrangements entered into by the Group have been classified as operating leases; based on the substance of the leases, none of the agreements transfers ownership of the leased assets nor the risks and rewards incidental to ownership.

Payments on operating leases are expensed in the consolidated income statement in the year in which they accrue.

4.6 Financial instruments

Financial assets

The Group's financial assets are classified into the following categories:

- Loans and receivables: trade credit and loans with fixed or determinable payments deriving from non-commercial transactions
- Available-for-sale financial assets: this category mainly includes equity interests in other companies and other financial assets that have not been classified within loans and receivables

No financial assets were reclassified between the above categories in either 2013 or 2012.

Initial recognition -

Financial assets are initially recognised at the fair value of the consideration delivered plus directly attributable transaction costs.

Subsequent measurement -

Loans and receivables are measured at amortised cost. The Group recognises impairment losses in the consolidated income statement when it believes there is a risk of non-payment on the basis of the age of the debts.

An impairment provision is recognised for trade receivables when there is objective evidence (filing for creditor protection, court claims, payment arrears of over six months, etc.) that the Group may not be able to collect all amounts due.

Available-for-sale financial assets are measured at fair value. Gains and losses arising from changes in the fair value of these assets are recognised directly in equity until the asset is derecognised or considered structurally or permanently impaired, a development that triggers the reclassification of the cumulative gains or losses that had been recognised directly in equity to the consolidated income statement.

Derecognition of financial assets -

Financial assets are derecognised when the contractual rights to the related cash flows have expired or when the risks and rewards incidental to ownership of the asset have been substantially transferred.

Against this backdrop, the Group derecognises discounted trade and other receivables insofar as all of the risks and rewards associated with these assets have been substantially transferred.

In contrast, the Group does not derecognise financial asset transfers in which it retains substantially all the risks and rewards of ownership, recognising instead a financial liability in the amount of any consideration received.

Financial liabilities

Financial liabilities are trade and other accounts payable by the Group deriving from the purchase of goods and services in its ordinary course of business and other liabilities that are not commercial in origin and that cannot be considered derivatives (bank borrowings, issued bonds, etc.).

Financial liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. They are subsequently measured at amortised cost. Bank borrowings, therefore, are recognised at the amount received net of direct issuance costs, which are considered an upfront payment for the provision of liquidity.

Finance costs are recognised on an accrual basis in the income statement using the effective interest rate method. The cost of issuing these liabilities is recognised as finance cost applying the same effective interest rate method and is added to the carrying amount of the financial liability to the extent that they are not settled.

The Group derecognises financial liabilities when the related obligation is discharged or cancelled or expires.

Hedging instruments and derivatives:

The Group's activities expose it to financial and market risks deriving from variability in the dollar/euro exchange rate, which affects its revenue as benchmark pulp prices are quoted internationally in dollars, other exchange rate fluctuations insofar as they affect currency-denominated sales and changes in the prices of pulp and of necessary production inputs such as fuel-oil, gas and electricity. The Group's financial liabilities also expose it to the risk of changes in interest rates. The Group uses derivative financial instruments to hedge these exposures.

Derivatives are initially recognised at their acquisition cost and are subsequently re-measured to fair value. They are recognised under "Derivative financial instruments" on the liability side of the consolidated statement of financial position if they present a negative balance and under "Current financial assets – Derivatives" on the asset side if they present a positive balance. Gains and losses resulting from fair value changes are recognised in the consolidated income statement, unless the derivative has been designated as a hedging instrument that is deemed highly effective, in which case they are recognised as follows:

1. Fair value hedges: the hedged item is measured at fair value, as is the hedging instrument, and the changes in the fair value of both the hedged item and the hedging instruments are recognised, net, in the same consolidated income statement heading.

2. Cash flow hedges: gains and losses arising on changes in the fair value of these derivatives are recognised in "Equity – Valuation adjustments". The cumulative net gain or loss deferred in this heading is recycled to profit or loss in conjunction with recognition in the consolidated income statement of the underlying hedged item, so that both effects set each other off.

For these instruments to qualify for hedge accounting they are designated as hedges from the outset and the hedging relationship is documented in detail. In addition, the Group tests the effectiveness of its hedges from inception to derecognition/discontinuation. Hedges are deemed effective if it is expected, prospectively, that the changes in the fair value or in the cash flows from the hedged item (attributable to the hedged risk) will be almost entirely offset by the changes in the fair value/cash flows of the hedging instrument and that, retrospectively, the gains or losses on the hedge have fluctuated within a range of

80% to 125% of gains or losses on the hedged item. The portion of a hedge that is deemed ineffective is recognised in profit or loss immediately.

The fair value of the various derivative financial instruments is calculated by discounting expected cash flows to present value, factoring in conditions in the spot and futures markets at the calculation date. All of the methods used are generally accepted by the financial analyst community.

Hedge accounting is discontinued when a hedge ceases to be highly efficient. If hedge accounting is discontinued, the cumulative gain or loss on the hedging instrument that has been recognised directly in equity is retained in equity until the commitment or forecast transaction materialises, at which time it is reclassified to profit or loss. When a hedged commitment or forecast transaction is no longer expected to materialise, any net cumulative gain or loss that was recognised in equity is immediately reclassified to consolidated income statement.

Equity instruments

An equity instrument is a contract that evidences a residual interest in the Parent's assets after deducting all of its liabilities.

The equity instruments issued by the Parent are recognized in equity at the amount received net of any issuance costs.

Own shares acquired by the Parent are recognised at the amount of consideration given in exchange and are presented as a deduction from equity. The gains and losses resulting from the purchase, sale, issuance or cancellation of own equity instruments are recognised directly in equity and are not reclassified to profit or loss under any circumstances.

Distinction between current and non-current

In the accompanying consolidated statement of financial position, assets and liabilities are classified by maturity, i.e. as current if they mature within 12 months of the reporting date and as non-current if they mature in more than 12 months.

4.7 Fair value estimation

The fair value of financial instruments traded on active markets is based on market prices at each reporting date. A market in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis is an active market.

The fair value of financial instruments that are not traded on an active market is determined using a range of valuation techniques and assumptions that are based on the market conditions prevailing at each reporting date.

The valuation techniques used vary by instrument type. Management uses discounted cash flow analysis to value interest and exchange rate derivatives, the Monte Carlo model for the quanto basket stock options contained in certain remuneration schemes and the Barone-Adesi and Whaley model to value American options in stock option plans.

More specifically, the fair value calculations for each of the main financial instruments categories are as follows (note 12):

- Interest-rate swaps are valued by discounting future payments in respect of the differences between the fixed and floating legs using implied interest rates gleaned from short-term rate curves and long-term swap rates.
- Forward currency contracts are valued using spot exchange rates and forward interest rate curves for the currency being hedged.
- Commodity (fuel) derivatives are measured in a similar manner, the inputs being futures prices for the underlying being hedged and the implied volatility of the options written.

As indicated in note 3, from 1 January 2013, it is necessary to include own credit risk when measuring financial liabilities at fair value, which in the case of the Group are only derivatives. As prescribed in IFRS 13, the impact of the first-time application of this standard is reflected prospectively in the income statement together with the other changes in the fair value of its derivatives; this change has had the effect of decreasing the value of the liability balance of interest-rate hedges by €478 thousand at 31 December 2013.

The fair value of the various derivative financial instruments is obtained using level 2 inputs according to the fair value hierarchy stipulated in IFRS 13, as they are benchmarked to observable variables other than quoted prices. There were no transfers between level 1 and level 2 valuations in the year ended 31 December 2013.

4.8 Inventories

Inventories of raw materials, finished products and work in progress are measured at the lower of acquisition cost, production cost or market value.

Production cost includes the cost of direct materials, the cost of any direct labour and general manufacturing overhead.

The Group values its inventories using the weighted average cost method.

Net realisable value is the estimated selling price less estimated costs of completion and the estimated costs necessary to market, distribute and sell the goods. The Group recognises the necessary impairment losses in the consolidated income statement when the net realisable value of its inventories falls below their acquisition or production cost. These estimates also factor in the age of the inventories and turnover ratios.

4.9 Cash and cash equivalents

Cash includes cash on hand and deposits held at call with banks. 'Other cash equivalents' include short-term, highly-liquid investments readily convertible into cash within a maximum of three months, the value of which is not subject to significant risks.

4.10 Current and deferred income tax

Income tax expense for the year comprises current and deferred tax.

Current tax is calculated by applying the tax laws enacted at each reporting date in the countries in which the Group companies operate to their profit before tax.

Deferred tax assets and liabilities arise due to differences between the carrying amounts of the assets and liabilities in the financial statements and their tax bases. They are recognised using the tax rates expected to apply when they are recovered or settled.

Income tax and changes in deferred tax assets and deferred tax liabilities that do not arise on business combinations are recognised in the consolidated income statement or in equity in the consolidated statement of financial position depending on where the gains or losses giving rise to their recognition were initially recognised. Variations in deferred taxes arising on business combinations that are not recognised upon change of control due to the lack of sufficient certainty as to their utilisation are recognised by reducing the carrying amount of any goodwill recognised in accounting for the business combination or following the above criterion if there is no goodwill.

Deferred tax assets are recognised for temporary differences, unused tax losses and unused tax credits only to the extent that it is probable that the consolidated entities will generate sufficient taxable profit in the future against which these assets can be utilised.

The deferred tax assets and liabilities recognised are reassessed at each balance sheet date in order to check that they still qualify for recognition and the appropriate adjustments are made on the basis of the outcome of the analysis performed.

The Parent and the rest of the Group subsidiaries with tax domicile in Spain in which the Parent holds an equity interest of 75% or more file their income tax returns under the consolidated tax regime provided for in Chapter VII of Title VIII of the Consolidated Text of the Spanish Corporate Income Tax Act.

4.11 Income and expense

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the profit or economic benefits embodied by the transaction will flow to the Group and it can be reliably measured. Revenue is recognised net of value added tax and discounts.

Revenue from the sale of goods is recognised when the goods have been delivered, the customer has accepted the sale and the risks and rewards of ownership of the goods have been transferred to the buyer.

Dividend income is recognised when the shareholder's right to receive it is established.

Expenses are recognised in the consolidated income statement when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. This implies that expenses are recognized simultaneously to the recognition of the increase in liability or decrease in asset.

Expenses incurred in exchange for the receipt of goods or services are recognised when these goods or services are received.

Expenses are recognized as soon as they are incurred whenever an outflow does not generate future economic benefits and when the requirements for capitalisation are not met.

4.12 Provisions and contingencies

Provisions are recognised in the accompanying consolidated financial statements for present obligations, whether legal or constructive, arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits.

Provisions, including the provisions corresponding to employee bonus payments, are measured at the present value of the best estimate of the expenditure required to settle or transfer the obligation using available information regarding the event and its consequences. The increase in the carrying amount of provisions due to the passage of time is recognised as borrowing cost as accrued.

Contingent liabilities are possible obligations with third parties and present obligations that are not recognised either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the financial statements, but are disclosed in the accompanying notes, unless the possibility of an outflow of resources embodying economic benefits is considered remote.

At year-end 2013, the Group was defendant in a series of ongoing court cases and claims. In the opinion of the Parent's directors, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2013.

4.13 Termination benefits

Under prevailing labour law, the Group is obliged to pay severance to employees that are discontinued under certain circumstances. Termination benefits that can be reasonably estimated are registered as an expense in the year in which the redundancy decision is taken.

The Group has recognised a provision in this respect of €1,724 thousand, which is presented in "Trade and other payables – Payable to employees" in the consolidated statement of financial position at 31 December 2013 (€1,369 thousand at year-end 2012) to cover the severance packages contemplated at the reporting date.

4.14 Environmental assets and liabilities

Environmental activities are those undertaken with the aim of preventing, mitigating or repairing damage caused to the environment.

Capital expenditure deriving from environmental activities is measured at cost and capitalised in the year incurred, following the measurement rules described in sections 4.1 and 4.2 above.

Environmental-protection expenses incurred are recognised in the consolidated income statement in the year incurred regardless of when the monetary/financial outflow occurs (note 32).

Provisions for probable or certain liabilities arising from lawsuits in process and pending settlements or obligations of an unspecified amount of an environmental nature that are not covered by insurance are recognised, if warranted, when the liability or payment/award obligation arises.

4.15 Post-employment obligations

Certain Group companies have committed to provide supplementary retirement or pension benefits in the form of survivor benefits for widows, orphans and surviving ascendants with the aim of topping up social security benefits for their employees and their close relatives, as follows:

1. Active employees

Commitment to employees who remain in employment at year-end consisting of the contribution by the Group company and the employee of a pre-defined percentage of his or her pensionable salary to the "Joint Contribution Pension Plan" offered by the Ence Group under the provisions of article 40 d) of Spain's Pension Plan and Pension Fund Regulations (defined contribution). This pension plan is part of the SERVIRENTA II F.P. pension plan.

In addition, the Group and its employees contribute jointly (50/50) to an insurance policy that provides cover in the event of permanent and full disability or death of the beneficiary. These policies cover at least 35 months' pay.

2. Retired employees

A group of former employees of Celulosas de Asturias, S.A. is entitled to benefits in the form of life and disability insurance. The Group has recognised a provision of €961 thousand for this commitment under "Non-current provisions" on the consolidated statement of financial position at 31 December 2013.

4.16 Employee benefits

Share-based payments

At the Parent's Annual General Meeting of 30 March 2007, the Company's shareholders ratified a "Special Bonus Plan for Executives" for 2007–2011, which was updated at the Annual General Meeting of 22 June 2010 and renamed the "Long-term Bonus Plan of ENCE Energía y Celulosa S. A." for 2010-2015 (hereinafter, the Plan), the bonus plan currently in effect.

The Plan is designed to encourage delivery of the targets set by the Board of Directors for 2010, 2011 and 2012. As many as 3,850,000 stock options, representing 1.53% of share capital, may be granted under the Plan.

485,895 stock options have been granted in respect of 2010 and are pending exercise at a strike price of €2.44 per share, 753,225 in respect of 2011 at a strike price of €1.95 per share and 809,098 in respect of 2012 at a strike price of €2.28 per share.

These stock options can be exercised during the two years elapsing from their grant so long as:

1. The beneficiary continues to render services to the Group either under an employment contract or a business agreement, unless the service has been interrupted as a result of unfair dismissal; and
2. The Parent has a regular dividend policy at the exercise date.

In the wake of approval of the "Long-term Bonus Plan" for 2013-2015 (described in the next section), the chief executive officer (CEO) renounced the stock options to which he was entitled under the new Plan in respect of 2013, thereby reducing the maximum number of stock options that may be granted (initially set at 1,000,000) by one-third.

The stock options are cash-settled. Accordingly, the Group recognises a liability equivalent to the portion of services received at their fair value at each reporting date.

The fair value of the American options in the stock option plans was determined using the Barone-Adesi and Whaley method, a generally accepted method for valuing financial instruments of this kind. Applying this valuation method, the expense accrued in this respect in 2013 was €465 thousand (2012:

€160 thousand). The liability accrued at year-end stood at €625 thousand (€160 thousand at year-end 2012) (note 18).

Long-term bonus plan

The Parent's shareholders approved a "Long-term bonus plan for 2013-2015" at the Annual General Meeting of 21 March 2013.

This Plan is designed to orient the management team towards delivery of the targets set by the Board of Directors for the term of the scheme and to retain talent. The Plan beneficiaries are the CEO, the members of the Executive Committee and other key management personnel. A total of 51 people were beneficiaries of this Plan at year-end 2013.

The bonus payment contemplated consists of a percentage of average annual fixed remuneration in 2013-2015 (100% in the case of the CEO, 75% for the members of the Executive Committee and 50% for the other executives). Entitlement is tied to delivery of three equally-weighted objectives: (i) an absolute gain in the Parent's share price; (ii) a gain in the Parent's share price relative to a basket of pulp sector stocks; and (iii) an increase, relative to its market value as of 31 December 2012, in the Company's theoretical value determined by applying a multiple to average EBITDA in 2013-2015.

For each of these targets, the Plan establishes a threshold below which the target is deemed not delivered and another above which the beneficiary is granted 120% of the base case payment. Continued effective service as of 1 October 2016 is a prerequisite for entitlement to the bonus, with the exception of certain instances contemplated in the Plan rules.

The fair value of the portion of the Plan corresponding to targets tied to the Parent's share price performance, both in absolute terms and relative to a benchmark basket of comparable stocks, was determined using the Monte Carlo method for basket options, a generally accepted method for valuing financial instruments of this kind. Elsewhere, the liability associated with the target of increasing the company's theoretical value was estimated assuming that this objective is met. Using these valuation methods, the expense accrued in this respect in 2013 was €589 thousand while the liability recognised at year-end similarly stood at €589 thousand (note 18).

4.17 Grants

Non-repayable grants awarded to subsidise investment in productive assets are measured at the fair value of the amount awarded when all the conditions attaching to their grant have been met and are reclassified to profit or loss in the period and proportion in which depreciation expense on the related depreciable assets is recognised or, when appropriate, when the asset is derecognised or written down for impairment (grants related to assets).

Grants related to income are credited to the consolidated income statement at the time of grant unless they are granted to finance specific expenses, in which case they are deducted in reporting the related expense.

Government assistance taking the form of interest-free loans or loans at below-market rates, granted primarily to fund research and development work, is recognised at fair value within liabilities. The difference between the loan proceeds received and its fair value is recognised initially in "Grants" in the consolidated statement of financial position and is reclassified to the consolidated income statement under "Other income " as the expenditure financed by the loan is recognized in the consolidated income statement.

4.18 Consolidated statement of cash flows

The consolidated statement of cash flows was prepared using the indirect method and the following definitions:

1. Cash flows: inflows and outflows of cash and cash equivalents, the latter understood as short-term, highly liquid investments which are subject to an insignificant risk of changes in value.

2. Operating activities: the principal revenue-producing activities of the Group and other activities that are not investing or financing activities.

3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

4. Financing activities: activities that result in changes in the size and composition of equity and borrowings that are not operating activities.

4.19 Related-party transactions

The Group conducts all related-party transactions on an arm's length basis.

4.20 Foreign currency transactions and balances

The Group's consolidated financial statements are presented in euro, which is both its functional and presentation currency.

Translation of transactions and balances -

Credits and debits denominated in a currency other than the euro are translated to euros using the exchange rate prevailing at the transaction date; these amounts are adjusted at every reporting date until they are cancelled as function of exchange rate trends.

The exchange differences resulting from the collection and payment of loans and debts in currencies other than the euro and those deriving from the measurement of accounts receivable and payable denominated in foreign currency at closing exchange rates are recognised in profit or loss in the year in which they arise.

Translation of the financial statements of Group entities -

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into euros as follows: assets and liabilities are translated at the closing rate at each reporting date; equity items are translated at historical rates; and income and expenses are translated at average rates for the period in which they accrued. The resulting exchange differences are recognised in equity and are reclassified to profit or loss in the period in which the foreign operation is disposed of.

Long-term loans granted by the Parent to branches or consolidated entities whose functional currency is different from that of the Group are considered net investments in a foreign operation and any resulting exchange differences are accordingly recognised in equity.

4.21 Non-current assets held for sale and discontinued operations

The Group classifies a non-current asset (or disposal group) as held for sale when their carrying amount is to be recovered principally through a sale transaction insofar as a sale is considered highly probable.

These assets (or disposal groups) are measured at the lower of their carrying amount or their estimated sale price less the estimated costs necessary to make the sale. Depreciation of these assets ceases as soon as they are classified as held for sale; however they are tested for impairment at the date of each statement of financial position to make sure their carrying amount does not exceed their fair value less costs to sell. Any required impairment losses are recognised in "Net gain/(loss) on assets classified as non-current assets held for sale" in the consolidated income statement.

Non-current assets held for sale are presented in the accompanying consolidated statement of financial position as follows: the assets are presented in a single line item called "Non-current assets held for sale", while the related liabilities are similarly presented in a single line item called "Liabilities associated with non-current assets held for sale".

A discontinued operation is any component of the Group that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, among other conditions.

The after-tax results of discontinued operations are presented in a single line item in the consolidated income statement called "Profit for the year from discontinued operations".

4.22 Segment reporting

An operating segment is any significant business activity from which the Group may earn revenue and incur expenses, whose operating results are reviewed regularly by the Board of Directors and senior management and for which discrete and reliable financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee and the Board of Directors.

4.23 Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary equity holders of the Parent by the weighted average number of ordinary Parent shares outstanding during the period (not including the average number of Parent shares held as treasury stock by the Group companies).

Diluted earnings per share, meanwhile, is calculated by dividing the profit or loss attributable to ordinary equity holders of the Parent, adjusted for the effects of all dilutive potential ordinary shares, by the weighted average number of ordinary Parent shares outstanding during the period, increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. To this end, management assumes that conversion takes place at the beginning of the period or when the dilutive potential ordinary shares are issued in the event of issuance during the year. Because the Parent has no dilutive potential ordinary shares, basic and diluted earnings per share coincide in 2013 and 2012.

5. Accounting estimates and judgements

The preparation of the 2013 consolidated financial statements in accordance with EU-IFRS requires the use of assumptions and estimates that affect the amounts of related assets, liabilities, revenues, income and expenses recognised and the corresponding disclosures. Actual results may differ from estimated results.

The accounting policies that incorporate management assumptions and estimates that are material in respect of the accompanying consolidated financial statements are:

- The impact of changes in the Spanish energy sector's regulatory framework.
- Calculation of income tax and the recoverable amount of deferred tax assets.
- The assumptions used to calculate certain obligations to employees (notes 4.16 and 18).
- The fair value of certain assets, principally financial instruments (notes 4.6, 4.7 and 12).
- The useful lives of fixed and intangible assets (notes 4.1 and 4.2).
- Calculation of the provisions recognised to cover liabilities arising under lawsuits in progress and bad debt (notes 4.6, 4.8, 4.12 and 18).
- The availability and maturity of the project finance for the Huelva 50 MW and Mérida 20 MW projects (note 19.5).

Some of these accounting policies require management to exercise judgement in selecting the best assumptions for arriving at these estimates. These assumptions and estimates are based on historical experience, the advice of expert consultants, forecasts and other circumstances and expectations at year-end.

By their very nature, these judgements are subject to a high degree of intrinsic uncertainty, which is why actual results could differ materially from the estimates and assumptions used. At the date of authorising these consolidated financial statements for issue, these estimates are not expected to change significantly; accordingly, no significant adjustments to the carrying amounts of the assets and liabilities recognised at 31 December 2013 are foreseen.

Although these estimates were made on the basis of the best information available at each year-end regarding the facts analysed, future events could make it necessary to revise these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with IAS 8, recognising the effects of the change in estimates in the related consolidated income statement. The most important accounting policies applied by the Group are described in greater detail in note 4.

5.1 Impact of changes in the Spanish energy sector regulatory framework

On 27 January 2012, the Spanish Parliament passed Royal Decree-Law 1/2012 with the effect of temporarily suspending the procedure for pre-qualifying new renewable capacity for remuneration premiums and thereby eliminating other financial incentives formerly awarded to power generation facilities that use co-generation, renewable energy sources or waste that were not included in the register of pre-qualified facilities at time this legislation came into effect. In addition, Law 15/2012 of 27 December 2012, on fiscal measures towards energy sustainability, introduces, with effect from 1 January 2013, tax modifications that affect the Group's business, specifically creating a levy on the value of electric energy sold affecting the entire energy sector equivalent to 7% of revenue from generation activities. This legislation also had the effect of amending the tax rates levied on natural gas and eliminating the exemptions formerly in place for energy products used to produce electric energy and in co-generation processes. Elsewhere, Royal Decree-Law 2/2013 of 1 February 2013, on urgent electricity system and financial sector measures, stipulated that all remuneration calculation formulae benchmarked to headline CPI be revised going forward on the basis of consumer price inflation excluding energy and unprocessed foods at constant tax rates and eliminated the 'pool-plus-premium' remuneration regime so that renewable facilities can only be remunerated at the regulated tariff going forward.

Royal Decree-Law 9/2013, of 12 July, adopting urgent measures aimed at guaranteeing the financial stability of the electricity system, amends the Electricity Sector Act and the so-called special regime remuneration system. Among other measures, it repeals RD 661/2007 and article 4 of Royal Decree-Law 6/2009, which created the pre-allocation registry, foreshadowing a new remuneration regime, which is pending approval. The main characteristic of the new regime is its stated objective of guaranteeing a pre-tax return on investment in renewable energy facilities equivalent to the yield on the 10-year government bond plus 300 basis points, calculated on the basis of standard facility cost and capital expenditure parameters, during the entire regulated life of the facility. It also eliminates the right to receive a supplement for efficiency and a reactive energy rebate pending enactment of the new remuneration regime.

A new piece of legislation, the Electricity Sector Act 24/2013, was published in Spain on 27 December 2013, replacing almost all of Law 54/1997. This new legislation introduces the following key changes that affect the Group's businesses:

- Establishment the economic and financial stability of the electricity system, limiting structural tariff deficits, as governing principle.

- Elimination of the distinction between the 'ordinary' (conventional generation) and 'special' (renewable and CHP) regimes and introduction of a single body of regulations, notwithstanding specific technology considerations that may be subsequently introduced.

- In accordance with the line of reasoning introduced in Royal Decree-Law 9/2013, of 12 July 2013, the remuneration regime for energy produced from renewable sources, co-generation and waste is to be based on these facilities' participation in the wholesale market, topped up by specific regulated remuneration designed to allow these technologies to compete on an even footing with the rest of the generation technologies. The legislation specifies priority grid access and dispatch criteria for the electricity generated using these technologies, in line with the provisions laid down in European Community directives. The new legislation enshrines the 'reasonable return' principle and provides for the revision of remuneration parameters every six years.

The accompanying consolidated financial statements reflect the impact of these regulatory changes. Specifically, the Group has recognised expense in respect of (i) the levy on the value of electricity output equivalent to 7% of the revenue obtained from the generation of electricity, in the amount of €16.3 million (this expense is recognised in "Other operating expenses – New electricity generation levy" in the 2013 consolidated income statement) and (ii) the special tax associated with the purchase of natural gas, in the amount of €2.2 million (recognised in "Cost of sales" in the 2013 consolidated income statement). In addition, the new legislation has the effect of eliminating, with effect from 14 July 2013, the remuneration derived from the efficiency and reactive energy supplements; this has had the effect of decreasing revenue with respect to that envisaged under the outgoing remuneration regime by €11.4 million, net of the related electricity generation levy.

In July 2013, the Spanish Ministry of Industry, Energy and Tourism began to draft legislation "regulating the production of electric power from renewable sources, co-generation and waste"; this legislation is currently pending approval. When passed, it will stipulate the rules for calculating the remuneration applicable to renewable energy power generation facilities with retroactive effect from 14 July 2013. In a step towards enacting this new regime, the Ministry sent the energy regulatory body (the CNMC for its acronym in Spanish) its proposed Order "approving the remuneration parameters for standard facilities applicable to certain power generation facilities fuelled by renewable sources of energy, co-generation and waste" on 3 February 2014. This proposal amends the current premium regime and, among other consequences, puts energy crops and forest/agricultural waste in the same category for remuneration purposes, limits the amount of a plant's energy output entitled to premiums to 80%-90% of nominal annual availability and ceases to consider the lignin generated in the pulp production process as biomass entitled to premium remuneration. As provided in Royal Decree-Law 9/2013, of 12 July 2013, these enacting regulations will take effect retroactively from 14 July 2013.

Note in respect of the abovementioned renewable regime legislation, including the ministerial order defining the related remuneration metrics, that these standards are not currently in effect; rather they are proposals or drafts, subject to parliamentary processing. The Group has legitimate and reasonable expectations that the pleas presented will ultimately result in the amendment of the proposed regulations that result in a shift in bias towards its business interests and a more favourable remuneration regime than is currently proposed for its power co-generation facilities and businesses. Management has estimated the quantitative impact of the application of these regulations; as a result, the Group has recognised a provision of €6,584 thousand, net of the associated electricity generation levy, by reducing revenue from energy sales (note 22), and another in the amount of €35,498 thousand in the form of impairment charges on energy crops and other assets (notes 7, 8, 9 & 18).

Note, merely for illustrative purposes, that if the draft renewable regime legislation and enacting ministerial order stipulating the remuneration parameters were approved as currently worded, the Group's 2013 revenue would decrease by a further €13,130 thousand and it would be necessary to recognise additional impairment losses on energy crops and other assets in the amount of €32,458 thousand.

Regardless, the Group reserves the right to undertake as many courses of action as it deems appropriate in order to uphold its legitimate interests and rights, including the right to sue for damages, depending on the definitive impact of the legislation and ministerial orders ultimately enacted.

5.2 Income tax and the recoverable amount of deferred tax assets

The calculation of income tax requires the interpretation of the tax legislation applicable to each Group company. Several factors, related mainly, but not exclusively, to changes in tax laws and changes in the interpretation of tax laws already in force, require the use of estimates by Group management. As a result, among other things, of the different interpretations to which prevailing tax legislation lends itself, additional tax contingencies or liabilities may arise in the event of a tax inspection by the corresponding tax authorities.

The ability to utilise the deferred tax assets before the end of the prescribed term of 18 years is assessed when they are recognised and subsequently at each reporting date, factoring the Group's earnings outlook as per its current business plans. In re-assessing its tax assets, management considers the potential reversal of deferred tax liabilities, projected taxable income and tax planning strategy. This assessment is underpinned by internal projections which are updated to reflect the most recent business trends affecting the Group.

6. Risk factors

With the assistance of the senior management team, the Board of Directors defines the Group's risk management policies as a function of the risk factors to which it is exposed, establishing internal control systems designed to keep the probability and impact of occurrence of the risk events so defined within established risk tolerance levels.

The internal audit department verifies that the risk management principles and policies defined by the Board of Directors are properly implemented and oversees due compliance with the internal control systems in place throughout the organisation.

Below is a description of the main financial risk factors to which the Group is exposed and the corresponding mitigating policies and controls in place:

6.1 Market risk

Pulp prices

BEKP prices are formed in an active market. The trend in pulp prices is a significant driver of the Group's revenue and profitability. Changes in pulp prices affect the cash flows generated by pulp sales.

In addition, pulp prices tend to be markedly cyclical in nature and have exhibited substantial volatility in recent years. Price trends are primarily dictated by shifts in supply and demand and the financial situation of the various sector players.

To mitigate this risk, in recent years the Group has invested significantly in increasing its productivity and enhancing the quality of the products it sells. Management also continually monitors the scope for using derivatives to hedge pulp prices on future sales (note 12).

A 5% change in international pulp prices in euros would have an impact on Group revenue of approximately 3.6%.

Supply of wood

Eucalyptus wood is the main raw material used in making pulp and its price can fluctuate as a result of changes in the balance of supply and demand in the regions in which the factories are located.

The risk of a shortfall in supply in the regions in which the Group's factories are located is managed mainly by diversifying supply sources and by purchasing from alternative international markets, usually at higher logistics costs.

In parallel, the Group seeks to maximise its products' value-added by increasing the use of certified wood, which is somewhat more expensive, among other measures.

A 5% increase in the price per cubic metre of eucalyptus timber for use in the productive process would decrease operating income by approximately €13 million.

Energy sector regulations

The generation of energy from renewable sources is a regulated business, which means the revenue it generates is conditioned by the tariffs set by the Spanish government.

In recent years the Spanish government has passed a series of laws designed to reduce the so-called tariff deficit in the electricity system; these laws have had the effect of reducing the Group's revenue and profits (note 5.1).

A 5% change in the tariffs that determine the revenue generated by the energy business would have an impact on Group revenue of approximately 1%.

Environmental regulations

In recent years, environmental regulations in the European Union have had the effect of increasing restrictions on the emission of wastewater and greenhouse gases etc. Future changes in environmental regulations could result in higher expenditure to comply with new requirements.

Concession agreement in Pontevedra

As indicated in note 8.4, the term of the concession for the use of the land on which the Group's pulp factory in Pontevedra is located was amended by the Spanish Coastal Act (Law 22/1988 of 28 July 1988), which established a maximum concession term from enactment of the Act of 30 years, i.e., until 29 July 2018.

On 30 May 2013, the Spanish government published Law 2/2013, on coastal protection and sustainability, which had the effect of amending the Coastal Act. Among other amendments, this new regulation contemplates the possibility of extending concessions for the use of public-domain coastal land granted under the former regulation, which therefore applies to the Group's concession in Pontevedra, for up to 75 years from when the extension request is filed. Under the scope of this new legal framework, the Company filed to have its concession extended by the maximum legally-permitted term on 8 November 2013.

The assets located on land held under concession are currently depreciated over the shorter of their remaining useful life or the term of the concession agreement. An increase in the concession term would accordingly reduce the depreciation charge forecast for 2014 by approximately €7.5 million.

Exchange rate risk

Although the Group generates most of its sales in Europe, revenue from pulp sales is affected by the USD/EUR exchange rate as sales prices are linked to benchmark international pulp prices quoted in USD/tonne. Since most of the Group's cost structure is denominated in euros, changes in the rate of exchange with the dollar result in significant earnings volatility.

To mitigate this risk, the Group's risk management policy contemplates the possibility, depending on the Group's financial position and investment plans, the outlook for exchange rates medium term and the margins implied by the various rate scenarios modelled, of locking in exchange rates in addition to measures taken to hedge pulp prices; accordingly management continually monitors the scope for using currency derivatives to hedge future sales (note 12).

A 5% appreciation in the dollar against the euro would increase the Group's revenue before hedges by approximately 3.6%.

6.2 Credit risk

Credit risk arises when a counterparty breaches its contractual obligations. Specifically, the Group's exposure to credit risk therefore arises from the balances pending collection from customers and other debtors presented in "Trade and other receivables" and the balances on deposit with financial institutions, shown in "Current financial assets – Other financial assets" and "Cash and cash equivalents" in the statement of financial position.

Trade and other receivables

This risk has been largely externalised in the pulp business by means of a credit insurance policy that covers, depending on the country in which the customer is located, between 80% and 90% of balances receivable. This insurance policy assigns credit limits according to the creditworthiness of the customer and covers virtually all of the Group's pulp sales.

The revenue generated by the energy business stems from the electricity system which is ultimately backed by the Spanish state.

The Group recognises a provision for impairment of receivables past due that present indications of impairment and all balances outstanding by more than 6-12 months to the extent not covered by the credit insurance policy.

Financial assets

To mitigate the credit risk posed by financial investments, the Group stipulates that counterparties must be banks with high credit ratings and establishes maximum investment/underwriting limits that are reviewed periodically.

6.3 Liquidity and capital risk

Adverse conditions in the debt and capital markets could make it hard or impossible for the Group to raise the funding needed in the course of its business operations or to execute its business plan.

This is one of the risk factors monitored most closely by the Ence Group. To mitigate this risk, it has established a series of key financial targets: 1) guaranteed business continuity in any pulp price scenario; 2) support for the growth plans in the various business segments by means of a solid capital structure and adequate liquidity level; and 3) a limit on leverage such that net debt does not exceed 2.5x EBITDA, the latter derived using mid-cycle pulp prices and based on the current business profile, while continuing to tap the capital markets to capitalise on attractive windows of opportunity and continue to diversify the Group's sources of financing.

The Ence Group uses three main sources of external financing:

- Non-recourse project finance, which until now has been used to fund renewable energy projects (note 19). The debt repayment schedule for each of these structured loans is determined on the basis of each business's capacity to generate cash flows, subject to buffers that vary depending on cash flow visibility at the various businesses/projects. These structures allow the Group to avail of sufficiently long-term funding, thereby significantly mitigating liquidity risk.

- Long-term corporate financing earmarked to funding operations and business development at acceptable costs and terms; this financing is obtained from banks and raised on the capital markets.

- Working capital financing at the corporate level. The Company centralises the cash surpluses of all the companies in order to distribute them depending on the Group's needs, securing working capital facilities from the banks as required.

  This approach entails the proactive management and maintenance of credit lines and other sources of financing (factoring and reverse factoring, etc.) to cover forecast cash requirements and diversify liquidity sources.

The Group's Finance Department draws up a financial plan annually that addresses all financing needs and how they are to be met. Funds are obtained with a sufficient time buffer for the most significant cash requirements such as forecast capital expenditure, debt repayments and working capital requirements, as warranted.

There are also policies establishing the maximum amount of equity that can be committed to projects under development before the associated long-term financing has been arranged.

Under the scope of this financing policy, the Group has already repaid the corporate debt originally due in 2014. On 1 February 2013, the Parent closed the placement of a €250 million bond issue with qualified institutional investors. The proceeds from these bonds, due 2020, were primarily used to repay the syndicated loan then outstanding (note 19).

The contractual maturity analysis in respect of financial liabilities referred to in IFRS 7 is provided in notes 11 and 19 below.

6.4 Interest rate risk

Fluctuations in the interest rates earned and borne by the Group's financial assets and financial liabilities expose it to adverse impacts on its profits and cash flows.

The goal of the Group's interest rate risk management policy is to achieve a balanced capital structure that minimises its cost of debt over the medium-long term while reducing related earnings volatility.

The Group actively manages its exposure to the interest rate risk deriving from borrowings taken out at floating rates. As a general rule, it hedges 70%-80% of its floating-rate non-recourse borrowings by arranging options and/or swaps. Moreover, the culmination of the refinancing of the Group's corporate debt, referred to above, which carried fixed rates, has had the effect of mitigating interest rate risk (note 19).

7. Intangible assets

The reconciliation of the carrying amounts of the various components of intangible assets and accumulated amortisation in 2013 and 2012 is as follows:

2013

Thousands of euros	Balance at 01/01/2013	Additions/ (charges)	Derecognitions or decreases	Transfers (note 8)	Balance at 31/12/2013
Computer software	14,358	419	(154)	-	14,623
Emission allowances	16,021	883	(3,018)	-	13,886
Prepayments	-	3,264	-	208	3,472
Other intangible assets (*)	14,204	-	(228)	-	13,976
Total cost	**44,583**	**4,566**	**(3,400)**	**208**	**45,957**
Computer software	(13,964)	(235)	189	-	(14,010)
Other intangible assets (*)	(9,063)	(1,202)	228	-	(10,037)
Total amortisation	**(23,027)**	**(1,437)**	**417**	-	**(24,047)**
Other intangible assets	-	(2,853)	-	-	(2,853)
Total impairment	-	**(2,853)**	-	-	**(2,853)**
Total	**21,556**				**19,057**

(*) Mainly includes development expenses

2012 Thousands of euros	Balance at 01/01/2012	Additions/ charges	Derecognitions or decreases	Exchange differences	Transfers from held for sale (note 28)	Balance at 31/12/2012
Computer software	14,361	-	(110)	(3)	110	14,358
Emission allowances	5,253	16,598	(5,830)	-	-	16,021
Other intangible assets (*)	10,405	3,570	(1,192)	1	1,420	14,204
Total cost	**30,019**	**20,168**	**(7,132)**	**(2)**	**1,530**	**44,583**
Computer software	(13,744)	(221)	110	1	(110)	(13,964)
Other intangible assets (*)	(8,148)	(756)	1,192	-	(1,351)	(9,063)
Total amortisation	**(21,892)**	**(977)**	**1,302**	**1**	**(1,461)**	**(23,027)**
Total	**8,127**					**21,556**

(*) Mainly includes development expenses

7.1 Computer software

The Group has started work on a plan to transform its IT systems based on an SAP platform that will be the management information tool supporting the reporting and control business processes from 2015. The investment incurred to date amounts to €3,472 thousand out of total estimated investment of €9 million.

7.2 Emission allowances

The reconciliation of the opening and year-end Group-owned carbon allowance balances for 2013 and 2012 is provided in the next table:

	2013		2012	
	Number of allowances	Thousands of euros	Number of allowances	Thousands of euros
Opening balance	1,071,804	16,021	379,849	5,253
Allocations (note 17)	152,130	944	657,970	4,112
Purchases	-	-	506,202	12,486
Delivered (*)	(491,690)	(3,079)	(472,217)	(5,831)
Closing balance	**732,244**	**13,886**	**1,071,804**	**16,021**

(*) Corresponds to the allowances used during the previous year

In November 2013, the Spanish Parliament approved the New National Allocation Plan under which it will allocate emission allowances free of charge in 2013-2020. The new plan upholds the criteria adopted by Decision 2011/278/EU of the European Commission.

"Non-current provisions" on the liability side of the consolidated statement of financial position includes €8,715 thousand in this respect at 31 December 2013 (€3,015 thousand at year-end 2012), corresponding to the liability derived from the consumption of 491,924 tonnes of carbon in 2013 (491,690 tonnes in 2012) (note 18).

The Group has contractually committed to the forward purchase of allowances covering a total of 601,000 tonnes: 200,000 tonnes at a price of €15.52/tonne exercisable in December 2014 and 401,000 tonnes at €15.69/tonne exercisable in December 2015. The aim is to cover the Group's future consumption of emission allowances.

7.3 Other intangible assets

In 2012 the Group acquired from Foresta Capital, S.L. and Foresta Mantenimiento Plantaciones, S.L., companies related by common shareholders (note 31), a series of intangible assets consisting of techniques, experiences and know-how for use in boosting the productivity of energy crops and in-vitro reproduction of eucalyptus plants and a clone of the *Populus Deltoides* species. The acquisition price agreed implied an fixed upfront payment of €3.5 million and an additional deferred payment of €3 million contingent upon delivery of a series of conditions, among which (i) the lifting of the moratorium on the remuneration regime as it applies to power generated from biomass introduced by Royal Decree-Law 1/2012; and (ii) investment in power plants outside Spain with capacity of at least 70 MW. This agreement also grants the buyer a call option, exercisable within six months of the lifting of the above moratorium at the market value of the assets at the acquisition date, over certain power generation projects under development by the sellers. These assets were written down for impairment in 2013 (note 5.1).

7.4 Fully amortised assets

At 31 December 2013 there were fully-amortised intangible assets still in use with an original cost of €16,735 thousand (year-end 2012: €16,711 thousand).

8. Property, plant and equipment

The reconciliation of the carrying amounts of the various components of property, plant and equipment and accumulated depreciation in 2013 and 2012 is as follows:

2013

Thousands of euros	Balance at 01/01/2013	Additions/ (charges)	Derecognitions or decreases	Transfers (note 7)	Balance at 31/12/2013
Forest land	125,270	-	(7,836)	-	117,434
Other land	6,372	30	(2)	2,200	8,600
Buildings	138,186	-	(34)	860	139,012
Plant and machinery	1,032,987	1,373	(6,075)	179,941	1,208,226
Other PP&E	32,607	4,418	(1,085)	1,736	37,676
Prepayments and PP&E in progress	189,817	85,696	(176)	(184,945)	90,392
Cost	**1,525,239**	**91,517**	**(15,208)**	**(208)**	**1,601,340**
Buildings	(80,986)	(4,074)	90	20	(84,950)
Plant and machinery	(644,201)	(54,009)	3,599	(26)	(694,637)
Other PP&E	(19,821)	(3,522)	998	6	(22,339)
Depreciation	**(745,008)**	**(61,585)**	**4,667**	**-**	**(801,926)**
Land and buildings	(2,005)	-	-	-	(2,005)
Plant and machinery	(3,864)	(15,476)	906	-	(18,434)
Other PP&E	(183)	(2,546)	-	-	(2,729)
Impairment	**(6,052)**	**(18,022)**	**906**	**-**	**(23,168)**
Total	**774,179**				**776,246**

2012

Thousands of euros	Balance at 01/01/2012	Additions/ (charges)	Derecognitions or decreases	Transfers	Exchange differences	Transfers to/from held for sale (note 28)	Balance at 31/12/2012
Forest land	154,317	4	(69)	-	(560)	(28,422)	125,270
Other land	6,377	250	-	-	(4)	(251)	6,372
Buildings	138,977	51	(2)	2,300	(60)	(3,080)	138,186
Plant and machinery	1,020,297	592	(3,422)	14,602	(70)	988	1,032,987
Other PP&E	30,652	600	(1,186)	1,494	(21)	1,068	32,607
Prepayments and PP&E in progress	123,380	85,401	(433)	(18,396)	(3)	(132)	189,817
Cost	**1,474,000**	**86,898**	**(5,112)**	**-**	**(718)**	**(29,829)**	**1,525,239**
Buildings	(77,854)	(4,041)	2	13	14	880	(80,986)
Plant and machinery	(596,277)	(47,496)	657	(37)	50	(1,098)	(644,201)
Other PP&E	(18,570)	(1,627)	1,167	24	3	(818)	(19,821)
Depreciation	**(692,701)**	**(53,164)**	**1,826**	**-**	**67**	**(1,036)**	**(745,008)**
Land and buildings	(4,984)	(21)	3,000	-	-	-	(2,005)
Plant and machinery	(6,173)	(164)	4,005	-	-	(1,532)	(3,864)
Other PP&E	-	(183)	-	-	-	-	(183)
Impairment	**(11,157)**	**(368)**	**7,005**	**-**	**-**	**(1,532)**	**(6,052)**
Total	**770,142**						**774,179**

8.1 <u>Additions</u>

The Group invested at all its facilities with a view to making its pulp production processes more efficient, boost power generation and make them more environmentally friendly. This capital expenditure breaks down as follows by facility:

	Thousands of euros	
	2013	2012
Navia	14,062	6,212
Huelva	19,241	14,262
Huelva – 50 MW plant	4,028	38,407
Pontevedra	9,473	4,347
Mérida – 20 MW plant	44,669	20,513
Other (*)	44	3,157
	91,517	**86,898**

(*) Includes mainly investments in irrigation systems at its energy crop plantations and energy project development costs

The Group began to operate a 50-megawatt renewable energy power plant fuelled by biomass in Huelva on 1 February 2013. Total investment in this project, net of the income deriving from power generated during the testing phase, was €134.6 million in the power plant, which was financed by a syndicate of banks under a project finance loan (note 19), and €7.7 million in the biomass processing plant.

Through Ence Energía Extremadura, S.L.U., on 1 August 2012 the Group signed an EPC contract for the construction of a 20-megawatt renewable energy power plant fuelled by biomass in Huelva. This plant will be located in Badajoz (Spain) and is expected to be commissioned during the third quarter of 2014. Investment in this project is expected to total €80.7 million, of which €60.7 million at most will be financed by a syndicate of banks in the form of a project finance arrangement (note 19). Accumulated investment in this facility stood at €65.1 million at 31 December 2013.

The Group capitalised €2,460 thousand of borrowing costs incurred during the year, generated mainly by the project finance loans (€5,670 thousand at 31 December 2012); this balance is presented in the consolidated income statement as a deduction from "Other finance costs".

In addition, the Group has contractually committed to capital expenditure at year-end 2013, most of which will be incurred in 2014, of €7,662 thousand.

8.2 Derecognitions

The Group, through its subsidiary Iberflorestal, S.A., closed the sale of forest assets it owned outright in Portugal, specifically 2,608 hectares of forest land with eucalyptus plantations, for €10,829 thousand on 17 December 2013. This transaction generated a loss of €2,834 thousand, which is recognised in "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the consolidated income statement.

This transaction also encompasses an agreement with the buyer under which the Group will purchase the wood produced from the land mass sold for the next 20 years at market prices and also manage the plantation for the same period.

8.3 Fully depreciated assets

The breakdown at year-end of the original cost of fully-depreciated items of property, plant and equipment still in use is shown in the next table:

Thousands of euros	2013	2012
Buildings	42,587	42,066
Machinery	410,442	397,860
Tools	682	396
Furniture and fittings	3,266	1,559
Other	49,303	10,935
	506,280	**452,816**

8.4 Public-domain concession arrangement

The concession for the use of the public-domain coastal land on which the Pontevedra factory sits was granted to the Company by Ministerial Order on 13 June 1958.

The concession deed did not establish a finite concession term. However, the Coastal Act of 1988 later stipulated that the holder of concessions granted prior to effectiveness of the said Act, therefore applying to the Company's concession in Pontevedra, would be deemed granted for a maximum term of 30 years from enactment of the Coastal Act. The Coastal Act came into effect on 29 July 1988, which means that under that piece of legislation, the concession would terminate on 29 July 2018. However, on 30 May 2013, the Spanish government published Law 2/2013, on coastal protection and sustainability, in the Official State Journal. This new law had the effect of amending the Coastal Act. Among other amendments to the Coastal Act, Law 2/2013 contemplates the possibility of extending concessions for the use of public-domain coastal land granted under the former regulation, therefore applying to the concession in Pontevedra, for up to 75 year from when the extension request is filed. Under the scope of this new legal framework, the Company filed to have its concession extended by the competent authorities for the maximum legally-permitted term on 8 November 2013. The carrying amount of the assets located on this concession land was €67,063 thousand at 31 December 2013 (€71,865 thousand at year-end 2012).

8.5 Asset revaluations

The Group restated all its forest land to fair value as of 1 January 2004, the date of transition to IFRS-EU. This value was determined by independent expert appraisers. As permitted under IFRS, these revalued amounts were considered deemed cost. The gain on the revaluation, net of the corresponding deferred tax liability of €23,184 thousand (€23,498 thousand at 31 December 2012), amounts to €54,149 thousand (€54,882 thousand at 31 December 2012) and is included in "Valuation adjustments" in equity. That fair value benchmark has been used as deemed cost in subsequent years.

Elsewhere, the Group has decided not to avail of the one-time asset revaluation option provided for under Spanish Law 16/2012 of 27 December, 2012, enacting a range of fiscal measures designed to further consolidate the public finances and shore up economic activity.

8.6 Impairment

As indicated in note 4.2, whenever there are indications of impairment, the Group proceeds to test whether the recoverable amount of its assets has fallen below their carrying amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

The Group faces regulatory uncertainty as a result of the processing, underway, of draft legislation "regulating the production of electric power from renewable sources, co-generation and waste", which established the rules for calculating the remuneration applicable to renewable energy power generation facilities with retroactive effect from 14 July 2013 and the draft Order "approving the remuneration parameters for standard facilities applicable to certain power generation facilities fuelled by renewable sources of energy, co-generation and waste", which proposes amendments to the prevailing premium regime (note 5).

In the wake of these proposals, management has tested the Group's various cash-generating units that stand to be affected by the abovementioned regulatory developments for impairment and run sensitivity analysis, particularly with respect to the key business inputs, in order to make sure that the potential impacts on valuations are not greater than the assets' carrying amounts under any scenario. As a result of this exercise, the Group has recognised potential impairment losses of €5,732 thousand on certain assets. This charge is recognised in "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the accompanying 2013 consolidated income statement.

Note that if the draft regulations and ministerial order enacting the remuneration parameters are ultimately approved as currently worded, depending on the trend in pulp costs and prices, the recoverable amount of the Group's pulp production and power generation plant in Huelva would approximate its carrying amount, which at 31 December 2013 stood at €122 million. As a result, approval of the above legislation as currently drafted would increase the risk of having to recognise an impairment loss on this asset and would also condition its viability going forward.

In addition, management has recognised impairment losses of (i) €4,475 thousand on investments in irrigation equipment installed in estates in which energy crops are grown and (ii) €2,110 thousand against capitalised costs incurred to develop new biomass-fuelled power generation facilities, both of which affect "Property, plant and equipment".

8.7 Insurance policy and other disclosures

It is Group policy to take out the insurance policies necessary to cover the potential risks to which the various items of property, plant, and equipment are exposed. The Parent's directors believe that the coverage provided by these policies at year-end 2013 is sufficient.

Assets with a carrying amount of €21,585 were located outside of Spain at 31 December 2013 (€90,912 thousand at year-end 2012).

9. Biological assets

"Biological assets" exclusively comprises the Group's forest cover; the forest land owned by the Group is presented under "Property, plant and equipment - Forest land". This balance breaks down as follows:

Thousands of euros	31/12/2013	31/12/2012
Cover earmarked for pulp	116,381	125,655
Cover earmarked for energy crops	37,248	44,622
Cover earmarked for other uses	516	681
	154,145	**170,958**

The movement in this heading 2013 and 2012:

2013	Thousands of euros				
	Balance at 01/01/2013	Additions/ (charges)	Disposals	Derecognitions	Balance at 31/12/2013
Earmarked for pulp & other uses:					
Forest cover	221,067	10,516	(8,125)	(71,531)	151,927
Depletion of forest reserve	(92,267)	(11,553)	68	71,531	(32,221)
Impairment	(2,464)	(1,001)	656	-	(2,809)
	126,336	**(2,038)**	**(7,401)**	**-**	**116,897**
Earmarked for energy crops:					
Forest cover	47,475	7,442	1,081	(26)	55,972
Depletion of forest reserve	(2,853)	(3,652)	(26)	26	(6,505)
Impairment	-	(12,219)	-	-	(12,219)
	44,622	**(8,429)**	**1,055**	**-**	**37,248**
	170,958				**154,145**

2012	Thousands of euros					
	Balance at 01/01/2012	Additions/ (charges)	Transfers	Exchange differences	Transfers to available-for-sale (note 28)	Balance at 31/12/2012
Earmarked for pulp & other uses:						
Forest cover	236,480	11,264	(111)	(483)	(26,083)	221,067
Depletion of forest reserve	(91,690)	(6,268)	-	109	5,582	(92,267)
Impairment	(570)	(533)	(1,361)	-	-	(2,464)
	144,220	**4,463**	**(1,472)**	**(374)**	**(20,501)**	**126,336**
Earmarked for energy crops:						
Forest cover	36,907	11,267	(699)	-	-	47,475
Depletion of forest reserve	(14)	(2,839)	-	-	-	(2,853)
Impairment	(527)	-	527	-	-	-
	36,366	**9,678**	**(172)**	**-**	**-**	**44,622**
	180,586					**170,958**

In 2013 the Group planted 580 hectares of land (2012: 4,452 hectares) and carried out forest preservation and protection work encompassing 33,578 hectares (2012: 47,125 hectares).

9.1 Breakdown of forest cover

An analysis of the Group's forest cover at year-end 2013 and 2012 is provided below:

2013

	Spain & Portugal			
	Pulp		Energy crops	
Age (years)	Productive hectares	Carrying amount (€ 000)	Productive hectares	Carrying amount (€ 000)
> 17	394	1,092	-	-
14 – 16	1,124	4,256	31	67
11 – 13	6,723	17,060	1,652	397
8 – 10	11,498	35,025	1,422	5,455
4 – 7	18,397	43,810	3,427	11,192
0 – 3	14,145	17,829	10,180	32,356
Impairment of biological assets	-	(2,809)	-	(12,219)
Deferred expenses	-	634	-	-
	52,281	**116,897**	**16,712**	**37,248**

(*) A portion of the biological assets earmarked for use as "Energy crops" is the result of a change in the use of plantations originally earmarked for making pulp.

2012

	Spain & Portugal			
	Pulp		Energy crops	
Age (years)	Productive hectares	Carrying amount (€ 000)	Productive hectares	Carrying amount (€ 000)
>17	1,010	1,490	-	-
14 - 16	819	2,443	22	32
11 - 13	5,142	17,457	1,526	3,115
8 - 10	8,173	22,010	559	623
4 - 7	20,836	58,272	4,928	14,854
0 - 3	15,443	26,125	9,481	25,437
Impairment of biological assets	-	(2,464)	-	-
Deferred expenses	-	1,003	-	561
	51,423	**126,336**	**16,516**	**44,622**

(*) A portion of the biological assets earmarked for use as "Energy crops" is the result of a change in the use of plantations originally earmarked for making pulp.

9.2 Additions to forest cover

In 2013 the Group capitalised forest plantation, preservation and silviculture services received in the amount of €16,407 thousand (€21,042 thousand in 2012).

The Group capitalised €2,020 thousand of borrowing costs in forest cover in 2013 (€1,489 thousand in 2012); this addition is accounted for in the consolidated income statement as a reduction in "Other finance costs".

9.3 Impairment

The Group faces regulatory uncertainty as a result of the processing, underway, of draft legislation "regulating the production of electric power from renewable sources, co-generation and waste", which establishes the rules for calculating the remuneration applicable to renewable energy power generation facilities with retroactive effect from 14 July 2013 and the draft "Order approving the remuneration parameters for standard facilities applicable to certain power generation facilities fuelled by renewable sources of energy, CHP and waste" which proposes amendments to the prevailing premium regime (note 5).

The estimated future profitability of certain energy crop plantations earmarked for power generation projects in the event that the draft ministerial order enacting the remuneration parameters is passed as currently worded would not permit the generation of a reasonable return. Accordingly, the Group has recognised a related impairment loss of €12,219 thousand plus an additional €7,125 thousand provision to cover the costs of dismantling these plantations and terminating the lease agreements on the forest estates as well as other costs that would have to be incurred (note 18).

10. Leases

At year-end 2013, the Group's future minimum payments under non-cancellable leases, without factoring in costs to be reimbursed by the lessor, inflation-related adjustments or contractually-agreed rent increases, are as follows:

Thousands of euros	31/12/2013	31/12/2012
Less than one year	5,886	5,371
Between one and five years	22,503	21,610
Later than five years	34,076	29,194
	62,465	**56,175**

At year-end 2013, the Group was leasing 27,071 hectares of forest assets earmarked for the production of biological assets (28,256 hectares at year-end 2012). The average term of these lease agreements is 30 years.

11. Financial instruments by category – Fair value

The Group's financial instruments mainly include deposits, trade and other receivables, derivatives and loans. The table below reconciles the Group's financial instruments by category and the consolidated statement of financial position headings:

Thousands of euros	Loans and receivables / payables	Trading derivatives	Hedging derivatives	Held-to-maturity investments	Total at 31/12/2013
Available-for-sale financial assets	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-
Financial accounts receivable	-	-	-	55,876	55,876
Trade and other receivables	132,956	-	-	-	132,956
Cash and cash equivalents	103,391	-	-	-	103,391
Total financial assets	**236,347**	**-**	**-**	**55,876**	**292,223**
Non-recourse borrowings	102,917	-	-	-	102,917
Recourse borrowings	248,945	-	-	-	248,945
Derivative financial instruments	-	4,296	7,631	-	11,927
Trade and other payables	208,536	-	-	-	208,536
Other financial liabilities	10,508	-	-	-	10,508
Total financial liabilities	**570,906**	**4,296**	**7,631**	**-**	**582,833**

Thousands of euros	Loans and receivables / payables	Trading derivatives	Hedging derivatives	Held-to-maturity investments	Available-for-sale	Total at 31/12/2012
Available-for-sale financial assets	-	-	-	-	59,345	59,345
Derivative financial instruments	-	-	10,721	-	-	10,721
Financial accounts receivable	-	-		7,575	-	7,575
Trade and other receivables	168,237	-	-	-	-	168,237
Cash and cash equivalents	40,205	-	-	-	-	40,205
Total financial assets	**208,442**	**-**	**10,721**	**7,575**	**59,345**	**286,083**
Non-recourse borrowings	96,155	-	-	-	-	96,155
Recourse borrowings	237,585	-	-	-	-	237,585
Derivative financial instruments	-	9,002	22,511	-	-	31,513
Trade and other payables	211,687	-	-	-	-	211,687
Other financial liabilities	10,853	-	-	-	-	10,853
Total financial liabilities	**556,280**	**9,002**	**22,511**	**-**	**-**	**587,793**

The financial assets and liabilities measured at fair value are mostly derivative financial instruments. They are valued using different quoted price variables that are observable, either directly, or indirectly using valuation techniques.

12. Derivative financial instruments

In keeping with the risk management policy outlined in note 6, the Group arranges financial instruments to hedge the risks deriving from fluctuations in interest rates, exchange rates, pulp prices, gas prices, fuel-oil prices and the cost of the electricity used in its productive processes.

Among the financial instruments used to hedge interest-rate risk, interest rate swaps are the most common. The Group mainly uses swaps and futures contracts to hedge changes in exchange rates and the prices of pulp and certain energy products.

The Group classifies its derivatives into three categories:

1. Derivatives designated as cash flow hedges: those designed to hedge variability in cash flows such as interest payments, payments and collections in foreign currency, etc.

2. Derivatives designated as fair value hedges: those designed to hedge the fair value of the assets and liabilities recognised on the consolidated statement of financial position.

3. Other derivatives: those that have not been designated as hedges or do not qualify for hedge accounting.

The breakdown of this consolidated statement of financial position heading at 31 December 2013 and 2012 (showing the fair value of the derivatives at year-end), is provided in the next table:

	Current assets		Non-current liabilities		Current liabilities	
Thousands of euros	2013	2012	2013	2012	2013	2012
Cash flow hedges:						
Foreign exchange hedges	-	10,721	-	-	-	-
IRS – Recourse borrowings	-	-	-	-	-	10,164
IRS – 50-MW project finance facility	-	-	4,705	8,134	2,276	2,365
IRS – 20-MW project finance facility	-	-	37	1,518	613	330
	-	10,721	4,742	9,652	2,889	12,859
Trading derivatives:						
Equity swap	-	-	2,651	6,975	1,645	2,027
Total	**-**	**10,721**	**7,393**	**16,627**	**4,534**	**14,886**

All of the financial instruments arranged have been valued subsequent to initial recognition by reference to observable market data, either directly (i.e., prices), or indirectly (i.e. inputs derived from prices).

The derivatives classified as "Trading derivatives" are derivative financial instruments that, despite being arranged to hedge some form of market risk, do not qualify for hedge accounting under prevailing accounting rules, for which the underlying has been sold or for which hedge accounting has been discontinued.

A gain of €8,272 thousand on derivatives designated as hedging instruments was reclassified to profit or loss in 2013 (a loss of €30,920 thousand in 2012).

12.1 Foreign exchange hedges

To hedge the Group's exposure to fluctuations in the dollar/euro exchange rate, which have a significant impact on pulp sales prices and on a material portion of the Group's purchases, the Parent sold US dollars under forward agreements in 2012 in order to hedge its net exposure to future income referenced to that currency.

These hedges' notional amount at 31 December 2012 was USD222 million. The average exchange rate locked in was USD/EUR 1.24 and the contracts were due settlement 2013. These contracts qualified for hedge accounting. and proved 100% effective when tested.

These instruments presented a positive fair value of €10,721 thousand at year-end 2012; this gain was recognised in "Current assets – derivatives" in the consolidated statement of financial position with a balancing entry, net of the corresponding tax effect, in "Equity – Valuation adjustments".

At 31 December 2013, the Group did not have any foreign exchange hedges outstanding.

"Change in fair value of financial instruments" in the accompanying 2013 consolidated income statement includes a €12,102 thousand gain on hedges settled during the year (compared to a loss of €26,381 thousand in 2012).

12.2 Interest rate swaps:

The Group actively manages its exposure to the interest rate risk deriving from borrowings taken out at floating rates (note 6).

The interest rate derivatives arranged by the Group and outstanding at year-end 2013 and 2012 are shown below:

2013

	Fair	Notional principal amounts at year-end					
Thousands of euros	value	2014	2015	2016	2017	2018	2019
IRS – 50-MW project finance facility	6,981	74,874	69,933	63,997	57,502	50,584	43,563
IRS – 20-MW project finance facility	650	34,334	44,908	42,036	38,981	35,928	32,685

2012

Thousands of euros	Fair value	Notional principal amounts at year-end						
		2013	2014	2015	2016	2017	2018	2019
IRS – Recourse borrowings	10,164	194,498	-	-	-	-	-	-
IRS – 50-MW project finance facility	10,499	75,982	74,874	69,933	63,997	57,502	50,584	43,563
IRS – 20-MW project finance facility	1,848	15,628	34,334	44,908	42,036	38,981	35,928	32,685

The table below provides the maturity analysis at 31 December 2013 of the Group's interest rate derivatives on the basis of undiscounted cash flows:

	Thousands of euros		
	3 months - 1 year	1 – 5 years	Over 5 years
IRS – 50-MW project finance facility	2,153	4,964	-
IRS – 20-MW project finance facility	567	659	(664)

The interest rate swaps associated with the project finance loans funding the 50-MW project in Huelva and the 20-MW project in Mérida qualify as accounting hedges and proved 100% effective when tested.

In 2013 the Group reclassified a net loss of €3,830 thousand in the income statement in connection with changes in the fair value of its interest-rate cash flow hedges (2012: a net loss of €3,352 thousand) (note 16).

On 29 May 2008, the Parent arranged an interest rate swap that was designated as a hedge of approximately 60% of its corporate or recourse borrowings drawn down at the time. These borrowings were substantially restructured in 2009 so that the swap ceased to qualify for hedge accounting from 16 October 2009. The changes in the fair value of this instrument were recognised directly in profit and loss from this date. The fair value of the financial instrument when hedge accounting was discontinued was left in equity and was reclassified to the income statement as interest expense on the hedged item (the syndicated loan) was accrued.

On 1 February 2013, the Parent issued €250 million of corporate bonds (note 19). As a result of this new financing arrangement, the Parent cancelled the syndicated loan drawn down at that time as well as the associated interest rate swap, generating a loss of €96 thousand due to the change in the fair value of the instrument in 2013 until it was cancelled. Meanwhile, the fair value of the hedging instrument recognised in Group equity and associated with the hedged item that had not been cancelled, in the amount of €1,075 thousand (before the related tax effect) was reclassified to profit and loss in 2013. "Change in the fair value of financial instruments" in the 2013 consolidated income statement reflects both these effects.

Based on the contractual terms of the instruments outstanding at 31 December 2013, a 10% increase in the Euribor interest rate curve would translate into a gain of €47 thousand in the 2014 consolidated income statement. In contrast, a 10% decline in the Euribor interest rate curve would result in a loss of the same magnitude in 2014.

12.3 Equity swap:

On 25 October 2007, the Parent arranged an equity swap with Bankia, as required under the terms of the Special Bonus Plan signed on that same date. This contract was terminated on 18 June 2008 and a new one was executed on similar terms, albeit adapting the exercise price to reflect the Company's share price performance. The agreement was amended again on 14 October 2010 in order to adapt it to the changes made to the Long-term Bonus Plan (note 4.16).

The aforementioned equity swap was written over a total of 5,100,000 Company shares at a base price of €4.11 per share. The equity swap carried interest at 12-month Euribor plus a spread of 0.05%, settled annually. It was initially repayable on 30 June 2012. There is no related share buyback agreement. The agreement expressly states that the shares will never revert to the Group and that in the event of surplus shares at the end of the 5-year period, Bankia will sell them directly in the market, so that these shares cannot be considered treasury shares under any circumstances.

This instrument does not qualify for hedge accounting, so that changes in its fair value are recognised in profit or loss as they arise. The fair value of the equity swap is calculated using the discounted cash flows resulting from the equity portion (the present value of the dividends plus the share price at the end of the period less €4.11) and the discounted cash flows implied by the interest accruals.

The Parent amended the instrument again on 28 June 2012 to adapt it to the "Long-term Bonus Plan of Ence, Energía y Celulosa, S.A. for 2010-15". This amendment, which affected a nominal amount of 3,850,000 shares, had the effect of extending the maturity of the swap to 15 March 2013 in respect of 1,025,000 shares, to 15 March 2014 for another 1,025,000 shares and to 15 March 2015 for the remaining 1,800,000 shares, establishing an interest rate of 6-month Euribor plus 230 basis points.

The equity swap presented a negative fair value of €4,296 thousand at 31 December 2013 (a negative €9,002 thousand at year-end 2012). This balance is recognised in the "Financial derivative instrument" headings within current and non-current liabilities on the accompanying consolidated statement of financial position. The Group recognised a gain of €2,809 thousand in the consolidated income statement in respect of the increase in the fair value of this instrument in 2013 (2012: a gain of €160 thousand).

A 10% gain in the Company's share price would translate into a gain of €753 thousand in the 2014 consolidated income statement. In contrast, a 10% share price correction would result in a loss of the same magnitude in 2014.

13. Inventories

The breakdown of the Group's inventories at 31 December 2013 and 2012 is as follows:

Thousands of euros	31/12/2013	31/12/2012
Wood	38,536	48,555
Other raw materials	2,665	3,995
Spare parts	20,425	23,878
Construction in progress	552	1,383
Work in progress	441	441
Finished goods	20,345	17,597
Prepayments to suppliers	1,445	1,069
Impairment (*)	(13,420)	(9,343)
	70,989	**87,575**

(*) On account primarily of slow-moving inventory items and the net realisable value of finished products

There are no restrictions on the title of the inventories. It is Group policy to take out the insurance policies necessary to cover the potential risks to which its inventories are exposed and management believes that its coverage at year-end is adequate.

The Group has committed at year-end to acquire 298 thousand tonnes of eucalyptus for pulp production and 2,571 thousand tonnes of forest waste for power generation under contracts with suppliers and agreements with producer associations.

14. Trade and other receivables

The breakdown at year-end of "Trade and other receivables" in the consolidated statement of financial position is as follows:

Thousands of euros	31/12/2013	31/12/2012
Trade receivables	114,249	138,339
Other receivables	3,202	4,854
Receivable from employees	79	16
Provision for impairment of trade receivables	(3,166)	(4,629)
	114,364	**138,580**

"Trade receivables" in the table above includes €2,433 thousand past due but not impaired and not covered by credit insurance policies (note 6) at 31 December 2013 (€2,710 thousand at year-end 2012). A significant portion of these balances are due from public bodies.

The average credit period on pulp sales ranges between 50 and 60 days. The fair value of pulp sales receivable does not differ significantly from their carrying amount.

The year-end 2013 balance sheet includes €19,564 thousand of accounts receivable denominated in US dollars (year-end 2012: €27,549 thousand).

The Group has drawn down €30,530 thousand under several factoring agreements deemed non-recourse, as all the risks intrinsic to monetisation of the underlying receivables have been transferred, with an aggregate limit of €83,000 thousand at year-end 2013 (€33,520 thousand and €85,000 thousand, respectively, at 31 December 2012). The Group pays interest equivalent to 3-month Euribor plus a spread ranging between 1.5 and 2.5% on the receivables discounted under these agreements.

15. Trade and other payables

The breakdown at year-end of "Trade and other payables" on the liability side of the consolidated statement of financial position is as follows:

Thousands of euros	31/12/2013	31/12/2012
Trade payables	179,578	177,479
Fixed asset suppliers	8,466	16,088
Employee benefits payable	9,135	8,335
	197,179	**201,902**

The average payment period on goods and services purchased ranges between 65 and 75 days. The fair value of trade payables does not differ significantly from their carrying amount.

The Group has drawn down €63,860 thousand under non-recourse reverse factoring agreements with several banks with an aggregate limit of €114,000 thousand at year-end 2013 (€62,806 thousand and €83,500 thousand, respectively, at 31 December 2012).

The year-end 2013 balance sheet includes €4,867 thousand of accounts payable denominated in US dollars (year-end 2012: €6,512 thousand).

Spanish Law 15/2010 (5 July 2010) on addressing non-payment of commercial transactions stipulates certain disclosure requirements in the notes to the annual financial statements on transaction settlement performance. Against this backdrop, the table below details the trade payables settled in 2013 and 2012 and the amounts outstanding at year-end (excluding intra-group transactions and payments to fixed asset suppliers):

	2013		2012	
	Thousands of euros	%	Thousands of euros	%
Within the legally-mandated maximum term	438,160	87%	469,013	94%
Other	77,271	13%	56,274	6%
Total payments during the year	515,431	100%	525,287	100%
Weighted average term of past due payments (days)	95.18	-	32.95	-
Trade payables past due by more than the legally-mandated maximum term at the close	10,127	-	6,179	-

16. Equity

16.1 Share capital

The share capital of ENCE Energía y Celulosa, S.A. at 31 December 2013 was represented by 250,272,500 fully subscribed and paid bearer shares, each with a par value of €0.90.

Based on the notifications received by the Parent, its shareholders structure at year-end 2013 and 2012 was as follows:

Percentage interest	31/12/2013	31/12/2012
Retos Operativos XXI, S.L.	25.6	24.5
Alcor Holding, S.A.	19.8	21.9
Liberbank, S.A. (*)	6.3	6.9
La Fuente Salada, S.L.	5.0	-
Asúa Inversiones, S.L.	5.0	-
Treasury shares	2.9	7.5
Free float	35.4	39.2
Total	**100.0**	**100.0**

(*) Liberbank, S.A. sold its shareholding in January 2014. Amber Capital UK LLP acquired a 4.02% interest in the Company from Liberbank, S.A.

The Company's shares are represented by book entries and are officially listed on the Madrid stock exchange and traded on the continuous market. All of its shares confer equal voting and dividend rights.

16.2 Legal reserve

In accordance with the Consolidated Text of the Spanish Corporate Enterprises Act, 10% of profits must be transferred to the legal reserve each year until it represents at least 20% of share capital.

The legal reserve may be used to increase capital in an amount equal to the portion of the balance that exceeds 10% of capital after the increase. Otherwise, until it exceeds 20% of share capital and provided there are no sufficient available reserves, the legal reserve may only be used to offset losses.

16.3 Share premium

The Consolidated Text of the Spanish Corporate Enterprises Act expressly permits the use of the share premium account balance to increase capital and provides no specific limitation with respect to the availability of this reserve.

16.4 Reserves in fully-consolidated companies

The next table breaks down "Equity – Reserves in fully-consolidated companies" by company at 31 December 2013 and 2012:

Thousands of euros	31/12/2013	31/12/2012
Celulosas de Asturias, S.A.U.	67,786	45,426
Celulosa Energía, S.A.U.	34,104	43,879
Norte Forestal, S.A.U.	16,751	17,054
Silvasur Agroforestal, S.A.U.	9,975	8,516
Iberflorestal, S.A.U.	2,377	2,204
Ibersilva, S.A.U.	(17,391)	(18,059)
Eucalipto de Pontevedra, S.A.U.	(2,039)	(1,987)
Electricidad de Navia Asturias, S.L.U.	2,793	2,839
Maderas Aserradas del Litoral, S.A.	(5,291)	(2,721)
Zona Franca M'Bopicuá, S.A.	2,894	2,895
Las Pléyades, S.A. (SAFI)	1,969	2,026
Sierras Calmas, S.A.	5,037	5,627
Ence Energia, S.L.U.	(1,340)	(803)
Ence Energía Huelva, S.L.U.	(2,198)	(658)
Consolidation and other adjustments	10,995	6,305
	126,422	**112,543**

The balance of reserves in consolidated companies that is restricted at year-end stood at €15,079 thousand (year-end 2012: €14,979 thousand) and corresponds mainly to the legal reserves endowed by the various Group companies.

16.5 Dividends

The shareholders of Ence Energía y Celulosa, S.A. ratified the payment of a €16,154 thousand dividend at the Annual General Meeting of 21 March 2013 (corresponding to a gross payment of €0.07 per Ence Energía y Celulosa, S.A. share carrying dividend rights outstanding as of the payment date). This dividend was paid on 3 April 2013.

At that same general meeting the shareholders also approved the payment of a in-kind dividend consisting of the distribution of a portion of the share premium account by means of the delivery of treasury shares of the Parent in the proportion of one share for every 25 outstanding: as a result, the Company gave away 9,192,292 own shares with a market value at the payment date of €20,184 thousand and an average acquisition cost of €18,481 thousand.

16.6 Earnings per share

The earnings per share calculations (which coincide with diluted earnings per share) are shown below:

Earnings per share	2013	2012
Group profit/(loss) attributable to owners of the parent (€ 000)	4,311	43,031
Ordinary shares outstanding at 1 January	250,272,500	258,012,890
Ordinary shares outstanding at 31 December	250,272,500	250,272,500
Weighted average ordinary shares	250,272,500	254,629,113
Basic earnings per share (euros)	**0.02**	**0.16**
Diluted earnings per share (euros)	**0.02**	**0.16**

16.7 Parent Company shares

The reconciliation of "Own shares - parent company shares" at the beginning and end of 2013 and 2012 is as follows:

	2013		2012	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	18,743,383	37,213	20,211,000	49,217
Purchases	10,389,476	26,509	22,538,848	41,596
In-kind dividend payment	(9,192,292)	(18,481)	(15,554,852)	(35,193)
Cancellation	-	-	(7,740,390)	(16,828)
Sales	(12,690,060)	(25,479)	(711,223)	(1,579)
Closing balance	**7,250,507**	**19,762**	**18,743,383**	**37,213**

The most significant sale transaction took place on 13 June 2013, with the sale of 12,513,625 own shares, representing a 5% equity interest in the Company, to Asúa Inversiones, S.L. and Fuente Salada, S.L. for a total of €27,405 thousand. The €2,279 thousand gain generated by this transaction was recognised directly in equity in "Parent company reserves" in the 2013 consolidated statement of financial position.

The own shares held by the Company at 31 December 2013 represent 2.9% of its share capital (7.5% at year-end 2012) and are carried at €6,526 thousand (€16,869 thousand at 31 December 2012). These shares were acquired at an average price of €2.726 per share. The Group plans to hold these shares as treasury stock until such time as the Board of Directors determines the best use for them in order to maximise shareholder value creation.

16.8 Valuation adjustments

"Valuation adjustments" within equity includes the impact of the changes in the fair value of the Group's hedging derivatives (note 12) and the reserve generated by recognising the Group's forest land at market value as of 1 January 2004 (note 8). The latter reserve is freely distributable. The breakdown of the changes in the fair value of the hedging derivatives in 2013 and 2012 is shown below:

Thousands of euros	2013 Fair value	2013 Tax effect	2013 Adjustment in equity	2012 Fair value	2012 Tax effect	2012 Adjustment in equity
Interest rate swap - Recourse borrowings:						
Opening balance	(1,075)	(323)	(752)	(3,120)	(937)	(2,183)
Reclassified to profit or loss	1,075	323	752	2,045	614	1,431
Other changes in value	-	-	-	-	-	-
Closing balance	-	-	-	(1,075)	(323)	(752)
Interest rate swap – 50 MW project finance facility:						
Opening balance	(10,499)	(3,150)	(7,349)	(6,615)	(1,985)	(4,630)
Reclassified to profit or loss	2,409	723	1,686	1,291	387	904
Other changes in value	1,109	333	776	(5,175)	(1,552)	(3,623)
Closing balance	(6,981)	(2,094)	(4,887)	(10,499)	(3,150)	(7,349)
Interest rate swap – 20 MW project finance facility:						
Opening balance	(1,848)	(555)	(1,293)	-	-	-
Reclassified to profit or loss	346	104	242	16	4	12
Other changes in value	851	255	596	(1,864)	(559)	(1,305)
Closing balance	(651)	(196)	(455)	(1,848)	(555)	(1,293)
Foreign exchange hedges:						
Opening balance	10,721	3,217	7,504	(22,226)	(6,667)	(15,559)
Reclassified to profit or loss	(12,102)	(3,630)	(8,472)	26,381	7,914	18,467
Other changes in value	1,381	413	968	6,566	1,970	4,596
Closing balance	-	-	-	10,721	3,217	7,504
Pulp price hedges:						
Opening balance	-	-	-	867	260	607
Reclassified to profit or loss	-	-	-	1,187	356	831
Other changes in value	-	-	-	(2,054)	(616)	(1,438)
Closing balance	-	-	-	-	-	-
	(7,632)	**(2,292)**	**(5,340)**	**(2,701)**	**(811)**	**(1,890)**

17. Grants

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2013 and 2012 is as follows:

Thousands of euros	Subsidised loans (note 20)	Grants relating to assets	Emission allowances (note 7)	Total
Balance at 01/01/2012	**1,648**	**11,801**	**6,795**	**20,244**
Emission allowances allocated for 2012	-	-	4,112	4,112
Reclassified to profit or loss	(336)	(907)	(3,037)	(4,280)
Balance at 31/12/2012	**1,312**	**10,894**	**7,870**	**20,076**
Additions, new grants (*)	394	115	-	509
Emission allowances allocated for 2013	-	-	944	944
Reclassified to profit or loss	(337)	(953)	(5,030)	(6,320)
Balance at 31/12/2013	**1,369**	**10,056**	**3,784**	**15,209**

(*) Net of expenses incurred in obtaining them

The Group has been granted non-repayable grants by several public bodies that are intended to finance investments earmarked to enhancing the productive structure that generate substantial amounts of jobs, as well as encouraging energy savings and efficiency.

In addition, the Group has been extended interest-free loans and loans at rates that are significantly below market rates with terms of up to 10 years. These loans finance projects undertaken by the Group to expand and upgrade the productive capacity of its pulp plants as well as the Group's research and development work.

The difference between market rates and the subsidised rate as per the loan agreement is considered a grant and is recycled to the consolidated income statement over the life of the loans on a systematic financial basis (note 20).

18. Provisions, guarantees and contingent liabilities

18.1 Non-current provisions

The reconciliation of the movements in "Non-current provisions" and "Current provisions" in accompanying consolidated balance sheet in 2013 and 2012:

2013	Thousands of euros Balance at 01/01/2013	Additions/ (charges)	Derecognitions or decreases	Balance at 31/12/2013
Non-current:				
Galicia Sanitation Agreement	5,357	-	(5,357)	-
Pontevedra Inlet Discharge Royalty	3,140	-	(3,140)	-
VAT Inspection, Germany 2002-2008	67	-	(67)	-
Cost of terminating energy crop and other lease agreements (note 9)	-	7,125	-	7,125
Employee commitments (notes 4.15 & 4.16)	1,165	1,054	(44)	2,175
Emission allowances (note 7)	3,015	8,715	(3,015)	8,715
Other	514	207	(231)	490
	13,258	**17,101**	**(11,854)**	**18,505**
Current:				
Revenue provision under RD 9/2013 (note 22)	-	7,080	-	7,080
	-	**7,080**	**-**	**7,080**

2012	Thousands of euros Balance at 01/01/2012	Additions/ (charges)	Derecognitions or decreases	Balance at 31/12/2012
Non-current:				
Galicia Sanitation Agreement	5,357	-	-	5,357
Pontevedra Inlet Discharge Royalty	6,565	714	(4,139)	3,140
VAT Inspection, Germany 2002-2008	2,898	-	(2,831)	67
Employee commitments (notes 4.15 & 4.16)	1,005	160	-	1,165
Emission allowances (note 7)	5,845	3,029	(5,859)	3,015
Other	1,515	-	(1,001)	514
	23,185	**3,903**	**(13,830)**	**13,258**

In 2013, the Group settled the last of its water discharge royalty payments to "Aguas de Galicia" in respect of 2004 – 2007, paying €3,140 thousand (€4,053 thousand in 2012) and reversed the provision associated with the "Galicia Sanitation Agreement" as the related obligation had prescribed.

In 2011 the German tax authorities completed their inspection of how the Group calculated value-added tax (VAT) on its business operations in Germany between 2002 and 2008. As a result of the inspection, the German authority handed down assessments (without fines), seeking payment of €12,692 thousand plus interest of €2,829 thousand, which was settled in 2012. All of the VAT paid to the authorities has been paid back by the Group's customers between 2012 and 2013.

"Emission allowances" reflects the expenses associated with greenhouse gas emissions used during the period, with a charge to "Other operating expenses" in the consolidated income statement (note 25).

18.2 Guarantees extended to third parties

At 31 December 2013, several financial institutions had extended the various Group companies guarantees, mainly performance bonds related to business operations, for an aggregate amount of approximately €45,508 thousand, of which €28,016 thousand is accounted for by guarantees of a financial nature (€50,497 thousand at 31 December 2012).

The Board of Directors does not expect the amounts guaranteed or the guarantees extended to result in material liabilities for the Group.

18.3 Contingent liabilities

At year-end 2013, the Group is party, variously as defendant and plaintiff, to legal claims and controversies arising in the ordinary course of its business.

The most significant claims are detailed below. Management estimates that none of these, either individually or on aggregate, will have a material adverse impact on the consolidated financial statements:

- The Spanish tax authorities concluded several tax inspections encompassing the Parent and several Group companies during the first half of 2013. These inspections affected the income tax filings made between 2007 and 2009, VAT filings and withholdings in 2008 and 2009, the so-called special electricity tax from 2008 until 2010, and trade tax for 2009-2012.

  The income tax assessment for 2007-2009, seeking a settlement in respect of unpaid taxes and late-interest payment of €6,730 thousand (in the opinion of the inspection team, the Group is not subject to a fine under this assessment) has been signed under protest; of this balance, just €3,616 thousand would result in an outflow of cash.

- Ence has appealed the sentences handed down by the Appellate Court on 19 May 2011 and 19 April 2013 regarding lawsuits seeking the termination of the concession for the use of public-domain coastal land in Pontevedra due to alleged breaches of the terms of the concession, before the Supreme Court. Although both Appellate Court rulings partially uphold the lawsuits, neither addresses the legal substance of the matter; they therefore do not rule on any breach of the terms of the concession by ENCE, as the plaintiffs are claiming. Both Appellate Court sentences simply order the government to open proceedings into both cases seeking the end of the term of the concession and legal injunctions on activities and the use and exploitation of the facilities. Nor do the sentences pre-judge the outcome of the cases in question, which would have to be processed under full administrative proceedings, as warranted; the ultimate outcome of any such proceedings would be appealable in the jurisdiction of the administrative courts. Both sentences have likewise been appealed by the General State Administration. The sentences appealed cannot be enforced while the appeals are being heard. In addition, the town council of Pontevedra and an association have challenged the ruling by the Regional Government of Galicia of 21 December 2011 agreeing the renewal of the Pontevedra facility's Integrated Environmental Permit before the Galicia High Court. The grounds for challenging the ruling are similar to those put forward in previous cases against the same permit that were rules in favour of Ence.

19. Borrowings and cash and cash equivalents

The breakdown of the Group's borrowings at 31 December 2013 and 2012 is as follows:

	2013		2012	
	Current	Non-current	Current	Non-current
High-yield bond	-	250,000	-	-
Loans and credit facilities	400	700	24,588	214,579
50-MW project finance facility	5,544	78,469	1,477	83,779
20-MW project finance facility	188	22,312	-	15,000
Arrangement fees (*)	(503)	(12,544)	(2,477)	(3,726)
Accrued interest payable and other	7,296	-	520	-
	12,925	**338,937**	**24,108**	**309,632**

(*) High-yield bond: €9,321 thousand at 31 December 2013. Corporate financing: €1,987 thousand at 31 December 2012. 50-MW project finance facility: €2,220 thousand and €2,560 thousand at year-end 2013 and 2012, respectively. 20-MW project finance facility: €1,506 thousand and €1,656 thousand at year-end 2013 and 2012, respectively.

The breakdown of borrowings at 31 December 2013 and 2012 corresponding to loans, credit facilities and discounting facilities, classified by their respective maturities, is as follows:

2013 (thousands of euros)	Limit	Drawn down	Due in 2014	2015	2016	2017	Beyond
High-yield bond	250,000	250,000	-	-	-	-	250,000
Revolving credit facility	90,000	-	-	-	-	-	-
50-MW project finance facility	101,309	84,013	5,544	6,660	7,288	7,762	56,759
20-MW project finance facility	60,692	22,500	188	1,427	1,518	1,517	17,850
Other loans	1,100	1,100	400	400	300	-	-
Accrued interest payable and other	-	7,296	7,296	-	-	-	-
Arrangement fees	-	(13,047)	(503)	(1,997)	(2,090)	(2,132)	(6,325)
	503,101	351,862	12,925	6,490	7,016	7,147	318,284

2012 (thousands of euros)	Limit	Drawn down	Due in 2013	2014	2015	2016	Beyond
Loans and credit facilities	302,011	239,167	24,588	212,391	615	524	1,049
50-MW project finance facility	101,309	85,256	1,477	5,310	6,660	7,288	64,521
20-MW project finance facility	60,692	15,000	-	125	952	1,012	12,911
Accrued interest payable and other	-	520	520	-	-	-	-
Arrangement fees	-	(6,203)	(2,477)	(503)	(495)	(471)	(2,257)
	464,012	333,740	24,108	217,323	7,732	8,353	76,224

The credit facilities and loans (excluding the syndicated loan, bonds and non-recourse financing) accrued interest at an average rate of 2.60% in 2013 (2013: 4.20%2).

19.1 Bond issue and revolving credit facility

On 1 February 2013, Ence Energía y Celulosa, S.A. closed the placement of a €250 million bond issue with qualified institutional investors under Rule 144A and Regulation S of the US Securities Act of 1933, as subsequently amended. The issue was carried out under New York state law and the bonds are traded on the Luxembourg Euro MTF exchange.

The bonds mature on 15 February 2020 and accrue a fixed annual coupon, payable six-monthly, of 7.25%. The bonds are guaranteed, mainly, by pledges over the shares of the Group's main operating companies (Celulosas de Asturias, S.A., Celulosa Energía, S.A., Norte Forestal, S.A. and Silvasur Agroforestal, S.A.) and pledges over the accounts receivable, bank accounts and intra-group loans. The bonds imply certain disclosure requirements and restrictions on the payment of dividends and arrangement of additional borrowings in the event of failure to comply with certain financial ratios that are customary in deals of this nature. The projects that have arranged project finance facilities to fund the development of biomass power generation projects did not extend any guarantees under the scope of this bond issue. The transaction costs amounted to approximately €10 million.

Under the scope of this issue, two credit ratings agencies issued an opinion on the creditworthiness of the Group as a whole and of its bond issue. Standard & Poor's assigned an issuer rating and issue rating of BB, while Moody's assigned ratings of Ba3 and B1, respectively.

Also under the scope of this issue, a revolving €90 million credit facility was arranged with a syndicate of prestigious Spanish and international banks. This facility accrues interest a rate benchmarked to Euribor and matures in 2018. It was fully drawn down at 31 December 2013. This agreement is governed by English and Welsh legislation.

The proceeds raised were used to repay the amounts outstanding (including accrued interest outstanding) on the syndicated loan arranged by the Group in 2010 in the amount of €229,410 thousand (see the next section), loans and credit facilities, including interest accrued and outstanding, of €2,913 thousand and the interest-rate swap written to hedge the Group's corporate financing in the amount of €10,068 thousand (note 12).

19.2 Syndicated loan

On 14 October 2010, in a single act, a syndicated loan was arranged for a maximum, after repayment of bilateral financing agreements, of €176,393 thousand and the previously existing syndicated loan was amended such that the amount drawn down stood at €121,229 thousand.

This loan accrued interest at a variable rate of interest indexed to Euribor plus a spread of 300 basis points. It was originally due repayment on 14 January 2014 and was secured by pledges over the shares of certain Group subsidiaries and a mortgage promise over the Group's factory in Navia. The loan included standard financial covenants and obligations.

As a result of the abovementioned bond issue, the principal outstanding under this loan was cancelled on 1 February 2013 in the amount of €229,410 thousand, including accrued interest outstanding.

19.3 50-MW Huelva project finance facility

On 21 June 2011, the Group and a syndicate of seven banks entered into a project finance loan agreement to finance the construction of a biomass-fuelled power generation plant (note 8). The loan was initially granted for €101,309 thousand, of which €85,256 thousand has been drawn down to date. The Group began to repay this facility on 22 June 2013; the facility falls due on 22 December 2022. It accrues interest at a floating rate indexed to Euribor plus a spread ranging between 3.25% and 3.75%, depending on the loan repayment instalment. The commissions paid in 2011 to arrange this facility totalled €3,483 thousand.

The main collateral securing this loan is a pledge over the shares of Ence Energía Huelva, S.L.U. and its current and future assets and credit claims. In turn, Ence Energía y Celulosa, S.A. presented a series of guarantees in respect of a range of matters: crop plantation and stocks for the plant's supply in the future; the date of commissioning and the tariff applicable to the facility's output at the time of commissioning and the plant's operating and availability performance. These guarantees are in turn partially covered by the guarantees extended to Ence Energía y Celulosa, S.A. by the facility contactor.

This loan similarly includes certain obligations, mainly related to the disclosure of specific business and financial information, compliance with certain financial ratios determined on the basis of the annual financial statements of Ence Energía Huelva, S.L.U., the requirement to maintain a specific volume of biomass stock on hand or at least felled, the earmarking of 50% of surplus cash to early repayment of the loan until 50% has been repaid and, subsequently, 25% of surplus cash until 65% of the loan has been so repaid. The covenants similarly impose certain restrictions, mainly on the distribution of dividends and the raising of new financing.

In order to hedge the risk deriving from this floating-rate financing facility, the Group wrote interest-rate hedges with a notional amount equivalent to 75% of the estimated drawdowns to be made throughout the term of the loan at a fixed rate of 3.5% with six of the project financiers (note 12).

19.4 20-MW Merida project finance facility

On 1 August 2012, the Group and a syndicate of three banks entered into a project finance loan agreement to finance the construction of a biomass-fuelled power generation plant (note 8). The loan was initially granted for €60,692 thousand, of which €22,500 thousand has been drawn down to date. The Group will begin to repay this facility on 15 December 2014; the facility falls due on 15 June 2027. It accrues interest at a floating rate indexed to Euribor plus a spread ranging between 3.5% and 4.0%, depending on the loan repayment instalment. The commissions paid in 2012 to arrange this facility totalled €1,656 thousand.

The main collateral securing this loan is a pledge over the shares of Ence Energía Extremadura, S.L.U. and its current and future assets and credit claims as well as a mortgage promise over the biomass plant. In turn, Ence Energía y Celulosa, S.A. presented a series of guarantees in respect of a range of matters: crop plantation and stocks for the plant's supply in the future; the date of commissioning and the tariff applicable to the facility's output at the time of commissioning, cost overruns and the plant's operating and availability performance. These guarantees are in turn partially covered by the guarantees extended to Ence Energía y Celulosa, S.A. by the facility contactor.

This loan similarly includes certain obligations, mainly related to the disclosure of specific business and financial information, compliance with certain financial ratios determined on the basis of the annual financial statements of Ence Energía Extremadura, S.L.U., the requirement to maintain a specific volume of biomass stock on hand or at least felled and the earmarking of between 30% and 50% of surplus cash to early repayment of the loan depending on the number of years elapsing from its arrangement. The covenants similarly impose certain restrictions, mainly on the distribution of dividends and the raising of new financing.

In order to hedge the risk deriving from this floating-rate financing facility, the Group wrote interest-rate hedges with a notional amount equivalent to 75% of the estimated drawdowns to be made throughout the term of the loan at a fixed rate of 2% with the project financiers (note 12).

19.5 Regulatory changes in the energy sector

The Huelva 50-MW and Mérida 20-MW financing agreements include clauses that have the effect of reducing the amount of financing available as a function of the impact on revenue from the sale of electricity contemplated in the project projections (base case scenario) as a result of changes in the tariff and sector regulations, respectively. As a result, regulatory changes affecting the energy business can have an adverse impact on the amount of project finance available under both loan agreements.

Against this backdrop, in calculating the combined impact of application of Law 15/2012 of 27 December 2012, on fiscal measures towards energy sustainability, and Royal Decree-Law 2/2013 of 1 February 2013, on urgent electricity system and financial sector measures, the banks proposed reducing the amount of project financing available for the Merida 20-MW and Huelva 50-MW projects by €20 million and €29 million, respectively.

Talks are underway to recalibrate the base case scenario in order to adapt the amount of funding available at both projects to the foreseeable impact of these regulatory changes. However, these negotiations have been paralysed by the regulatory uncertainty triggered by Royal Decree-Law 9/2013, of 12 July, adopting urgent measures aimed at guaranteeing the financial stability of the electricity system (note 5). No new drawdowns can be made under these loans until this negotiation process concludes, except for an additional €8 million drawdown that has been authorised at the Merida 20-MW project.

In addition, the Huelva 50-MW project finance facility stipulated the obligation to continually earmark, from 1 January 2014, a total of 17,434 hectares of plantations to the project, requiring the Group to repay 40% of the maximum amount of the loan granted, net of any repayments made to date, immediately in the event of breach of this requirement. Because of the regulatory uncertainty prevailing in the last year, this commitment has not been met.

The Group's management has analysed the reasonableness of the assumptions used by the banks, mainly in respect of trends in costs, underlying CPI and the outcome of the measures in the course of implementation with a view to making the facilities more efficient, along with the contractual terms of the loan agreements and the negotiations pending and considers there are motives to conclude that the amount of financing that will ultimately be made available as a result of the regulatory changes implemented, and as a result of other regulatory changes being drafted, will not be less than the sums drawn down at 31 December 2013.

19.6 Cash and cash equivalents

"Cash and cash equivalents" includes the Group's cash on hand and short term bank deposits with original maturities of three months or less. The carrying amount of these assets approximates their fair value. These assets earned an average rate of 1.57% in 2013 (1.42% in 2012).

The year-end 2013 balance sheet includes €31,164 thousand of cash denominated in US dollars (year-end 2012: €3,697 thousand).

19.7 Other financial assets

This heading mainly includes €45,000 thousand of term deposits due April 2014 that earn a rate of 2.39% on average and deposits set up to guarantee obligations assumed in writing certain derivative financial instruments (note 12), as well as those deriving under the agreements entered into for the future purchase of emission allowances (note 7).

20. Other financial liabilities

The amount recognised in the accompanying consolidated statement of financial position corresponds primarily to loans extended at below-market rates and sometimes even interest-free (note 17).

The breakdown by maturity at year-end 2013 and 2012 is as follows:

Thousands of euros	2013	2012
2013	-	1,562
2014	1,962	1,423
2015	1,501	1,403
2016	1,243	1,149
2017	1,204	1,124
2018 and beyond	5,967	5,504
Unwinding of discount (note 17)	(1,369)	(1,312)
	10,508	**10,853**

21. Tax matters

The balances receivable from and payable to the tax authorities at year-end 2013 and 2012 are shown below:

	Thousands of Euros			
	31 December 2013		31 December 2012	
	Taxes receivable	Taxes payable	Taxes receivable	Taxes payable
Non-current				
Deferred tax assets	35,557	-	30,580	-
Deferred tax liabilities	-	27,663	-	31,745
Total	**35,557**	**27,663**	**30,580**	**31,745**
Current:				
Income tax receivable and VAT payable	17,506	2,548	27,262	2,576
Current tax on profits for the year	8,204	39	1,031	1,313
Electricity tax (note 22)	496	3,912	-	-
Sundry taxes receivable from and payable to the tax authorities	590	4,858	1,364	5,896
Total	**26,796**	**11,357**	**29,657**	**9,785**

21.1 Regimes applied and tax groups

Group companies resident in Spain for tax purposes:

For income tax purposes, Ence Energía y Celulosa, S.A. files its tax returns under the consolidated tax regime provided for in Chapter VII of Title VIII of the Consolidated Text of the Spanish Corporate Income Tax Act, as the parent of Tax Group 149/02, created in 2002. Application of this regime, on a perpetual basis unless expressly waived, means that the various companies included in this tax group (see below) do not file their taxes individually:

- Celulosas de Asturias, S.A.U.
- Celulosa Energía, S.A.U.
- Silvasur Agroforestal, S.A.
- Norte Forestal, S.A.
- Ibersilva, S.A.U.
- Norfor Maderas S.A.U.
- Ence Investigación y Desarrollo, S.A.U.
- Electricidad de Navia Asturias, S.L.U.
- Ence Energía, S.L.U. and subsidiaries
- Enersilva, S.L.U.

The statutory income tax rate is 30%.

Group companies resident in Uruguay for tax purposes:

For income tax purposes, the Group companies located in Uruguay pay income tax under the general tax on income from economic activities regime at a statutory rate of 25% of accounting income adjusted for applicable prevailing deductions, with the exception of Las Pléyades, S.A., which pays tax under the special financial investment companies tax regime at a rate of 0.3% of equity.

Group companies resident in Portugal for tax purposes:

For income tax purposes, Group company Iberflorestal, S.A. pays income tax under the general Portuguese corporate income tax regime at a statutory rate of 25%.

Tax consolidation group

Taxable income is not determined on the basis of the Group's consolidated accounting profit but rather the individual taxable incomes of the companies comprising the tax group, determined in accordance with their respective individual tax regimes. To this end, the individual taxable income of the Group companies with tax residence in Spain is aggregated to arrive at the taxable income of Tax Group No. 149/02; tax losses deriving from non-resident companies cannot be offset for this purpose.

Regulatory changes

Spanish tax legislation was amended in 2013 and 2012. Some of the new applicable tax legislation includes Law 14/2013, of 27 September 2013, in support of entrepreneurs and their international expansion; Law 16/2013, of 29 October 2013, establishing certain environmental tax-related measures and other tax and financial measures enacted by means of the 2014 Budget Act (Law 22/2013 of 23 December 2013) and Royal Decree-Laws 12/2012 and 20/2012.

One of the amendments introduced is a temporary reduction, applicable in 2013-2015, in the ability to offset unused tax losses accredited in prior years to 25% of taxable income. In addition the ability to accelerate the depreciation of new assets has been eliminated and a cap imposed on the deductibility of finance costs. Impairment losses on portfolio valuations are no longer deductible for tax purposes and losses arising from permanent establishments located abroad can no longer be utilised for offset.

21.2 Reconciliation of accounting profit to taxable income/(tax loss)

The reconciliation of accounting profit/(loss) to taxable income/(tax loss) in 2013 and 2012 is set forth below:

Thousands of euros	2013	2012
Accounting profit (profit/loss before tax) (*)	5,566	62,978
Permanent differences:		
Arising in profit or loss	811	516
Temporary differences:		
Arising during the year	37,170	2,395
Arising in prior years	(3,336)	(11,545)
Arising from reclassifications from equity	(344)	(41)
Consolidation adjustments	(526)	1,225
Utilisation of tax losses	(10,493)	(13,826)
Taxable income / (tax loss)	**28,848**	**41,702**

(*) Generated entirely from continuing operations

Permanent differences arising in profit or loss

The permanent differences arising in profit or loss correspond to expenses accrued for accounting purposes that cannot be deducted for tax purposes (gratuities, fines, etc.).

Temporary differences

The temporary differences arise from the recognition of income and expense in different periods due to differences between prevailing accounting and tax legislation. A breakdown of these differences by nature is provided in section 21.4.

21.3 Reconciliation of accounting profit and tax expense

The reconciliation of accounting profit/(loss) to taxable income/(tax loss) in 2013 and 2012 is provided below:

Thousands of euros	2013	2012
Accounting profit (profit before tax)	5,566	62,978
Permanent differences arising in profit or loss	811	516
Elimination of the accounting profit of non-resident companies	2,647	730
Consolidation adjustments and eliminations	(1,045)	272
Taxable income / (tax loss)	**7,979**	**64,496**
Tax payable / (receivable) before adjustments	**2,394**	**19,349**
Deductions and adjustments in respect of prior years	(1,032)	(1,399)
Tax effect of non-resident companies	(107)	1,997
Tax expense /(income)	**1,255**	**19,947**

The breakdown of tax expense / (income) in 2013 and 2012:

Thousands of euros	2013	2012
Current tax and other movements	11,350	15,867
Deferred tax	(10,095)	4,080
	1,255	**19,947**

21.4 Recognised deferred tax assets and liabilities

The reconciliation of the related consolidated statement of financial position headings at the beginning and end of 2013 and 2012 is as follows:

Deferred tax assets

2013

	Thousands of euros			
	Balance at 01/01/2013	Increases	Decreases	Balance at 31/12/2013
Deferred tax assets recognised in profit or loss:				
Fixed-asset depreciation	231	5,612	(114)	5,729
Fixed-asset impairment	448	2,080	(260)	2,268
Provisions	2,180	2,421	(704)	3,897
Employee commitments	1,174	499	(343)	1,330
Current-asset impairment	441	247	(108)	580
Non-resident companies	168	238	(59)	347
Consolidation adjustments	(50)	3	-	(47)
Unused tax losses	21,963	346	(3,148)	19,161
	26,555	**11,446**	**(4,736)**	**33,265**
Deferred tax liabilities recognised in equity:				
Hedging instruments (notes 12 and 16)	4,025	-	(1,733)	2,292
Total	**30,580**	**11,450**	**(6,469)**	**35,557**

2012

	Thousands of euros				
	Balance at 01/01/2012	Increases	Decreases	Transfers	Balance at 31/12/2012
Deferred tax assets recognised in profit or loss:					
Fixed-asset depreciation	461	-	(230)	-	231
Fixed-asset impairment	323	404	(279)	-	448
Provisions	4,459	400	(212)	(2,467)	2,180
Current-asset impairment	1,375	424	(2,335)	977	441
Employee commitments	-	90	(407)	1,491	1,174
Non-resident companies	2,214	415	(2,462)	1	168
Consolidation adjustments	58	-	(106)	(2)	(50)
Unused tax losses	27,371	-	(5,408)	-	21,963
Unused tax credits	-	415	(415)	-	-
	36,261	**2,148**	**(11,854)**	**-**	**26,555**
Deferred tax liabilities recognised in equity:					
Hedging instruments	9,328	2,372	(7,675)	-	4,025
Total	**45,589**	**4,520**	**(19,529)**	**-**	**30,580**

The deferred tax assets have been recognized in the consolidated statement of financial position due to the directors' belief, based on the best estimate of the profits of the companies comprising the consolidated Tax Group, that it is highly probable that future taxable profit will be available against which the tax assets can be utilised within the prescribed term.

The unused tax losses recognised as tax assets were generated in 2009. As provided in Spanish legislation, the unused tax losses generated during a given year can be offset against taxable income generated by the consolidated Tax Group No. 149/02 during the 18 fiscal years successively following the year of generation.

Deferred tax liabilities

2013

	Thousands of euros			
	Balance at 01/01/2013	Increases	Decreases	Balance at 31/12/2013
Deferred tax liabilities recognised in profit or loss:				
Accelerated depreciation	2,884	-	(226)	2,658
Other	2,137	-	(357)	1,780
	5,021	**-**	**(583)**	**4,438**
Deferred tax liabilities recognised in equity:				
Revaluation of forest land (note 16)	23,498	-	(314)	23,184
Hedging instruments (notes 12 and 16)	3,216	414	(3,630)	-
Consolidation and other adjustments	10	-	1	11
	26,724	**414**	**(3,943)**	23,195
Total	**31,745**	**414**	**(4,526)**	**27,633**

2012

	Thousands of euros				
	Balance at 01/01/2012	Increases	Decreases	Transfers	Balance at 31/12/2012
Deferred tax liabilities recognised in profit or loss:					
Accelerated depreciation	3,106	32	(254)	-	2,884
Other	2,100	67	(63)	33	2,137
	5,206	99	(317)	33	5,021
Deferred tax liabilities recognised in equity:					
Revaluation of forest land (note 16)	23,509	-	(11)	-	23,498
Hedging instruments (notes 12 and 16)	-	3,216	-	-	3,216
Consolidation and other adjustments	(426)	499	(30)	(33)	10
	23,083	3,715	(41)	(33)	26,724
	28,289	**3,814**	**(358)**	**-**	**31,745**

21.5 Unrecognised deferred tax assets

The Group did not recognise certain deferred tax assets in 2013 and 2012, mainly corresponding to tax losses generated in Uruguay in the amounts of €4,098 and €2,412 thousand, respectively, as these companies' business volumes are currently at low levels.

21.6 Years open to inspection and tax inspections

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the inspection period in effect in each tax jurisdiction has prescribed (four years in Spain and Portugal and five years in Uruguay). The directors believe that the tax contingencies that could arise from the investigations underway and from any review of the returns still open to inspection, if any, will not have a material impact on the accompanying financial statements.

22. Revenue

The breakdown of Group revenue by business in 2013 and 2012 is as follows:

Thousands of euros	2013	2012
Revenue from pulp sales	611,400	596,954
Revenue from energy sales	233,739	208,371
Revenue from sales of wood and forestry services	7,997	22,253
	853,136	**827,578**

In 2013 the Group sold 1,270,095 tonnes of pulp and 1,895,540 megawatt-hours of electric energy (1,248,805 tonnes of pulp and 1,542,773 MWh in 2012).

Virtually all of revenue from energy sales is generated in Spain. The breakdown of revenue from pulp sales by geographic market is as follows.

Percentage of pulp sales	2013	2012
Italy	20.2	17.1
Germany	19.4	21.6
Spain	14.9	13.0
France	11.4	9.4
Austria	5.6	6.9
Turkey	4.2	3.7
Poland	4.2	3.6
Slovenia	3.0	2.5
Greece	2.9	1.7
Netherlands	2.7	2.5
United Kingdom	2.7	2.3
Sweden	1.3	3.5
Switzerland	1.2	1.9
China	1.2	4.2
Portugal	1.2	1.0
Other	3.9	5.1
	100	**100**

A single customer accounts for 11% of the Group's revenue from pulp sales.

22.1 *Foreign currency transactions*

In 2013 the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €180,503 thousand (2012: €186,430 thousand).

22.2 Regulatory changes in the energy sector

The Group faces regulatory uncertainty as a result of the processing, underway, of draft legislation "regulating the production of electric power from renewable sources, co-generation and waste", which establishes the rules for calculating the remuneration applicable to renewable energy power generation facilities with retroactive effect from 14 July 2013 and the draft "Order approving the remuneration parameters for standard facilities applicable to certain power generation facilities fuelled by renewable sources of energy, CHP and waste" which proposes amendments to the prevailing premium regime (note 5).

Management has estimated the impact of application of this piece of legislation on its recognised revenue since retroactive effectiveness on 14 July 2013 by recognising a provision of €7,080 thousand. This is gross of the corresponding reduction of €496 thousand in the electricity generation levy, which is recognised under "Current provisions" in the accompanying consolidated statement of financial position (note 18).

23. Cost of sales

Consumption of raw materials and other consumables in 2013 and 2012 breaks down as follows:

Thousands of euros	2013	2012
Purchases	372,663	336,182
Change in raw material, goods held for resale and other inventories	3,207	16,666
Other external expenses	51,966	55,200
	427,836	**408,048**

This heading mainly includes the cost of the wood, chemical products, fuels and other variable costs incurred in the pulp production process.

24. Employee benefit expense

The breakdown of the employee benefit expense incurred in 2013 and 2012 is provided below:

Thousands of euros	2013	2012
Wages and salaries	57,135	59,999
Social security	13,620	13,936
Pension contributions and other social benefits	3,281	3,472
	74,036	**77,407**
Termination benefits	5,369	4,695
Long-term remuneration plans	1,054	160
	80,459	**82,262**

The Group has reached an agreement with the workers' representatives at its three pulp production plants under which its headcount will be reduced by 67 under a negotiated redundancy package.

The average headcount in 2013 and 2012:

	Average headcount during the year					
	2013			2012		
Job category	Men	Women	Total	Men	Women	Total
Executives	7	1	8	6	1	7
Individual job contracts	217	61	278	220	56	276
Collective bargaining agreement	570	85	655	654	103	757
Temporary workers	84	23	107	202	28	230
	878	**170**	**1,048**	**1,082**	**188**	**1,270**

The number of employees with a disability stood at 15 at year-end 2013 (16 at year-end 2012).

The breakdown of year-end headcount by job category and gender:

	Year-end headcount					
	2013			2012		
Job category	Men	Women	Total	Men	Women	Total
Executives	7	1	8	6	1	7
Individual job contracts	210	61	271	236	65	301
Collective bargaining agreement	561	85	646	590	92	682
Temporary workers	61	24	85	67	16	83
	839	**171**	**1,010**	**899**	**174**	**1.073**

The Board of Directors was made up of 12 directors at both year-ends, 11 of which men.

25. Other operating expenses

The breakdown of this consolidated income statement heading in 2013 and 2012 was as follows:

	Thousands of euros	
	2013	2012
Thousands of euros		
External services	187,614	187,277
Use of emission allowances (note 18)	8,715	3,029
Taxes other than income tax and other management charges	4,624	6,721
New electricity generation levy (note 5)	16,274	-
Change in impairment provisions for inventories and bad debt	5,783	(1,400)
Other non-recurring charges (*)	16,998	6,326
Total	**240,008**	**201,953**

(*) This heading primarily includes €5,228 thousand corresponding to the estimated cost of terminating estate lease agreements (note 9) and €6,543 thousand in respect of timber inventory restatements

The breakdown of "External services" in the consolidated income statement in 2013 and 2012:

Thousands of euros	2013	2012
Transport, freight and business expenses	57,862	60,399
Utilities	58,963	60,750
Repairs and upkeep	21,460	16,476
Rent and fees	7,599	7,714
Insurance premiums	5,347	5,293
Independent professional services	8,977	6,942
Banking and similar services	2,241	2,537
Advertising, publicity and public relations	1,129	1,008
Research and development costs (*)	514	100
Other services	23,522	26,058
	187,614	**187,277**

(*) In addition, seven professionals work on the Group's R&D efforts on a full-time basis

25.1 Audit fees

Those fees paid in 2013 and 2012 related to the Financial Statements audit services plus other services carried out either by the Group`s auditor or by an entity related to the Group's auditor in terms of control or shared business and/or ownership are shown in the next table:

	Thousands of Euros	
	2013	2012
Audit services	157	197
Other services	196	120

26. Finance costs

The breakdown of this consolidated income statement heading in 2013 and 2012 was as follows:

Thousands of euros	2013	2012
Bonds	16,615	-
Syndicated loan	656	8,657
Project finance facilities	3,949	3,044
Credit, factoring and reverse factoring lines	2,924	1,936
Financing arrangement fees recognised in profit and loss	6,192	4,886
Capitalised borrowing costs	(4,480)	(7,159)
Other (note 9)	1,897	108
	27,753	11,472
Derivatives:		
Settlement of the project finance interest-rate swap	2,755	1,307
Settlement of the equity swap	254	485
	3,009	1,792
Settlement of the corporate financing interest-rate swap	-	11,107
	30,762	**24,371**

27. Earnings by Group company

The contribution in 2013 and 2012 to consolidated profit (loss) by each of the companies included in the consolidation scope is as follows:

Thousands of euros	2013	2012
ENCE Energía y Celulosa, S.A. (*)	5,934	(2,721)
Celulosas de Asturias, S.A.U.	33,040	47,360
Celulosa Energía, S.A.U.	(1,043)	5,226
Norte Forestal, S.A.U.	(1,433)	(784)
Silvasur Agroforestal, S.A.U.	(4,072)	1,459
Iberflorestal, S.A.U.	(2,115)	174
Ibersilva, S.A.U.	(694)	668
Ence Investigación y Desarrollo, S.L.U.	(1,913)	(52)
Maderas Aserradas del Litoral, S.A.	(109)	(2,570)
Sierras Calmas, S.A.	386	(590)
Ence Energía, S.L.U	(19,452)	(536)
Ence Energía Huelva, S.L.U	(3,464)	(1,541)
Ence Energía Extremadura, S.L.U	(821)	(119)
Consolidation adjustments and other companies	67	(2,943)
Total	**4,311**	**43,031**

(*) In addition, in 2013 the Parent received €30,005 thousand of dividends from subsidiaries (2012: €40,000 thousand) and recognised provisions on investments in subsidiaries of €28,859 thousand (2012: €7,354 thousand)

28. Non-current assets held for sale

The Group classifies a non-current asset (or disposal group) as held for sale when its carrying amount is to be recovered principally through a sale transaction insofar as a sale within the next 12 months is considered highly probable. These assets are measured at the lower of the carrying amount and fair value less costs to sell.

The Parent agreed the sale of its forest assets in Uruguay on 15 December 2012. The assets sold comprised 27,780 hectares of forest land planted with eucalyptus in south-eastern Uruguay and the equipment for felling and chopping the wood. The sale of these assets closed during the first half of 2013.

The assets were sold for €60 million and the transaction generated a loss of approximately €1 million.

The breakdown of "Non-current assets held for sale" at 31 December 2012, measured at fair value, was as follows:

	Thousands of Euros
NON-CURRENT ASSETS	58,360
Property, plant and equipment	36,364
Biological assets	21,996
CURRENT ASSETS	985
Inventories	985
TOTAL ASSETS	**59,345**

These assets had been, for the most part, classified in the "Forest management" segment (note 29).

29. Operating segments

The Group has defined the following reporting segments for which it has full and independent financial information that is reviewed regularly by senior management in order to evaluate their performance and for decision-making purposes:

- Pulp & Energy. The co-generation of electric power is intrinsic to the pulp-making business by using the parts of the wood that cannot be transformed into pulp, essentially lignin and biomass, as fuel.

  The power co-generation plants are closely intertwined with the pulp manufacturing factories in which they are integrated and it is not possible to obtain reliable independent financial information for each part, which is why senior management evaluates this segment's performance as a whole.

- Biomass Energy Projects. Leveraging the know-how built up in the forestry sector and in developing quick-rotation energy crops, the Group is developing power generation projects fuelled by biomass.

  This main assets included in this operating segment are the power generation facilities and the energy crops, which are typically allocated to each project and help guarantee each project's supply.

- Pulp Forest Assets. This operating segment essentially includes the forest crops and forest areas that are later used as raw materials in the pulp production process.

- Forest Services & Other. This segment includes residual business activities carried out by the Group, including forest services provided to third parties, etc.

29.1 Operating segment reporting

The table below details the earnings performance by operating segment in 2013 and 2012, based on the management information reviewed regularly by senior management:

2013

Income statement	Thousands of euros						
	Pulp & Energy	Biomass Energy Projects	Pulp Forest Assets	Forest Services & Other	Subtotal	Elimination of inter-segment transactions	Total
Revenue:							
From third parties	792,905	52,234	6,649	1,348	853,136	-	853,136
Inter-segment revenue	1,201	9,746	82,735	1,024	94,706	(94,706)	-
Total revenue	**794,106**	**61,980**	**89,384**	**2,372**	**947,842**	**(94,706)**	**853,136**
Other operating income and expense	(675,354)	(45,013)	(79,030)	(1,242)	(800,639)	93,155	(707,484)
EBITDA	**118,752**	**16,967**	**10,354**	**1,130**	**147,203**	**(1,551)**	**145,652**
Depreciation and depletion of forest reserves for the year	(51,062)	(18,526)	(9,479)	(898)	(79,965)	1,628	(78,337)
Impairment charges recognised in anticipation of draft legislation/ministerial order (note 5)	(7,842)	(24,146)	(656)	(2,853)	(35,497)	-	(35,497)
Operating profit/(loss)	**59,848**	**(25,705)**	**219**	**(2,621)**	**31,741**	**77**	**31,818**
Finance income	18,193	584	(571)	17	18,223	(16,184)	2,039
Finance costs	(23,356)	(11,709)	(9,081)	(970)	(45,116)	16,184	(28,932)
Exchange differences	(594)	-	1,313	(78)	641	-	641
Tax	(15,198)	10,168	2,838	937	(1,255)	-	(1,255)
Profit / (loss) for the year	**38,893**	**(26,662)**	**(5,282)**	**(2,715)**	**4,234**	**77**	**4,311**

Additions to non-current assets (*)	48,545	54,097	10,516	0	113,158		113,158
Accumulated depreciation and depletion of forest reserves	(822,357)	(38,476)	(45,279)	(6,129)	(912,241)	4,583	(907,658)
Provision and impairment charges	(14,625)	(17,021)	(3,018)	(3,853)	(38,517)	(2,532)	(41,049)

(*) Does not include emission allowances

Statement of financial position	Thousands of euros						
	Pulp & Energy	Biomass Energy Projects	Pulp Forest Assets	Forest Services & Other	Subtotal	Elimination of inter-segment transactions	Total (a)
Assets							
Non-current	808,119	228,736	244,695	1,944	1,283,494	(329,161)	954,333
Current	325,019	28,248	49,662	10,349	413,278	(40,909)	372,369
Total assets (a)	**1,133,138**	**256,984**	**294,357**	**12,293**	**1,696,772**	**(370,070)**	**1,326,702**
Liabilities:							
Non-current	288,171	233,520	132,748	5,432	659,871	(271,281)	388,590
Current	215,656	23,546	27,741	9,701	276,644	(40,908)	235,736
Total liabilities (a)	**503,827**	**257,066**	**160,489**	**15,133**	**936,515**	**(312,189)**	**624,326**

(a) Does not include equity or deferred tax assets and liabilities

2012

Income statement	Thousands of euros						
	Pulp & Energy	Biomass Energy Projects	Pulp Forest Assets	Forest Services & Other	Subtotal	Elimination of inter-segment transactions	Total
Revenue:							
From third parties	794,511	10,814	8,709	13,544	827,578	-	827,578
Inter-segment revenue	1,890	7,318	113,828	6,978	130,014	(130,014)	-
Total revenue	**796,401**	**18,132**	**122,537**	**20,522**	**957,592**	**(130,014)**	**827,578**
Other operating income and expense	(662,754)	(15,863)	(112,149)	(18,425)	(809,191)	127,251	(681,940)
EBITDA	**133,647**	**2,269**	**10,388**	**2,097**	**148,401**	**(2,763)**	**145,638**
Depreciation and depletion of forest reserves for the year	(52,351)	(2,926)	(7,526)	(569)	(63,372)	-	(63,372)
Operating profit/(loss)	**81,296**	**(657)**	**2,862**	**1,528**	**85,029**	**(2,763)**	**82,266**
Finance income	8,971	93	18	63	9,145	(8,398)	747
Finance costs	(18,492)	(2,572)	(4,085)	(821)	(25,970)	8,398	(17,572)
Exchange differences	(2,273)	-	531	(61)	(1,803)	-	(1,803)
Net gain/(loss) on non-current assets held for sale	(251)	-	1,953	(2,362)	(660)	-	(660)
Tax	(19,429)	942	(1,164)	(296)	(19,947)	-	(19,947)
Profit (loss) for the year	**49,822**	**(2,194)**	**115**	**(1,949)**	**45,794**	**(2,763)**	**43,031**
Additions to non-current assets (*)	26,870	72,035	9,524	4,044	112,473	-	112,473
Accumulated depreciation and depletion of forest reserves	(758,753)	(3,053)	(104,347)	(7,315)	(873,468)	-	(873,468)
Provision and impairment charges	(2,063)	-	(2,716)	(1,737)	(6,516)	(2,000)	(8,516)

(*) Does not include emission allowances

Statement of financial position	Thousands of euros						
	Pulp & Energy	Biomass Energy Projects	Pulp Forest Assets	Forest Services & Other	Subtotal	Elimination of inter-segment transactions	Total (a)
Assets							
Non-current	870,325	207,872	242,842	9,394	1,330,433	(357,518)	972,915
Current	358,217	36,661	111,799	18,141	524,818	(150,264)	374,554
Total assets (a)	**1,228,542**	**244,533**	**354,641**	**27,535**	**1,855,251**	**(507,782)**	**1,347,469**
Liabilities:							
Non-current	269,223	194,488	165,939	9,496	639,146	(270,262)	368,884
Current	326,546	28,601	29,568	18,243	402,958	(150,264)	252,694
Total liabilities (a)	**595,769**	**223,089**	**195,507**	**27,739**	**1,042,104**	**(420,526)**	**621,578**

(a) Does not include equity or deferred tax assets and liabilities

29.2 Disclosures by productive plant

To complement the operating segment disclosures, the table below provides profit and loss disclosures by pulp and energy production facility:

	Thousands of euros							
2013	Pontevedra factory	Huelva factory (a)	Navia factory	Corporate (c)	Other (b)	Subtotal	Eliminations	Total
Business metrics:								
Pulp output (ADt)	417,252	375,859	476,984	-	-	1,270,095	-	1,270,095
Energy output (MWh)	214,322	814,230	525,042	-	-	1,553,594	-	1,553,594
Continuing operations:								
Revenue	229,340	278,363	395,744	143	153,200	1,056,790	(203,654)	853,136
Gain (loss) on hedging transactions	-	-	-	12,102	-	12,102	-	12,102
Changes in inventory of finished goods and work in progress	1,787	(2,064)	3,025	-	(1,304)	1,444	674	2,118
Cost of sales	(125,675)	(173,505)	(234,427)	-	(98,764)	(632,371)	204,534	(427,837)
Gross profit	**105,452**	**102,794**	**164,342**	**12,245**	**53,132**	**437,965**	**1,554**	**439,519**
Employee benefit expense	(20,843)	(20,348)	(20,362)	(15,526)	(2,326)	(79,405)	-	(79,405)
Depreciation/amortisation charge	(13,915)	(12,176)	(23,280)	(552)	(13,240)	(63,163)	30	(63,133)
Depletion of forestry reserve	-	0	-	-	(19,758)	(19,758)	4,553	(15,205)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	(287)	(12,366)	140	(1,736)	(21,690)	(35,939)	(1,577)	(37,516)
Other operating expenses	(53,245)	(59,201)	(63,280)	(7,241)	(24,318)	(207,285)	(5,157)	(212,442)
Operating profit/(loss)	**17,162**	**(1,297)**	**57,560**	**(12,810)**	**(28,200)**	**32,415**	**(597)**	**31,818**

(a) Includes the energy business activities carried out by Celulosa Energía, S.A. at the Huelva industrial complex.

(b) Includes the forestry and energy crop activities, the 50-MW Huelva plant and the Mérida energy plant under construction, companies that are virtually inactive (Ibersilva, S.A.) and the Group's subsidiaries in Uruguay.

(c) The allocation by productive facility of the corporate costs incurred at the Group level, in proportion to output in terms of tonnage, would have the effect of increasing expenditure at the Pontevedra, Huelva and Navia plants by €4,208 thousand, €3,791 thousand and €4,811 thousand, respectively.

Likewise, the allocation by productive facility of the finance income and expense incurred by the Group, other than the interest expense associated with the project financing structures funding the new biomass power generation projects, likewise in proportion to output in terms of tonnage, would have the effect of increasing expenditure at the Pontevedra, Huelva and Navia plants by €7,567 thousand, €6,817 thousand and €8,651 thousand, respectively.

The allocation to the productive facilities of the corporate overhead and finance costs would result in an operating profit at the Pontevedra plant of €5,387 thousand, an operating loss at the Huelva plant of €11,905 thousand and an operating profit at the Navia facility of €44,098 thousand.

2012	Thousands of euros Pontevedra factory	Huelva factory (a)	Navia factory	Corporate (c)	Other (b)	Subtotal	Eliminations	Total
Business metrics:								
Pulp output (ADt)	406,722	357,008	485,906	-	-	1,249,636	-	1,249,636
Energy output (MWh)	229,353	814,995	514,571	-	-	1,558,919	-	1,558,919
Continuing operations:								
Revenue	230,229	270,668	400,034	197	162,102	1,063,230	(235,652)	827,578
Gain (loss) on hedging transactions	-	-	-	(27,567)	-	(27,567)	-	(27,567)
Changes in inventory of finished goods and work in progress	264	1,895	(1,838)	-	(12,444)	(12,123)	12,954	831
Cost of sales	(121,381)	(172,059)	(218,692)	(1,934)	(112,403)	(626,469)	218,422	(408,047)
Gross profit	**109,112**	**100,504**	**179,504**	**(29,304)**	**37,255**	**397,071**	**(4,276)**	**392,795**
Employee benefit expense	(20,491)	(20,623)	(19,300)	(11,613)	(10,075)	(82,102)	-	(82,102)
Depreciation/amortisation charge	(12,800)	(12,789)	(22,786)	(3,128)	(2,758)	(54,261)	-	(54,261)
Depletion of forestry reserve	-	-	-	-	(9,110)	(9,110)	-	(9,110)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	321	2,963	134	2,051	731	6,200	129	6,329
Other operating expenses	(45,905)	(45,013)	(58,543)	(10,447)	(13,044)	(172,952)	1,567	(171,385)
Operating profit/(loss)	**30,237**	**25,042**	**79,009**	**(52,441)**	**2,999**	**84,846**	**(2,580)**	**82,266**

(a) Includes the energy business activities carried out by Celulosa Energía, S.A. at the Huelva industrial complex.

(b) Includes the forestry and energy crop activities, the 50-MW Huelva plant and the Mérida energy plant under construction, companies that are virtually inactive (Ibersilva, S.A.) and the Group's subsidiaries in Uruguay.

(c) The allocation by productive facility of the corporate costs incurred at the Group level, in proportion to output in terms of tonnage, would have the effect of increasing expenditure at the Pontevedra, Huelva and Navia plants by €17,068 thousand, €14,982 thousand and €20,391 thousand, respectively.

Likewise, the allocation by productive facility of the finance income and expense incurred by the Group, other than the interest expense associated with the project financing structures funding the new biomass power generation projects, likewise in proportion to output in terms of tonnage, would have the effect of increasing expenditure at the Pontevedra, Huelva and Navia plants by €7,046 thousand, €6,185 thousand and €8,418 thousand, respectively.

The allocation to the productive facilities of the corporate overhead and finance costs would result in an operating profit at the Pontevedra, Huelva and Navia plants of €6,123 thousand, €3,875 thousand and €50,200 thousand, respectively.

30. Director and key management personnel pay and other benefits

The table below sets out the amounts recognised by the Parent in 2013 and 2012 in respect of remuneration accrued by its directors for discharging the duties intrinsic to their membership of the Board of Directors:

		Thousands of euros		
2013 - Director	Class of director	Fixed remuneration	Attendance fees & other	Total
Juan Luis Arregui Ciarsolo	Executive	124	78	202
Retos Operativos XXI, S.L.	Proprietary	34	35	69
José Manuel Serra Peris	Independent	34	57	91
Pedro Barato Triguero	Independent	34	31	65
Fernando Abril-Martorell Hernández	External	34	51	85
Gustavo Matías Clavero	Independent	34	35	69
José Guillermo Zubía Guinea	Independent	34	50	84
Norteña Patrimonial, S.L.	Proprietary	34	23	57
José Carlos de Álamo Jiménez	Independent	34	31	65
Pascual Fernández Martínez	Proprietary	34	41	75
Isabel Tocino Biscarolasaga	Independent	25	18	43
Javier Echenique Landiribar	Proprietary	34	45	79
		489	**495**	**984**

		Thousands of euros		
2012 - Director	Class of director	Fixed remuneration	Attendance fees & other	Total
Juan Luis Arregui Ciarsolo	Executive	124	77	201
Retos Operativos XXI, S.L.	Proprietary	34	30	64
José Manuel Serra Peris	Independent	34	42	76
Pedro Barato Triguero	Independent	34	22	56
Fernando Abril-Martorell Hernández	External	34	46	80
Gustavo Matías Clavero	Independent	34	32	66
José Guillermo Zubía Guinea	Independent	34	53	87
Norteña Patrimonial, S.L.	Proprietary	34	14	48
Pedro José López Jiménez (a)	Proprietary	34	24	58
José Carlos de Álamo Jiménez	Independent	34	26	60
Pascual Fernández Martínez	Proprietary	34	36	70
Javier Echenique Landiribar	Proprietary	34	44	78
		498	**446**	**944**

(a) Stepped down from the board in 2012

In addition, in 2013 the Parent recognised €2,905 thousand in respect of all items of remuneration accrued by the members of its Executive Committee, including that paid for chief executive duties under a service provision agreement (2012: €3,366 thousand). The members that stepped down from the Executive Committee received €334 thousand in wages and severance pay.

The directors performing executive duties and the key management personnel received a total of 555,697 options over shares of Ence Energía y Celulosa, S.A. on the terms established in the "Long-term Bonus Plan of Ence, Energía y Celulosa, S.A. for 2010-15" (note 4) as part of their performance-based pay.

The list of key management personnel in 2013 is as follows:

Name	Position
Ignacio de Colmenares y Brunet	Chief Executive Officer
Jaime Argüelles Álvarez	Director of Pulp and Energy Operations
Javier Arregui Abendivar	Director of Forestry
Alvaro Eza Bernaola	Director of Procurements
María José Zueras Saludas	Director of Human Capital
Diego Maus Lizariturry	Director of Finance and Corporate Development
Luis Carlos Martínez Martín	Director of Communication and Institutional Relations
Guillermo Medina Ors	General Secretary

The Parent has not extended its directors any advances or loans.

The Parent has no pension or alternative insurance related obligations to its directors. However, the Chief Executive Officer, by virtue of his service agreement, participates in certain company benefits, which are included in the corresponding pension contributions and payments.

As part of the transparency disclosures required under article 229 of the Corporate Enterprises Act, it is hereby noted that at 31 December 2013, the members of the Company's Board of Directors have reported that (i) they do not hold any equity interests in any other company with the same, similar or complementary corporate purpose as that of the Company; and (ii) have not performed and are not currently discharging any professional duty, as independent professionals or as employees, at companies whose corporate purpose is identical, similar or complementary to that of the Company, except as follows:

(a) Javier Arregui Ciarsolo and Fernando Abril-Martorell Hernández hold indirect ownership interests of 90% and 4.97%, respectively, in Foresta Capital, S.L.; (b) Javier Arregui Ciarsolo owns an indirect 0.577% shareholding in Iberdrola, S.A.; and (c) at 31 December 2013, Norteña Patrimonial, a member that resigned from the Company's Board on 28 January 2014, was also a member of the board of Hidroeléctrica del Cantábrico, S.A.; moreover other companies in this director's group held ownership interests in or were represented on the governing bodies of other companies with the same, similar or complementary corporate purpose as that of the Company. Specifically, at 31 December 2013, the Liberbank Group, to which Norteña Patrimonial, S.L. belongs, has direct or indirect ownership interests in and board representation at the following companies: EDP Energías de Portugal, S.A. (3.17% and board representation); Eléctrica de Sierra de San Pedro, S.A. (20% and board representation), Electra de Montanchez, S.A. (20% and board representation), Electra de Malvana, S.A. (20% and board representation), Ecoiberia Solar, S.L. (100% and board representation), Hidroeléctrica del Cantábrico, S.A. (0.13% and board representation), Grupo Naturener, S.A. (2,40%), Socpe des Quinze Mines S.A.R.L. (51%), Socpe Le Mee S.A.R.L. (51%), Socpe Petite Piede S.A.R.L. (51%), Socpe Sauvageons S.A.R.L. (51%) and Viacavaincos de Energía, S.A. (100% and board representation).

31. Related-party transactions

At 31 December 2012, the Group had secured several sources of financing (all of which on an arm's length basis) with related parties as follows:

Year	Carrying amount (thousands of euros)	Currency	Interest rate	Maturity
2012	6,155	Euro	Euribor + 3%	2014

The Company entered into the following transactions with related parties in 2013 and 2012:

Related party	Nature of the transaction	Thousands of euros	
		2013	2012
Liberbank, S.A.	Interest and banking fees and commissions	19	255
Fidalser, S.L.	Share purchases	-	25,246
Agroluan, S.L.	Services received	212	-
Grupo Foresta	Biomass / acquisition of intangible assets	526	3,566

On 20 December 2012 the Group entered into a service agreement with Agroluan, S.L. with a view to ensuring the correct implementation of the R&D technology acquired during the year (note 7). The agreement contemplated annual remuneration of €200 thousand.

32. Environmental disclosures

The Ence Group has three factories located in Huelva, Navia and Pontevedra, each of which holds the corresponding integrated environmental permit for the pursuit of its industrial activity and the generation of electricity from biomass.

Likewise, and also in keeping with prevailing environmental legislation, the factories forming part of the Pulp and Energy operating segment hold the corresponding greenhouse gas emission permits. As verified by AENOR and Lloyd's, emissions in 2012 did not exceed the allowances allocated; indeed the Group generated a surplus that will be used during the 2013-2020 greenhouse gas allowance trading period.

In November 2013, the Spanish Parliament approved the allocation of emission allowances free of charge for 2013-2020. The new plan upholds the criteria adopted by Decision 2011/278/EU of the European Commission.

At Ence, processes are carried out under the Total Quality Management model and predicated on keeping with management excellence; they are articulated around three cornerstones: managing improvement; managing processes; and managing everyday activities.

Against this backdrop, the Group has established improvement targets with a clear environmental focus aimed specifically at:

- Reducing odour pollution

- Improving the quality of wastewater
- Boosting energy efficiency
- Reducing the consumption of raw materials
- Cutting waste generation

In addition, the Group is in the process of implementing an integrated management system at the factory level that meets the UNE-EN-ISO 9001 standard in terms of quality management, the UNE-EN-ISO 14001 standard in terms of environmental management and the OHSAS 18001 standard in terms of workplace health and safety.

This integrated system is certified by an accredited organism that audits the system annually. The overriding goal of the system is to ensure that all of Ence's activities are carried out under the scope of the management policy set by senior management and the Group's defined strategic targets are met. The management system is articulated around processes that are identified and evaluated in order to facilitate control tasks and their continual improvement.

The three factories participate in the Community eco-management and audit scheme (EMAS) governed by Regulation (EC) No. 1221/2009. Validation of the environmental statement enables the continued participation of all three factories in this scheme, each of which was the first in their respective regions to assume this demanding voluntary commitment which only a limited number of companies uphold today.

Ence's environmental management policy is based on compliance with prevailing legislation establishing the requirements with which all pulp production related activities must comply.

The integrated environmental permit, defined in Spanish Law 16/2002 on the integrated prevention and control of pollution, establishes the environmental requirements for operating an industrial facility. The goal is to prevent, or at least minimise, and control air, water and soil contamination with a view to protecting the environment as a whole.

To this end the permit sets emission limits for each facility based on best available techniques and surveillance plans in respect of all relevant environmental parameters.

Under the scope of the TQM model, the Group is developing the operating standards needed to optimally control potential environmental fallout. In fact, the results obtained, which are a testimony to the effectiveness of this management model, certify due compliance with applicable legislation.

These results are the result of the commitment of all the people working at Ence and the investment effort undertaken in recent years, underpinned by the best environmental practices (BEP) defined in the sector BREF (Best Available Techniques in the Pulp and Paper Industry 2001).

Huelva Operations Centre

As part of the Group's commitment to reducing odour contamination from its business activities, the initiatives undertaken last year continued to drive this metric lower, specifically resulting in a 42% improvement over that already achieved last year.

The readings for the key indicators used to measure the quality of effluents discharged, namely total organic carbon (TOC) and suspended solids remain in line with those registered last year, except for a slight increase in the wastewater flow thanks to the introduction of new water-consuming units at the Operations Centre.

As for waste management, the amendment of the integrated environmental permit has the effect of declassifying certain process waste products such as sand and gypsum from the biomass boiler and gypsum from the heat recovery boiler; these products are now considered subproducts or secondary raw materials. Against this backdrop, waste management work focused on the management of these products as part of the cement activity. As a result, the Group ended the year managing 30% of the volume of one of the main waste products generated by the productive process as a secondary raw material in cement mixing. In addition, a number of initiatives translated into an improvement in the dryness of the sludge from the waste treatment unit.

Overall, total waste generation was reduced by 24% year-on-year.

The Group prepared its soil report in 2013, demonstrating that it has not surpassed the corresponding benchmarks, and presented it to the competent authority.

In terms of environmental investment, within the €13.2 million of capital committed in 2013, the most significant investment from an environmental protection standpoint was the substitution of gas for fuel-oil as the fuel powering the lime kilns.

Also, during the second half of the year the Group introduced process improvements in the new wood cutting and chopping plant; as a result, this process is now more energy efficient and makes better use of the biomass generated.

Navia Operations Centre

At the Navia factory, the pulp and energy production productivity gains were consolidated and its processes made more efficient in 2013. These results were achieved by means of continual improvement on the environmental management front thanks to the rollout of significant environmental enhancement initiatives.

The most significant environmental investment made at the Navia Operations Centre was the extension work at the effluent treatment facility: the start-up of this facility in the second half of 2013, which entailed investment of €12 million, improved the quality of the plant's wastewater which now registers benchmark readings by European standards.

In addition to the biological treatment plant, during the second half of 2013 the Group managed to improve the quality of this centre's wastewater by enhancing the evaporation process by reducing the organic load of the condensates generated and further improving facility incident control measures, which materialised in a revised version of the emergency plan.

During the first half of 2013 the Group delivered a very important milestone in terms of reducing odour pollution at Navia thanks to implementation of a project to optimise the evaporator process and change the technology used to treat odorous gases which are no longer oxidised in the lime kiln facility but rather in the plant's heat recovery boilers, thereby rendering operations more efficient and effective. This has significantly reduced emissions in the kiln area which has resulted in a reduction in odour in the vicinity.

In December 2013 testing began on the introduction of natural gas to fuel the lime kilns instead of fuel-oil. This project will translate into operational and environmental improvements such as a reduction in direct and indirect emissions (by reducing fuel-oil cistern traffic), a reduction in the generation of waste associated with kiln maintenance tasks and greater energy efficiency.

Lastly, in terms of noise pollution, in 2013 the Group continued its sound-proofing work, focusing its efforts on the cooling towers within the energy generation process.

The Navia factory delivered improved readings in respect of the significant environmental impacts of the pulp production activity as part of its ongoing aim of reaching European standards of excellence.

Pontevedra Operations Centre

Work continued at the Pontevedra Operations Centre on the project initiated in 2009, in collaboration with Santiago University, to eliminate odorous emissions. With a 'zero odour' target in sight, the facility invested €1.67 million to collect gases produced by washing and bleaching pulp for burning in the heat recovery boiler, in a system for burning biological sludge in the heat recovery boiler and in another system for eliminating odour leakage by installing hydraulic tank seals. Since this initiative was set in motion, the facility has delivered a 96% reduction in odour pollution.

Management of the visual impact of the Pontevedra Operations Centre has become a top priority. To this end the Group has designed a project to eliminate the steam plumes in the cooling towers by replacing the current towers with 'anti-plume' hybrid towers. Hydraulic seals have also been installed to minimise steam vents into the air, and the scrubber plume that gathered the fog from the washing filters has been eliminated. Lastly the project to eliminate the dissolving plume in the recovery boiler was completed. These investments implied a capital commitment of €1.97 million.

The Group also organised a project calling for ideas for the enhanced visual integration of the factory with the aim of finding architectural solutions for better blending the facility into the surrounding landscape. One hundred and two projects were submitted. The winner was a project titled "Own matter" which was presented by Marta Orta and Carlos Trullenque, architects from Valencia.

In terms of wastewater, the results in 2013 were in line with those achieved in prior years, a performance that continues to position the Pontevedra factory as a European benchmark in terms of the quality of its effluents.

Lastly, on the emissions front, work was undertaken to reduce particle emissions, to which end work was performed on the electrofilter in the biomass furnace and on the precipitator in the heat recovery furnace for a combined investment of €0.53 million.

In addition, an entity accredited by ENAC certified all the monitors measuring emissions under the international UNE-EN-14181 standard.

Forestry

In 2013 the Group continued to carry out its forestry activities through is forest asset management companies (Silvasur Agroforestal, Norte Forestal and Iberflorestal). These activities include initiatives and investments designed to manage, monitor and maintain the productive forest assets (site preparation work, forestation and reforestation, fertilisation, sapling selection, pest and fire control, as well as other forest-related investments). It is worth highlighting the work performed to manage non-productive assets for preservation or biodiversity protection purposes. Specifically, the Group intensified its classification work (ecosystems, unique characteristics and habitats) in conjunction with its regular forest asset management and monitoring work.

The purely environmental initiatives focused on the reduction of risks for all classes of forest assets and the reinforcement of intrinsic values such as biodiversity protection, the fostering of ecological corridors and improvements in soil conservation. In general terms, all the initiatives undertaken in respect of forest land and its cover are aimed at delivering a more balanced carbon cycle, reinforcing the nitrogen fixation effect of forest ecosystems, and making a positive contribution to mitigating the impact of climate change.

In 2013 the Group integrated the forest certifications held by its Spanish forest management companies into a single sustainable forest management certificate for each of the certification regimes, PEFC and FSC.

On the forest management front, significant progress was made in terms of FSC® certification. Over the course of 2013 the certificates of Silvasur Agroforestal and Norte Forestal were unified into a single certificate, while the area managed and certified under this seal was increased by 750 hectares, thereby culminating the process initiated one year earlier. The Group has pledged to certify all its forest assets under the FSC standard within no more than three years.

Forest certification focuses on analysis of the predominantly forestry activities, guaranteeing that they not only protect the environment but are developed under a broad framework of sustainability and efficiency, attesting to the fact that a certified entity's forests are managed sustainably and responsibly, thereby helping to increase consumer confidence in forest products. This commitment was reinforced in 2013 when senior management approved the Group's "Sustainability Governing Principles". These principles have been published on the corporate website in a public display of its responsible forest management pledge. Management also began work on drafting a new "Best Environmental Practices Manual" which, following consultation with the main stakeholders in the fourth quarter of 2013, will be approved by management and introduced during the first quarter of 2014.

In terms of forestry activities beyond the scope of the Group's owned forest assets, these focused on the direct acquisition of wood from forest owners in a way that seeks to bring the external forest sector in line with the Group's in-house practices and principles, by associating the wood purchase activity with an intense training effort and the provision of information to forest owners and associations on forest management matters, the use of enhanced species, pest control, forest certification, etc.

One of the most noteworthy initiatives in this arena was the support provided to the Forest Property initiative (*Propriedad Forestal*) for the creation and certification of certified forest management groups, such that by means of financing, grants, the sharing of know-how and the provision of technical support, a number of FSC certification groups have been set up (three in Cantabria and another in southern Spain). These actions serve to shake up the sector, foster the availability of certified wood at owner-affordable prices and invigorate the Cantabria certified wood market.

The encouragement of external forestry management resulted in a nearly 10% increase in the volume of third-party wood supplied to the factory, thereby making the necessary contribution to maintenance of the custody chain certificates (PEFC and FSC) and even expanding their scope by adding new intermediary expanses. Iberflorestal, the Group's Portuguese subsidiary, engaged mainly in the sale of wood, retains its individual certification.

On the traceability front, it is worth noting Ence's adoption and implementation of a due diligence system to comply with European regulations governing the legal provenance of traded wood. The system has implied, among other initiatives, the fresh certification of all suppliers that act as agents under the EU timber trade regulations and better documentation of the origin of all the wood supplied to the Group's factories. In order to boost compliance with these regulations at the sector level, a number of training and information events were organised at Ence's initiative for suppliers, owners, consultants and other stakeholders.

Lastly, in terms of occupational health and safety, the Group renewed all its OHSAS certifications in respect of all its forest equipment.

ENCE Energía y Celulosa, S.A. and subsidiaries

Group Management Report for the year ended 31 December 2013

Organisational structure

Except for matters reserved for approval by the shareholders in general meeting, the Board of Directors is the highest decision-making body of Ence Energía y Celulosa, S.A. (the "Company"). The Board's policy is to delegate the management of the Company in its executive team and to concentrate its activities on its general supervisory role, without prejudice to the duties that cannot be so delegated, such as approval of the Company's general strategies, investing and financing policies and the remuneration policy applicable to the directors and most senior officers. The Board's actions are guided at all times by the criteria of maximising the value of the Company in the interest of its shareholders.

The Board is entitled to delegate duties falling under its purview in committees made up of directors and/or chief executive officer(s), albeit exercising due oversight over these bodies and setting the guidelines under which they should operate.

The Board is made up of executive, proprietary and independent directors, in line with corporate governance regulations and best practices. The Board is currently supported by an Executive Committee (in which it has delegated several of the powers vested in it) and three advisory committees tasked with providing it with information, advice and proposals on the matters falling under their respective remits: the Audit Committee, the Appointments and Remuneration Committee and the Forest Policy and Regulatory Advisory Committee.

The Company has a Chief Executive Officer (CEO) who is responsible for the Company's everyday management. He is supported in this work by the Management Committee, which comprises the Company's senior management, specifically the heads of the various business units and corporate departments: the Director of Pulp and Energy Operations, the Director of Procurements, the Director of Finance and Corporate Development, the Director of Human Capital, the Director of Communication and Institutional Relations and the General Secretary. These executives report directly to the Company's CEO, who sets the guiding lines of initiative within each officer's area of responsibility.

The Company is the parent of a group of companies (the "Group"), whose management is fully integrated and centralised within the former, as the scope of the specific duties assigned to the Company's executive team extends to all the Group companies. In this respect, the Company singly manages all of the companies within its Group.

Business activity

ENCE is the largest producer of BHKP in Europe, with a strategic focus on eucalyptus pulp. The Group has installed annual capacity of 1.34 million tonnes divided between factories in Huelva, Navia and Pontevedra. In 2013 the Group produced 1,270,000 tonnes, implying a capacity utilisation rate of 95%. Seventy-seven per cent (by volume) of its eucalyptus pulp was exported to Europe (the European market accounted for 92% of sales volume factoring in Spain), the world's largest pulp market and a net importer of product. The Group commands 15% of the European market. The renewable energy and co-generation business is also substantial, with installed capacity at year-end 2013 of approximately 280 MW (not including the 20 MW biomass plant under construction in Merida) and total energy sales last year of 1,896 GWh. Our vertically integrated pulp-energy production business model leverages our solid positioning in the Spanish and Portuguese forestry market in terms of forest plantations under management and crops for the production of timber and cultivated biomass, on the one hand, and securing timber supply from third party sources, essential to the sustainability of our business, on the other.

In the forestry sector, our timber and biomass supply management model is underpinned by continually improving forest management techniques, the diversification of sources of supply (with a strategic focus on forest owners) and enhancement of the value chain (from standing timber to collection and transportation) with a view to bringing down overall costs and guaranteeing the sustainability and security of our wood supplies. We also have a forestry consultancy, although we are gradually withdrawing from this business.

The Group's financial policy can be termed conservative. It is characterised by a commitment to maintaining low leverage coupled with ample liquidity. This strategy dovetails with the cyclical nature of the pulp business and is designed to support the Group's financial robustness in the long term. This policy is articulated around a maximum tolerated leverage ratio (measured in terms of net debt to mid-cycle EBITDA) of 2.5x, including non-recourse project finance.

Excluding the growth programmes, our maintenance capex (including investment in pulp facilities, the energy businesses and forestry activities for the production of timber for internal supply purposes) has held steady at close to €40m a year.

Business performance and financial results

Business environment and outlook

The macroeconomic outlook improved significantly in 2013, particularly in the second half. Concerns regarding Europe's peripheral economies' ability to meet their deficit targets continued to weigh on expectations during the first half. The application of austerity measures at a time of macroeconomic weakness had the effect of pushing back the economic recovery, raising questions regarding the effectiveness of the measures taken and governments' ability to resolve the situation. This situation sparked significant political instability in countries such as Italy and Portugal.

However, optimism found its way back to the financial markets during the second half. The gradual improvement in economic readings in the US and signs of macroeconomic stabilisation in Europe after years of crisis and budget cuts fuelled a sharp equity rally and a reduction in sovereign debt risk premiums. Part of this recovery was attributable to an inflow of investors attracted by asset prices that had fallen to compelling valuations, coupled with the perception that the austerity measures had in fact helped to stabilise the economy and pave the way for an incipient recovery. The change in sentiment was tangible in stronger confidence readings and a reduction in volatility. Nevertheless, potential macroeconomic risks persist in 2014. The rollback of quantitative easing in the US, coupled with firming economic indicators, is underpinning expectations for higher yields on US government bonds. This is driving an outflow of investor funds from emerging economies, which is in turn prompting depreciation of their currencies, particularly the weaker ones.

Meanwhile, the lack of a firm solution regarding the need for a bipartisan agreement on the US government spending ceiling constitutes an additional source of lingering uncertainty.

Against this backdrop, the dollar depreciated against the euro, ending the year at $/€1.37, compared to $/€1.32 at the beginning of the year. Despite the improvement in the US economy and announced tightening in US monetary policy, the currency was affected by delays in rolling out the policy change and fears of a potential default by the US government given the failure to agree on a budget. The change in governor at the Federal

Reserve also played a role: the replacement of Ben Bernanke by Janet Yellen in early 2014 had the effect of delaying the gradual withdrawal of monetary stimuli in the US, keeping the dollar weak.

Pulp prices performed excellently during the year, peaking at $821/tonne in June and correcting moderately to end the year at $770/tonne, in line with the seasonal pattern etched out in prior years. This healthy price performance was underpinned by solid growth in worldwide demand of 3.2% (source: PPPC). In addition to high growth in consumption in China (9.3%), despite the moderate slowdown in the Asian giant's economy last year, growth in demand in the US was a strong 4.8%, in line with the firming economy stateside. Worldwide capacity increased by 2.0% (PPPC), so that capacity utilisation improved to 93%, compared to 92% in 2012. The reduced growth in supply reflects continual delays in two projects under construction in Latin America (Maranhao and Montes del Plata) as well as closures (Jari in Brazil) and capacity reconversions to textile fibre facilities. Inventories held steady at normalised levels of 32 days' sales at the end of the year in the case of pulp producers and hit a record low of 19 days' consumption in the case of the paper producers.

The outlook for the pulp business is positive for the first half of 2014, with supply expected to remain stable. The new capacity being built in Latin America is expected to come on stream during the second half of the year, putting pressure on prices at a time of the year marked by seasonally low demand.

Lastly, the electricity business was penalised by the regulatory changes passed by the Spanish government in an attempt to eliminate the structural tariff deficit. In addition to the new taxes introduced at the end of 2012 (a 7% levy on electricity sales and a higher tax burden on the consumption of oil and gas), the government passed a new regulatory framework governing the generation of electricity from renewable sources with effect from 14 July 2013. The draft enacting proposals point to a significant decline in the Group's revenue.

Business overview and financial results

Pulp production increased by 2%, while electricity output rose 17%. In the pulp market, prices averaged €792/tonne, slightly higher than the $751/tonne average of 2012. The healthy performance in the pulp segment cushioned the impact on Group profitability of the full-year adverse impact of the new taxes levied by the government on the energy business, curtailing the decline in operating profit to 9%.

Group revenue increased by 3% over 2012 levels to €853.1m. Revenue from pulp sales amounted to €611.4m, up 2% year-on-year, driven by volume growth of 2%. Net pulp prices in euros were flat year-on-year as the increase in the dollar price per tonne was offset by the depreciation of the dollar last year.

Revenue from electricity sales also registered sharp growth thanks to the start-up of the new 50-MW generation plant fuelled by biomass. The Group sold 17% more electricity in 2013 than in 2012, at 1,896 GWh, 80% of which generated from biomass. Prices per MWh fell despite the higher weight of forest waste in the generation mix due to the reduction in the premium in respect of black liquor, the classification of energy crops and forest waste in the same category for remuneration purposes and the cap introduced on the number of output hours entitled to premium remuneration. Revenue from electricity sales amounted to €233.7m, up 12% on 2012.

Revenue from the forestry and consultancy business dropped 64% to €8.0m in 2013 due to the restructuring of and gradual exit from this business, coupled with the sale of the Uruguayan forest assets.

The Group recorded operating profit (EBIT) level of €31.8m compared to €82.3m in 2012. The growth in production volumes and pulp prices and the start-up of the biomass plant in Huelva were more than offset by a 13% increase in pulp production costs due to the new taxes levied on the generation of electricity and a reduction in the premiums received. Operating profit was adversely affected by the €32.2m provision recognised on investments in energy crops for which remuneration, as currently drafted, will fall sharply. The Company remains committed to making its operations more productive and cost effective under the umbrella of its total quality management (TQM) programme. To this end it is strategically increasing the percentage of standing timber purchases under agreements with forest owner associations; these agreements reduce dependence on imported wood for supplying the plants' growing consumption and reduce supply and transportation costs by means of greater control and modernisation of the supply chain over the medium term.

Elsewhere, the Group continued to improve its financial structure, issuing €250m of bonds in January. The proceeds were used to repay existing bank debt originally due in 2014 and extend the debt maturity profile to 2020. The financial structure was also shored up by the sale of forest assets in Uruguay (this sale closed in March and generated proceeds of $77.3m) and Portugal (this sale closed in December at approximately €11m).

Capital expenditure amounted to €114.1m, with almost 16% earmarked to investments in biological assets for reforestation and forest asset enhancement purposes to cater to growth in pulp production and also to the development of energy crops to supply the new power generation plants. Investments in industrial assets totalled €96.0m, over 51% of which went to the expansion of the biomass power plants, particularly the 20-MW plant being built in Merida, which is expected to begin to operate mid-2014.

Group equity at 31 December 2013 stood at €710.3m (year-end 2012: €724.7m), equivalent to 52% of total assets. Equity was affected by the impact of a €1 million buyback of own shares during the year, the impairment provisions recognised and the payment of a €16.2m dividend in April 2013 from 2012 profits. The dividend effort falls under the umbrella of the Company's stated aim of providing its shareholders with attractive remuneration while keeping leverage at reduced levels so that it can fund investment in new projects at a time of restricted access to credit.

On the R&D, innovation and technology fronts, the Group continued to pursue projects designed to enhance the genetic and forest attributes of the eucalyptus species in terms of the production of both pulp and energy crops, the mechanical transformation of timber and the engineering of new projects, as duly detailed in the notes to the consolidated financial statements in the section dealing with intangible assets.

Environmental disclosures

The most important matters of an environmental nature – the environmental protection goals, the policy that defines the Group's environmental management strategy, the resources at its disposition for delivering these objectives, the environmental management systems and how they work and the regulatory framework governing these policies – are detailed in note 32 to the accompanying annual financial statements.

Employee benefit expense

Recruitment

The hiring process is a priority component of the Group's human resources management and the criteria underpinning its recruiting process are divided into different phases. The first phase is to define the job description and the essential requirements for the position. Later, during the job interview, mutual commitments are established in keeping with the company's values. During the subsequent hiring phase, specifically through the welcome training programme, the new hires learn about the organisation and its values and principles as well as receiving initial job training. The final stage of the selection process entails on the job monitoring. Job performance and team/company commitment and engagement are assessed by means of follow-up interviews.

The merit-based hiring process is based on objective criteria such as the acquisition of technical and management skills and alignment with Ence's values.

Thanks to agreements with universities, business schools and professional skills training academies, 104 people did work practice at Ence's work centres in 2013 and 13 of these interns were hired at the end of their work experience stints.

Workplace climate/motivation

For management it is important to know what Ence's employees think and their level of satisfaction at the Company in order to design new initiatives and adapt them to their expectations and needs.

The workplace climate survey is designed to understand the level of employee commitment in each of the Company's markets and departments, to track trends in sentiment and to design action plans on the basis of the feedback received with the aim of boosting employee satisfaction.

This survey is carried out bi-annually across the entire organisation. The last survey was conducted in 2012. The best-rated attributes included Organisation (degree of engagement and connection with the Company), Commitment with the Company (clarity in respect of the organisational structure and job responsibilities and assessment of the resources available for job performance) and Immediate boss (communication, acknowledgement, accessibility, delegation, etc.).

Workplace safety

Employee safety and health in the workplace is one of Ence's strategic human resource management priorities. The goal is to foster cultural change that results in safer operations and processes.

This cultural change is based on the following principles:

- Integration of workplace safety into daily activities and all operations under the slogan, "safety is the top priority"
- Leading by example and the palpable commitment of management
- Systematic evaluation of safety-related risks and behaviours as the first step in preventing accidents
- Registration and analysis of all workplace accidents and incidents, learning lessons and providing resources for preventing recurrence.
- Correction of all unsafe actions taking a "zero tolerance" approach
- Investment in ongoing employee safety training programmes
- Selection of safety-certified suppliers and subcontractors combined with monitoring of ongoing compliance with Ence's safety rules
- Devotion of time to safety, taking the approach that safety is the responsibility of each and every employee and cannot be shirked
- Incorporation of safety and ergonomics principles at the drawing board phase
- Provision of the resources and means for eliminating sources of risk
- Rollout of safety tools at all levels of the organisation

A preventative culture entails individual and collective attitudes and skills and behaviour patterns that affect and influence workplace health safety and, therefore, drive prevention. The Group has a series of Workplace Safety Observations that help ensure consistent safety attitudes and behaviours by identifying safe and unsafe practices, correcting the latter and communicating them firm-wide. There are also Standard Operating Procedures to establish how to correctly perform tasks and prevent mistakes or unsafe practices. Workplace safety inspections and audits are also carried out regularly.

The main accident risks at Ence include falls (same-level or from an elevation), collisions with objects and contact with chemical substances. In 2012 Ence developed a practical training programme for all users of power saws that do work for Ence. The course was structured around five unbreakable rules designed to guarantee safe tool use. The forest contractor managers also took part in a series of bi-monthly meetings on workplace safety.

Ence has an OHSAS 18001-cerified occupational health and safety management system that enables it to reduce accident rates and increase productivity, comply with health and safety legislation and foster a culture of safety by integrating prevention into the company's overall system and getting all employees engaged in the quest to continually improve the firm's health and safety record.

Training

The overriding goal of the professional training programme is to encourage personal and professional development at all levels with a view to improving employee integration in the Company and employee commitment to its strategic goals. The various training initiatives can be classified into the following areas:

- Health and safety: these training initiatives are designed to encourage safe work practices and to integrate safety at all levels of the organisation.

- The TQM model and management tools: here the idea is to orient management around the customer with a view to increasing customer satisfaction and delivering continual improvement in the Company's quest for ever more efficient operations and more refined management tool utilisation capabilities.

- Environmental management: the aim of these initiatives is to raise employee awareness of the need to care for and respect the environment and to use limited resources responsibly.

- Management skills: the goal pursued with these initiatives is to move the firm's management and work style towards more cooperative models, promoting innovation and a results-oriented culture, fostering a climate of trust and encouraging professional and personal development.

- Technical skills: the purpose of these courses is to equip workers with process and technology related skills specific to their trade or area of expertise and the knowledge they need to develop in their respective professions (hydraulics and pneumatics, mechanical, instrument, process knowledge and skills, etc.).

Health and safety, quality management and environmental management training is provided continually at all levels of the Company. Management skills training is targeted at individuals holding key positions and professionals who manage teams as well as people singled out for career development programmes. Technical training is mainly targeted at process operators.

Diversity

The Equality Plan promotes effective application of the principle of non-discrimination between men and women, guaranteeing the same job and career development opportunities for both genders at all levels of the organisation. Although Ence belongs to a sector in which female representation has traditionally been low, in 2013 over 16% of the workforce was female. As part of its policy for preventing harassment, Ence has pledged it will prevent, avoid, remedy and discipline potential instances of harassment as part of its non-negotiable commitment to guaranteeing the dignity, integrity and non-discriminatory treatment of all employees and equal opportunities for all. The Group's remuneration policy is likewise designed to guarantee non-discrimination in pay, compensating employees competitively based on market criteria and a variable component based on objective job performance evaluation informed by equality and efficiency criteria.

Liquidity

Net cash flows from operating activities totalled €176m 2013, up 58% over 2012 levels thanks to higher pulp prices, greater electric output due to the start-up of the Huelva biomass plant and a reduction in working capital requirements, thanks to a reduction in inventories and accounts receivable.

figures in €Mn	2013	2012	Δ%
Consolidated profit for the year before tax	**5.6**	**63.0**	**(91%)**
Depreciation and amortisation charge	78.3	63.4	24%
Finance income/costs	24.8	17.3	43%
Increase / decrease other deferred income/costs	63.9	(0.5)	n.s.
Adjustments of profit for the year	**167.0**	**80.1**	**108%**
Trade and other receivables	29.8	(24.0)	n.s.
Current financial and other assets	(2.9)	18.2	n.s.
Current liabilities	(0.8)	(13.8)	(94%)
Inventories	10.4	18.3	(43%)
Changes in working capital	**36.4**	**(1.3)**	**n.s.**
Interest paid / received	(16.0)	(20.8)	(23%)
Income tax recovered (paid)	(17.1)	(9.4)	82%
Other cash flows from operating activities	**(33.1)**	**(30.2)**	**10%**
NET CASH FLOWS FROM OPERTATING ACTIVITIES	**175.9**	**111.6**	**58%**

Cash flows used in investing activities amounted to €48m in 2013, compared to a net outflow of €120m in 2012 as the Group closed the sale of its assets in Uruguay and Portugal. Capital expenditure was 7% lower than in 2012 due to the timing of the investments in biomass projects.

figures in €M	2013	2012	Δ%
Property, plant and equipment	(112.8)	(104.4)	8%
Intangible assets	(0.9)	(16.1)	(94%)
Other financial assets	1.3	(0.2)	n.s.
Investments	**(112.4)**	**(120.6)**	**(7%)**
Disposals	**64.4**	**0.5**	**n.s.**
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(48.0)**	**(120.1)**	**(60%)**

Financing activities, meanwhile, implied a net cash outflow of €65m 2013. Some of the cash (€45m) was placed in longer-term deposits (longer than 3 months) in order to boost finance income. The proceeds from the €250m of bonds placed on the market in January 2013 were used to repay existing debt so that gross corporate debt was largely flat year-on-year.

figures in €M	2013	2012	Δ%
Proceeds and payments relating to equity instruments	**1.0**	**(40.4)**	**n.s.**
Debt instruments and held-for-trading liabilities (net)	239.5	-	n.s.
Increase/(decrease) in bank borrowings (net)	(232.1)	37.4	n.s.
Other financial liabilities	(11.9)	(3.3)	262%
Proceeds and payments relating to financial liability	**(4.5)**	**34.2**	**n.s.**
Dividends and returns on other equity instruments paid	**(16.2)**	**(16.5)**	**(2%)**
Translation differences	**(0.0)**	**(0.2)**	**(79%)**
Fixed-term deposit	(45.0)	-	n.s.
Other proceeds and payments from financing activities	**(45.0)**	**-**	**n.s.**
NET CASH FLOWS FROM FINANCING ACTIVITIES	**(64.7)**	**(22.9)**	**182%**

As a result, the Group's cash balance rose by €63m to €103m. This figure rises to €159m factoring in short-term financial investments.

figures in €M	2013	2012	Δ%
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**63.2**	**(31.4)**	**n.s.**

Key risks and sources of uncertainty

Ence's risk management system, which has been fully implemented within the organisation and operational since 2011, takes into consideration the possible threats to delivery of the strategic objectives of all of the ENCE Group's businesses (pulp, energy and forestry) as well as other activities undertaken by the organisation´s various support areas.

This system encompasses the entire ENCE Group, understood as each and every one of the companies in which Energía y Celulosa, S.A. holds, directly or indirectly, a majority shareholding, a majority of the voting rights or in which it has appointed or has the power to appoint the majority of the members of their boards of directors, giving it effective control over the investee.

The system contemplates threats to the various types of objectives established by the organisation. Specifically it refers to objectives classified as:

› Strategic
› Operational
› Financial Information and Reporting
› Regulatory Compliance

The risks addressed by Ence's risk management model are in turn classified as follows:

› Environmental Risks
› Risks associated with Decision-Making Information
› Financial Risks
› Organisational Risks
› Operational Risks

The chief risks to delivery of the organisation's fundamental objectives and the associated response plans for mitigating their potential impact are detailed in this section:

Objective: Financial discipline

In complex economic environments, such as that in which ENCE does business and operates, demands in terms of business profitability and development tend to increase. Against this backdrop, ENCE is aware of the need to implement financial discipline so that it is capable of maintaining the ability to finance potential investments within reasonable leverage thresholds. Delivery of this objective is exposed to the following risk factors:

a) PULP PRICE VOLATILITY

Pulp prices are formed in an active market. Trends in pulp prices have a significant influence on ENCE's revenue and profits. Global pulp prices have been volatile in recent years, fluctuating significantly over short periods of time, as a result of continual imbalances between supply and demand in the pulp and paper industries. A significant decline in the price of one or more pulp products could have an adverse impact on the organisation's revenue, cash flows and net profit.

The main mitigating measure in place is ENCE's Global Risk Committee (Derivatives Committee) which is tasked with continually monitoring the pulp market on account of its highly cyclical nature. This Committee is in constant contact with leading financial brokers with the aim of arranging, as appropriate, the pertinent financial hedges and/or futures in order to mitigate potential fallout from pulp price volatility.

b) EXCHANGE RATE VOLATILITY

Revenue from the sale of pulp is exposed to the trend in the dollar/euro exchange rate. Insofar as the Company's cost structure is denominated in euros, potential changes in the rate of exchange between the two currencies can have an adverse effect on revenue.

The Global Risk Committee, also the main body tasked with controlling this risk factor, monitors the currency markets and the trend in the dollar/euro exchange rate periodically in order to arrange hedges and/or futures in order to mitigate the potential impact of exchange rate volatility.

c) INTEREST RATE VOLATILITY

Some of the Company's debt accrues interest at floating rates, generally benchmarked to market rates. Any upward movement in interest rates could drive an increase in the Company's financing costs in respect of the debt benchmarked to floating rates and increase the cost of refinancing existing debt and/or issuing new debt.

The goal of the Group's interest rate risk management policy is to achieve a balanced capital structure that minimises its cost of debt over the medium-long term while reducing related earnings volatility.

The Group is not exposed to interest-rate risk in respect of its most significant projects as ENCE has funded these projects with fixed-rate financing. For the rest of its investments/floating-rate financing, the Group arranges hedges 70% to 80% in the derivative markets or by hedging open positions upfront when the financing is arranged at the behest of the banks.

d) CREDIT RISK

In the pulp market is it possible that the odd customer, due to the adverse performance of its own business, could delay or fail to make payments on the terms agreed on orders fulfilled by ENCE.

Ence transfers this risk to a third party by means of a credit insurance policy, which has been renewed until 31 December 2014, that covers, depending on the country in which the customer is located, between 80% and 90% of balances receivable. This insurance policy assigns credit limits according to the creditworthiness of the customer and covers virtually all of the Group's pulp sales. Under the policy, pulp customer-specific credit limits cannot be overstepped.

Elsewhere, to mitigate the credit risk posed by financial investments, the Group stipulates that counterparties must be banks with high credit ratings and establishes maximum investment/underwriting limits that are reviewed periodically.

e) LIQUIDITY AND CAPITAL RISK

Adverse conditions in the debt and capital markets could make it hard or impossible for the Group to raise the funding needed in the course of its business operations and to execute its business plan.

This is one of the risk factors monitored most closely by the Ence Group. To mitigate this risk, it has established a series of key financial targets: 1) guaranteed business continuity in any pulp price scenario; 2) support for the growth plans in the various business segments by means of a solid capital structure and adequate liquidity level; and 3) a limit on leverage such that net debt does not exceed 2.5x EBITDA, the latter derived using mid-cycle pulp prices and based on the current business profile, while continuing to tap the capital markets to capitalise on attractive windows of opportunity and continue to diversify the Group's sources of financing.

The Ence Group uses two main sources of external financing:

- Non-recourse project finance, which until now has been used to fund renewable energy projects. The debt repayment schedule for each of these structured loans is determined on the basis of each business's capacity to generate cash flows, subject to buffers that vary depending on cash flow visibility at the various businesses/projects. These structures allow the Group to avail of sufficiently long-term funding, thereby significantly mitigating liquidity risk.

- Corporate financing, used to finance all other activities. Ence Energía y Celulosa S.A. centralises the cash surpluses of all the companies in order to distribute them depending on the Group's needs, raising funding from the banks and capital markets as required.

  This approach entails the proactive management and maintenance of credit lines and other sources of financing (factoring and reverse factoring, etc.) to cover forecast cash requirements and diversify liquidity sources.

The Corporate Finance Department draws up a financial plan annually that covers all financing needs and how they are to be met. Funds are obtained with a sufficient time buffer for the most significant cash requirements such as forecast capital expenditure, debt repayments and working capital requirements, as warranted.

There are also policies establishing the maximum amount of equity that can be committed to projects under development before the associated long-term financing has been arranged.

Under the scope of this financing policy, the Group has already repaid the corporate debt originally due in 2014. Specifically, on 1 February 2013, the Parent placed a €250 million bond issue with qualified institutional investors. The proceeds from these bonds, due 2020, were primarily used to repay the syndicated loan then outstanding.

f) REGULATORY CHANGES (INCLUDING TAX REGULATIONS)

In light of the reforms undertaken by the Spanish government in recent years, it is feasible that the authorities will make further changes to current tax regulations that could directly affect ENCE and its earnings, such as corporate and/personal income tax changes or reforms.

To mitigate this risk, ENCE has a team of advisors and experts who, together with the Company's in-house tax experts, have drafted internal rules for tax compliance and guidelines for minimising exposure to risk in this respect. However, because this is an exogenous risk factor over which ENCE has little influence, the teams follow the main tax-related developments closely in order to be ready to react whenever they may materialise.

Objective: Enhancing the Company's Productive Capacity

ENCE uses the most environmentally-friendly technology possible in all its production processes and attempts to continually improve its processes in order to boost its competitive positioning and the quality of its products. However, the Group's maintenance, refurbishment and investment plans could affect the correct operation, performance and/or useful lives of its pulp-making machinery and equipment and its three productive facilities.

In order to manage the risk factors falling under the umbrella of this strategic objective, management works to reduce the relative age of its machinery, equipment and facilities by means of three specific lines of initiative: (i) revision of the public works supporting its facilities, disposing of idle equipment; (ii) new investments to address any areas for improvement detected; and (iii) the design of maintenance programmes to guarantee efficient production.

Objective: Decommoditisation of the Pulp Produced by ENCE

ENCE attempts to differentiate its products from those of its competitors while building in parallel a globally recognised brand. Here the main risks include the risk of not being able to stock the products its customers are looking for or not being able to meet customers' expectations in terms of quality.

The Group also maximises its products' value added by using certified wood; however, it is hard to find sufficient quantities of certified wood that meet Forest Stewardship Council (FSC) certification standards.

The strategy followed to satisfy customers' needs is to reduce risk by means of a customer complaints/claims management system: as well as reinforcing the Technical Assistance Department, the Group has shored up its salesforce in number and in terms of skills with a view to identifying customers' specific needs in order to factor them into the Company's current product range.

With respect to the availability of FSC-certified wood, ENCE mitigates this risk by means of adequate control over supplier management and articulation within ENCE of a sustainability department focused on helping third parties to get their timber certified.

Objective: Minimisation of Cash Cost

In the volatile environment in which ENCE does business, given the intrinsic characteristics of its businesses and the prevailing economic crisis, the Company has set itself the priority of making its operations more efficient by minimising its cash cost.

Several situations could threaten delivery of this objective: upward movements in the cost of acquiring chemicals, fuel, gas or industrial supplies, transportation costs, strike action, the economic fallout from environmental regulations and technological developments on the part of its competitors. Meanwhile, the price of timber can also fluctuate as a result of changes in the balance of supply and demand in the regions in which the factories are located.

The Group attempts to mitigate the risk of price changes by having the Procurements Department periodically monitor the performance of its main suppliers with a view to taking the corresponding action (search for alternative products and additions to the pool of suppliers) in the event of significant incidents. The risk of a shortfall in wood supply in the regions in which the Group's factories are located is managed mainly by means of reliance on alternative markets, usually at higher logistics costs.

To mitigate the risk of third-party strikes that could affect ENCE, the Group has drawn up supplier communication plans that anticipate these situations so as to enable timely identification of alternatives. A specific joint management-work policy has been defined to address the risk of strike action by carriers.

The primary measure taken to reduce the potential cost of specific environmental regulations is to remain in ongoing contact and dialogue with the main stakeholders (mainly the various government offices and sector/environmental associations) with a view to ensuring adequate oversight of the Group's environmental permits and the corresponding paperwork.

Lastly, in order to control the risk of technological development by competitors, management closely follows what its rivals are doing on the technology front, learning about emerging technologies and production process improvements with a view to assessing their suitability/feasibility in respect of the Company. ENCE's technical experts likewise work continually on alternatives for incorporation into its productive processes with a view to further differentiating its product from that of its competitors.

Objective: Increasing ENCE's Market Share

One of ENCE's priorities is to increase the market share commanded by its pulp products, namely to sell higher volumes of pulp to a greater number of customers. However, certain developments could threaten delivery of this objective, such as a contraction in demand for its products and shifting market preferences.

The Strategy Department contributes to development of the Marketing Plan in order to design the plans for increasing the Group's presence and enhancing its positioning in the European market which materialise in initiatives for increasing the customer base in order to reduce attendant risk.

In parallel, management continually monitors market trends in respect of pulp preferences. In addition, the production and sales teams work closely with ENCE's customers to ensure that the pulp it sells meets or surpasses their needs.

Objective: Streamlining of Post-Production Logistics

Once the product is ready, it is crucial to deliver it to the end customer as cost-effectively as possible and on the contractual terms established in the related sales agreements. Two specific situations could threaten delivery of this objective: stockouts and shipping costs.

To minimise this risk, the business unit reviews the production, sales and logistics plans as a whole in order identify potential shortfalls and devote the resources needed to address them. Sales and end product stock levels are also monitored by means of the corresponding scorecards and supervision of trends in key production and logistics variables.

As for shipping costs, ENCE's strategy is the bear the cost of any variation in shipping costs with respect to quotes provided.

Objective: Minimisation of the Impact of our Operations on the Environment

Generally speaking, ENCE's pulp business is carried out in industrial facilities in which a number of different raw materials and pieces of machinery and equipment interact in a manner that generates risks that are intrinsic to all industrial activities.

ENCE is firmly committed to minimising all risky activities that could have adverse ramifications for its natural surroundings, the environment or the communities in which it does business. The main threats to delivery of this objective include potential accidental emissions of contaminating particles, possible accidental spills and potential noise pollution as a result of its industrial activities.

The Company is strategically committed to reducing the environmental impact of its business operations. In 2013 it completed several of the initiatives included in the Industrial Investment Plan for each of its three factories.

Objective: Commissioning and Monetisation of New Energy Projects

The generation of energy from renewable sources is a regulated business, which means the revenue it generates is conditioned by the tariffs set by the Spanish government, so that the main risk to which this business segment is exposed relates to changes in the renewable energy regulatory framework in Spain. The changes made to the regime in recent years, including a temporary moratorium on premium remuneration for new capacity, new energy taxes and levies and Royal Decree-Law 2/2013, on urgent electricity system and financial sector measures, point to a less propitious outlook for this business.

Objective: Optimisation of Forest Asset Costs

The main risk to delivery of this objective relates to the limitations placed on forestry and industrial activity. The various levels of government could impose forest policy limits by phasing out eucalyptus plantations in favour of more productive species. As a result, new legislation and/or restrictions could hinder or impede new plantation work or limit the growth in forest area given over to the eucalyptus specifies under new contracts with forest owners.

The risk-mitigation strategy adopted in this respect is to remain in continual contact with the administration and main open lines of communication with the related institutions and other core stakeholders.

Objective: Business Continuity

One of ENCE's key objectives is that of maintaining its business operations and availing of all the measures needed to guarantee the continuity of these operations and all supporting activities. Generally speaking, the main threats in this respect include natural catastrophes and disasters, adverse meteorological conditions (drought, frost, etc.), unexpected geological conditions and other factors of a physical nature, fires, floods or any other emergency situation that could affect ENCE's productive and storage facilities.

Because of the diverse range of risks in this arena, ENCE takes individual actions to address each risk factor with a view to preventing them from materialising and/or mitigating their impact in the event they do: fire safety training, insurance policies, preventative inspections, surveillance and control of business operations and a corporate policy for controlling the main pests to which the Group's biological assets are exposed.

More specifically, ENCE's factory in Pontevedra is built on an area of land used subject to a government concession arrangement granted under article 66 of the 1988 Coastal Act. The concession term ends in 2018. The inability to renew this concession could have a material adverse effect on the Company's operations.

The key measure taken in this respect has been to apply to have the concession extended, as provided for in Law 2/2013 on coastal protection and sustainability, which had the effect of amending the Coastal Act, requesting the maximum extension allowed under this new legislation, namely 75 years from when the extension application is filed. ENCE is in ongoing contact with the authorities involved and is pursuing the corresponding legal actions in parallel.

The assets located on land held under concession are currently depreciated over the shorter of their remaining useful life or the term of the concession agreement. An increase in the concession term would accordingly reduce the depreciation charge forecast for 2014 by approximately €7.5 million.

Objective: To Guarantee Worklife Quality and Workplace Health and Safety

ENCE is aware of the importance of providing a workplace that guarantees the best conditions in terms of occupational health and safety, inspired by stringent compliance with prevailing legislation in Spain. Certain situations could pose a threat to delivery of this objective as some jobs come with intrinsic risks, with the attendant health or safety ramifications for the employees performing them.

To minimise this risk the Group has accident prevention plans predicated on safety training, the maintenance of integrated health and safety management systems and certification to benchmark standards such as ISO, OSHAS and FSC. There are also contingency plans for certain specific situations.

Going forward the plan is to continue to implement the accident prevention plans, including a crash plan for preventing/reducing accidents, mainly through employee training initiatives and adequate oversight of the plans' effectiveness and any associated new requirements. Lastly, there are plans to roll out overall equipment effectiveness (OEE) initiatives.

Objective: Regulatory and Reporting Compliance

The new pulp and paper sector Best Available Techniques References (BREF) documents are expected to take effect in 2017. Adopters have one more year for full adaptation to the new regulations. The BREF metrics used in the new regulation are expected to be more restrictive, requiring new control systems and investment.

The strategy employed to tackle this risk factor is two-fold. Firstly, ENCE staff members have engaged with the government, key sector associations and other stakeholders and participated in establishing the definitive standard requirements so that all the players' views could be taken into account.

In parallel, the most important investments required to adapt to the new regulations are reflected in the organisation's current Industrial Investment Plan.

To ensure compliance and the effectiveness of the mitigating actions taken, ENCE monitors and controls the company's compliance-related risks on an ongoing basis by assigning specific roles and responsibilities to ENCE's risk management officers in this respect:

The risk management officers are tasked with executing the related action plans and controls in order to mitigate the risks identified within their respective purviews.

Throughout the year the Internal Audit function closely monitors the level of progress on executing the risk mitigation plans and is responsible for providing the Audit Committee with regular updates on these matters.

The Audit Committee is in charge of proposing the risk mitigation plans (risk controls and action plans) assigned to the various identified risks to the Board of Directors. It also conducts periodic oversight of the level of execution of the various action plans and the effectiveness of the controls put in place with a view to managing the risks to which the organisation is exposed.

Lastly, the Board of Directors is responsible for ensuring the integrity and overseeing the correct working of ENCE's risk management system, monitoring to this end both the risks identified and the controls and action plans agreed to manage the threats to delivery of the Company's strategic objectives.

This general *modus operandi* ensures that all those participating in executing, reporting, monitoring, controlling and supervising the risk management measures taken are duly coordinated.

Events after the reporting date

No events have occurred between the reporting date and the date of authorising these consolidated financial statements for issue that have not been disclosed therein.

R&D activities

The Ence Group continued to reinforce its R&D effort in 2013 across each of its three main lines of initiative: (i) eking out continual improvements in the pulp production process; (ii) optimising the energy harnessed from forest crops; (iii) improving the productivity and resistance of energy crops.

The Group is also continually represented at different public and private institutions and forums that encourage cooperation among the major technology developers. The future thrust of the R&D effort is largely determined by these initiatives.

The most important R&D projects undertaken in 2013 included, in the forestry arena, the "Study of the productive potential of Eucalyptus hybrids using ferti-irrigation, water rationalisation methods and sap analysis", and "Selection, reproduction and evaluation of Camaldulensis eucalyptus clones for use in highly productive energy crops in Extremadura". On the industrial front the following projects stood out: "Study of the impact of the main continuous kraft cooking variables on the performance and quality of pulp"; "Generation of fertilisers from gypsum"; and the CASCATBEL project developed together with another 20 research partners with the goal of deriving second-generation biofuel from lignocellulosic biomass at the laboratory and at the pilot plant levels.

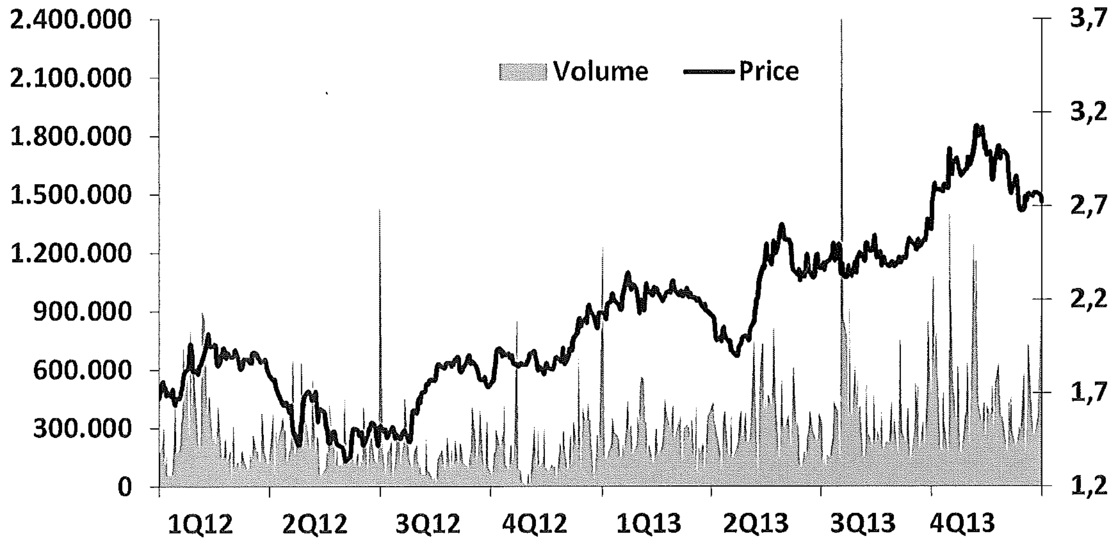
Purchase-sale of own shares

The disclosures regarding the acquisition and sale of own shares in 2013 are provided in note 16.7 to the accompanying consolidated financial statements.

Other information

Share price information

ENCE's share performed well in 2013, outperforming the Spanish and European stock markets by 7% and 10%, respectively.



Source: Thomson Reuters

	1Q12	2Q11	3Q11	4Q12	1Q13	2Q13	3Q13	4Q13
Average daily volume (shares)	283,924	270,690	190,820	226,282	283,963	347,171	446,481	508,964
Ence performance	7%	(15%)	14%	23%	0%	11%	9%	6%
Ibex 35 performance	(7%)	(11%)	9%	6%	(3%)	(2%)	18%	8%
Eurostoxx performance	7%	(9%)	8%	7%	(0%)	(1%)	11%	7%

Note: Ence's share price performance has been adjusted for the €0.07 per share dividend paid on 8 May 2012 and the €0.07 per share dividend paid on 3 April 2013; it has not been adjusted for the in-kind dividends paid on 8 May 2012, 17 August 2012 and 11 April 2013, which have the effect of increasing the total shareholder return by 3.5%, 2.7% and 4%, respectively.

ENCE's shares are part of the IBEX Medium Cap, the IBEX Top Dividendo and FTSE4Good Ibex indices.

Dividend policy

The Group's policy has been to pay out 40% of consolidated profit in dividends.

Credit ratings management

In addition to having its shares publicly traded, in 2013 the Company issued €250 million of 7.25% bonds due 2020. The ratings awarded have not changed since the time of the bond issue.

Corporate Rating

	Current Rating	Outlook	Last review
Moody's	Ba3	Stable	21/01/2014
Standard & Poor's	BB	Stable	12/07/2013

Issue Rating

	Current Rating	Outlook	Last review
Moody's	B1	Stable	21/01/2014
Standard & Poor's	BB	Stable	12/07/2013

At year-end, the bonds were trading at close to 110% of par, i.e. 10% above the issue price. From time to time ENCE may buy back its bonds on the secondary market. Any such buyback activity would be carried out on the basis of analysis of all relevant factors, including the bonds' quoted price and the Group's liquidity position, and in compliance with all applicable legal requirements.

Corporate governance

The Annual Corporate Governance Report is part of the Group Management Report and can be downloaded from the securities market regulator's website (www.cnmv.es).