LISTING PARTICULARS

NOT FOR GENERAL CIRCULATION
IN THE UNITED STATES

€250,000,000 5.375% Senior Notes due 2022

ENCE Energía y Celulosa, S.A.

ENCE Energía y Celulosa, S.A. (the "*Issuer*"), a *sociedad anónima* organised under the laws of Spain, issued €250 million in aggregate principal amount of its 5.375% senior notes due 2022 (the "*Notes*"). The Notes bear interest at the rate of 5.375% per annum, payable semi-annually on May 1 and November 1 of each year, beginning on May 1, 2016. The Notes will mature on November 1, 2022.

The Issuer may redeem all or a portion of the Notes prior to November 1, 2018 at a redemption price equal to 100% of the principal amount of the Notes redeemed plus accrued and unpaid interest and additional amounts, if any, to the redemption date, plus the make-whole premium described in these Listing Particulars (the "*Listing Particulars*"). On or after November 1, 2018, the Issuer may redeem all or a portion of the Notes at the redemption prices specified herein. In addition, prior to November 1, 2018, the Issuer may redeem up to 35% of the aggregate principal amount of the Notes, *provided* that at least 65% of the original aggregate principal amount of the Notes remains outstanding, with the net proceeds from certain equity offerings at the redemption price set out in these Listing Particulars, plus accrued and unpaid interest and additional amounts, if any, to the redemption date. In the event of certain changes in applicable tax law, the Issuer may also redeem all, but not less than all, of the Notes, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any. Upon the occurrence of certain events constituting a Change of Control (as defined herein), the Issuer may be required to make an offer to repurchase all the Notes at a redemption price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any.

The Notes are the senior unsecured obligations of the Issuer, rank senior in right of payment to all existing and future indebtedness of the Issuer that is subordinated in right of payment to the Notes and rank *pari passu* in right of payment with all existing and future indebtedness of the Issuer that is not so subordinated, including the Issuer's obligations under the Revolving Credit Facility (as defined herein).

The Notes are fully and unconditionally guaranteed (the "*Guarantees*" and, each, a "*Guarantee*") on a senior unsecured basis by certain subsidiaries of the Issuer (the "*Guarantors*" and, each, a "*Guarantor*"), subject to limitations under applicable law. The Guarantees rank senior in right of payment to all existing and future indebtedness of the applicable Guarantor that is subordinated in right of payment to the Guarantees and rank *pari passu* in right of payment with all of the existing and future indebtedness of such Guarantor that is not subordinated in right of payment to the Guarantees, including such Guarantor's obligations under the Revolving Credit Facility. Each Guarantee is subject to legal and contractual limitations and may be released in certain circumstances. In addition, the validity and enforceability of the Guarantees and the liability of each Guarantor is subject to the limitations described in "*Certain Insolvency Law and Enforceability Considerations*."

There is currently no public market for the Notes. Application has been made for these Listing Particulars to be approved by the Luxembourg Stock Exchange and for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market thereof. The Euro MTF Market is not a regulated market pursuant to the provisions of Directive 2004/39/EC. There also can be no assurance that an active trading market in the Notes will develop or be maintained. The Listing Particulars constitute a prospectus for purposes of the Luxembourg law dated July 10, 2005 on Prospectuses for Securities, as amended.

Investing in the Notes involves a high degree of risk. Please see "*Risk Factors*" beginning on page 32.

The Notes and the Guarantees have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "*U.S. Securities Act*") or the securities laws of any other jurisdiction. Accordingly, the Notes and the Guarantees are being offered and sold only to qualified institutional buyers ("*QIBs*") in accordance with Rule 144A under the U.S. Securities Act ("*Rule 144A*") and to certain persons in offshore transactions in reliance on Regulation S under the U.S. Securities Act ("*Regulation S*"). Prospective purchasers that are QIBs are hereby notified that the sellers of the Notes and the Guarantees may be relying on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A. Please see "*Important Information About this Offering*" and "*Notice to Investors*" for additional information about eligible offerees and transfer restrictions.

The Notes were issued in registered form in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes were represented on issue by one or more Global Notes (as defined herein), which were delivered in book-entry form through Euroclear Bank SA/NV ("*Euroclear*") or Clearstream Banking, *société anonyme* ("*Clearstream*"), on October 30, 2015. Please see "*Book-Entry; Delivery and Form*."

Potential investors should review the summary set out in "*Certain Tax Considerations—Spanish Tax Considerations"* regarding the tax treatment in Spain of income obtained in respect of the Notes. In particular, income obtained in respect of the Notes will be exempt from Spanish withholding tax provided that certain requirements are met.

Offering Price: 100% plus accrued interest, if any, from the Issue Date.

Global Coordinator and Joint Bookrunner

J.P. Morgan

Joint Bookrunners

Santander Global Banking & Markets **BBVA** **CaixaBank** **Bankia** **Citigroup** **Sabadell** **Bankinter**

The date of these Listing Particulars is November 25, 2015.

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IMPORTANT INFORMATION ABOUT THIS OFFERING

You should rely only on the information contained in these Listing Particulars. We have not, and J.P. Morgan Securities plc, Banco Santander, S.A., Banco Bilbao Vizcaya Argentaria, S.A., CaixaBank S.A., Citigroup Global Markets Limited, Bankia, S.A., Banco de Sabadell S.A. and Bankinter, S.A. (collectively, the "*Initial Purchasers*") have not, authorised anyone to provide you with any information or represent anything about us or the Initial Purchasers, our financial results or this Offering that is not contained in these Listing Particulars. If given or made, any such other information or representation should not be relied upon as having been authorised by us or the Initial Purchasers. We are not, and the Initial Purchasers are not, making an offer of these securities in any jurisdiction where such offer is not permitted. You should not assume that the information contained in these Listing Particulars is accurate as at any date other than the date on the front of these Listing Particulars. Our business, financial condition, results of operations and prospects may have changed since that date.

You are responsible for making your own examination of us and our business and your own assessment of the merits and risks of investing in the Notes and the Guarantees. You may contact us if you need any additional information. By purchasing the Notes and the Guarantees, you will be deemed to have acknowledged that:

- you have reviewed these Listing Particulars;
- you have had an opportunity to request any additional information that you need from us; and
- the Initial Purchasers are not responsible for, and are not making any representation to you concerning, our future performance or the accuracy or completeness of these Listing Particulars.

We have prepared these Listing Particulars based on information we have or have obtained from sources we believe to be reliable. Summaries of documents contained in these Listing Particulars may not be complete. We will make copies of actual documents available to you upon request.

These Listing Particulars do not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose. Accordingly, the Notes may not be offered or sold, directly or indirectly, and these Listing Particulars may not be distributed, in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction. You must comply with all laws applicable in any jurisdiction in which you buy, offer or sell the Notes or possess or distribute these Listing Particulars, and you must obtain all applicable consents and approvals. Neither we nor the Initial Purchasers shall have any responsibility for any of the foregoing legal requirements. Please see "*Notice to Investors*."

Neither we nor the Initial Purchasers, nor any of our or their respective representatives, are making any representation to you regarding the legality of an investment in the Notes, and you should not construe anything in these Listing Particulars as legal, investment, financial, tax or other advice. You should consult your own advisers as to the legal, investment, financial, tax and related aspects of an investment in the Notes. In making an investment decision regarding the Notes, you must rely on your own examination of the Issuer and the terms of this Offering, including the merits and risks involved.

We accept responsibility for the information contained in these Listing Particulars. To the best of our knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained in these Listing Particulars is in accordance with the facts and does not omit anything material that is likely to affect the import of such information.

In accordance with normal and accepted market practice, none of the Trustee, the Paying Agent, the Registrar or the Transfer Agent is responsible for the contents of these Listing Particulars or expresses any opinion as to the merits of the Notes offered pursuant to these Listing Particulars.

The information contained in these Listing Particulars is correct as at the date hereof. Neither the delivery of these Listing Particulars at any time after the date of publication nor any subsequent commitment to purchase the Notes shall, under any circumstances, create an implication that there has been no change in the information set out in these Listing Particulars or in our business since the date of these Listing Particulars.

The information contained in these Listing Particulars under the heading "*Exchange Rate Information*" includes extracts from information and data publicly released by official and other sources. Whilst we accept responsibility for accurately summarising such information, we accept no further responsibility in respect thereto.

In addition, the information set out in relation to sections of these Listing Particulars describing clearing and settlement arrangements, including in "*Description of the Notes*" and "*Book-Entry; Delivery and Form*," is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear and/or Clearstream currently in effect. Whilst we accept responsibility for accurately summarising the information concerning Euroclear and Clearstream, we accept no further responsibility in respect of such information.

The Notes were available initially only in book-entry form. The Notes offered were issued in the form of one or more Global Notes, which were deposited with a common depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear and/or Clearstream. Beneficial interests in the Global Notes will be shown on, and transfers of beneficial interests in the Global Notes will be effected only through, records maintained by Euroclear and/or Clearstream and its participants, as applicable. Please see "*Book-Entry; Delivery and Form*."

The Notes are subject to restrictions on transferability and resale, which are described under the heading "*Notice to Investors*." By possessing these Listing Particulars or purchasing any Note, you will be deemed to have made all of the representations, warranties and acknowledgments that are described in that section of these Listing Particulars. You should be aware that you may be required to bear the financial risks of your investment for a long period of time.

We reserve the right to withdraw this Offering at any time. We and the Initial Purchasers also reserve the right to reject any offer to purchase the Notes in whole or in part for any reason or no reason and to allot to any prospective purchaser less than the full amount of the Notes sought by it. The Initial Purchasers and certain of their respective related entities may also acquire, for their own accounts, a portion of the Notes.

We have applied for Listing Particulars to be approved by the Luxembourg Stock Exchange and for the Notes to be admitted to the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF Market thereof.

The Notes and the Guarantees have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold in the United States, except to QIBs (as defined in Rule 144A), in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A. The Notes may be offered and sold outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S. Prospective investors are hereby notified that sellers of the Notes may be relying on the exemption from the registration requirements of Section 5 of the U.S. Securities Act provided by Rule 144A. For a description of certain restrictions on transfers of the Notes, please see "*Notice to Investors*."

Neither the U.S. Securities and Exchange Commission (the "*SEC*"), nor any U.S. state securities commission nor any non-U.S. securities authority has approved or disapproved of these securities or determined that these Listing Particulars are accurate or complete. Any representation to the contrary is a criminal offence.

Potential investors are alerted to the statements in these Listing Particulars regarding the tax treatment in Spain of income paid by the Issuer in respect of the Notes. In particular, income paid by the Issuer in respect of the Notes will be exempt from Spanish withholding tax provided that certain requirements are met.

STABILISATION

IN CONNECTION WITH THIS OFFERING OF NOTES, J.P. MORGAN SECURITIES PLC (THE "*STABILISING MANAGER*") (OR ANY PERSON(S) ACTING ON BEHALF OF THE STABILISING MANAGER) MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAW, OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO STABILISING OR MAINTAINING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. THERE IS NO ASSURANCE, HOWEVER, THAT THE STABILISING MANAGER WILL UNDERTAKE ANY SUCH STABILISATION ACTION. SUCH STABILISATION ACTION, IF COMMENCED, MAY BEGIN ON OR AFTER THE DATE OF ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE NOTES AND MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE DATE ON WHICH THE ISSUER RECEIVED

THE PROCEEDS OF THE ISSUE AND 60 CALENDAR DAYS AFTER THE DATE OF ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSON(S) ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

NOTICE TO U.S. INVESTORS

This Offering is being made in the United States in reliance upon an exemption from registration under the U.S. Securities Act for an offer and sale of the Notes and the Guarantees which does not involve a public offering.

In making your purchase, you will be deemed to have made certain acknowledgments, representations and agreements. Please see "*Notice to Investors*."

The Notes and the Guarantees offered hereby have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States. These Listing Particulars are being provided only (1) to a limited number of U.S. investors that we reasonably believe to be QIBs under Rule 144A under the U.S. Securities Act for informational use solely in connection with their consideration of the purchase of the Notes and (2) to investors outside the United States pursuant to offshore transactions complying with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act. For a description of certain other restrictions on resale or transfer of the Notes, please see "*Notice to Investors*."

The Notes and the Guarantees described in these Listing Particulars have not been registered with, recommended by or approved by the SEC, any state securities commission in the United States or any other securities commission or regulatory authority, nor has the SEC, any state securities commission in the United States or any such securities commission or authority passed upon the accuracy or adequacy of these Listing Particulars. Any representation to the contrary is a criminal offence.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO CERTAIN EUROPEAN INVESTORS

European Economic Area

These Listing Particulars have been prepared on the basis that any offer of the Notes in any member state of the European Economic Area will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of the Notes.

United Kingdom

This document is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "*Financial Promotion Order*"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order, (iii) are outside the United Kingdom or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "*FSMA*")) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "*relevant persons*"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

Each Initial Purchaser has represented and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21(1) of Financial Services and Markets Act 2000, as amended (the "FSMA")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

Spain

The Notes may not be offered or sold in Spain except in accordance with the requirements of the Spanish Securities Market Law 24/1988, of July 28 (*Ley 24/1988, de 28 de Julio, del Mercado de Valores*), as amended and restated, and Royal Decree 1310/2005, of November 4, on listing of securities, public offers and applicable prospectus (*Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*), as amended from time to time (the "*Spanish Securities Market Law*"). The Notes may not be sold, offered or distributed to persons in Spain, except in circumstances which do not constitute a public offer (*oferta pública*) of securities in Spain, within the meaning of the Spanish Securities Market Law. None of the Notes, this Offering or these Listing Particulars and their contents have been approved or registered with the Spanish Securities and Exchange Commission (*Comisión Nacional del Mercado de Valores*), and therefore it is not intended for the public offering or sale of the Notes in Spain.

Portugal

The Notes may not, directly or indirectly, be offered or sold in Portugal, and nor can these Listing Particulars, any prospectus, form of application, advertisement or other document or information in Portugal relating to the Notes be distributed or published in Portugal, except under circumstances that will not be considered as a public offering under article 109 of the Portuguese Securities Code (*Código dos Valores Mobiliários*) approved by Decree Law 486/99 of 13 November 1999, as last amended by Decree Law no. 157/2014, of 24 October 2014 (the "*PSC*"). As a result, this Offering and any material relating to the Notes may be addressed solely to, and may only be accepted by, any person or legal entity that is resident in Portugal or that will hold the notes through a permanent establishment in Portugal to the extent that such person or legal entity (i) is deemed a qualified investor (*investidor qualificado*) pursuant to paragraph 1 of article 30 of the PSC, (ii) is not treated by the relevant financial intermediary as a non-qualified investor (*investidor não qualificado*) pursuant to article 317 of the PSC and (iii) does not request the relevant financial intermediary to be treated as a non-qualified investor (*investidor não qualificado*) pursuant to article 317-A of the PSC.

THESE LISTING PARTICULARS CONTAIN IMPORTANT INFORMATION WHICH YOU SHOULD READ BEFORE YOU MAKE ANY DECISION WITH RESPECT TO AN INVESTMENT IN THE NOTES.

FORWARD-LOOKING STATEMENTS

These Listing Particulars include statements that are, or may be deemed to be, "forward-looking statements" within the meaning of the securities laws of certain jurisdictions, including statements under the headings "*Summary*," "*Risk Factors*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," "*Industry Overview*" and "*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 "aim," "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "guidance," "intend," "may," "plan," "potential," "predict," "projected," "should," "targets," "will" and "would," 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 these Listing Particulars and include statements regarding our intentions, beliefs or current expectations concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies 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, liquidity and the development of the industries in which we operate are consistent with the forward-looking statements contained in these Listing Particulars, 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.

In particular, certain sections of these Listing Particulars include forward-looking statements that we have previously issued to the market, including in respect of capital expenditures, cost savings from efficiency initiatives and potential asset disposals. Such statements have been included in these Listing Particulars solely for purposes of the completeness of the information presented herein, and prospective investors in the Offering are strongly cautioned not to place undue reliance on such forward-looking statements.

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 these Listing Particulars. We believe that these risks and uncertainties include, but are not limited to, those described in the "*Risk Factors*" section of these Listing Particulars:

- the impact of global economic conditions on worldwide demand for our products and services and on our access to financing;
- continuing adverse European, particularly Spanish, economic conditions;
- failure to keep up with technological changes, as well as changes in prices, industry standards and other factors;
- significant interruptions to our operations at the pulp production, energy generation, transportation, storage, distribution and port facilities we own or utilise, 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;
- wage increases or work stoppages by our unionised employees;
- currency risk, particularly with respect to sales of pulp denominated in U.S. dollars;
- risks related to hedging activities;
- interest rate risk;
- any insufficiency of our insurance coverage;
- regulatory changes affecting our electricity-generating activities;
- exposure to various administrative controls and extensive governmental regulation;
- failure to successfully implement our business strategy due to unforeseen difficulties, delays or costs;
- the costs of compliance with environmental, health and safety laws and regulations;
- liabilities and costs in connection with hazardous substances present at certain of our facilities;
- concerns about the effects of climate change;
- failure to retain key employees;
- credit risk of our counterparties;
- risks associated with acquisitions and/or investments in joint ventures with third parties;
- cyclicality in the market prices for our pulp products;
- increases in the cost of wood, certain chemicals and other variable inputs;
- failure to adjust pulp production volumes in a timely or cost-efficient manner in response to changes in demand;

- economic, political and social risks in foreign countries;
- significant competition in the pulp industry;
- the expiry of the administrative concession related to our Pontevedra facilities in 2018;
- competition for land use;
- failure to obtain necessary certifications by industry standard-setting bodies;
- risks in connection with divestitures;
- adverse effects to our pulp-linked electricity-generating activities resulting from adverse circumstances affecting our pulp production activities;
- 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 authorisations in our electricity-generating activities;
- volatility in market electricity prices;
- the social, economic and environmental side effects of our electricity-generating activities; and
- other factors beyond our control or that are not known by us or considered by us to be material at this time.

The factors above, as well as others described under "*Risk Factors*," are not exhaustive. Other sections of these Listing Particulars describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industries in which we operate. Moreover, 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.

In addition, the forward-looking statements contained herein are based on plans, estimates and projections as they are currently available to our management, and we undertake no obligation, and do not expect, to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in these Listing Particulars.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Issuer of the Notes is ENCE Energía y Celulosa, S.A., a *sociedad anónima* organised under the laws of Spain.

Historical Financial Information

We present in these Listing Particulars the following consolidated financial statements:

- the unaudited consolidated condensed interim financial statements of the Issuer and its subsidiaries as at and for the six months ended June 30, 2015 and the comparative period as at December 31, 2014 and for the six months ended June 30, 2014, including the accompanying notes thereto (the "*Interim Consolidated Financial Statements*"); and
- the audited consolidated annual accounts of the Issuer and its subsidiaries as at and for each of the years ended December 31, 2012, December 31, 2013 and December 31, 2014, including the accompanying notes thereto (the "*Consolidated Financial Statements*").

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("*IFRS*"). The Interim Consolidated Financial Statements have been prepared in accordance with IAS 34—Interim Financial Reporting.

Unless otherwise stated herein: (i) all financial information presented herein has been derived from financial information prepared in accordance with IFRS; (ii) all financial information as at and for the six months ended June 30, 2015 and the comparative period for the six months ended June 30, 2014 presented herein has been derived from the Interim Consolidated Financial Statements; and (iii) all financial information as at and for the years ended December 31, 2012, December 31, 2013 and December 31, 2014 presented herein has been derived from the Consolidated Financial Statements.

The unaudited financial information for the twelve months ended June 30, 2015 has been derived by subtracting from the audited consolidated financial information for the year ended December 31, 2014 the unaudited consolidated financial information for the six months ended June 30, 2014 and adding the unaudited consolidated financial information for the six months ended June 30, 2015. The financial information for the twelve months ended June 30, 2015 has been prepared for illustrative purposes only and is not necessarily representative of our results of operations for any future period or our financial condition at any future date and is not prepared in the ordinary course of our financial reporting.

With effect from January 1, 2015 and following our decision to discontinue pulp production at our former pulp production facility in Huelva, Spain, we present our financial information under the following two business activities, which are split into our reportable segments:

Pulp Business

Our Pulp Business (as defined herein) encompasses the following reportable segments:

- *Pulp.* This segment includes the pulp production and sales activities carried out at our pulp production facilities located in Navia and Pontevedra, Spain, as well as the energy cogeneration and generation and sales activities linked to the production of pulp and integrated therein, including through the use of lignin and biomass residues derived from our pulp production processes.
- *Pulp forest assets* and *Forest services and other.* These two segments include our activities related to forestry for the production of raw materials used in our pulp production activities or sold to third parties, which currently primarily consist of the management of eucalyptus plantations owned by third parties pursuant to long-term forestry management contracts as well as the sourcing, purchase and supply of eucalyptus timber to our facilities.

Energy Business

Our Energy Business, which corresponds to the reporting segment of the same name, encompasses our standalone electric power generation activities. Our standalone electric power generation facilities are developed and operated separately and independently from our Pulp Business. This segment currently includes our 50 MW and 41 MW standalone biomass energy generation facilities in Huelva, Spain and our 20 MW standalone biomass energy generation facility in Mérida, Spain. Following the discontinuation of pulp production at Huelva and with effect from January 1, 2015, we began reporting the contribution to results of our 41 MW standalone biomass energy generation facility in Huelva within our Energy Business segment. As a result, and with a view to facilitating comparisons across periods, the segment disclosures corresponding to the first six months of 2014 have been restated herein to include the entity that owns this facility, Celulosa Energía, S.A.U.

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.

Restricted Group and Unrestricted Group Financial Information

In addition to financial information on a consolidated basis, including both the Restricted Group and the Unrestricted Group, these Listing Particulars present certain financial information relating to the Restricted Group and certain financial information relating to the Unrestricted Group.

- *Restricted Group financial information*: Restricted Group financial information includes the results of operations, assets and liabilities of the Issuer and its Restricted Subsidiaries (that is, the companies of the Group subject to the Notes covenants). In particular, and except as otherwise described herein, Restricted Group financial information relates to the results of operations, assets and liabilities of the Issuer and its Restricted Subsidiaries which, except as described in the following sentence, exclusively engage in our Pulp Business. In connection with the separation of the Unrestricted Group from the Restricted Group, the Issuer also expects to transfer its shares of Celulosa Energía, S.A.U. (which will be designated as an Unrestricted Subsidiary on the Issue Date) to ENCE Energía, S.L.U., which will become the new holding company of the Unrestricted Group. The Issuer intends to complete the transfer by the end of 2015. As a result of the transfer, the shares and assets of Celulosa Energía, S.A.U. (which operates the 41 MW biomass energy generation facility at Huelva) will become assets of the Unrestricted Group. In addition, Restricted Group financial information for the six months ended June 30, 2015, as well as for prior periods, includes the contribution to results of the Biomass Boiler (as defined herein), including certain ancillary equipment, with a total value of €42.6 million at our former pulp production facility in Huelva, Spain, pending the transfer of such assets to the Unrestricted Group. Based on management accounts, the Biomass Boiler produced negative EBITDA for the twelve months ended June 30, 2015. The completion of the transfer of such assets from the Restricted Group to the Unrestricted Group is expected to occur by no later than 2016.
- *Unrestricted Group financial information*: Unrestricted Group financial information includes the results of operations, assets and liabilities of the Issuer's Unrestricted Subsidiaries (that is, the subsidiaries not subject to the Notes covenants). In particular, and except as otherwise described herein, Unrestricted Group financial information relates to the results of operations, assets and liabilities of the Unrestricted Subsidiaries which exclusively engage in our standalone Energy Business.

As at the Issue Date, all subsidiaries of the Issuer not designated as Unrestricted Subsidiaries will be Restricted Subsidiaries, with such Restricted Subsidiaries comprising: Celulosas de Asturias, S.A.U.; Norte Forestal, S.A.U.; Silvasur Agroforestal, S.A.U.; Ibersilva, S.A.U.; and Iberflorestal–Comércio e Serviços Florestais S.A. ("*Iberflorestal, S.A.*"). For a chart indicating which subsidiaries will be Restricted Subsidiaries and which subsidiaries will be Unrestricted Subsidiaries, please see "*Summary—Organisational and Finance Structure*."

The financial information relating to the Restricted Group and to the Unrestricted Group is unaudited and has been prepared on this basis for illustrative purposes only and not in the ordinary course of our financial reporting. Therefore, the financial information relating to the Restricted Group and the Unrestricted Group does not necessarily reflect what the financial position or the results of operations of the Restricted Group and the Unrestricted Group, respectively, would have been if these had actually been operated as separate groups with distinct financing arrangements.

Pursuant to the reporting covenant of the Indenture, we will continue to provide certain information regarding the results of operations, financial condition and operating performance of the Restricted Group on a disaggregated basis.

Non-IFRS Financial Information

In these Listing Particulars, we also present certain non-IFRS measures, including Adjusted EBITDA, Cash Costs, EBITDA, Gross debt, Net debt, Other Cash Costs, Total Costs, Unlevered free cash flow (excluding expansion capital expenditure), Wood Costs and Working capital, as well as certain leverage and coverage ratios that are not required by, nor presented in accordance with, IFRS.

As used in these Listing Particulars, the following terms have the following meanings:

- "*Adjusted EBITDA*" means EBITDA (as defined below) adjusted for redundancies, provisions, other extraordinary items, and operational hedging. We present Adjusted EBITDA for the Consolidated Group, the Restricted Group and the Unrestricted Group.

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

- "*EBITDA*" means operating profit/(loss) adjusted for depreciation and amortisation, depletion of forest reserves and for impairment and gains/(losses) on disposals of intangible assets and property, plant and equipment. We present EBITDA for the Consolidated Group, the Restricted Group and the Unrestricted Group.

- "*Gross debt*" means current and non-current notes and bank borrowings plus other current and non-current financial liabilities (not including derivatives). We present gross debt for the Consolidated Group and for the Restricted Group. For the Consolidated Group, we present our gross debt both including and excluding project finance indebtedness.

- "*Net debt*" means gross debt less cash and cash equivalents less other current financial assets. We present net debt for the Consolidated Group and the Restricted Group.

- "*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.

- "*Pro forma Adjusted EBITDA*" means Adjusted EBITDA (as defined above) adjusted to give *pro forma* effect to the closure of the pulp production facility at Huelva as if such closure had occurred on July 1, 2014. We present *pro forma* Adjusted EBITDA for the Restricted Group.

- "*Total Costs*" means Cash Costs plus finance cost and depreciation (excluding forestry depletion charge).

- "*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.

We believe that EBITDA and similar non-IFRS financial measures are useful indicators of operating performance and are widely used in the industry by securities analysts, investors and other parties to evaluate our business and the businesses of our competitors, and have included EBITDA in particular in these Listing Particulars because we believe that it may be a useful indicator of our ability to incur and service our indebtedness.

However, EBITDA and other non-IFRS measures and ratios should not be considered in isolation and are not measures of financial performance or liquidity under IFRS, and also should not be considered as profit or loss for the period or as any other performance measure derived in accordance with IFRS or as an alternative to cash flow from operating, investing or financing activities or any other measure of liquidity derived in accordance with IFRS. EBITDA has limitations as an analytical tool, including the following:

- it does not reflect our capital expenditures and future requirements for capital expenditures or contractual commitments;

- it does not reflect changes in, or cash requirements for, our working capital needs;

- it does not reflect the interest expense, or the cash requirements necessary, to service interest or principal payments on our debt; and

- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often need to be replaced in the future, and EBITDA does not reflect any cash requirements that would be needed for such replacements.

In addition, EBITDA, as we define it, may not be comparable to other similarly titled measures used by other companies, even within the same industry. EBITDA and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of these companies. Accordingly, you should exercise caution in comparing EBITDA as reported by us to EBITDA, or adjusted variations thereof, as reported by other companies. EBITDA as presented in these Listing Particulars also differs from the definition of "EBITDA" included within the Indenture.

Because of these limitations, EBITDA and other non-IFRS measures and ratios should not be considered as a measure of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our IFRS results and using these non-IFRS measures only supplementally to evaluate our performance.

Other Information

Pursuant to Spanish regulatory requirements, "directors' reports" are required to accompany our consolidated annual accounts. The directors' reports are included in these Listing Particulars only in order to comply with such regulatory requirements. Investors are strongly cautioned that the directors' reports contain information as at various historical dates and do not contain a current description of our business, affairs or results of operations. The information contained in the directors' reports has been neither audited nor prepared for the specific purposes of an offering of the Notes. Accordingly, the directors' reports should be read together with the other sections of these Listing Particulars, particularly in the sections entitled "*Risk Factors*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," and any information contained in the directors' reports is deemed to be modified or superseded by any information contained elsewhere in these Listing Particulars that is subject to or inconsistent with it. Further, 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.

The financial information included in these Listing Particulars 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.

Rounding

Certain data contained in these Listing Particulars, 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 or row or the sum of certain numbers presented as a percentage may not conform to the total percentage given.

PRESENTATION OF INDUSTRY AND MARKET DATA

We have generally obtained the market and competitive position data in these Listing Particulars from industry publications and from surveys or studies conducted by third-party sources that we believe to be reliable. In particular, we use data extracted from reports by industry consultants RISI, Inc. ("*RISI*") dated as at May 2015, Hawkins Wright Ltd ("*Hawkins Wright*") dated as at April 2015 and the Pulp and Paper Products Council ("*PPPC*") dated as at May 2015, as well as data and forecasts from market research, governmental and other publicly available information, and independent industry sources. Nonetheless, we cannot assure you of the accuracy and completeness of such information and neither we nor the Initial Purchasers have independently verified such market and position data. In addition, these Listing Particulars contain summaries that we believe to be accurate with respect to certain documents, but reference is made to the actual document for complete information. We take no responsibility for such information other than for its correct reproduction.

Market data and statistics are inherently predictive and speculative and are not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgements about what types of products and transactions should be included in the relevant market. In addition, the value of comparisons of statistics for different markets is limited by many factors, including that: (i) the markets are often defined differently; (ii) the underlying information was often gathered by different methods; and (iii) different assumptions were often applied in compiling the data. Accordingly, the market statistics included in these Listing Particulars should be viewed with caution and no representation or warranty is given by any person as to their accuracy.

In addition, in many cases we have made statements in these Listing Particulars regarding our industry and position in the industry based on our experience, internal estimates and our own investigation of market conditions, including through the use of information made available to the public by our competitors. We cannot assure you that any of these assumptions are accurate or correctly reflect our position in the industry, and none of our internal surveys or information has been verified by any independent sources.

CURRENCY PRESENTATION AND CERTAIN DEFINITIONS

Currency Presentation

In these Listing Particulars:

- References to "*euro*" "*EUR*" and "*€*" are to the lawful single currency of the participating member states of the European and Monetary Union of the Treaty establishing the European Community, as amended from time to time.
- References to "*U.S. dollars*," "*USD*" and "*$*" are to the lawful currency of the United States of America.

Definitions

For a glossary of certain industry-related terms used in these Listing Particulars, please see "*Glossary of Selected Terms*."

Unless otherwise indicated or the context requires otherwise, references in these Listing Particulars to "*ENCE*," the "*Group*," "*we*," "*us*" and "*our*" refer to the Issuer and its consolidated subsidiaries.

In addition, in these Listing Particulars, unless otherwise indicated or the context requires otherwise:

- References to the "*Bankia Loan*" are to the April 2015 loan from Bankia, S.A. in an amount of €15 million to finance certain capital expenditure investments in our Navia facility.
- References to the "*BBVA Loan*" are to the July 2015 loan from Banco Bilbao Vizcaya Argentaria, S.A. in an amount of €15 million to finance certain capital expenditure investments in our pulp production facilities.
- References to "*Biomass Boiler*" are to the biomass boiler and ancillary equipment with a total value of €42.6 million located at our former pulp production facility in Huelva, Spain, which are expected to be transferred from the Restricted Group to the Unrestricted Group by no later than 2016.
- References to "*Clearstream*" are to Clearstream Banking, *société anonyme*.

- References to "*Consolidated Financial Statements*" are to the audited consolidated annual accounts of the Issuer and its consolidated subsidiaries as at and for the years ended December 31, 2012, December 31, 2013 and December 31, 2014.
- References to the "*Consolidated Group*" are to the Restricted Group and the Unrestricted Group, collectively.
- References to "*Energy Business*" are to our standalone energy generation activities, which will form the Unrestricted Group. Upon the completion of its transfer from the Restricted Group to the Unrestricted Group, the Biomass Boiler will also form part of the Energy Business
- References to "*EURIBOR*" are to the Euro Interbank Offered Rate.
- References to "*Euroclear*" are to Euroclear Bank SA/NV.
- References to "*European Economic Area*" or "*EEA*" are to the trading area established by the European Economic Area Agreement of January 1, 1994, currently comprising the Member States of the European Union (presently, Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom) and Norway, Iceland and Liechtenstein.
- References to "*European Union*" or "*EU*" are to the European economic and political union.
- References to the "*Existing Notes*" are to the Issuer's €250,000,000 7.25% Senior Secured Notes due 2020, of which €225,000,000 in aggregate principal amount remains outstanding, which we intend to redeem in full using certain of the proceeds of this Offering.
- References to the "*Existing Revolving Credit Facility*" are to the super senior multicurrency revolving facility agreement entered into on February 1, 2013 and providing for a total debt facility of €90.0 million, as amended from time to time, which was cancelled and replaced by the Revolving Credit Facility on or about the Issue Date.
- References to "*FSMA*" are to the Financial Services and Markets Act 2000, as amended.
- References to the "*Guarantees*" are to the senior guarantees by the Guarantors to guarantee the payment obligations of the Issuer under the Notes.
- References to the "*Guarantors*" are, collectively, to Celulosas de Asturias, S.A.U., Norte Forestal, S.A.U., Silvasur Agroforestal, S.A.U., Ibersilva, S.A.U. and Iberflorestal, S.A., as guarantors of the Notes.
- References to "*Holders of the Notes*" are to any holders of the Notes who are also beneficial owners of the Notes.
- References to "*Iberflorestal, S.A.*" are to Iberflorestal–Comércio e Serviços Florestais S.A.
- References to "*IFRS*" are to International Financial Reporting Standards as adopted by the European Union.
- References to the "*Indenture*" are to the indenture governing the Notes dated the Issue Date and between, amongst others, the Issuer, the Guarantors and the Trustee.
- References to the "*Initial Purchasers*" are to the firms referred to under the "*Plan of Distribution*" section of these Listing Particulars.
- References to "*Interim Consolidated Financial Statements*" are to the unaudited consolidated condensed interim financial statements of the Issuer and its consolidated subsidiaries as at and for the six months ended June 30, 2015 and the comparative period as at December 31, 2014 and for the six months ended June 30, 2014.
- 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., a *sociedad anónima* incorporated under the laws of Spain.
- References to the "*June Redemption*" are to the redemption by us on June 5, 2015 of 10% of the outstanding Existing Notes (€25.0 million in aggregate principal amount) at a cost of €26.3 million, which includes accrued but unpaid interest through to the date of redemption.

- 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 "*Notes*" are to the 5.375% Senior Notes of the Issuer offered.
- References to the "*Offering*" are to the offering of the Notes.
- References to the "*Paying Agent*" are to Deutsche Bank AG, London Branch.
- References to the "*Portuguese Guarantor*" are to Iberflorestal, S.A.
- References to "*Pulp Business*" are to our pulp production and sales, pulp-linked energy generation and sales and forestry management activities, which will form the Restricted Group. Upon the completion of its transfer from the Restricted Group to the Unrestricted Group, the Biomass Boiler will no longer form part of the Pulp Business.
- References to the "*Refinancing*" are to this Offering and the application of the use of proceeds therefrom, including the satisfaction and discharge and subsequent redemption of the Existing Notes still outstanding following the June Redemption, the cancellation of the Existing Revolving Credit Facility and its replacement with the Revolving Credit Facility, the refinancing of the Unrestricted Group's project finance indebtedness and the incurrence of €15 million of indebtedness under the BBVA Loan.
- References to the "*Registrar*" are to Deutsche Bank Luxembourg S.A.
- References to "*Regulated Remuneration*" are to the remuneration received by Renewable Energy Facilities pursuant to the Ministerial Order IET/1045/2014 remuneration scheme.
- 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 "*Restricted Group*" are to the entities which are described as such in the section of these Listing Particulars entitled "*Presentation of Financial and Other Information—Restricted Group and Unrestricted Group Information*."
- References to the "*Restricted Subsidiaries*" are to the subsidiaries of the Issuer which are subject to the Notes covenants.
- References to the "*Revolving Credit Facility*" are to the revolving credit facility in an aggregate committed amount of €90 million, with an additional uncommitted amount of €10 million, which was entered into on or about the Issue Date.
- References to the "*Revolving Credit Facility Agreement*" are to the agreement providing for the Revolving Credit Facility which was entered into on or about the Issue Date, between, amongst others, the Issuer, certain subsidiaries of the Issuer listed in Schedule 1 to the Revolving Credit Facility Agreement, Banco Santander, S.A., Banco Bilbao Vizcaya Argentaria, S.A., Bankia, S.A., CaixaBank S.A., Citibank International Bank plc, Banco de Sabadell S.A. and Bankinter S.A., as arrangers, and Banco Santander, S.A., as facility agent and original issuing bank.
- References to the "*SEC*" are to the U.S. Securities and Exchange Commission.
- References to the "*Spanish Guarantors*" are, collectively, to Celulosas de Asturias, S.A.U., Norte Forestal, S.A.U., Silvasur Agroforestal, S.A.U. and Ibersilva S.A.U.
- References to the "*Transfer Agent*" are to Deutsche Bank Luxembourg S.A.
- References to the "*Trustee*" are to Deutsche Trustee Company Limited, as trustee under the Indenture.
- References to the "*Unrestricted Group*" are to the entities which are described as such in the section of these Listing Particulars entitled "*Presentation of Financial and Other Information—Restricted Group and Unrestricted Group Information*."
- References to the "*Unrestricted Subsidiaries*" are to the subsidiaries of the Issuer which are not subject to the Notes covenants. The Unrestricted Subsidiaries are also not borrowers under or have any obligations under the Revolving Credit Facility.

- References to the "*U.S. Exchange Act*" are to the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.
- References to the "*U.S. Securities Act*" are to the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

EXCHANGE RATE INFORMATION

We have set out in the table below, for the periods and dates indicated, high, low, average and period end Bloomberg Composite Rates expressed as U.S. dollars per €1.00.

The Bloomberg Composite Rate is a "best market" calculation. At any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications, whilst the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate.

We have provided the exchange rate information below solely for your convenience. We make no representation that any amount of currencies specified in the table below has been, or could be, converted into the applicable currency at the rates indicated or any other rate. In addition, the Bloomberg Composite Rate exchange rate information below may differ from the actual rates used in the preparation of our consolidated financial statements and the other financial information appearing in these Listing Particulars.

The exchange rate of the euro on November 24, 2015 was $1.0647 per €1.00.

	High	Low	Average(1)	Period End
	U.S.$ per €1.00			
Year				
2010	1.4510	1.1952	1.3262	1.3366
2011	1.4874	1.2925	1.3924	1.2960
2012	1.3463	1.2053	1.2858	1.3197
2013	1.3804	1.2772	1.3283	1.3789
2014	1.3925	1.2100	1.3283	1.2100
Month				
April 2015	1.1214	1.0582	1.0821	1.1214
May 2015	1.1432	1.0882	1.1160	1.0973
June 2015	1.1374	1.0919	1.1229	1.1153
July 2015	1.1129	1.0841	1.0997	1.1003
August 2015	1.1529	1.0873	1.1136	1.1204
September 2015	1.1367	1.1117	1.1232	1.1182
October 2015	1.1445	1.0967	1.1232	1.1018
November 2015 (through November 24, 2015)	1.1021	1.0620	1.0750	1.0647

(1) The average rate for a year means the average of the closing Bloomberg Composite Rate on each business day during a year. The average rate for a month, or for any shorter period, means the average of the closing Bloomberg Composite Rate of each business day during that month, or any shorter period, as the case may be.

SUMMARY

This summary highlights information contained elsewhere in these Listing Particulars. The summary below does not contain all the information that you should consider before investing in the Notes. You should read the entire Listing Particulars carefully, including our Interim Consolidated Financial Statements and Consolidated Financial Statements and the notes to those financial statements, before making an investment decision. Please see "Risk Factors" for factors that you should consider before investing in the Notes and "Forward-Looking Statements" for information relating to the statements contained in these Listing Particulars that are not historical facts.

Overview

Our Company

We are a pulp and energy production company and rank amongst the largest pulp businesses in Europe. Our Pulp Business is the largest producer of bleached hardwood Kraft pulp ("*BHKP*") from eucalyptus in Europe, measured by capacity, with an annual maximum installed capacity of 960,000 tonnes of pulp as at June 30, 2015. During the twelve months ended June 30, 2015, we produced 879,248 tonnes of pulp (as adjusted to exclude the contribution from our pulp production facility in Huelva, Spain which was shut down in October 2014) across our two pulp production facilities located in Navia and Pontevedra, Spain. Our pulp-linked energy generation and cogeneration activity, through which we produce energy, sell it to the grid and then repurchase it to power our pulp production facilities, had an installed capacity of 112 MW as at June 30, 2015. In addition, as at June 30, 2015, we owned or managed, pursuant to long-term arrangements, 82,860 hectares of forest land.

Our standalone Energy Business, which is run separately from our Pulp Business, had an installed capacity as at June 30, 2015 of approximately 111 MW across three energy generation facilities located in Huelva and Mérida, Spain.

We are publicly listed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, through the Automated Quotation System (Continuous Market) (*Bolsas de Valores de Madrid, Barcelona, Valencia y Bilbao, a través del Sistema de Interconexión Bursátil español, Mercado Continuo*) with a market capitalisation of €767.1 million as at June 30, 2015. For the twelve months ended June 30, 2015, we generated Consolidated Group revenue of €662.5 million, Consolidated Group Adjusted EBITDA of €119.4 million and Consolidated Group unlevered free cash flow (excluding expansion capital expenditure) of €74.0 million.

Business Areas

We currently organise our economic activities into two business areas, comprising our pulp business (the "*Pulp Business*") and our standalone energy generation business (the "*Energy Business*"). The Issuer and its subsidiaries engaged in our Pulp Business will comprise the Restricted Group and will be subject to the restrictive covenants under the Indenture. The subsidiaries of the Group engaged in our Energy Business will be designated as Unrestricted Subsidiaries within the meaning of the Indenture and will therefore comprise the Unrestricted Group and not be subject to the restrictive covenants under the Indenture.

Pulp Business

We are the largest BHKP producer in Europe, focused on eucalyptus pulp, with an annual maximum installed capacity of 960,000 tonnes as at June 30, 2015, more than 18% above that of the next largest BHKP producer in Europe. For the twelve months ended June 30, 2015, our Pulp Business generated Restricted Group revenue of €565.7 million (representing 85.1% of our Consolidated Group revenue), Restricted Group Adjusted EBITDA of €91.3 million (representing 76.5% of our Consolidated Group Adjusted EBITDA) and, as at June 30, 2015, comprised assets of €1,110.6 million (representing 96.4% of our Consolidated Group assets).

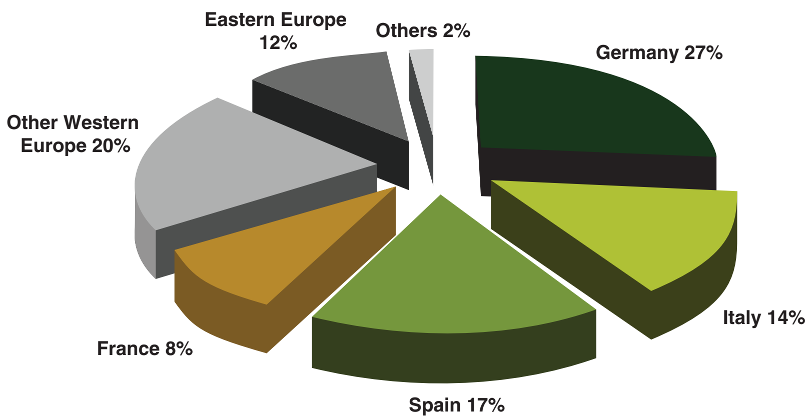
Our activities within our Pulp Business are organised into three segments: *Pulp*, which includes our pulp-linked energy generation and sales activities, *Pulp forest assets*, which includes our forestry management and eucalyptus timber procurement activities, and *Forest services & other*.

We have two pulp production facilities in Navia and Pontevedra, Spain. During the twelve months ended June 30, 2015, we produced an aggregate of 879,248 tonnes of eucalyptus pulp from our pulp production facilities, representing a utilisation rate of 93.5% (excluding routine maintenance stoppages and as adjusted to exclude the contribution of our pulp production facility in Huelva, which was shut down in October 2014).

We principally sell our pulp to customers in western European countries (particularly Germany, Italy, Spain and France) where we are able to leverage our logistical advantages which we believe make our high-quality products cost-competitive with foreign imports of pulp into the European Union. During the twelve months ended June 30, 2015, we exported approximately 86% of our eucalyptus pulp production to the western European market (excluding Spain). Including Spain, we hold a 12% market share in Western Europe, which is the largest global pulp market and a net importer of market pulp. We hold leading positions in market share by volume for BHKP in each of Germany, Spain, Italy and France, the principal markets for our pulp products, which accounted for 27%, 17%, 14% and 8% of our sales volume, respectively, for the twelve months ended June 30, 2015. During the same period, we also exported our pulp products to other western European countries (20%) as well as, on an opportunistic basis, to eastern European countries and to countries outside of Europe (2%).

The following chart shows the sales (by volume) of our pulp products by country for the twelve months ended June 30, 2015:

Pulp Sales (by volume) by Country
Twelve months ended June 30, 2015

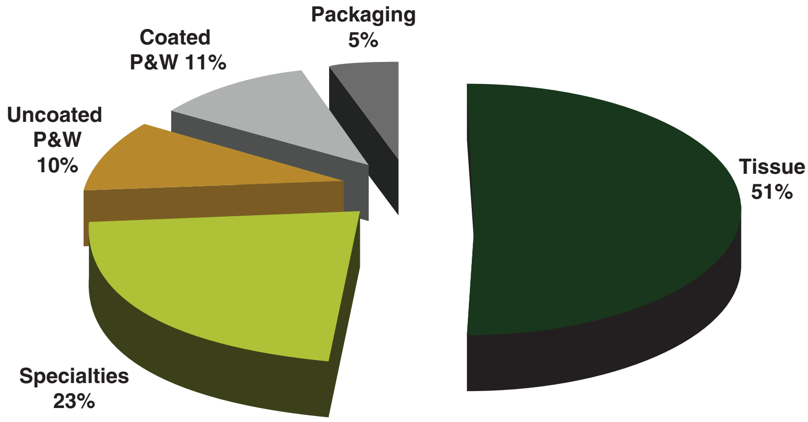


Source: Company records.

Our sales are focused on end-market paper segments with high forecasted growth rates. Our biggest end-market by volume is the tissue segment (generally used for the production of household and hygienic disposable products), which represented 51% of our pulp sales by volume during the twelve months ended June 30, 2015. 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 3.8% from 2014 to 2019, which is, according to RISI, the highest forecasted CAGR amongst the various paper segments by global demand during that period. Of the remaining 49% of our pulp sales by volume for the twelve months ended June 30, 2015, 28% came from specialty paper and packaging segments, including beauty products and white-top packaging, whilst 21% came from the printing and writing paper ("*P&W*") segment. According to RISI, the specialties and packaging and the containerboard segments are expected to grow globally at a CAGR by volume of 1.6% and 2.4%, respectively, from 2014 to 2019, whilst the P&W and newsprint segments are expected to shrink globally at a CAGR by volume of 0.2% and 2.9%, respectively, from 2014 to 2019.

The following charts show the percentage of our sales by volume generated from each end-market for the twelve months ended June 30, 2015:

Pulp Sales by End-Market Segment
Twelve months ended June 30, 2015



Source: Company records.

As part of the pulp production process, the eucalyptus wood is separated into fibre, water and lignin. To produce energy, we burn the lignin to heat water, creating steam that is then converted into electricity, which is in turn sold to the grid and repurchased for use in the pulp production process. This use of such energy is referred to as "cogeneration" and is an integral part of our Pulp Business, enabling us to recover heat that would otherwise be wasted and convert it into electricity to power our pulp production facilities. We also independently generate energy at an energy generation facility in Navia to supplement, when necessary, the energy cogenerated in the pulp production process at our Navia pulp production facility. Our two cogeneration facilities at our Navia and Pontevedra sites are fully integrated into our respective pulp production facilities at those sites and are primarily fuelled by the lignin produced during the wood separation process, whilst our independent energy facility at Navia is fuelled by waste and agricultural residue (consisting of both wood barks and other wood-based residues related to our own harvesting activities and purchased from third parties). We currently have a total installed energy generation and cogeneration capacity of approximately 112 MW within our Pulp Business.

All of our generation facilities use an "all–all" sale and purchase system, such that all energy generated at our facilities is sold at a specific level of remuneration that includes the price obtained in the Spanish wholesale market, as well as an amount intended to cover the costs (both in terms of our investment in the facility itself and our operational costs) that we are otherwise unable to recover on the Spanish electricity market (the "*Regulated Remuneration*"). All electricity required to power our pulp production processes is subsequently repurchased at a market rate (plus an access toll). For more information on the regulations governing our renewable energy generation activities, please see "*Business—Our Businesses—Energy Business—Regulation*" and "*Regulation*." Some of the waste and agricultural waste that we use to fuel our independent energy facility at Navia is waste from harvesting activities related to forestry management activities.

Finally, our two other segments within our Pulp Business consist of: (i) the management of eucalyptus plantations (primarily comprised of the globulus variety of eucalyptus) owned by third parties pursuant to long-term forestry management contracts; and (ii) the sourcing, purchase and supply of eucalyptus timber to our facilities, both through the purchase and supply of such timber from third parties in Spain or Portugal, as well as from our own forestry assets, including through overseeing the harvesting and/or transport of this timber to our facilities.

We have over 55 years of experience in the forestry business. As at June 30, 2015, we managed approximately 82,860 hectares of forest plantations, of which we owned approximately 59%, with the remainder being managed in collaboration with third parties. Under typical management arrangements, the land continues to be owned by a third party, whilst we manage the preparation, planting and maintenance of the land. These arrangements usually have a duration of two to three rotation cycles (the period necessary for a tree to grow and reach a harvestable maturity), or approximately 30 years.

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 for our Pulp Business (wood from our plantations accounted for only 3% of our total wood supply as at June 30, 2015) has led us to look for opportunities to divest our forestry asset base and move towards an asset-light forestry management model. We divested 27,780 hectares in Uruguay and an additional 2,608 hectares in Portugal, both of which closed in 2013. We intend to continue to look for opportunities to reduce our forestry asset base in Spain, particularly in our remaining forestry lands in southern Spain where we no longer engage in pulp production, with €37.9 million of energy crop assets expected to be divested during 2015 and 2016. Please see "*Forward-Looking Statements*."

Energy Business

Our other core business is our standalone Energy Business, which corresponds to our reportable segment. Our Energy Business will be operated by subsidiaries designated as Unrestricted Subsidiaries under the Indenture and therefore will not be subject to the restrictive covenants of the Indenture.

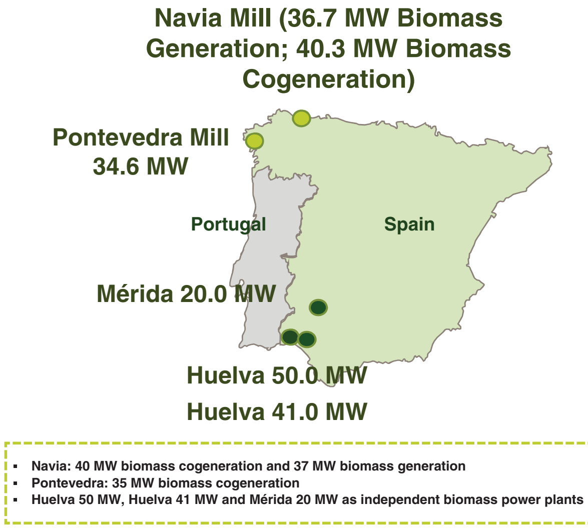
Our Energy Business, which is primarily fuelled by agricultural and forest waste residues (consisting of both wood barks and other wood-based residues related to our own harvesting activities and purchased from third parties), generates renewable electricity independently from the pulp-linked energy we produce as part of our Pulp Business. We sell all of the electricity that we produce in our Energy Business to the national electricity grid in Spain.

We currently operate three standalone energy generation facilities in Spain, located in Huelva and Mérida. Our two standalone energy generation facilities in Huelva are comprised of a 50 MW biomass energy generation facility, which we took possession of in February 2013 following the completion of its construction, and a 41 MW biomass energy generation facility that was reactivated in November 2014 after the shutdown of our pulp production facility at Huelva. We also operate a 20 MW biomass energy generation facility in Mérida, which we took possession of in September 2014 following the completion of its construction. All of these facilities use an "all–all" sale and purchase system and are entitled to preferential Regulated Remuneration as well as guaranteed sale of the energy generated. For more information on the regulations governing our renewable energy generation activities, please see "*Business—Our Businesses—Energy Business—Regulation*" and "*Regulation*."

Our 50 MW biomass energy generation facility at Huelva and our 20 MW biomass energy generation facility at Mérida have recently been refinanced under a long-term project finance agreement. Please see "*—Current Trading and Recent Developments—Recent Developments—Refinancing of project finance debt of our standalone Energy Business which will form our Unrestricted Group in connection with the Offering*" and "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements*."

Our Energy Business currently has a total installed capacity of approximately 111 MW. For the twelve months ended June 30, 2015, our Energy Business produced revenues of €101.4 million (representing 14.9% of our Consolidated Group revenue) and Adjusted EBITDA of €28.9 million (representing 24.2% of our Consolidated Group Adjusted EBITDA). Our three independent energy generation facilities sold energy generating revenues of €40.3 million, including approximately €6.9 million at the Huelva co-generation facility that was shut down in October 2014, during the six months ended June 30, 2014 and €44.0 million in the six months ended June 30, 2015.

Industrial Footprint



We have a high-quality asset base underpinning our strong operating and environmental performance, having invested, between 2009 and June 30, 2015, over €653 million in our consolidated asset base (of which over €369 million was invested in our pulp production assets, including in our pulp production facility at Huelva which is no longer operational).

Following the closure of a pulp production facility located in Huelva, Spain in October 2014 due to, amongst other things, regulatory changes introduced by the Spanish government (please see "*—Our History—Group Efficiency Initiatives and Optimisation of Production*"), the industrial infrastructure for our Pulp Business currently comprises two pulp production facilities and three energy generation facilities located in Navia and Pontevedra, Spain which generate and cogenerate energy by taking advantage of synergies from the industrial process of pulp production. Please see "*Business—Our Sites and Facilities—Pulp Business sites and facilities*." The industrial infrastructure for our Energy Business is currently comprised of three standalone energy generation facilities, two of which are standalone biomass energy generation facilities and the third a condensation installation, in Huelva and Mérida, Spain. Please see "*Business—Our Sites and Facilities—Energy Business sites and facilities*."

We support internationally recognised standards on health and safety and voluntarily adhere to applicable environmental and pollution prevention best practices, and also adhere to internationally recognised guidelines on corporate responsibility and sustainability. As at June 30, 2015, approximately 70% of our owned forestry assets were certified under the Programme for the Endorsement of Forest Certification ("*PEFC*") scheme and 48% under the Forest Stewardship Council ("*FSC*") scheme, both of which are internationally recognised certification schemes promoting sustainable forest management. We intend to continue focusing on the sustainability of our production as well as to continue complying with strict environmental standards.

Our History

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 maintain today. In 1987, the Motril facility was sold and, in 1999, we acquired full ownership of Celulosa de Asturias, S.A., which owned the Navia facility. We underwent two partial privatisations in 1990 and 1995 (which included public listings), followed by a full privatisation in 2001. The configuration of our pulp production and forestry activities took place in 1995. We began generating renewable energy in 1997.

Group Efficiencies Initiatives and Optimisation of Production

Our company has faced significant market, regulatory and other external changes and demands. Our management has taken action to align our operations to such conditions, including undertaking significant transformation of, and changes in, our strategy over the last eight years, thereby demonstrating our ability to quickly adapt to the changing economic and regulatory environment.

Prior to 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, a greenfield pulp production project in Uruguay, as well as, in line with the then-existing renewable energy regulatory regime in Spain, a pipeline of biomass projects), which were managed with internal financial and construction resources. During this period, our revenue from our energy generation business represented less than 10% of our total revenue, and we financed our biomass expansion projects on our balance sheet. As a consequence of this focus on growth, we were highly leveraged. We also operated a forestry ownership business model with only a limited focus on sourcing wood from third parties.

From 2010 onwards, our management's focus and strategy shifted from capacity expansion to cost optimisation and efficiency improvements across our pulp production facilities to exploit the business cash flow potential and to better protect our financial performance during challenging macroeconomic periods. As a result, we reduced fixed costs and introduced our Total Quality Management programme in 2011, designed to drive operational efficiencies, balance maintenance capital expenditure requirements across our facilities and significantly improve utilisation rate and productivity levels. In May 2014, we introduced our Competitiveness Recovery Plan aimed at offsetting the negative impact of regulatory changes in Spain that eliminated cogeneration premiums (which we estimate at €59 million of EBITDA on an annualised basis based on the historical performance of our facilities). As part of this strategy, we shut down our pulp production facility in Huelva in October 2014 (which had a one-off negative impact on EBITDA of €43.0 million during the second half of 2014) and eliminated €16 million in annual costs at our remaining pulp production facilities in Navia and Pontevedra and at our headquarters in Madrid, 90% of which had been realised as at June 30, 2015.

In addition, during the six months ended June 30, 2015, we paid €4.9 million in restructuring costs related to the shutdown of our Huelva pulp production facility, although we expect to pay an additional €11 million (provisioned in our June 30, 2015 accounts) in restructuring costs related primarily to the cancellation of contracts and an additional €6.7 million related to the reimbursement of grants in relation thereto during the second half of 2015 and in 2016. We also made efficiency-related investments of €8.7 million during the six months ended June 30, 2015 at our facilities in Navia and Pontevedra out of a total of €29.7 million in such improvements expected to be made during 2015 and 2016, which we estimate will result in total annual savings of approximately €8.4 million (of which €2.4 million is expected to be reflected in our full-year 2015 results, primarily during the second half of the year) at these facilities. During the six months ended June 30, 2015, we implemented a capacity increase of 20,000 tonnes at our Navia pulp production facility, and are in the process of implementing an additional 20,000-tonne capacity increase at this facility (with an associated capital expenditure of approximately €30.8 million, of which €13.9 million had been committed as at June 30, 2015 and with the remaining €16.9 million expected to be spent during the second half of 2015 and in 2016). Please see "*Regulation—Spanish Framework*" and "*Forward-Looking Statements.*"

As a result of our adaptation process, we have been able to significantly reduce our net debt as well as successfully adapt our business, strategy and focus to movements in pulp prices, changes in the regulatory environment and cost pressures. We have also put in place a conservative financial policy, characterised by low leverage and adequate liquidity, which is a fundamental element of our strategy to further enhance the resilience of our business. Please see "*Forward-Looking Statements*" and "*Risk Factors—Risks Relating to Our Pulp and Energy Businesses—We may experience unforeseen difficulties, delays or costs in successfully implementing our business strategy, including cost-cutting initiatives, reductions in capital expenditures, the raising of capital from asset disposals and achieving previously announced targets (including some included in these Listing Particulars), and any such actions may not yield the anticipated benefits.*"

Our Key Strengths

Leading Market Positions

We are the largest BHKP producer in Europe, focused on eucalyptus pulp, with an annual maximum installed capacity of 960,000 tonnes as at June 30, 2015, more than 18% above that of the next largest

BHKP producer in Europe. During the twelve months ended June 30, 2015, we exported approximately 86% of our eucalyptus pulp production, primarily to customers in the western European market, the largest global pulp market, where we have a market share of 12%. We hold a leading market position in terms of market share by volume for our pulp products in each of Germany, Spain, Italy and France, the principal markets for our pulp products, which accounted for 27%, 17%, 14% and 8% of our sales volume, respectively, during the twelve months ended June 30, 2015.

We believe that our leading market positions provide us with significant economies of scale and flexibility, and thus a competitive advantage over South American pulp producers in particular. In addition, the adaptation of our pulp production processes to the changing demands of customers for certain types and grades of pulp and for the use of either the elemental chlorine free ("*ECF*"), or the totally chlorine free ("*TCF*"), bleaching method helps us to retain our leading market positions.

Focus on Key Growth Segments of the Paper Market

The type of pulp that we produce, BHKP, is made from hardwood (eucalyptus), the shorter fibres of which make this type of pulp generally better suited to the manufacturing of tissue paper, which is a segment that exhibits particularly strong growth potential in our core markets. Short fibres are also the best type for the manufacturing of wood-free paper with good printability, smoothness, opacity and uniformity. By contrast, pulp made from softwood (or long fibre), such as pine, spruce or fir, has longer fibres and is generally better suited for the manufacturing of paper that requires durability and strength.

The global BHKP market grew at a CAGR by volume of approximately 3.3% over the period from 2011 to 2014, as compared to the market for bleached softwood Kraft pulp ("*BSKP*"), which grew at a lower CAGR of 1.4% over the same period. According to RISI, growth in the BHKP market is expected to continue over the period from 2014 to 2019 at a global CAGR by volume of 3.3%, including by a CAGR of 0.4% in Western Europe, primarily driven by continued underlying growth in the demand for tissue, whilst the BSKP market is expected to grow by a CAGR of only 2.0% over this same period. Our hardwood eucalyptus pulp is highly suited to the tissue segment in particular, which accounted for 51% of our pulp sales by volume for the twelve months ended June 30, 2015. According to RISI, demand in the tissue segment is forecasted to grow globally at a CAGR by volume of 3.8% per annum over the period from 2014 to 2019. We believe that our ability to adapt our pulp production process to create specialty pulp products, and particularly in products intended for the tissue segment, leads to a differentiated and less commoditised product and hence increased customer satisfaction and retention. For example, different customers require different degrees of whiteness or softness in the pulp they use to manufacture various products including decorative paper, cigarette paper and paper for money, which we are able to adapt our production processes to produce. We are also able to produce pulp with different levels of bulk and porosity, as well as types of pulp that do not require significant amounts of processing by end-customers.

Of the remaining 49% of our pulp sales by volume for the twelve months ended June 30, 2015, 28% came from certain specialty paper and packaging segments, including beauty products and white-top packaging, whilst 21% came from the P&W segment. According to RISI, the specialties and packaging and the containerboard segments are expected to grow globally at a CAGR by volume of 1.6% and 2.4%, respectively, from 2014 to 2019, whilst the P&W and newsprint segments are expected to shrink globally at a CAGR by volume of 0.2% and 2.9%, respectively, from 2014 to 2019. We also believe that because short fibre pulp is primarily used to make household paper products, the BHKP market has been affected significantly less by the trend towards digitalisation that has adversely affected the market for paper used for newspaper, office products and advertising.

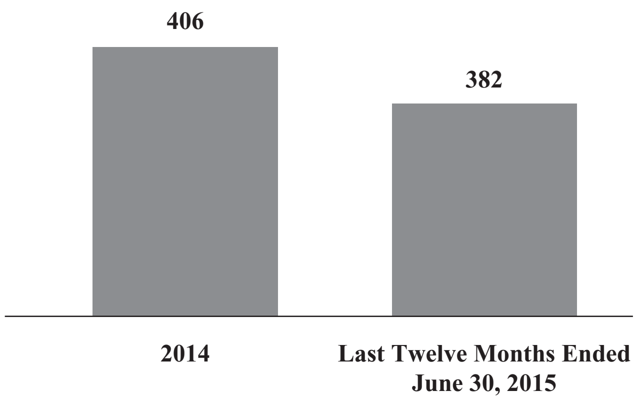
Strong Focus on Cost Leadership

Our focus on cost reduction across all of our business activities, including through improving the cost base and production efficiency of our pulp production facilities, shifting from a forestry ownership to a forestry management business model, divesting non-core assets, increasing and stabilising production and reducing overhead costs, has allowed us to optimise our business and run it more efficiently. For example, we introduced our Total Quality Management programme in 2011, which is designed to drive operational efficiencies, balance maintenance capital expenditure requirements across our facilities and significantly improve utilisation rates and productivity levels. More recently, our Competitiveness Recovery Plan, introduced in May 2014, enabled us to quickly and effectively respond to the evolving regulatory environment in Spain, and, in particular, to offset the negative impact of certain regulatory changes resulting from the completion of a structural reform of the Spanish energy industry undertaken by the

Spanish government during 2012 and 2013 and which we believe established a stable energy regulation framework under which we can develop our business in the medium- to long-term, through the implementation of a comprehensive cost optimisation strategy. As part of this plan, we completely shut down our pulp production and energy cogeneration activities at Huelva in October 2014, which were no longer profitable due to a reduction in cogeneration premiums, cost inefficiencies at this particular facility and a lack of local timber supplies. At our other facilities at Navia and Pontevedra, we have also increased our focus on automation, which has enabled us to reduce our workforce and other costs, and plan to continue to work to reduce raw material usage and, more generally, to increase operational efficiencies at these facilities.

As a result of these initiatives, our Cash Costs decreased by 5.9% from €406 per tonne in the year ended December 31, 2014 to €382 per tonne in the twelve months ended June 30, 2015. In addition, our Total Costs in the year ended December 31, 2014 and in the twelve months ended June 30, 2015 were €483.7 per tonne and €472.5 per tonne, respectively.

Evolution of Cash Costs
(in € per tonne)



Source: Company.

Strategically Located Production Facilities

Our two pulp production facilities are strategically located along the northern Spanish coast, in close proximity to a significant supply of wood, our core customer base and port terminals. The strategic locations of our pulp production facilities, combined with our ability to manage the logistics and supply-chain elements of shipping and delivery to 13 different ports, gives us an advantage over South American pulp producers in particular, since this enables us to (i) maintain low transportation costs (using a combination of trucks, trains, vessels and barges), (ii) reduce inventory levels and (iii) provide quality customer service since we are able to respond quickly to our customers' specific product and delivery needs, thus delivering a higher value-added, more specialised and hence less commoditised product directly addressing customer requirements on a timely basis. For example, it would typically take only four days for pulp we ship to reach a customer in Amsterdam, as opposed to the approximately 20 days that we estimate would be required for a competitor located in southern Brazil to ship a similar order of pulp to Amsterdam, not including the time required to process and package the order.

Well-Invested and Efficient Facilities Benefitting from Significant Barriers to Entry

Having invested over €653 million in our consolidated asset base between 2009 and June 30, 2015 (of which over €369 million was invested in our pulp production assets, including in our pulp production facility at Huelva which is no longer operational), we now have cost-efficient, low-maintenance production facilities with improved environmental performance. As a result, we had a 93.5% utilisation rate (excluding routine maintenance stoppages) during the twelve months ended June 30, 2015 at our pulp production facilities in Navia and Pontevedra.

We also benefit from significant barriers to entry in our market, which include the complexity and cost of wood supply, the high investment required in industrial equipment, the significant lead times and financing necessary to build new production facilities, the required regulatory consents, the establishment of customer relationships with large paper companies and the development of the necessary logistics expertise to provide certainty of supply to such customers.

Due in large part to the shutdown of the pulp production facility in Huelva in October 2014 and the capital improvements at our facilities in Navia and Pontevedra, we expect our maintenance capital expenditure (excluding expansion programmes and restructuring costs related to the shutdown at Huelva) for our Pulp Business, which amounted to €18.8 million during the year ended December 31, 2014 and €12.3 million during the six months ended June 30, 2015, to remain low, at approximately €20 million to €30 million per annum. Please see "*Forward-Looking Statements*."

Cash Generation Underpinned by a Strong Balance Sheet

For the twelve months ended June 30, 2015, we generated Consolidated Group unlevered operating free cash flow (excluding expansion capital expenditures) of €74.0 million.

We have successfully reduced our Restricted Group net debt from €178.3 million as at December 31, 2014 to €160.8 million as at June 30, 2015 for our Pulp Business.

Experienced and Proven Management Team Complemented by a Supportive Shareholder Base

We have an experienced, proven and fully committed management team with a history of successfully managing both our Pulp Business and our Energy Business through several industry cycles. Our management team has an average operating experience of over 13 years in both the pulp and paper and renewable energy sectors, including within highly ranked multinationals. Our senior management team also includes individuals with strong backgrounds in applying cost reduction techniques and cost efficiency initiatives in an industrial setting, as well as significant experience in treasury management and financial reporting.

Our major shareholders as at the date of these Listing Particulars remain fully committed to the business. Our largest shareholder, Retos Operativos XXI, S.L., has held a shareholding interest in excess of 20% of our shares since 2007. In addition, Juan Luis Arregui, who represents the interests of Retos Operativos XXI, S.L., which currently owns 26.5% of our shares, is currently the Chairman of our Board of Directors.

Our Strategy

For our Pulp Business, our strategy is to conservatively grow this business organically using only local timber supplies and with a focus on harnessing operational efficiencies from our pulp production and cogeneration facilities. We intend to achieve this strategy through the continual improvement of the operational performance of our existing pulp production facilities and by focusing on strict cost reduction and efficiency, stability of production, delivering superior customer satisfaction and maintaining an efficient equilibrium between pulp production and forestry supply management. In addition, we intend to continue maximising cash flow generation through strategic capital expenditures and a conservative financial policy. We also intend to continue to explore opportunities to grow our Pulp Business through limited capacity expansions in order to optimise the balance of efficiency and cost reductions.

For our standalone Energy Business, we intend to employ a separate strategy of selective expansion, as well as to leverage our extensive experience in building and operating standalone biomass-based renewable energy generation facilities in order to optimise efficiency at our existing facilities.

Maintain Low-Cost, Efficient Pulp Production with a Focus on International Markets

We believe that we are amongst the lowest-cost pulp producers in Europe, largely as a result of our significant past investments in our production facilities, resulting in well-invested, cost-efficient production facilities with high utilisation rates and expected low maintenance capital expenditures. Our cost leadership is also underpinned by the strategic location of our production facilities. We seek to further optimise our production process and improve the cost efficiency at all of our facilities. Our strategy is to do so by leveraging the operational advantages that our integrated business model, including our pulp-linked energy generation and forestry activities, provide, thereby reducing the need for further investments and further enhancing our competitiveness, profitability and cash generation. We strive to continuously increase the productivity of our Pulp Business (as measured by tonnes 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, including through strong management attention to these indicators and through internal processes which ensure the sharing of best practices across our facilities.

In May 2014, we introduced our Competitiveness Recovery Plan, aimed at offsetting the negative impact of regulatory changes in Spain that eliminated cogeneration premiums (which we estimate at €59 million of EBITDA for 2014 on an annualised basis). In October 2014, as part of this strategy, we shut down our pulp production facility in Huelva, Spain in the wake of losses for three consecutive quarters as a result of the reduction in cogeneration premiums, cost inefficiencies at this facility and the lack of local timber supplies. This resulted in a reduction of our installed annual pulp production capacity to 940,000 tonnes from the previous 1,340,000 tonnes. Whilst year-on-year energy sales had increased between 2009 and 2013, the shutdown also resulted in the loss of 77 MW of cogeneration capacity, thus reducing our total energy generation capacity from our Pulp Business to 112 MW. As part of the Competiveness Recovery Plan, we have also implemented a 20% reduction in our workforce, as well as a reduction of €16 million of annual costs at our remaining pulp production facilities in Navia and Pontevedra and at our headquarters in Madrid, 90% of which had been realised as at June 30, 2015, and also made efficiency-related investments of €8.7 million during the six months ended June 30, 2015 at our facilities in Navia and Pontevedra out of a total of €29.7 million in such improvements expected to be made during 2015 and 2016, which we estimate will result in total annual savings of €8.4 million (of which €2.4 million is expected to be reflected in our full-year 2015 results, primarily during the second half of the year) at these facilities. We are also in the process of implementing a 40,000-tonne capacity increase (of which 20,000 tonnes has already been completed, thus resulting in a total installed annual pulp production capacity as at June 30, 2015 of 960,000 tonnes) at our Navia pulp production facility (with an associated capital expenditure of approximately €30.8 million, of which €13.9 million had been committed as at June 30, 2015 and with the remaining €16.9 million expected to be spent during the second half of 2015 and in 2016). Please see "*—Our History—Group Efficiency Initiatives and Optimisation of Production*," "*Regulation—Spanish Framework*" and "*Forward-Looking Statements.*"

Additionally, we seek to maintain and strengthen our leading market positions across Europe, maintaining a diversified client base with long-standing customer relationships in such key countries as Germany, Spain, Italy and France, expanding pulp sales in the high growth tissue market and maintaining a selective approach to other international markets such as Eastern Europe and China.

Continue Shift to Asset-Light Forestry Supply Management Model

As part of a broader move towards an asset-light forestry supply management model, we intend to continue to focus on selectively divesting our owned forestry asset base and managing plantations owned by third parties whilst at the same time increasing our direct purchases of standing timber from local land owners, which we believe will enable us to reduce costs derived across the entire wood value chain. Leveraging our 55 years of experience in the forestry business, we aim to increase our collaboration with plantation owners through long-term agreements and shared know-how on forestry management and logistics, thereby ensuring the long-term availability of wood from local supplies. We also intend to continue to focus on increased purchases from small suppliers in order to leverage our purchasing power and diversify our wood supply sources. Currently, we are able to source 100% of our wood supply from the open market, principally from suppliers in Spain and Portugal. We have also already significantly reduced the percentage of imported wood (which can be up to 50% more expensive than wood sourced from Spain and Portugal due to transportation costs) within our wood supply, which has further reduced costs and improved our efficiency.

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

Our strategy across all of our business activities underpins our focus on continued strong free cash flow generation whilst maintaining a conservative financial policy, which includes the continuing divestiture of certain non-core assets and cost optimisation. In past years, we have successfully reduced our net debt by using proceeds from disposals from our Uruguayan and Portuguese forestry assets. We seek to further optimise capital expenditures and working capital in order to maintain our leading cash conversion capabilities amongst our European peers. For example, a strong focus on cash generation has led to a reduction in our net debt (excluding project finance debt) from €200.7 million as at December 31, 2012 to €150.4 million as at June 30, 2015 despite changes in energy regulations and the implementation of our restructuring process.

Selective Further Expansion of our Energy Business

We will operate our Energy Business through Unrestricted Subsidiaries within the meaning of the Indenture governing the Notes offered hereby. We aim to leverage our extensive experience in building and operating standalone biomass-based renewable energy generation facilities to optimise efficiency at our existing facilities as well as to grow selectively in the biomass renewable energy sector by developing profitable opportunities both domestically and internationally that fulfil our disciplined return-on-investment and operational criteria. We also intend to continue to selectively explore and potentially pursue opportunities for further expansion in the biomass renewable energy sector in Spain as well as in other jurisdictions that offer attractive regulatory regimes for such investments.

Going forward, we expect that the Unrestricted Group will be financed independently from the Restricted Group using the Energy Business' own cash flows and credit fundamentals, as well as through proceeds from the sale of certain assets (currently classified as "held for sale" in our consolidated financial statements) that we no longer consider central to our business model. We intend to finance any potential expansion opportunities on a non-recourse project finance basis and transfer the execution risk to engineering, procurement and construction ("*EPC*") providers, and we anticipate approaching international opportunities through carefully vetted strategic partnerships in order to reduce our equity contribution whilst proactively managing associated risks.

Current Trading and Recent Developments

Current Trading

Demand for pulp continued to be strong during the third quarter, which has supported the full implementation by pulp producers of the pulp price increase to 810 $/t announced during the second quarter of 2015 as well as the announcement by sector players in August 2015 of a further increase in the price of pulp to 830 $/t. Strong Chinese demand continues to exert a strong stabilising influence on pulp commodity prices, more than offsetting the increase in supply from new capacity in Brazil. The U.S. dollar/euro exchange rate, which averaged 1.11 $/€ during the third quarter of 2015, was also favourable, allowing us to maintain our hedge of approximately 50% of our U.S. dollar exposure for the twelve-month period between July 2015 and June 2016.

Based on management's review of preliminary consolidated management accounts for the third quarter, our third quarter results are expected to show a continuation of the trends in revenue and EBITDA growth (in each case, as adjusted to exclude the contribution of the Huelva pulp production facility in 2014) observed during the first half of 2015 and discussed elsewhere in these Listing Particulars, largely driven by the positive conditions described above and our continuing efficiency and optimisation of production initiatives. Based on management's review of preliminary consolidated management accounts for the nine months ended September 30, 2015, we expect that Consolidated Group revenue will increase by 23% to 28% as compared to the corresponding period in the previous year (as adjusted to exclude the contribution of the Huelva pulp production facility in 2014). Management's review of preliminary consolidated management accounts for the same period indicates that the Restricted Group's revenue will increase by between 16% to 21% as compared to the corresponding period in the previous year (as adjusted to exclude the contribution of the Huelva pulp production facility in 2014). As a result of the foregoing factors, we expect that Restricted Group *pro forma* Adjusted EBITDA will increase by 98% to 103% as compared to the corresponding period in the previous year primarily driven by higher production rates, higher pulp prices and lower Cash Costs due to, amongst other factors, favourable commodity prices and the results of our efficiency and cost-cutting initiatives as well as the favourable foreign exchange conditions as described above.

The preceding preliminary indications of our results of operations for the nine months ended September 30, 2015 are estimates based on initial management review of our consolidated management accounts which have not been audited or reviewed by our independent auditors or by any other audit firm and will be subject to approval by our Board of Directors (as defined herein). Our actual nine-month results may differ from these estimates in ways that could be material. In addition, our interim results are not necessarily indicative of the results that may be expected for any other period or for the full year. Please see "*Forward-Looking Statements*," "*Presentation of Financial and Other Information*," "*Risk Factors*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

Recent Developments

Update on public concession for Pontevedra

On July 30, 2015, the early termination process which followed an administrative challenge of the termination date of the public concession granted to us in 1958 for the land on which our pulp production facility at Pontevedra was constructed was concluded. Pursuant to a decision by the Ministry for Agriculture, Food and the Environment issued on July 30, 2015, the concession is to be partially terminated, with the land subject to such termination only encompassing a wastewater treatment facility operated by a third-party utility, a submarine pipeline and sports fields. Such a partial termination thus would not affect the land on which our pulp production facility is situated or that is otherwise essential to our pulp production activities. Although this decision may be appealed through the end of October 2015, our public concession remains fully valid and we have already begun the proceedings to effectuate the separation of the affected land from the land on which our facilities are located. In addition, as a result of this decision, on July 31, 2015 we reactivated our application to the administrative authorities to extend the concession. Such an extension, if granted, would run for a maximum of 60 years from the date on which the application for the extension was filed. We are currently awaiting the issue of the environmental report from the government of Galicia which is necessary to extend the concession and which we believe will be favourable, after which the Ministry for Agriculture, Finance and the Environment may expressly approve the extension of the concession. Please see "*Risk Factors—Risks Relating Exclusively to Our Pulp 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*," "*Business—Our Sites and Facilities—Pulp Business sites and facilities—Pontevedra*" and "*Business—Legal Proceedings and Tax Audits*."

Tender process

We intend to selectively participate in tender opportunities in connection with energy facility development projects in Spain, particularly when we believe that we can pursue such opportunities on a cost-competitive basis. A tender opportunity for 200 MW of new biomass capacity was recently announced, for which we intend to submit a tender. If we are awarded the tender, we expect to finance the expenditure necessary to purchase and develop the facility through a mix of cash and debt, as well as through proceeds from the sale of certain assets of the Restricted Group that we no longer consider central to our business model. Although we plan to maintain a maximum leverage for the Restricted Group of 2.5x net debt/EBITDA, we cannot guarantee that we will be able to do so. Please see "*Risk Factors—Risks Related to the Notes and Our Structure—Despite our current substantial indebtedness, we may be able to incur more debt in the future, which could further exacerbate the risks of our indebtedness. Such additional debt may be structurally senior to the Notes or secured.*" and "*Risk Factors—Risks Related to the Notes and Our Structure—We have the flexibility to reinvest the proceeds from certain asset sales into the Unrestricted Group.*"

Update on assets held for sale

As at the date of these Listing Particulars, we had completed sales or received formal offers or signed promissory contracts with respect to approximately 21% out of the total €75.9 million book value of assets held for sale on our balance sheet as at June 30, 2015 in conjunction with our extraordinary asset divestiture program of certain of our non-core forestry, real estate and industrial assets (a significant percentage of which are associated with our former pulp production activities at Huelva). We expect such sales to be made for amounts in excess of the book value of most of the relevant assets and to close during the fourth quarter of 2015. However, the aforementioned formal offers and promissory contracts are subject to closing conditions and no assurance can be given that they will close. We anticipate that the remaining assets will be sold during 2016. Please see "*Risk Factors—Risks Related to the Notes and Our Structure—We have the flexibility to reinvest the proceeds from certain asset sales into the Unrestricted Group*."

Refinancing of project finance debt of our standalone Energy Business which will form our Unrestricted Group in connection with the Offering

On July 31, 2015, we reached an agreement with certain Spanish banks to refinance the project financings in relation to our 50 MW biomass energy generation facility in Huelva and our 20 MW biomass energy generation facility in Mérida. The new Senior Credit Agreement (as defined herein) provides for a total facility of approximately €135 million, allowing the Unrestricted Group to incur, compared to the initial project financing arrangements, approximately €30 million in additional debt and reducing the margin on such project finance debt to 2.75% plus EURIBOR. As a result of this refinancing, and with the exception of (i) a €63.3 million intragroup loan, which is currently fully drawn, between the Issuer, as lender, and ENCE Energía, S.L.U., as borrower, (ii) a credit line of up to €7 million provided by the Issuer to ENCE Energía, S.L.U. in conjunction with an obligation by ENCE Energía, S.L.U. to indemnify ENCE Energía Huelva, S.L.U. and ENCE Energía Extremadura, S.L.U. for expenses that could arise as the result of the cancellation of certain leases on land that was previously used for the development of energy crops and (iii) a tax guarantee (please see "*Certain Relationships and Related Party Transactions—Transactions with the Unrestricted Group*," "*Description of Other Indebtedness—Loan from the Issuer to an Unrestricted Subsidiary,*" "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements—Credit Line from Issuer to ENCE Energía, S.L.U.*" and "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements—Tax Guarantee*"), the Restricted Group no longer provides any credit support for the Unrestricted Group. Please see "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements—Senior Credit Agreement*" for further information on the new Senior Credit Agreement.

Announcement and Distribution of October Dividend

In July 2015, we announced an intention to distribute, subject to the approval of our Board of Directors, an interim gross dividend against 2015 earnings of €0.044 per share. The dividend, which was subsequently approved by our Board of Directors and paid on October 7, 2015, amounted to €11.0 million and was funded from cash on our balance sheet.

The Refinancing

After deduction of commissions and expenses, the net proceeds from the issue of the Notes were approximately €243.4 million. We used the net proceeds from the issue of the Notes, together with cash on balance sheet of €2.1 million, for the repurchase and full redemption of the €225 million in aggregate principal amount of the Existing Notes still outstanding following the June Redemption, including a make-whole premium and accrued and unpaid interest to the date of redemption (the "*Redemption Date*") of approximately €20.5 million. This make-whole redemption was effected by using the proceeds to satisfy and discharge the Existing Notes. In connection with this Offering, we also cancelled the Existing Revolving Credit Facility and replaced it with the Revolving Credit Facility. The Revolving Credit Facility is a senior unsecured obligation of the Issuer and ranks equally in right of payment with all other existing and future senior debt of the Issuer. The Revolving Credit Facility is guaranteed on a senior basis by the Guarantors. In these Listing Particulars, we refer to the Offering and the application of the use of proceeds therefrom, including the satisfaction and discharge and subsequent redemption of the Existing Notes, the cancellation of the Existing Revolving Credit Facility and its replacement with the Revolving Credit Facility, the refinancing of the Unrestricted Group's project finance indebtedness and the incurrence of €15 million of indebtedness under the BBVA Loan as the "*Refinancing*." For additional information, please see "*Use of Proceeds*," "*Description of Other Indebtedness*" and "*Description of the Notes*."

The Issuer

The Issuer of the Notes is ENCE Energía y Celulosa, S.A. This entity was initially incorporated in Spain on December 27, 1968 as a *sociedad anónima* under the name Empresa Nacional de Celulosa, S.A. It changed its name to Grupo Empresarial Ence, S.A. in 1999 and to ENCE Energía y Celulosa, S.A. in April 2012.

Since 1990, we have been publicly listed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, through the Automated Quotation System (Continuous Market) (*Bolsas de Valores de Madrid, Barcelona, Valencia y Bilbao, a través del Sistema de Interconexión Bursátil español, Mercado Continuo*). We had a market capitalisation of €767.1 million as at June 30, 2015.

The Issuer's principal executive offices are located at Calle de Beatriz de Bobadilla, 14, Planta 4, 28040 Madrid, Spain and its telephone number is +34 91 337 85 00. Its corporate website can be accessed at *www.ence.es*. The information and other content on our corporate website do not form part of these Listing Particulars.

The Guarantors

The Notes will be fully and unconditionally guaranteed on a senior basis by certain subsidiaries of the Issuer. On the Issue Date, the Guarantors will be Celulosas de Asturias, S.A.U., Norte Forestal, S.A.U., Silvasur Agroforestal, S.A.U., and Ibersilva, S.A.U., each of which is a direct or indirect wholly owned subsidiary of the Issuer incorporated under the laws of Spain (collectively, the "*Spanish Guarantors*"), and

Iberflorestal, S.A., which is an indirect wholly owned subsidiary of the Issuer incorporated under the laws of Portugal (the "*Portuguese Guarantor*").

Celulosas de Asturias, S.A.U. is a *sociedad anónima unipersonal* incorporated under the laws of Spain. Its field of activity consists primarily of the production and sale of pulp and the generation and sale of electricity. Its registered address is Calle Armental s/n, 33710 Navia, Asturias, Spain.

Silvasur Agroforestal, S.A.U. is a *sociedad anónima unipersonal* incorporated under the laws of Spain. Its field of activity consists primarily of forest management. Its registered address is Calle de Beatriz de Bobadilla, 14, Planta 4, 28040 Madrid, Spain.

Norte Forestal, S.A.U. is a *sociedad anónima unipersonal* incorporated under the laws of Spain. Its field of activity consists primarily of forest management. Its registered address is Calle de Beatriz de Bobadilla, 14, Planta 4, 28040 Madrid, Spain.

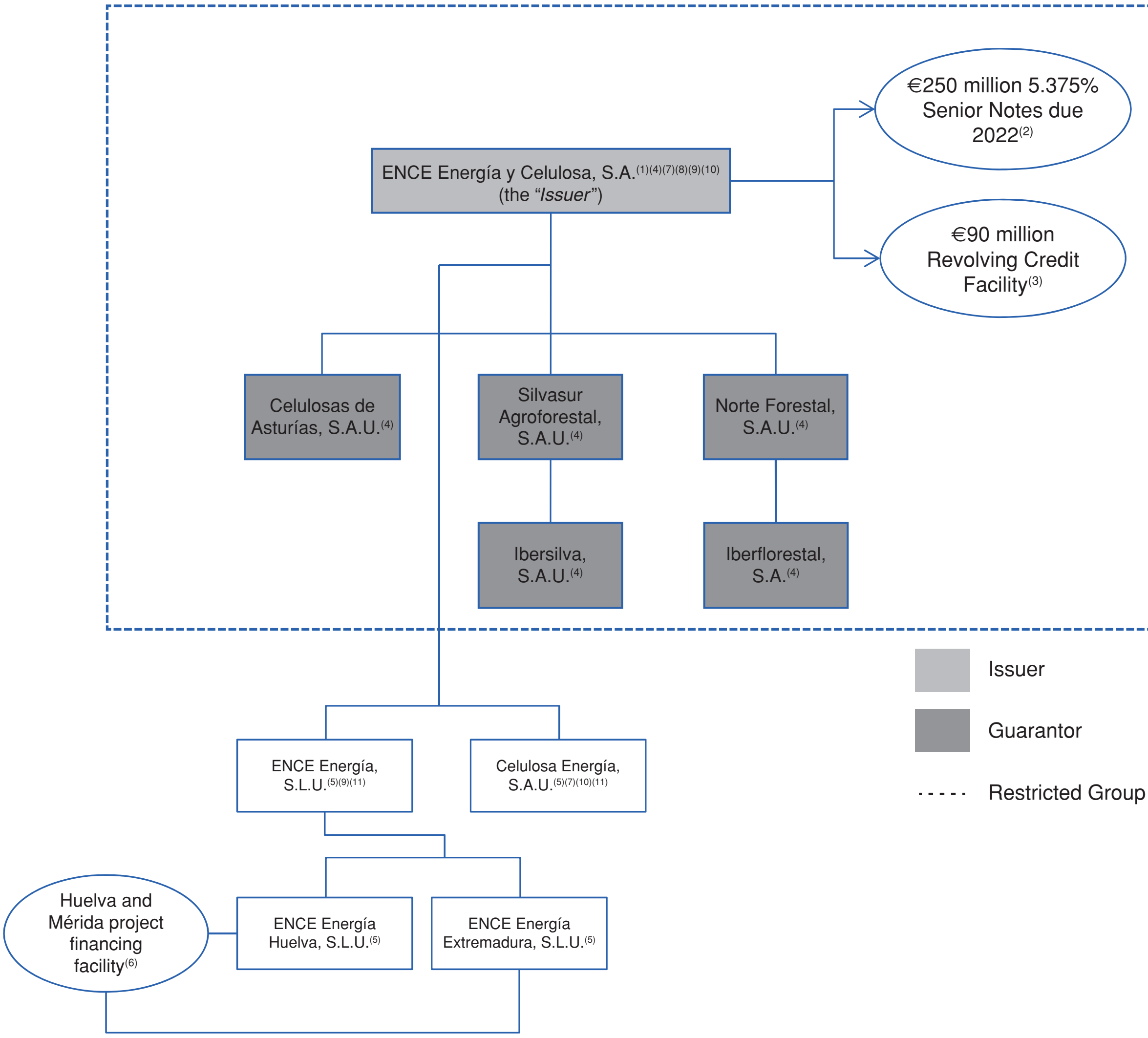
Ibersilva, S.A.U. is a *sociedad anónima unipersonal* incorporated under the laws of Spain. Its field of activity consists primarily of forestry services in general, the cleaning and treatment of wastes and the extraction and treatment of building materials. Its registered address is Carretera A-5000, Km 7.5, Huelva, Spain.

Iberflorestal—Comércio e Serviços Florestais, S.A. is a *sociedade anónima* incorporated under the laws of Portugal. Its field of activity consists primarily of forestry activities, including the purchase and sale of wood, plants and forest products. Its registered address is Rua da Telheira, no 604, Lugar de Passos, 4930 106 Cerdal, Valença, Viana do Castelo, Portugal.

ORGANISATIONAL AND FINANCE STRUCTURE

The following diagram depicts, in simplified form, our corporate structure, the Restricted Group versus the Unrestricted Group and the principal outstanding financing arrangements after giving effect to the issue and sale of the Notes offered and the use of the proceeds therefrom as set out under "*Use of Proceeds*."

All entities shown below are 100% wholly owned. Please see "*Description of the Notes*" and "*Description of Other Indebtedness*" for more information. Entities that are shaded dark grey are Guarantors of the Notes.



(1) ENCE Energía y Celulosa, S.A. (the "*Issuer*"), a *sociedad anónima* organised under the laws of Spain, is listed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, through the Automated Quotation System (Continuous Market) (*Bolsas de Valores de Madrid, Barcelona, Valencia y Bilbao, a través del Sistema de Interconexión Bursátil español, Mercado Continuo*).

(2) The Notes are the senior obligations of the Issuer and are fully and unconditionally guaranteed on a senior basis (the "*Guarantees*") by certain subsidiaries of the Issuer as at the Issue Date (the "*Guarantors*"). The Guarantees are subject to certain contractual and legal limitations, and may be released under certain circumstances. Please see "*Risk Factors—Risks Related to the Notes and Our Structure—The Guarantees are significantly limited by applicable laws and are subject to certain limitations or defences*."

(3) On or about the Issue Date, we entered into a new credit agreement providing for a €90 million committed revolving credit facility, with an additional uncommitted amount of €10 million (the "*Revolving Credit Facility*"). The Revolving Credit Facility replaced the Existing Revolving Credit Facility. The primary obligors under the Revolving Credit Facility are the Issuer and the Guarantors. For more information on the terms of the Revolving Credit Facility, please see "*Description of Other Indebtedness—Revolving Credit Facility.*"

(4) On an aggregated basis, we estimate that the Issuer and the Guarantors together would have accounted for approximately 72.2% of the Group's aggregated assets (including 98.8% of the Restricted Group's aggregated assets), 86.5% of the Group's aggregated revenue (including 100% of the Restricted Group's aggregated revenue) and 49.3% of the Group's aggregated EBITDA (including 105.8% of the Restricted Group's aggregated EBITDA) as at and for the twelve months ended June 30,

2015. The Restricted Group subsidiaries that do not guarantee the Notes are engaged in research or development activities or are dormant subsidiaries, produce no revenue, have a *de minimis* impact on EBITDA and do not have any debt outstanding.

(5) Certain subsidiaries of the Issuer, including ENCE Energía, S.L.U., ENCE Energía Huelva, S.L.U, Celulosa Energía, S.A.U., ENCE Energía Extremadura, S.L.U. and their respective subsidiaries, were designated as Unrestricted Subsidiaries under the Indenture as at the Issue Date. Unrestricted Subsidiaries do not guarantee the Notes and are not subject to the restrictive covenants under the Indenture. For the twelve months ended June 30, 2015, on an aggregated basis, the subsidiaries of the Issuer belonging to the Unrestricted Group generated 13.5% of the Group's aggregated revenue, 53.5% of the Group's aggregated EBITDA and as at June 30, 2015, represented 26.8% of the Group's aggregated assets and would have had €135.0 million in indebtedness outstanding after giving effect to the Refinancing, none of which is, with the exception of (i) the intragroup loan between the Issuer and ENCE Energía, S.L.U. described in note (9) below, (ii) a credit line of up to €7 million provided by the Issuer to ENCE Energía, S.L.U. in conjunction with an obligation by ENCE Energía, S.L.U. to indemnify ENCE Energía Huelva, S.L.U. and ENCE Energía Extremadura, S.L.U. for expenses that could arise as the result of the cancellation of certain leases on land that was previously used for the development of energy crops and (iii) a tax guarantee (please see "*Certain Relationships and Related Party Transactions—Transactions with the Unrestricted Group*," "*Description of Other Indebtedness—Loan from the Issuer to an Unrestricted Subsidiary*" and "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements—Tax Guarantee*"), provided any credit support from the Restricted Group. Please see "*Risk Factors—Risks Related to the Notes and Our Structure—Our Unrestricted Subsidiaries will constitute Unrestricted Subsidiaries under the Indenture governing the Notes, and will therefore not be subject to the restrictive covenants thereunder and may incur additional indebtedness without limitation in the future*."

(6) Ence Energía Huelva, S.L.U. and Ence Energía Extremadura, S.L.U. are party to project financing facilities entered into on June 21, 2011 and June 15, 2012, respectively, in conjunction with the construction of their respective biomass energy generation facilities. These agreements were refinanced into one project financing facility on July 31, 2015. The project financing facility contains customary covenants and events of default and the lenders have been granted security interests over substantially all of the assets and receivables of the relevant borrowers. Please see "*—Current Trading and Recent Developments—Recent Developments—Refinancing of project finance debt of our standalone Energy Business which will form our Unrestricted Group in connection with the Offering*" and "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements—Senior Credit Agreement*." As Unrestricted Subsidiaries within our Energy Business, Ence Energía Huelva, S.L.U. and Ence Energía Extremadura, S.L.U. will not be restricted by the terms of the Notes and will not provide any credit support for the benefit of the Holders of the Notes. In addition, the Restricted Group will provide no credit support for the incurrence of such project financing debt by the Unrestricted Group, and creditors of the Unrestricted Group will have no recourse to the Restricted Group.

(7) We are currently undertaking certain administrative processes to enable us to transfer a biomass boiler, including certain ancillary equipment (the "*Biomass Boiler*"), located at our former pulp production facility in Huelva and having a total value of €42.6 million from the Issuer to a member of the Unrestricted Group. Based on management accounts, the Biomass Boiler produced negative EBITDA for the twelve months ended June 30, 2015. The transfer of these assets from the Restricted Group to the Unrestricted Group is expected to be completed by no later than 2016.

(8) As at June 30, 2015, we had €32.0 million in non-recourse factoring and €71.0 million in confirming lines outstanding. Please see *"Description of Other Indebtedness—Working Capital Facilities."* In addition, on April 22, 2015, the Issuer entered into the Bankia Loan in the amount of €15 million to finance part of the capital expenditure investments in the Navia pulp production facility, which is currently fully drawn. This loan is guaranteed by Celulosas de Asturias, S.A.U., Norte Forestal S.A.U. and Silvasur Agroforestal S.A.U. and matures in 2019. On July 15, 2015, the Issuer also entered into the BBVA Loan of €15 million to finance part of the capital expenditure investments in the pulp production facilities, and which is also currently fully drawn. This loan is unsecured, not guaranteed and matures in 2020. For further information with respect to these loans, please see "*Description of Other Indebtedness—Bilateral Loans*."

(9) As at June 30, 2015, €63.3 million was outstanding under an intragroup loan between the Issuer as lender and ENCE Energía, S.L.U. as borrower. Although the Issuer can call this intragroup loan at any time, any such call would be subject to the ability of the Unrestricted Group to make payments in accordance with the terms of the Senior Credit Agreement. This intragroup loan has no fixed maturity and regular payments have not been made since the loan was incurred as the loan is intended to finance a portion of the capital expenditures and fixed assets necessary in connection with the development of the Unrestricted Group. For further information with respect to this intragroup loan, please see "*Description of Other Indebtedness—Loan from the Issuer to an Unrestricted Subsidiary*."

(10) Celulosa Energía, S.A.U. is currently the only legal entity in our Group that is licensed to invoice and collect money from the national electricity grid of Spain. The money collected is held at the Issuer pursuant to a cash pooling arrangement. As a result, the Issuer recognizes an intercompany account payable to the Group energy producers (which are comprised of both Restricted Subsidiaries and Unrestricted Subsidiaries) that is settled between 30 and 60 days from the date of incurrence. Historically, the balance of this intercompany payable to the Unrestricted Group and related to the energy produced by such entities has ranged from €10 million to €20 million at any given time. In connection with the Refinancing, we intend to designate the Issuer as the new intermediary in place of Celulosa Energía, S.A.U. This process, which is expected to be concluded at the beginning of 2016, will centralise all invoicing and cash collection (for both the Restricted Group and the Unrestricted Group) and payment (only for the Restricted Group) related to energy at the Issuer level. Therefore, the intragroup payments to the Unrestricted Group for energy produced by such entities will continue. Please see "*Certain Relationships and Related Party Transactions—Transactions with the Unrestricted Group—Cash pooling transactions with the Unrestricted Group*."

(11) In connection with the separation of the Unrestricted Group from the rest of the Group, the Issuer expects to transfer its shares of Celulosa Energía, S.A.U. (which will be designated as an Unrestricted Subsidiary on the Issue Date) to ENCE Energía, S.L.U., which will become the new holding company of the Unrestricted Group. The Issuer intends to complete the transfer by the end of 2015. As a result of the transfer, the shares and assets of Celulosa Energía, S.A.U. will become assets of the Unrestricted Group. Celulosa Energía, S.A.U. operates the 41 MW biomass energy generation facility at Huelva.

THE OFFERING

The following summary contains basic information about the Notes. It may not contain all the information that is important to you. For a more complete understanding of the Notes, please refer to the section of these Listing Particulars entitled "Description of the Notes." Terms used in this summary and not otherwise defined have the meanings given to them in "Description of the Notes."

Issuer — ENCE Energía y Celulosa, S.A., a *sociedad anónima* organised under the laws of Spain, having its corporate seat in Madrid, Spain and registered with the Commercial Registry of Madrid under Volume 27,825, Sheet 150, Section 8, Page M-31,131.

Notes Offered — €250,000,000 aggregate principal amount of the Issuer's 5.375% senior notes due 2022.

Maturity Date — November 1, 2022.

Interest Rate — 5.375% per annum.

Interest Payment Dates — Semi-annually in arrears on May 1 and November 1 of each year, commencing on May 1, 2016. Interest accrues from the Issue Date.

Issue Date — October 30, 2015.

Issue Price — 100.00% (plus accrued interest, if any, from the Issue Date).

Denomination and Form — Each Note issued has a minimum denomination of €100,000 and integral multiples of €1,000 in excess thereof. Euroclear and Clearstream are not responsible for monitoring such minimum transfer amounts.

The Notes were initially represented by one or more global notes in registered form without interest coupons attached which were deposited, on the Issue Date, with a common depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream. Please see "*Book-Entry; Delivery and Form*."

Ranking of the Notes — The Notes are:

- general, senior obligations of the Issuer;
- ranked *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);
- ranked senior in right of payment to any existing and future obligations of the Issuer that are expressly subordinated to the Notes;
- effectively subordinated to any existing and future indebtedness of the Issuer and its subsidiaries that is secured, to the extent of the value of the property or assets securing such indebtedness, including our Unrestricted Group debt; and
- structurally subordinated to any existing and future indebtedness of the subsidiaries of the Issuer that do not guarantee the Notes.

Please also see "*Risk Factors—Risks Related to the Notes and Our Structure—Local insolvency laws may not be as favourable to you as U.S. bankruptcy laws or the insolvency laws of other jurisdictions with which you may be more familiar*."

Guarantees	The Notes are guaranteed on a senior unsecured basis (the "*Guarantees*") by the following subsidiaries of the Issuer (the "*Guarantors*") on the Issue Date: • Celulosas de Asturias, S.A.U.; • Norte Forestal, S.A.U.; • Silvasur Agroforestal, S.A.U.; • Ibersilva S.A.U.; and • Iberflorestal S.A. As at June 30, 2015, on a *pro forma* basis for the Refinancing: • we would have had total Consolidated Group debt of €416.4 million (of which €284.0 million would have corresponded to the Restricted Group, including €243.4 million of which would have been represented by the Notes), in addition to certain confirming and factoring arrangements (please see "*Description of Other Indebtedness*"); • the Issuer's Restricted Subsidiaries that did not guarantee the Notes would have had no debt outstanding; • the Guarantors would have had no debt outstanding; and • the subsidiaries of the Issuer that did not guarantee the Notes would have had €132.5 million of debt outstanding, all of which corresponded to debt of Unrestricted Subsidiaries. Please see "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements*." On an aggregated basis, for the twelve months ended June 30, 2015, we estimate that the Issuer and the Guarantors together would have generated 86.5% of the Consolidated Group's aggregated revenue, 49.3% of the Consolidated Group's aggregated EBITDA and, as at June 30, 2015, would have held 72.2% of the Consolidated Group's aggregated assets. The obligations of each Guarantor under its Guarantee are limited to an amount that can be guaranteed under applicable laws, and do not apply to the extent a Guarantee would be illegal or unenforceable under applicable local and bankruptcy laws. Please see "*Risk Factors—Risks Related to the Notes and Our Structure—Local insolvency laws may not be as favourable to you as U.S. bankruptcy laws or the insolvency laws of other jurisdictions with which you may be more familiar*."
Ranking of the Guarantees	Each Guarantee is: • a general senior obligation of the relevant Guarantor; • ranked *pari passu* in right of payment with any existing and future indebtedness of that Guarantor that is not subordinated to such Guarantor's Guarantee (including indebtedness under the Revolving Credit Facility); • ranked senior in right of payment to any existing and future obligations of that Guarantor that are expressly subordinated to such Guarantee;

	• effectively subordinated to any existing and future indebtedness of that Guarantor that is secured, to the extent of the value of the property or assets securing such indebtedness (please see "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements*"); and • structurally subordinated to any existing and future indebtedness of the subsidiaries of such Guarantor that do not guarantee the Notes. Please also see "*Risk Factors—Risks Related to the Notes and Our Structure—Local insolvency laws may not be as favourable to you as U.S. bankruptcy laws or the insolvency laws of other jurisdictions with which you may be more familiar*." The Guarantees are subject to release under certain circumstances. Please see "*Description of the Notes—Guarantee Arrangements—Release of Guarantees*."
Optional Redemption	At any time prior to November 1, 2018, 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 105.375% 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 November 1, 2018, 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 on or after November 1, 2018, 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 and additional amounts, if any, to the date of redemption.
Additional Amounts	Any payments made by or on behalf of 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 withholding or deduction of taxes is required by law with respect to any payment under the Notes or any Guarantee, 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	Pursuant to Royal Decree 1065/2007, (as defined in "*Certain Tax Considerations—Spanish Tax Considerations*"), income paid by the Issuer in respect of the Notes will not be subject to withholding tax in Spain ("*Spanish withholding tax*"), *provided* that certain requirements are met, including that the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market on the relevant Interest Payment Dates, and the Paying Agent provides the Issuer, in a timely manner, with a duly executed and completed Payment Statement. Please see "*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 Interest 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 "*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 19.5%. In the event of any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, affected Holders of the Notes 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 tenth calendar day of the month immediately following the relevant Interest Payment Date. In addition, following the 20th calendar day of the month immediately following the relevant Interest Payment Date, Holders of the Notes 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 out in Annex A hereto. The Issuer will not pay Additional Amounts in respect of any such Spanish withholding tax. **Holders of the Notes 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, the Paying Agent, the Trustee nor the Initial Purchasers will be liable for any damage or loss suffered by any Holders of the Notes 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 and, as a result, the Issuer or any Guarantor is required to pay additional amounts with respect to such withholding taxes. 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 the corresponding 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 issued the Notes under the Indenture. The Indenture limits, amongst 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;
- provide guarantees of other debt;
- agree to restrictions on dividends or other payments by certain subsidiaries to the Issuer; and
- merge or consolidate.

Each of these covenants is subject to a number of significant exceptions, limitations and qualifications. For a more detailed description of these covenants, please see "*Description of the Notes—Certain Covenants*."

Use of Proceeds . . . . The Issuer used the proceeds from the sale of the Notes, together with cash that the Issuer has on hand, to (i) redeem the Existing Notes and pay related make-whole premia and accrued and unpaid interest to the Redemption Date and (ii) pay estimated transaction fees and expenses incurred in connection with this Offering. Please see "*Use of Proceeds*."

Transfer Restrictions . . . . The Notes and the Guarantees 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. Please see "*Plan of Distribution*" and "*Notice to Investors*." The Issuer has not agreed to, or otherwise undertaken, to register the Notes and the Guarantees under the U.S. Securities Act or any state securities law or regulation.

Absence of a Public Market for the Notes	The Notes are new securities for which there is currently no market. Although the Initial Purchasers have informed us that they intend to make a market in the Notes, they are not obliged to do so and they may discontinue market-making at any time without notice. Accordingly, we cannot assure you that a liquid market for the Notes will develop or be maintained.
Trustee	Deutsche Trustee Company Limited.
Paying Agent	Deutsche Bank AG, London Branch.
Registrar, Transfer Agent and Luxembourg Listing Agent	Deutsche Bank Luxembourg S.A.
Listing	Application has been made for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF Market thereof.
Governing Law for the Notes, the Guarantees and the Indenture	New York law.
Governing Law for the Revolving Credit Facility	English law.

RISK FACTORS

Investing in the Notes involves risks. You should carefully consider the information in the section of these Listing Particulars entitled "*Risk Factors*" and the other information included in these Listing Particulars before deciding whether to invest in the Notes.

SUMMARY CONSOLIDATED FINANCIAL, OPERATING AND OTHER DATA

The table below sets out summary consolidated financial data and other data for ENCE Energía y Celulosa, S.A. and its consolidated subsidiaries, as well as certain financial information for the Restricted Group and the Unrestricted Group, as at and for the years ended December 31, 2012, December 31, 2013 and December 31, 2014, for the six months ended June 30, 2014 and June 30, 2015, as well as certain unaudited financial data for the twelve months ended June 30, 2015.

The consolidated financial data as at and for the years ended December 31, 2012, December 31, 2013 and December 31, 2014 have been derived from our Consolidated Financial Statements, which were prepared in accordance with IFRS and are included elsewhere in these Listing Particulars. The consolidated financial data for the six months ended June 30, 2014 and June 30, 2015 have been derived from our Interim Consolidated Financial Statements, which were prepared in accordance with IFRS and are included elsewhere in these Listing Particulars. The unaudited financial information for the twelve months ended June 30, 2015, has been derived by subtracting from the audited consolidated financial information for the year ended December 31, 2014 the unaudited consolidated financial information for the six months ended June 30, 2014 and adding the unaudited consolidated financial information for the six months ended June 30, 2015. Such compilation has not been audited or reviewed and has been prepared for illustrative purposes only. The unaudited consolidated financial information for the twelve months ended June 30, 2015 is also not intended to be an indicator of our financial condition or results of operations in the future. You should review the unaudited consolidated financial information for the twelve months ended June 30, 2015 together with the Consolidated Financial Statements and the Interim Consolidated Financial Statements.

The Restricted Group financial information set out below includes the results of operations, assets and liabilities of the Issuer and its Restricted Subsidiaries (that is, the companies of the Group subject to the Notes covenants), whilst the Unrestricted Group financial information includes the results of operations, assets and liabilities of the Issuer's Unrestricted Subsidiaries (that is, the companies of the Group not subject to the Notes covenants). However, the financial information relating to both the Restricted Group and the Unrestricted Group, which is unaudited, has been prepared on this basis for illustrative purposes only and not in the ordinary course of our financial reporting. In addition, prior to the Offering and the refinancing of the project financing debt incurred in connection with the Huelva and Mérida biomass energy generation facilities, ENCE Energía y Celulosa, S.A. and its consolidated subsidiaries were operated as a consolidated group, including with respect to financing arrangements. As a result, the financial information relating to the Restricted Group and the Unrestricted Group does not necessarily reflect what the financial position or the results of operations of the Restricted Group and the Unrestricted Group, respectively, would have been if these had actually been operated as separate groups with distinct financing arrangements. In addition, the Restricted Group financial information for the six months ended June 30, 2015, as well as for prior periods, includes the contribution to results of the Biomass Boiler, including certain ancillary equipment, with a total value of €42.6 million at our former pulp production facility in Huelva, Spain, pending the transfer of such assets to the Unrestricted Group. The completion of the transfer of such assets from the Restricted Group to the Unrestricted Group is expected to be completed by no later than 2016. Please see "*Presentation of Financial and Other Information—Restricted Group and Unrestricted Group Financial Information*."

In these Listing Particulars, we present certain non-IFRS measures, including Adjusted EBITDA, Cash Costs, EBITDA, Gross debt, Net debt, Other Cash Costs, Total 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 and which are not audited. Our management believes that the presentation of these non-IFRS measures and ratios is helpful to investors because these and other similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. However, you should not construe these non-IFRS measures and ratios as an alternative to profit and loss from operations determined in accordance with IFRS or to cash flows from operations, investing activities or financing activities, or any other measure or ratio required by, or presented in accordance with, IFRS. In addition, our non-IFRS measures and ratios may not be comparable to similarly titled measures or ratios used by other companies.

The following table should be read in conjunction with, and is qualified in its entirety by reference to, the Interim Consolidated Financial Statements and the Consolidated Financial Statements and the related notes thereto. The table should also be read together with "*Selected Financial Data*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2012	2013	2014	2014 (unaudited)	2015 (unaudited)	2015 (unaudited)
	(€ in millions)					
Income Statement Data:						
Revenue	**827.6**	**853.1**	**687.5**	**338.3**	**313.2**	**662.5**
Gain/(loss) on hedging transactions	(27.6)	12.1	0.0	(0.4)	(0.6)	(0.1)
Changes in inventory of finished goods and works in progress	0.8	2.1	(10.1)	(6.2)	(4.7)	(8.7)
Purchases	(408.0)	(427.8)	(379.4)	(194.0)	(129.7)	(315.2)
Gross Profit	**392.8**	**439.5**	**298.0**	**137.7**	**178.2**	**338.6**
Own work capitalised	24.2	14.8	6.2	4.0	4.8	7.0
Other operating income	2.3	7.5	6.4	3.5	2.7	5.7
Government grants taken to income	4.3	6.3	5.7	2.7	1.3	4.2
Employee benefits expense	(82.3)	(80.5)	(87.0)	(33.2)	(30.1)	(83.9)
Depreciation and amortisation	(54.3)	(63.1)	(59.5)	(29.1)	(27.2)	(57.7)
Depletion of forest reserve	(9.1)	(15.2)	(9.7)	(7.8)	(4.6)	(6.5)
Impairment and gains/(losses) on disposals, intangibles assets and property, plant and equipment	6.3	(37.5)	(101.2)	(27.3)	0.2	(73.7)
Other operating expenses	(202.0)	(240.0)	(227.6)	(109.0)	(79.7)	(198.3)
Operating Profit/(Loss)	**82.3**	**31.8**	**(168.6)**	**(58.6)**	**45.6**	**(64.4)**
Finance income	0.7	2.0	1.1	0.6	0.1	0.6
Change in fair value of financial instruments	6.8	1.8	(1.3)	(1.2)	0.9	0.8
Finance costs	(24.4)	(30.8)	(28.0)	(13.5)	(16.5)	(31.0)
Exchange differences	(1.8)	0.6	1.6	0.4	0.7	1.9
Financial Gain/(Loss)	**(18.6)**	**(26.3)**	**(26.7)**	**(13.7)**	**(14.7)**	**(27.7)**
Net result from sale of non-current assets classified as held for sale	(0.7)	—	—	—	—	0.0
Profit/(Loss) before tax	**63.0**	**5.6**	**(195.3)**	**(72.3)**	**30.9**	**(92.1)**
Income tax	(19.9)	(1.3)	54.4	23.7	(8.8)	21.9
Profit/(Loss) for the period from continuing operations	**43.0**	**4.3**	**(140.9)**	**(48.6)**	**22.1**	**(70.2)**
Profit/(Loss) for the period	**43.0**	**4.3**	**(140.9)**	**(48.6)**	**22.1**	**(70.2)**

	As at December 31,			As at June 30,
	2012	2013	2014	2015 (unaudited)
	(€ in millions)			
Balance Sheet Data:				
Cash and cash equivalents	40.2	103.4	73.4	91.5
Other current financial assets	7.6	55.9	8.5	8.5
Working capital[(1)]	52.1	59.7	4.3	(22.7)
Total assets	1,378.0	1,362.3	1,154.2	1,151.9
Gross debt (excluding project finance)[(2)]	248.4	259.5	259.9	250.5
Gross debt[(2)]	344.6	362.4	366.3	352.8
Total equity	724.7	710.3	542.9	544.3

	Year ended December 31, 2012	2013	2014	Six months ended June 30, 2014 (unaudited)	2015 (unaudited)	Twelve months ended June 30, 2015 (unaudited)
	(€ in millions)					
Cash Flow Data:						
Net cash flows from/(used in) operating activities	111.6	175.9	9.5	2.8	69.2	75.9
Net cash flows from/(used in) investing activities	(120.1)	(48.0)	(59.8)	(26.1)	(12.5)	(46.2)
Net cash flows from/(used in) financing activities	(22.9)	(64.7)	20.4	46.8	(38.6)	(65.0)
Net increase/(decrease) in cash and cash equivalents	**(31.4)**	**63.2**	**(30.0)**	**23.4**	**18.1**	**(35.3)**

	Year ended and as at December 31, 2012	2013	2014	Twelve months ended June 30, 2015 (unaudited)
	(€ in millions, except percentages and ratios)			
Other Consolidated Group Financial Data:				
Consolidated Group revenues	827.6	853.1	687.5	662.5
Consolidated Group EBITDA(3)	139.3	147.7	1.7	73.4
Consolidated Group Adjusted EBITDA(4)	175.3	158.0	58.5	119.4
Consolidated Group Adjusted EBITDA margin	21.2%	18.5%	8.5%	18.0%
Consolidated Group cash and cash equivalents	40.2	103.4	73.4	91.5
Consolidated Group other current financial assets	7.6	55.9	8.5	8.5
Consolidated Group capital expenditures	112.5	114.1	60.0	51.5
Of which expansion	82.1	67.3	41.2	13.7
Of which maintenance	30.4	46.7	18.8	12.3
Consolidated Group unlevered free cash flow (excluding expansion capital expenditures)(5)	111.3	162.2	15.0	74.0
Consolidated Group net debt(6)	296.8	203.1	284.4	252.8

	Year ended December 31, 2012	2013	2014	Twelve months ended June 30, 2015
	(€ in millions, except percentages and ratios) (unaudited)			
Other Financial Data for the Restricted Group:				
Restricted Group revenues	760.2	733.3	599.2	565.7
Restricted Group EBITDA(7)	130.4	136.4	(8.4)	40.3
Restricted Group Adjusted EBITDA(8)	166.4	136.0	38.0	91.3
Restricted Group *pro forma* Adjusted EBITDA(9)	166.4	136.0	51.1	104.4
Restricted Group *pro forma* Adjusted EBITDA margin	21.9%	18.5%	8.5%	18.5%
Restricted Group cash and cash equivalents	38.3	96.2	73.1	81.1
Restricted Group other current financial assets	7.6	55.9	8.5	8.5
Restricted Group capital expenditures(10)	36.0	57.9	42.4	40.7
Of which expansion	5.5	11.2	23.6	20.2
Of which maintenance	30.4	46.7	18.8	20.6
Restricted Group net debt(11)	202.6	107.4	178.3	160.8
Ratio of Restricted Group net debt to Restricted Group *pro forma* Adjusted EBITDA	1.2x	0.8x	3.5x	1.5x

	Twelve months ended June 30,
	2015 (unaudited)
	(€ in millions, except percentages and ratios)
Pro forma Financial Data for the Restricted Group:	
Restricted Group *pro forma* cash and cash equivalents and other current financial assets(12)	102.5
Restricted Group *pro forma* interest expense(13)	15.9
Restricted Group *pro forma* net debt(14)	181.5
Ratio of Restricted Group *pro forma* net debt to Restricted Group *pro forma* Adjusted EBITDA	1.7x
Ratio of Restricted Group *pro forma* Adjusted EBITDA to Restricted Group *pro forma* interest expense	6.6x

(1) We define "*working capital*" as inventories, plus trade and other receivables, plus receivables from public authorities, plus income tax receivable from the tax authorities, plus other current financial assets, plus other current assets, less trades and other payables, income tax payable to the tax authorities, less other accounts payable to public authorities, 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. For a breakdown of working capital between the Restricted Group and the Unrestricted Group, please see the following table:

	Year ended December 31,			Six months ended June 30,
	2012	2013	2014	2015 (unaudited)
	(€ in millions)			
Restricted Group working capital	51.8	60.8	(6.1)	(31.0)
Unrestricted Group working capital	0.4	(1.0)	10.4	8.3
Consolidated Group working capital	**52.1**	**59.7**	**4.3**	**(22.7)**

(2) "*Gross debt*" means current and non-current notes and bank borrowings plus other current and non-current financial liabilities (not including derivatives). We present our gross debt both including and excluding project finance indebtedness.

(3) "*Consolidated Group EBITDA*" means operating profit/(loss) adjusted for depreciation and amortisation, depletion of forest reserves and for impairment and gains/(losses) on disposals of intangible assets and property, plant and equipment. For a reconciliation from operating profit/(loss) to Consolidated Group EBITDA, please see the following table:

Reconciliation of Operating Profit/(Loss) to Consolidated Group EBITDA:

	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2012	2013	2014	2014 (unaudited)	2015 (unaudited)	2015 (unaudited)
				(€ in millions)		
Operating profit/(loss)	82.3	31.8	(168.6)	(58.6)	45.6	(64.4)
Depreciation and amortisation	54.3	63.1	59.5	29.1	27.2	57.7
Depletion of forest reserves	9.1	15.2	9.7	7.8	4.6	6.5
Impairment and gains/(losses) on disposals, intangible assets and property, plant and equipment	(6.3)	37.5	101.2	27.3	(0.2)	73.7
Consolidated Group EBITDA	**139.3**	**147.7**	**1.7**	**5.6**	**77.3**	**73.4**

(4) "*Consolidated Group Adjusted EBITDA*" means Consolidated Group EBITDA adjusted for redundancies, provisions, other extraordinary items, and operational hedging. For a reconciliation of Consolidated Group EBITDA to Consolidated Group Adjusted EBITDA, please see the following table.

Reconciliation of Consolidated Group EBITDA to Consolidated Group Adjusted EBITDA:

	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2012	**2013**	**2014**	**2014**	**2015**	**2015**
			(€ in millions) (unaudited)			
Consolidated Group EBITDA	139.3	147.7	1.7	5.6	77.3	73.4
Redundancies[a]	4.7	5.4	19.3	(0.3)	3.5	23.1
Provisions[b]	(1.4)	5.8	3.5	3.3	1.3	1.5
Other extraordinary items[c]	5.1	11.3	34.1	15.6	2.8	21.3
Hedging instruments: pulp prices and exchange rates[d]	27.6	(12.1)	(0.0)	0.4	0.6	0.1
Consolidated Group Adjusted EBITDA	**175.3**	**158.0**	**58.5**	**24.6**	**85.4**	**119.4**

(a) Redundancies included payments related to the severance of personnel, primarily arising from employee-approved restructuring activities in all periods, as well as, in 2014 and the six months ended June 30, 2015, payments related to our management incentive plan. In 2014, redundancies primarily arose from the shutdown of the pulp production facility in Huelva in October and at our headquarters in Madrid. Following the negotiation of a restructuring agreement, we downsized our employee roster from 1,021 employees as at June 30, 2014 to 835 employees as at June 30, 2015.

(b) Provisions primarily relate to impairment provisions and reversals of provisions for inventories and bad debt. In 2014, provisions consisted primarily of provisions related to the impairment of certain inventories at our Huelva pulp production facility and provisions for the cancellation of Huelva pulp production facility contracts. In 2013, provisions consisted primarily of provisions related to the impairment of certain inventories at our Huelva pulp production facility. In 2012, the adjustment related primarily to the reversal of provisions for bad debt.

(c) Other extraordinary items relate to gains or losses arising from non-recurring events such as cancellations of contracts. In 2014, such gains or losses primarily arose from the cancellation of leases in relation to land (€10.6 million) and the closure of the Huelva pulp production facility, which included the cancellation of industrial contracts with suppliers (€16.5 million) and the write-off of replacement assets (€6.0 million). In 2013, such gains or losses primarily arose from contract cancellations (€7.2 million), tax provisions (€0.8 million) and our management incentive plan (€1.1 million). In 2012, such gains or losses primarily arose from energy taxes (€2.5 million) and contract cancellations related to our Uruguayan operations (€0.9 million).

(d) Operational hedging for:

- the six months ended June 30, 2015 relates to (i) interest rate swaps, (ii) foreign exchange hedges and (iii) energy;
- the six months ended June 30, 2014 relates to (i) interest rate swaps and (ii) energy;
- the year ended December 31, 2014 relates to (i) interest rate swaps and (ii) energy;
- the year ended December 31, 2013 relates to (i) interest rate swaps and (ii) foreign exchange hedges; and
- the year ended December 31, 2012 relates to (i) interest rate swaps, (ii) foreign exchange hedges and (iii) pulp hedges.

Following the recent regulatory changes impacting the pool price plus feed-in-tariff system (please see "*Regulation*"), we have closed our pool hedges. In addition, after the year ended December 31, 2012, we discontinued the hedging of pulp due to the difficulty of closing the applicable volumes of pulp derivatives at increasing bid/ask spreads in the market. Please see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk*."

(5) "*Consolidated Group 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. Below is a table explaining the derivation of Consolidated Group unlevered free cash flow (excluding expansion capital expenditure).

	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30
	2012	**2013**	**2014**	**2014**	**2015**	**2015**
			(€ in millions) (unaudited)			
Net cash flow from operating activities	111.6	175.9	9.5	2.8	69.2	75.9
Interest paid[(a)]	21.5	18.0	25.2	12.2	15.4	28.4
Interest received[(a)]	(0.7)	(2.0)	(1.1)	(0.6)	(0.1)	(0.6)
Income tax paid (recovered)	9.4	17.1	0.2	—	(9.3)	(9.1)
Maintenance capital expenditure[(b)]	(30.4)	(46.7)	(18.8)	(10.5)	(12.3)	(20.6)
Consolidated Group unlevered free cash flow (excluding expansion capital expenditure)	**111.3**	**162.2**	**15.0**	**3.9**	**62.8**	**74.0**

(a) "*Interest paid*" primarily relates to interest paid on outstanding project finance debt and, beginning in the year ended December 31, 2013, on the Existing Notes.

(b) "*Maintenance capital expenditure*" for all periods primarily consists of investments in the maintenance of industrial facilities (including environmental maintenance) and in forestry activities in conjunction with the production of timber for internal supply purposes for pulp production.

(6) "*Consolidated Group net debt*" is defined as the aggregate principal amount of debt (net of transaction costs incurred which will be amortised over the life of the indebtedness) less cash and cash equivalents less other current financial assets.

(7) "*Restricted Group EBITDA*" means, in respect of the Restricted Group, operating profit/(loss) adjusted for depreciation and amortisation depletion of forest reserves and for impairment and gains/(losses) on disposals, intangibles assets and property, plant and equipment. For a reconciliation from Restricted Group operating profit/(loss) to Restricted Group EBITDA, please see the following table:

Reconciliation of Restricted Group Operating Profit/(Loss) to Restricted Group EBITDA:

	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2012	**2013**	**2014**	**2014**	**2015**	**2015**
			(€ in millions) (unaudited)			
Restricted Group operating profit/(loss)	79.9	59.8	(143.7)	(21.3)	32.8	(89.6)
Restricted Group depreciation and amortisation	50.5	51.1	52.6	26.1	23.1	49.6
Restricted Group depletion of forest reserves	6.3	11.6	7.9	6.0	3.9	5.8
Restricted Group impairment and gains/(losses) on disposals, intangible assets and property, plant and equipment	(6.3)	13.9	74.8	0.2	(0.1)	74.5
Restricted Group EBITDA	**130.4**	**136.4**	**(8.4)**	**11.0**	**59.7**	**40.3**

(8) "*Restricted Group Adjusted EBITDA*" means Restricted Group EBITDA adjusted for redundancies, provisions, operational hedging and other non-recurring items. For a reconciliation of Restricted Group EBITDA to Restricted Group Adjusted EBITDA, please see the following table.

Reconciliation of Restricted Group EBITDA to Restricted Group Adjusted EBITDA:

	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2012	**2013**	**2014**	**2014**	**2015**	**2015**
			(€ in millions) (unaudited)			
Restricted Group EBITDA	130.4	136.4	(8.4)	11.0	59.7	40.3
Restricted Group redundancies[a]	4.7	5.4	19.3	(0.3)	3.5	23.1
Restricted Group provisions[b]	(1.5)	4.4	2.9	2.7	1.3	1.5
Restricted Group hedging instruments: pulp prices and exchange rates[c]	27.6	(12.1)	0.0	0.4	0.5	0.1
Restricted Group other non-recurring items[d]	5.2	1.9	24.3	0.4	2.5	26.4
Restricted Group Adjusted EBITDA	**166.4**	**136.0**	**38.0**	**14.3**	**67.6**	**91.3**

(a) Redundancies included payments related to the severance of personnel, primarily arising from employee-approved restructuring activities in all periods, as well as, in 2014 and the six months ended June 30, 2015, payments related to our management incentive plan. In 2014, redundancies primarily arose from the shutdown of the pulp production facility in Huelva and at our headquarters in Madrid in October. Following the negotiation of a restructuring agreement, we downsized our employee roster from 1,021 employees as at June 30, 2014 to 835 employees as at June 30, 2015.

(b) Provisions primarily relate to impairment provisions and reversals of provisions for inventories and bad debt. In 2014, provisions consisted primarily of provisions related to the impairment of certain inventories at our Huelva pulp production facility and provisions for the cancellation of Huelva pulp production facility contracts. In 2013, provisions consisted primarily of provisions related to the impairment of certain inventories at our Huelva pulp production facility. In 2012, the adjustment related primarily to the reversal of provisions for bad debt.

(c) Operational hedging for:

- the six months ended June 30, 2015 relates to (i) interest rate swaps (ii) foreign exchange hedges and (iii) energy;
- the six months ended June 30, 2014 relates to (i) interest rate swaps and (ii) energy;
- the year ended December 31, 2014 relates to (i) interest rate swaps and (ii) energy;
- the year ended December 31, 2013 relates to (i) interest rate swaps and (ii) foreign exchange hedges; and
- the year ended December 31, 2012 relates to (i) interest rate swaps, (ii) foreign exchange hedges and (iii) pulp hedges.

Following the recent regulatory changes impacting the pool price plus feed-in-tariff system (please see "*Regulation*"), we have closed our pool hedges. In addition, after the year ended December 31, 2012, we discontinued the hedging of pulp due to the difficulty of closing the applicable volumes of pulp derivatives at increasing bid/ask spreads in the market. Please see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk*."

(d) In 2014, other non-recurring items primarily included the cost of the shutdown of the Huelva pulp production facility, excluding redundancies. In 2013, other non-recurring items primarily arose from contract cancellations, energy tax provisions and our management incentive plan. In 2012, other non-recurring items primarily arose from energy tax provisions and contract cancellations related to our Uruguayan operations.

(9) "*Restricted Group pro forma Adjusted EBITDA*" is Restricted Group Adjusted EBITDA giving *pro forma* effect to the closure of the pulp production facility at Huelva as if such closure had occurred on July 1, 2014. Whilst the adjustments related to the closure of the Huelva pulp production facility noted above have been added back to form Restricted Group EBITDA, the following *pro forma* calculation eliminates the effect of two quarters of operating losses related to the Huelva pulp production facility that were recorded prior to the shutdown of this facility, assuming that if such change had occurred on July 1, 2014, there would have been no other changes in our results of operations for the period. Taken together with the adjustments above, we believe that "Restricted Group *pro forma* Adjusted EBITDA" as set out below gives a clearer indication of the operating

performance of the Restricted Group since the effects of the closure of the Huelva pulp production facility have been fully eliminated.

	Year ended December 31, 2014 (unaudited)	Twelve months ended and as at June 30, 2015 (unaudited)
Restricted Group Adjusted EBITDA:		
Elimination of operating losses in the period presented recognised prior to the facility closure date(15)	13.1	13.1
Restricted Group *pro forma* Adjusted EBITDA	**51.1**	**104.4**

(10) "*Restricted Group capital expenditures*" means capital expenditures related to maintenance capital expenditure and development of our Restricted Group facilities.

(11) "*Restricted Group net debt*" is defined as Consolidated Group net debt less Unrestricted Group net debt less cash and cash equivalents and other current financial assets attributable to the Issuer and its Restricted Subsidiaries.

(12) "*Restricted Group pro forma cash and cash equivalents and current financial assets*" gives effect to the Refinancing, including the cash received from the BBVA Loan. It is not adjusted to reflect the dividend of €11.0 million which was distributed on October 7, 2015. In addition, pursuant to cash pooling arrangements in place between the Issuer and the Unrestricted Group, approximately €10 million to €20 million of the cash held at the Issuer level corresponds to a payable owed to the Unrestricted Group. Please see "*Certain Relationships and Related Party Transactions—Transactions with the Unrestricted Group—Cash pooling transactions with the Unrestricted Group*."

(13) "*Restricted Group pro forma interest expense*" represents finance cost adjusted to give effect to this Offering and the use of proceeds as if the Offering had occurred on July 1, 2014; however, it does not include the make-whole and related costs to be incurred in connection with the refinancing of the Existing Notes. Restricted Group *pro forma* interest expense has been calculated by deducting from finance cost the finance cost associated with our project finance debt as well as the interest rate swap in relation to this debt. This expense is being presented for illustrative purposes only. Restricted Group *pro forma* interest expense does not purport to represent what our interest expense would have actually been had the Offering occurred on the date assumed, nor does it purport to project our interest expense for any future period.

(14) "*Restricted Group pro forma net debt*" is Restricted Group net debt giving *pro forma* effect to the Refinancing.

(15) Operating losses related to the Huelva pulp production facility are calculated based on the estimated cash cost of the pulp sold by the Huelva pulp production facility from June 30 to its closure date in October 2014 and the price at which this volume of pulp was sold.

Summary Operating Data for the Restricted Group (unaudited):

	Year ended and as at December 31,			Six months ended and as at June 30,		Twelve months ended and as at June 30,
	2012	2013	2014	2014	2015	2015
Restricted Group Industry/market metrics:						
BHKP ($/tonne)[1]	751.0	791.7	745.7	759.7	771.0	750.7
Average exchange rate ($/€)	1.28	1.33	1.33	1.37	1.12	1.20
Pulp production/employee (tonnes)	984	1,212	1,114	574	804	1,644
Wood Costs[2] (€/tonne)	203.0	211.4	212.9	216.5	197.4	203.8
Other Cash Costs[3] (€/tonne)	140.9	170.8	192.7	197.7	167.4	178.5
Cash Costs (€/tonne)[4]	343.9	382.2	405.6	414.2	364.8	382.3
Total Costs (€/tonne)[5]	406.6	447.9	483.7	487.0	462.5	472.5
Pulp production:						
Pulp production (‘000 tonnes)	1,250	1,270	1,115	585.1	419.7	950.4
Pulp production installed capacity (‘000 tonnes)[6]	1,340	1,340	940	1.340	940	1,040
Utilisation rate[7]	93%	95%	90%	88%	90%	91%
Pulp sales (‘000 tonnes)	1,249	1,270	1,137	601.8	431.8	967.1
Average pulp sale price (€/tonne)[8]	479.1	479.3	440.4	438.3	527.4	486.3
Energy production:						
Restricted Group Installed capacity (MW)	153	153	112	153	112	112
Restricted Group Electricity sales (GWh)	1,543	1,519	1,093	543	329	879
Restricted Group Average electricity sale price (€/MWh)	127.4	118.0	100.3	92.0	100.7	106.1
Forestry supply management:						
Wood supply to the industrial process (‘000 m^3)	3,643	3,795	3,323	1,751	1,269	2,841
Cost (€/m^3)	69.6	70.8	71.5	72.4	65.7	68.3
Group:						
Restricted Group Total average employees	1,270	1,048	1,001	1,020	522	578

(1) “*BHKP*” refers to the price of hardwood fibre in $/tonne with reference to CIF North Europe. Data are calculated from average foreign exchange prices.

(2) “*Wood Costs*” means the cost of timber at the mill gate plus the forestry depletion charge.

(3) “*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 overheads.

(4) “*Cash Costs*” means Wood Costs plus Other Cash Costs.

(5) “*Total Costs*” means Cash Costs plus finance cost and depreciation (excluding forestry depletion charge) and amortisation.

(6) Pulp production installed capacity for a particular period represents the average installed capacity during such period. In June 2015, a capacity increase of 20,000 tonnes was completed at our pulp production facility at Navia, thereby increasing our total pulp production installed capacity to 960,000 tonnes.

(7) The utilisation rate for all periods prior to and including October 2014 includes the contribution of our pulp production facility at Huelva, which was closed in October 2014, and excludes routine maintenance stoppages. However, if adjusted to exclude the contribution of our former pulp production facility at Huelva, the utilisation rate for the twelve months ended June 30, 2015 would have been 93.5%.

(8) Average pulp sale price after applying customer discount to BHKP prices.

RISK FACTORS

An investment in the Notes involves a high degree of risk. In addition to the other information contained in these Listing Particulars, 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 out above.

These Listing Particulars also contain 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 these Listing Particulars.

Risks Relating to Our Pulp and Energy Businesses

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

Our results of operations have been, and may in the future be, materially affected by conditions in the global economy and in the global capital markets. In recent years, 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. These factors, combined with declining global business and consumer confidence and rising unemployment, have precipitated an economic slowdown and have led to a recession from which certain markets have only recently begun to emerge, including Spain. The economic instability and uncertainty is affecting the willingness of companies to make capital expenditures and invest in the markets in which we operate. Poor economic conditions which have impacted, and continue to affect, government budgets have also led to the discontinuation of government subsidies in Spain which had historically benefited our energy cogeneration activities. These events and ongoing 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 related to certain factors, including consumer spending, business investment, government spending and the volatility and strength of financial markets. Generalised or localised downturns in our key geographical areas, such as Spain and/or Western Europe more generally, 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 the 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 by a CAGR of 3.3%, 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. In turn, between 2010 and 2014, pulp demand increased by a CAGR of 3.0%, primarily as a result of the generally improving global economic conditions which led to a recovery in demand for pulp. During the first few months of 2015, demand for pulp continued to strengthen as a result of lower than expected capacity increases in Latin America during 2015, low levels of consumer inventories and an increase in demand from emerging markets. However, any decline in the level of economic activity in the domestic and/or international markets in which we operate could adversely affect the demand for and price of our pulp products, thereby adversely affecting our business, financial condition and results of operations.

Continuing adverse economic conditions, including uneven recovery of the credit markets and high employment in Europe, and particularly in Spain, could adversely affect our business.

During the six months ended June 30, 2015 and the year ended December 31, 2014, 98% and 94%, respectively, of our revenues came from Europe, with 18% and 16%, respectively, of our revenues coming from Spain, where the global economic crisis, together with a domestic real estate crisis, has caused a significant deterioration in the economy from 2009. As a result, our business has been, and may in future be, significantly affected by general economic conditions in Europe, and in Spain in particular.

Although significant measures have been taken to address the economic crisis in Spain, economic growth and recovery remain fragile and at risk. Continuing disruptions in the global economy and in the global markets may, therefore, have a material adverse effect on our business, financial condition and results of operations. Moreover, even in the absence of a global market downturn, we are exposed to volatility in our local markets, including changes in consumer and government spending, which could impact our business. In particular, sweeping regulatory changes announced in 2013 with retroactive effect had the effect of curtailing the growth of the renewable energy sector in Spain, and the loss of subsidies also forced certain operators to shut their facilities. Please see "*—Regulatory changes have affected our business historically and any future changes may have an adverse effect on our electricity generating activities.*"

Further, economic instability and difficult economic conditions in Europe, particularly in Spain, have resulted in a decline in tax revenue obtained by the Spanish government, which has resulted in higher effective tax rates and, in certain cases, reduced availability of local financing.

In addition, in September 2015, a coalition of political parties called *Junts per Si* won the most seats in the Catalan regional parliament. This development may lead to greater calls for the secession of Catalonia. Although the constitutionality of the secession movement is not clear, political uncertainty could result, which could adversely affect the Spanish economy and our business.

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, 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 due to its high efficiency in energy and raw material consumption and its reduced environmental impact. 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.

In addition, we have made significant investments in the two technological processes traditionally used to perform the bleaching of pulp routinely requested by our customers to be used in the manufacture of paper. The first of these bleaching methods, known as Elementary Chlorine Free ("*ECF*"), uses a chemical called chlorine dioxide to bleach the fibres, whilst the second bleaching method, known as Totally Chlorine Free ("*TCF*"), does not use a chlorine compound to bleach the fibres. We have installed the technology necessary to bleach pulp using ECF at our facility in Navia and the technology necessary to bleach pulp using TCF at our facility in Pontevedra. To the extent that there is an increase or decrease in the demand for pulp produced by either of these processes, or an alternative bleaching process that competes with these processes emerges, we may not be able to make the necessary investments in technology which would enable us to remain competitive in a timely and cost-effective manner. This could have a material adverse effect on our business, financial condition and results of operations.

We may be materially adversely affected if operations at the pulp production, energy generation, transportation, storage, distribution and port facilities we own or utilise were to experience significant interruptions or suffer any mechanical failures or difficulties.

Our operations are dependent upon the uninterrupted operation of the pulp production, energy generation, transportation, storage, distribution and port facilities that we own or utilise. 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 labour difficulties, transportation disruptions or other disruptions affecting our supply of raw materials, particularly wood. We also typically suspend operations in each of our pulp production facilities every year, usually for around 15 days, to enable us to complete certain annual maintenance and other planned work.

During this period, no pulp is produced at the affected facility, and once the planned works have been completed, it can take two days or more for the facility to ramp up to its normal rate of pulp production. Further, 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 these facilities, whether unplanned or planned, 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 our business, financial condition and results of operations.

Further, we depend on connections 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.

Our businesses 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.

The nature of our businesses exposes us to certain hazards which in turn could lead to fires, floods, explosions, spills and/or other accidents or dangerous conditions. 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 that location or our operations could otherwise 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 the sites on which our pulp production facilities or energy generation facilities are located, or other sites owned or managed by us or our suppliers, 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.

Further, the Spanish landscape is prone to frequent fires, and the risk of uncontrolled fires entering and burning significant areas of forest plantations is high. Under normal weather conditions, this risk is managed through comprehensive fire prevention and protection plans, but during the last decade, Spain has experienced a number of large-scale fires across vast areas of its territory. Further, there is some cause for concern that the abnormal weather conditions that lead to such fires may occur more frequently as a result of climate change. We do not insure against losses of forest timber from fire. Other catastrophic events, such as pathogen and pest infestations, wind storms, floods and other weather conditions, may also occur and are beyond our control. As a consequence, the risk of plantation fires or other catastrophic events occurring continues to be significant and may be increasing further. As is typical in the forest industry, we assume substantially all risk of loss to the timber we own from fire and other hazards because insuring for such losses is not practicable. Continued or increased losses of our sources of wood could jeopardise our ability to supply our pulp production facilities with timber from the regions in which they are located, thus increasing our Wood Costs and having a material adverse effect on our business.

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

A large percentage of our employees are represented by labour unions under collective bargaining agreements, which need to be renewed from time to time. Further, recent labour 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, thus increasing employees' incentive to negotiate for more favourable terms since the expiration of such extension would result in the employees becoming subject to the less favourable general labour regulations. We may not be able to successfully negotiate new collective bargaining agreements acceptable to all parties, which could result in labour disputes. For example, although we renegotiated and/or renewed five union agreements during 2014 (with four of these agreements now due to expire in 2016 and the remaining agreement due to expire at the end of 2017), we experienced labour disturbances, including a two-day strike, at certain facilities located in Huelva and Pontevedra in June 2014.

We may also become subject to material cost increases or additional work rules imposed by agreements with labour unions. This could increase expenses in absolute terms and/or as a percentage of net sales.

In addition, we have in the past and may in the future seek, or be obliged to seek, agreements with our employees regarding workforce reductions, closures and other restructurings, which could result in labour disputes. For example, in October 2014 employees at our former pulp production facility in Huelva went on strike for ten days, whilst employees at our pulp production facilities in Navia and Pontevedra went on strike for four days, following the negotiation of a restructuring agreement that affected 226 employees in our former pulp production facility located in Huelva and at our headquarters in Madrid.

We are exposed to the transaction and translation effect of currency risk, particularly with respect to the sales of pulp denominated in U.S. dollars.

We are exposed to fluctuations in foreign currency exchange rates, and in particular to fluctuations in the value of the U.S. dollar and the euro. Whilst 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 since the benchmark sale price on the international market is in U.S. dollars per ton and we invoice our customers in U.S. dollars. Please see also "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk—Commodity Price Risk*." Insofar as our cost structure is mainly in euros, changes in the U.S. dollar/euro exchange rate can have a significant adverse effect on our earnings. The reference currency of our consolidated financial statements is the euro and we are therefore exposed to both transactional- and translational-related exchange risks. For example, our U.S. dollar-denominated sales of pulp may fluctuate due to the appreciation or depreciation of the euro against the U.S. dollar, which could impact our revenue, whereas our cost structure, which is principally denominated in euro, would not change proportionally. In addition, the value of our pulp inventory and cash balances in U.S. dollars when translated into euro for purposes of the preparation of our consolidated financial statements may affect our balance sheet and the reporting of our working capital, including our reported net debt. Please see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk—Foreign Exchange Risk*."

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

From time to time, we have entered into, or may in the future enter into, hedging transactions using financial derivatives instruments to protect against risks related to fluctuations in 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 carbon dioxide (CO_2) forward agreements related to our greenhouse gas emission rights. Please see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk*." Amongst interest rate derivatives, we mostly use financial interest rate swaps. Pulp price derivatives and those of certain energy products are principally swaps and options. However, our hedging transactions may not sufficiently or adequately protect us against these risks, and 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. For example, we incurred €27.6 million in hedging-related losses in 2012, which adversely affected our results of operations, whilst in 2013, we recorded a hedging-related gain of €12.1 million and no gain or loss in 2014.

We are exposed to interest rate risks as certain of our borrowings bear interest at floating rates that could rise significantly, increasing our interest cost and reducing cash flow.

Our borrowings under the Revolving Credit Facility will bear interest at per annum rates equal to EURIBOR, adjusted periodically, plus a certain spread. We will also be subject to paying periodic commitment fees in connection with the Revolving Credit Facility. In addition, we may procure additional indebtedness at floating rates in the future. The applicable interest rates could rise significantly in the future, thereby increasing our interest expenses associated with these obligations, reducing cash flow available for capital expenditures and hindering our ability to make payments on the Notes. Although we may hedge the interest rates with respect to the Revolving Credit Facility, we are under no obligation to do so under the Indenture and we may not be able to obtain such hedges, or replace such hedges on terms that are acceptable to us, and any such hedge may not be fully effective, which would expose us to interest rate risk.

Our insurance coverage may be insufficient to cover our losses.

Our insurance coverage may be insufficient to cover losses that we might incur, including in relation to possible claims for death, personal injury or property damage which may result from accidents or the failure or other malfunction of any machinery or other component within our facilities. 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. However, we do not maintain insurance coverage against all risks related to our forests, particularly in connection with risks relating to forest fires. Please see "*Business—Loss Prevention and Insurance.*" 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 those that are currently in effect at 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.

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

Our operations are subject to the general supervision of various public administrative authorities, including labour, tax and environmental authorities, as well as to extensive regulation of our business and its impact on the environment, including with respect to carbon dioxide emissions. Such laws and regulations require licences, permits and other approvals to be obtained in connection with the operations of our business. In the past, we have also been required to purchase carbon dioxide emission credits commensurate with our emissions. The regulatory framework to which we are subject 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. Further, 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.

We may experience unforeseen difficulties, delays or costs in successfully implementing our business strategy, including cost-cutting initiatives, reductions in capital expenditures, the raising of capital from asset disposals and achieving previously announced targets (including some included in these Listing Particulars), and any such actions may not yield the anticipated benefits.

The successful implementation of our business strategy depends upon a variety of factors, including a number of factors that are outside of our control. We have announced a number of initiatives intended to, amongst other things, reduce recurring costs through labour force reductions, as well as undertaken certain efficiency measures intended to reduce waste and raw material use and improve plant productivity. Although a number of these initiatives have already been funded, certain other measures are still ongoing, which we anticipate will require approximately €21.0 million of capital expenditures to complete. In addition, we have announced an intention to raise €37.9 million during 2015 and 2016 through disposals from the sale of energy crop assets. These initiatives and/or planned disposals are not yet complete and the implementation of cost-cutting measures and disposals are inherently subject to various risks, including unforeseen additional costs, technical complications, labour unrest, an inability to find willing buyers for planned disposals and/or our ability to sell such assets at book value. Such measures are forward-looking in nature, are provided for informational purposes only. They are not intended to be a projection of actual or expected cash proceeds received by the Group or the Adjusted EBITDA to be generated by our business and should not be relied on by prospective investors to calculate the results of operations or net debt for the Group as at and for the year ending December 31, 2015 or for any other period. We can provide no assurance that we will reach these goals, and our strategy may evolve to suit changed circumstances, actual savings achieved and our ability to make capital expenditures in support of such initiatives. In addition, even if implemented, such measures may turn out to be less effective than anticipated, become effective later than anticipated or not be effective at all. Any of these outcomes, individually or in combination, may adversely impact our business, results of operations and financial condition. We do not intend to update or otherwise revise these projections to reflect circumstances existing after the date of these Listing Particulars or to reflect the occurrence of future events, even in the event that the assumptions or estimates underlying these intentions are shown to be in error. Please see "*Forward-Looking Statements*."

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 facilities operate, will 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 CO_2 rights has been reduced to an average of 131,257 tonnes of CO_2 rights annually. 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, the Industrial Emissions Directive, 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. Although approximately 66% of the wood used to manufacture our products during the six months ended June 30, 2015 was sourced 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 damage to natural resources 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 licences, permits and other approvals for future projects. There can be no assurance that governmental authorities will approve these environmental impact studies; or laws or regulations will not change or be interpreted in a manner that increases our costs of compliance, or materially or adversely affects our operations, facilities or our plans for the companies in which we have an investment or to which we provide our services.

Regulatory changes have affected our business historically and any future changes may have an adverse effect on our electricity generating activities.

The Spanish electricity sector is subject to extensive regulation. Whilst this applies to both conventional and renewable energy sources, renewable energy activities are often subject to more stringent compliance standards relative to conventional projects. As such, we are especially vulnerable to changes to existing regulations affecting our electricity generating activities, which may have a material adverse effect on our business.

In June 2014, the Spanish government approved regulatory framework for the electricity sector (the "*Regulatory Framework*"). This sets out a remuneration scheme for existing renewable, cogeneration and waste generation facilities (the "*Renewable Energy Facilities*"), which will apply to our operations. The Regulatory Framework provides for regulated levels of remuneration that the government has fixed for our electricity production over three- to six-year periods. Whilst the government may alter the rate of investment return applicable to the most proximate future period, it may not alter the initial investment value or the regulatory useful life of the investment.

As a result of the implementation of the Regulatory Framework through Royal Decree Law 9/2013 Electricity Act, Royal Decree 413/2014 and Ministerial Order IET/1045/2014, we may be vulnerable to several operational risks, including the following:

(i) the Regulatory Framework creates uncertainty over whether the government may introduce a less favourable remuneration structure applicable to the most proximate future period, which may affect our ability to make adequate provisions for future operations;

(ii) our operating costs may exceed those assumed by the government in its calculation of the amount of remuneration payable under the Regulatory Framework, in which case the Regulatory Framework would not provide for a reimbursement of the additional costs incurred by us;

(iii) we could fail to meet the requisite minimum number of hours of operation per year that the Regulatory Framework sets out, which may reduce or eliminate our revenues for the relevant year (please see "*Regulation*"); and/or

(iv) we could be forced to finance any temporary imbalance or deficit that is not offset through tolls and charges in an amount of up to 2% of the estimated regulated income for the year. Whilst we could claim a credit for the financed amount within a five-year period, the obligation to finance any temporary imbalance could adversely affect our financial position.

In addition to the Regulatory Framework, electricity producers are required to pay a transmission and distribution system access fee. In 2011, the government fixed this fee at €0.50 per MWh delivered to the network. Whilst the fee has remained unchanged to date, any decision by the government to raise the fee could adversely affect our revenues. Such annual output caps, as well as other regulatory provisions, have thus had an adverse effect on the revenues of our business historically, and may prevent us from fully realising the benefits of increases in our generation capacity and/or increases in the market price for electricity in the future.

These and other regulatory changes in the electricity sector could continue to have a material adverse effect on our business, financial condition and results of operations.

We may incur liabilities 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 release 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 and eventually from remediation measures imposed by the relevant authorities. 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 favouring 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 fibre 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.

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.

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 (for example, 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 non-recourse 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 and/or investments in joint ventures with third parties.

If we decide to make certain acquisitions and/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. Further, 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 us 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 which may be contrary to our interests. Our partners may be unable, or unwilling, to fulfil 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.

Risks Relating Exclusively to Our Pulp Business

The market prices for our pulp products are cyclical.

The prices we are able to obtain for our pulp products, from which we derived 84.6%, 83.8% and 83.4% of our Restricted Group revenues and 72.9%, 73.0% and 71.7% of our total revenues during the six months ended June 30, 2015 and during the years ended December 31, 2014 and December 31, 2013, respectively, depend on the prevailing world prices for market pulp. The price of cellulose 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 are 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 various 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, amongst other factors. For example, between 2011 and 2013, the price of pulp remained generally stable, which was attributable in large part to an increased demand for pulp combined with limited increases in production capacity during this period due to delays in greenfield projects in the pulp industry and closures and/or conversions of existing pulp mills. However, the price of pulp decreased in early 2014 due to weakness in demand before stabilising during the third quarter of 2014. During the last quarter of 2014 and the first half of 2015, prices began increasing again as a result of low customer inventories and increased demand for pulp.

The timing and magnitude of price increases or decreases in the pulp and paper market 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 stabilise or not decline further in the future, or that overall demand for the pulp that we produce will not decline in the future. Further, whilst 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. Please see "*Business—Our Businesses—Pulp Business.*"

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

Some of our activities require significant consumption of wood, chemicals (including caustic soda) and other inputs, 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 primarily with local timber acquired from third-party suppliers in Spain and Portugal.

If there is an insufficient supply of eucalyptus timber to meet our demand in the regions of Spain in which our facilities are located, we may be required to seek timber from alternative markets at increased purchase prices and/or with increased logistical costs, which was a particular issue for our former pulp production facility at Huelva due to its location. In addition, any scarcity in a particular area of a preferred species of eucalyptus can negatively impact the yield of our pulp production facilities. A number of factors can affect the supply of available timber, including climate conditions, fires, droughts, floods, pests, disease, ice, wind storms and other natural and man-made causes, substantial changes in the demand for pulp or other products whose raw material is timber, environmental litigation aimed at protecting forests and species habitats and/or regulatory restrictions which may impact 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 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 which 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.

Further, approximately 60% of the chemicals used for the cooking and bleaching process of our products tend to have their prices closely linked to that of electricity. Significant increases in our Wood Costs, the cost of petroleum, including the costs of chemicals whose prices are linked to it, the cost of other chemicals such as caustic soda which is necessary to complete the pulping process, or the cost of energy, as well as the costs of other inputs necessary for our business, including replacement parts such as bearings and filters, or shortages in the supply of any such products, could have a material adverse effect on our business, financial condition and results of operations.

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 unit production 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. In addition, efforts to reduce costs during periods of weak demand could be limited by labour regulations or previous labour 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, which could have a material adverse effect on our business.

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

Our pulp sales outside of Spain, primarily to other countries in the European Union, accounted for 83%, 84% and 85% of our total revenue from pulp sales during the six months ended June 30, 2015 and the years ended December 31, 2014 and December 31, 2013, 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 favourable 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 foreign countries; lower global demand for pulp, which could result in a reduction in our sales, operating income and cash flows; changes in foreign currency exchange rates (particularly against the U.S. dollar), currency control measures and/or inflation in the foreign countries in which we operate; exchange and international trade controls and/or customs tariffs, particularly in developing markets; changes in a specific country's or region's economic conditions, particularly in developing markets; adverse consequences arising 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 increased logistics costs, disruptions in shipping or reduced availability of freight transportation. Whilst we attempt to manage certain of these risks through the use of risk management programmes, 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 successfully continue to 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, labour 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 pulp production facilities, receive government subsidies or have a greater breadth of product offerings than we do. Some of our competitors may also have other advantages over us, including lower raw material, energy and labour costs and fewer environmental and governmental regulations to comply with. As a result, we cannot assure you that each of our pulp production facilities will remain competitive or that we will be able to take advantage of consolidation opportunities which 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. For example, although we have undertaken continuous improvement processes at our pulp production facilities in Navia and Pontevedra in order to comply with environmental regulations and to maintain our competitiveness, in the future, we may not be able to compete successfully against pulp produced by facilities that are newer, more technologically advanced and/or better equipped to respond to changing customer demands than our facilities. Further, 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 selling prices of our products sufficiently or in time to offset the effects of increased costs without losing market share. Aggressive pricing by competitors may force us to decrease prices in an attempt to maintain market share. For further information on our competitors, please see "*Business—Competitors*."

Although we endeavour to maintain our competitiveness, no assurance can be given that we will be able to successfully do 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 constructed on a maritime terrestrial public concession awarded to us under a Ministerial Order issued in 1958. The concession deed did not specify a fixed term for the concession itself, although pursuant to the Coast Act of 1988 (the "*Coast Act*"), the expiry date for the concession would have been in July 2018. However, in May 2013 the Spanish Parliament approved an amendment to the Coast Act which stipulated that there would be new regulations affecting the terms of, and any extensions to, such concessions. Royal Decree 876/2014 subsequently came into force in October 2014, amending the Coast Act and establishing the legal framework governing the renewal of concessions located on public domain coastal land. Pursuant to this new law, we have the right to apply for an extension of the concession granted in 1958, which, if granted, would run for a maximum of 60 years from the date when the extension application is filed.

As a result of an administrative and judicial process following a challenge to our public concession at Pontevedra, the Ministry for Agriculture, Food and the Environment issued a decision on July 30, 2015 ruling that the concession should only be partially terminated, with the land subject to such termination only comprising a wastewater treatment facility operated by a third-party utility, a submarine pipeline and sports fields and thus not affecting the land on which our Pontevedra pulp production facility is located or that is otherwise essential to our pulp production activities at Pontevedra. As a result of this decision, on July 31, 2015 we reactivated our application to the administrative authorities for the concession to be extended. We are currently awaiting the issue of the environmental report from the government of Galicia which is necessary to extend the concession, which we believe will be favourable, after which the Ministry for Agriculture, Finance and the Environment may expressly approve the extension of the concession. We can provide no assurance, however, that the private litigants who initially challenged our concession rights will not seek judicial review of the decision by the Ministry for Agriculture, Food and the Environment (which they must do prior to the end of October 2015) and any such appeals, if successful, could ultimately reverse all or part of any extension of our concession. Please see "*Business—Our Sites and Facilities—Pulp Business sites and facilities—Pontevedra*" and "*Business—Legal Proceedings and Tax Audits*."

However, in the event that we fail to achieve the extension of our Pontevedra land concession or if ongoing or future litigation were to reverse any extension of our concession, we may be required to cease operation of our Pontevedra facility, which will have a material adverse effect on our business, financial condition and results of operation.

Competition for land for use as eucalyptus forests for purposes of pulp production or for other crops, such as soybeans, sugar cane and other commodities, as well as difficulties sourcing sufficient quantities of certified wood, may affect our access to inputs to produce pulp.

Greater global demand for certain commodities, especially for grains and biofuel, may impact our forestry operations in that greater competition for agricultural land could impact the availability and price of such land, and thus the quantity and price of the crops grown on the land, including the eucalyptus which is crucial to our Pulp Business. Grain and biofuel production generally are economically superior to forestry activities, and as a result, prospective increases in land values may inhibit the expansion of existing forests or the growing of new forests by our existing or potential suppliers. For similar reasons, we may face difficulties in convincing third-party partners to begin or to expand the production of eucalyptus for use in the pulp industry. Certain parties have also raised concerns about the environmental and other impacts of using land for the cultivation of eucalyptus forests, which could have reputational consequences for such third-party partners and us.

In addition, difficulties in sourcing wood, and in particular eucalyptus wood, certified to the standards of the Forest Stewardship Council (a non-profit organisation dedicated to promoting responsible forest management worldwide) could impact our ability to ensure the use of such certified wood, which is required by certain clients, in our pulp production processes. There are only a limited number of wood producers in the Iberian peninsula that comply with the standards set by the FSC, so if sufficient quantities of certified wood are not available from such producers, we may be required to source certified wood from other areas, which could lead to a significant increase in our logistical and other costs. This could have a material adverse effect on our business and results of operations.

We rely on certifications by industry standard-setting bodies.

We obtain and seek to adhere to certain certifications, particularly those issued by the FSC, because we seek to conduct our activities with respect to the environment and because certain of our customers have required us to obtain such internationally recognised certifications for our products, or we comply on a voluntary basis because we believe that it confers advantages on sellers who are so certified. We incur significant costs and expenses to comply with and maintain our certifications, including assessments every five years, annual monitoring and implementation of the FSC's record-keeping requirements. If we fail to maintain any of our certifications because the FSC's policies become more onerous or through no fault of our own, our business may be harmed because our customers that require or encourage such certifications may cease buying pulp products from us, which in turn could have a material adverse effect on our business, financial condition and results of operations.

We are subject to risks in connection with divestitures.

We are examining the potential sale of some of our forestry, real estate and industrial assets (a significant percentage of which are associated with our former pulp production activities at Huelva) all of which are located in Spain. As at June 30, 2015, certain of these assets with a book value of €75.9 million are classified under IFRS 5 (*Non-current Assets held for Sale and Discontinued Operations*) ("*IFRS 5*") as assets held for sale. However, if we are unable to complete the sale of such assets and their sale is no longer highly probable, they will cease to be classified as held for sale in our financial statements and will be measured at the lower of their recoverable amount and their net carrying amount recalculated had they not been classified as held for sale. Pursuant to IFRS 5, assets held for sale must be measured at the lower of their carrying amount and their fair value less costs of sell. In light of the continuing economic crisis in Spain, we may be unable to realise 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 electricity generating operations in our Pulp Business may be adversely affected by any adverse circumstances affecting our pulp production operations.

During the six months ended June 30, 2015 and the year ended December 31, 2014, 43.6% and 63.6%, respectively, 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 mean 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.

Risks Relating Exclusively to Our Energy Business

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

Implementation of any electricity-generating biomass projects which we may decide to pursue in the future, particularly in jurisdictions outside of Spain, requires the negotiation and closing of project finance structures, reducing future capital commitments. Currently, low interest rates favour the profitability of renewable energy projects, including biomass, and limit the financial attractiveness of alternative investments. In the past, we have been and believe that we will continue to be able to reach project finance agreements on favourable terms to us. However, any change in the expected project finance conditions and a change in the low interest rates scenario 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 Energy Business requires substantial capital investments, suitable sites, qualified suppliers and administrative permits and authorisations, 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 authorisations to conduct activities within our Energy Business from various central, regional and local government bodies. We cannot guarantee that the corresponding authorities will approve or grant the necessary permits, licences and authorisations for our activities or that legislation will not be amended or interpreted in a manner which increases the costs of compliance or causes delays to our projects and investment plans.

In particular, our biomass facilities are subject to strict international, national, state and local regulations relating to their development, construction and operation (including, amongst 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 to independently raise tariffs beyond the established rates. In addition, we may be unable to adjust our tariffs as a result of fluctuations in prices of raw materials, exchange rates, labour 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. If any one or more of these events occur, this could have a material adverse effect on our business, financial condition and results of operation. Please see also "*—Risks Relating to Our Pulp and Energy Businesses-Regulatory changes may have an adverse effect on our electricity generating activities*."

In addition, we may decide to pursue biomass renewable energy projects in the future in countries 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 unfavourable to us.

Our sales from our Energy Business are partially exposed to market electricity prices.

In addition to regulated incentives, sales from certain of our projects partially depend on market prices for sales of electricity. Market prices may be volatile and are affected by various factors, including the cost of raw materials used as the primary source of energy, user demand and, if applicable, the price of greenhouse gas emission rights.

We are exposed to remuneration schemes which contain both regulated incentive and market price components. The regulated incentive component may not compensate for fluctuations in the market price component, and, consequently, total remuneration may be volatile. Generally, those facilities that benefited from a feed-in tariff regime at July 14, 2013 will receive a "reasonable rate of return" based on the pre-tax return on the secondary market average yield on the ten years prior to the entry into force of Royal Decree Law 9/2013 government bonds, plus 300 basis points. For new renewable cogeneration and waste facilities, the specific remuneration will be granted by a competitive tendering process respecting transparency, non-discrimination and objectivity principles.

There can be no assurance that market prices will remain at levels which enable us to maintain profit margins and desired rates of return on investment. A decline in market prices below anticipated levels could have a material adverse effect on our business, financial condition and results of 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. Our existing permits and authorisations may be subject to legal challenges by persons who consider that they have been prejudiced by our projects, whilst public and political opposition to any future 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. 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 any biomass facilities that we may develop in the future will ultimately be authorised by the local authorities or accepted by the local population. For example, the local population could oppose the construction of a biomass facility at the local government level, which could in turn lead to the imposition of more restrictive requirements.

In certain jurisdictions, including jurisdictions outside Spain, if a significant portion of the local population were to mobilise against the construction of a biomass power facility, it may become difficult, or impossible, for us to obtain or retain the required building permits and authorisations. 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 facilities.

Risks Related to the Notes and Our Structure

Market perceptions concerning the instability of the euro, the potential reintroduction of individual currencies within the countries that utilise 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). The treaty entered into force on January 1, 2013 for the 16 Member States that had completed its ratification prior to this date, and, by April 1, 2014, had been ratified and entered into force within all of its 25 signatories. The Fiscal Compact places deficit restrictions on Member State budgets (other than the United Kingdom, the Czech Republic and Croatia), with associated sanctions for those Member States that violate the specified limits.

Recent developments in the Eurozone have exacerbated the economic situation. Financial markets and the supply of credit may continue to be negatively impacted by ongoing fears surrounding the sovereign debts and/or fiscal deficits of several countries in Europe, the possibility of further downgrading of, or defaults on, sovereign debt, concerns about a slowdown in growth in certain economies and uncertainties regarding the overall stability of the euro and the sustainability of the euro as a single currency given the diverse economic and political circumstances in individual Member States. Governments and regulators have implemented austerity programs and other remedial measures to respond to the Eurozone debt crisis and stabilise the financial system, but the actual impact of such programs and measures are difficult to predict.

For example, an anti-austerity party won the parliamentary elections in Greece on January 25, 2015 and subsequently formed a government with another anti-austerity party. The breakdown of negotiations between the new Greek government and its creditors led to a temporary closure of Greek banks and the imposition of capital controls. The evolving situation could result in Greece's exit from the Eurozone, which could, in turn, undermine confidence in the overall stability of the euro.

These and other concerns could lead to the reintroduction of individual currencies in one or more Member States, or, in extraordinary 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.

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

We have, and after this Offering will continue to have, a significant amount of indebtedness. As at June 30, 2015, as adjusted to give effect to the Refinancing, the aggregate principal amount of our indebtedness would have been €426.3 million (of which €291.3 million aggregate principal amount would have corresponded to the Restricted Group, including €250.0 million which 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, amongst 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 organisational measures such as mergers, changes of corporate form, joint ventures or similar transactions, and enter into transactions with related parties. In addition, the Bankia Loan also contains certain restrictive covenants, including financial covenants, which can restrict our ability to operate our business. Please see "*Description of Other Indebtedness—Bilateral Loans*."

Despite our current substantial indebtedness, we may be able to incur more debt in the future, which could further exacerbate the risks of our indebtedness. Such additional debt may be structurally senior to the Notes or secured.

We may incur more debt in the future. The Revolving Credit Facility provides for total commitments of up to €90 million, with an additional uncommitted amount of €10 million, and it is expected that no cash drawings under the Revolving Credit Facility will be outstanding on the date the Notes are issued. The Indenture will limit our ability to incur additional debt but will not prohibit us from doing so. We may incur additional debt in the future, including secured debt, that could mature prior to the Notes, thus becoming structurally senior to the Notes. Any non-Guarantor subsidiary could also incur additional debt, and the Notes and Guarantees would be structurally subordinated to any such debt. In addition, the Indenture will allow us to incur certain other indebtedness. In the event of any liquidation of our assets in any bankruptcy, liquidation or dissolution, holders of secured indebtedness will have a claim prior to that of holders of the Notes to the assets that constitute such secured debtors' collateral. Holders of the Notes will participate ratably with all holders of our unsecured indebtedness that ranks equal to the Notes, and potentially with all of our general creditors in relation to our remaining assets based on the respective amounts owned to each holder and creditor. Further, we have in the past, and may in the future, engage in factoring and securitisation transactions which the terms of the Indenture will permit, and such transactions may have recourse to the receivables sold to the factoring counterparties. As at June 30, 2015, we had €32 million in non-recourse factoring and €71 million in confirming transactions outstanding. For further information, please see "*Description of Other Indebtedness—Working Capital Facilities*."

The claims of holders of the Notes will be effectively subordinated to the rights of any future secured creditors to the extent of the value of the assets securing such indebtedness.

The Notes and the Guarantees will not be secured by any of our assets. Although the Indenture will provide for a negative pledge, it will nonetheless allow the Issuer and its Restricted Subsidiaries, subject to certain limitations, to incur secured indebtedness that will be effectively senior to the Notes and the Guarantees to the extent of the value of the assets that secure such indebtedness. In the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, administration, reorganisation or other insolvency or bankruptcy proceeding, the proceeds from the sale of assets securing any secured indebtedness will be available to pay obligations on the Notes only after all such secured indebtedness (including claims preferred by operation of law) has been paid in full. As a result, holders of the Notes may receive less, ratably, than holders of secured indebtedness. As at the Issue Date, we had no secured indebtedness outstanding other than €135.0 million in debt related to project financings, all of which was held by Unrestricted Subsidiaries. Please see "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements—Senior Credit Agreement*."

Following the Offering, the Restricted Group will continue to engage in certain transactions with the Unrestricted Group.

Following the Offering, the Restricted Group will be subject to the restrictive covenants of the Indenture, whilst the Unrestricted Group will not. We intend to develop both our Pulp Business and our Energy Business in accordance with the separate strategies articulated by our Board of Directors and discussed elsewhere in these Listing Particulars. However, due to operational and practical requirements, certain transactions between the Restricted Group and the Unrestricted Group will continue to take place. Whilst the Indenture will impose the requirement that all transactions between the Restricted Group and Unrestricted Group be conducted on an arm's-length basis, there are a number of exceptions and qualifications for certain transactions that are of a routine or ongoing nature, or that we estimate will take place in the near future. Included amongst such transactions is a cash pooling arrangement pursuant to which certain cash (ranging from approximately €10 million to €20 million at any given time) belonging to the Unrestricted Group is held by the Issuer until such payable is settled between 30 to 60 days from the date of incurrence. In addition, ENCE Energía, S.L.U. has an obligation to indemnify ENCE Energía Huelva, S.L.U. and ENCE Energía Extremadura, S.L.U. for expenses that could arise as a result of the cancellation of certain leases on land that was previously used for the development of energy crops, and Ence Energía y Celulosa S.A. has agreed to provide an intragroup credit in an amount of up to €7 million to finance any such expenses. These expenses would include payment for work to dismantle the irrigation network, the removal of trees and the repair of damage caused to the property during the lease and could also include the cost of litigation and/or the payment of legal damages. Moreover, as at June 30, 2015, €63.3 million was outstanding under an intragroup loan between the Issuer, as lender, and ENCE Energía, S.L.U., as borrower. The Issuer has also agreed to compensate ENCE Energía Huelva, S.L.U. and ENCE Energía Extremadura, S.L.U. for any detriment that they may suffer as a result of their inclusion in the tax group of the Issuer for corporate tax purposes. Please see "*Certain Relationships and Related Party Transactions—Transactions with the Unrestricted Group*," "*Description of Other Indebtedness—Loan from the Issuer to an Unrestricted Subsidiary*," "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements—Credit Line from Issuer to ENCE Energía, S.L.U.*" and "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements—Tax Guarantee*." We cannot assure you that the operation of our business as separate Restricted and Unrestricted Groups will be operationally optimal, which could constrain our ability to implement our business strategy for both our Pulp Business and our Energy Business, and could have a material adverse effect in our business and results of operations.

We have the flexibility to reinvest the proceeds from certain asset sales into the Unrestricted Group.

The Indenture will place certain limitations on our ability to make distributions, pay dividends or make investments with the net proceeds of the sale of certain assets. However, these limitations will be subject to certain exceptions. In particular, we will have the flexibility to reinvest the net proceeds generated from sales of Restricted Group assets with a total book value of €75.9 million classified as held for sale as at June 30, 2015 into the Unrestricted Group, to which the holders of the Notes have no recourse, without reducing the debt of the Restricted Group or making an offer to purchase the Notes. For further information with respect to our assets classified as held for sale as at June 30, 2015, please see Note 22 to our Unaudited Condensed Consolidated Interim Financial Statements. Please see "*Description of the Notes—Certain Covenants—Limitation on Sales of Assets and Restricted Subsidiary Stock*."

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, amongst 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 capitalisation 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, amongst 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 which require, amongst 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 a number of factors, many of which are 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 these Listing Particulars.

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 defences.

The Guarantors will guarantee the payment of the Notes as described in "*Description of the Notes—Guarantee Arrangements—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 will be limited under the Indenture to an amount which has been determined so as to ensure that amounts payable will not result in violations of laws relating to corporate benefit, capitalisation, capital preservation (under which, amongst others, the risks associated with a guarantee 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 capitalisation, 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 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 contained in the Indenture, please see "*Certain Insolvency Law and Enforceability Considerations*."

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

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

- the Guarantee was incurred with 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 undercapitalised or became undercapitalised 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 "*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) void 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 favourable to you as U.S. bankruptcy laws or the insolvency laws of other jurisdictions with which you may be more familiar.

The Issuer and the Spanish Guarantors are organised under the laws of Spain, whilst the Portuguese Guarantor is organised under the laws of Portugal. Accordingly, any insolvency proceedings against the Issuer and the Spanish Guarantors would likely be based on Spanish insolvency laws or, in the case of the Portuguese Guarantor, on Portuguese insolvency laws. The insolvency laws of Spain and Portugal may not be as favourable to Holders of the Notes as the laws of the United States or some other jurisdictions. Certain provisions of Spanish and Portuguese 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 and Portuguese 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. Under Spanish law, one factor considered in determining if a party is "specially related" is (i) whether such party holds, directly and indirectly, 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) at the time the credit right under dispute in the insolvency scenario arises or (ii) in the event of companies belonging to the same group as the insolvent debtor and their common shareholders, provided that such shareholders meet, directly or indirectly, the minimum shareholding requirements set out before. Under Portuguese law, a party will be deemed to be "specially related" if it controls the debtor or is controlled by the debtor, either directly or indirectly (control is deemed to exist if a given party (i) holds the majority of the votes in shareholders' meetings, (ii) is entitled to cast the majority of the votes under a shareholder's agreement, (iii) is able to appoint or dismiss the majority of the members of the management or supervisory boards or (iv) is otherwise able to exert a controlling influence on the other party). A party will also be deemed to be "specially related" if it forms a group with the debtor (a group is deemed to exist, *inter alia*, if a given party holds 100% of the other party's shares). Under both Spanish and Portuguese law, payments made under an equitably subordinated loan preceding the bankruptcy of an obligor may in certain circumstances be clawed back. Please see "*Certain Insolvency Law and Enforceability Considerations—Spain—Spanish Insolvency Law*" and "*Certain Insolvency Law and Enforceability Considerations—Portugal*."

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 at June 30, 2015, we had total assets of €1,151.9 million and total debt of €352.8 million. On an aggregated basis, for the twelve months ended June 30, 2015, we estimate that the Issuer and the Guarantors together would have generated 86.5% of the Consolidated Group's aggregated revenue, 49.3% of the Consolidated Group's aggregated EBITDA and, as at June 30, 2015, would have held 72.2% of the Consolidated Group's aggregated assets. 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*."

Our non-Guarantor subsidiaries will have no obligation to make payments with respect to the Notes or to make funds available for that purpose. In the event that any of our non-Guarantor subsidiaries becomes insolvent, liquidates, reorganises, 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.

Our Unrestricted Subsidiaries will constitute Unrestricted Subsidiaries under the Indenture governing the Notes, and will therefore not be subject to the restrictive covenants thereunder and may incur additional indebtedness without limitation in the future.

Our Unrestricted Subsidiaries, two of which have outstanding project finance debt as at the Issue Date, will be Unrestricted Subsidiaries and we will designate all future subsidiaries in our Energy Business as Unrestricted Subsidiaries. This means that, for so long as, and to the extent that, such subsidiaries remain Unrestricted Subsidiaries, the restrictive covenants contained in the Indenture governing the Notes will not apply to such subsidiaries. Accordingly, Unrestricted Subsidiaries, amongst other things, may incur unlimited project finance or other debt, will not be limited in their ability to pay dividends or make other distributions to third parties and may encumber or sell their assets without any restriction of the use of proceeds therefrom. The claims of holders of the Notes are structurally subordinated to claims made by creditors of the Unrestricted Group. We are not obliged under the Indenture to provide separate standalone historical financial information for the Unrestricted Subsidiaries. For the twelve months ended June 30, 2015, on an aggregated basis, the subsidiaries of the Issuer belonging to the Unrestricted Group generated 13.5% of the Group's aggregated revenue, 53.5% of the Group's aggregated EBITDA and as at June 30, 2015, represented 26.8% of the Group's aggregated assets and would have had €135.0 million in indebtedness outstanding after giving effect of the Refinancing, none of which is, with the exception of (i) a €63.3 million intragroup loan, which is currently fully drawn, between the Issuer, as lender, and ENCE Energía, S.L.U., as borrower, (ii) a credit line of up to €7 million provided by the Issuer to ENCE Energía, S.L.U. in conjunction with an obligation by ENCE Energía, S.L.U. to indemnify ENCE Energía Huelva, S.L.U. and ENCE Energía Extremadura, S.L.U. for expenses that could arise as the result of the cancellation of certain leases on land that was previously used for the development of energy crops and (iii) a tax guarantee (please see "*Certain Relationships and Related Party Transactions—Transactions with the Unrestricted Group,*" "*Description of Other Indebtedness—Loan from the Issuer to an Unrestricted Subsidiary,*" "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements—Credit Line from Issuer to ENCE Energía, S.L.U.*" and "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements—Tax Guarantee*"), provided any credit support from the Restricted Group.

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" in 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 within 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 organised outside the United States. As a result, it may be difficult or impossible to serve process on any of these persons in the United States. Further, as all or substantially all of the assets of these persons are located outside 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 and Portugal, 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 these Listing Particulars who are not residents of the United States. Please see "*Service of Process and Enforcement of Civil Liabilities*."

Our significant shareholders may decide to 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 decide to sell their stake in the Issuer in the market. In order to avoid negative distortions to and minimise the volatility of our share price as a result of 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 Spanish withholding tax, including in conjunction with the collection of certain documentation from the Paying Agent.

Under Spanish tax regulations established by Royal Decree 1065/2007 (as defined in "*Certain Tax Considerations—Spanish Tax Considerations*"), income paid by the Issuer in respect of the Notes will not be subject to Spanish withholding tax only if certain requirements are met, including that the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market on the relevant Interest Payment Dates, and 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 a current 19.5% withholding tax (19% from 2016). Please see "*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. Please see "*Description of the Notes—Additional Amounts*."

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. If such procedures are not followed, however, the Issuer will make the relevant Spanish withholding tax at the applicable rate (currently 19.5%, and 19% from 2016) 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, whilst the Notes are represented by a Global Note, 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 none of the Issuer, the Paying Agent, the Trustee nor the underwriters will be liable for any damage or loss suffered by any Holder of the Notes 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 Spanish withholding tax. 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.

We may incur additional tax liabilities as a result of our operations in the various countries in which we conduct business.

We may be exposed to unforeseen additional taxes that are identified through future tax audits or other review actions of the relevant tax authorities, which could lead to an increase in our tax obligations. This may result from either a tax payment being levied directly on us or indirectly where we become liable as a secondary obligor for a primary obligor's failure to pay (for example, an employee's failure to pay). Spanish tax authorities and tax authorities in other European jurisdictions are routinely challenging corporate transactions, including financings such as the issue of the Notes. Any future tax audit may require us to pay additional taxes (including any accrued interest and penalties). Economic instability and difficult economic conditions in Spain have resulted in a decline in tax revenue collected by the Spanish authorities, which in the past has resulted in, and in the future may also result in, higher effective tax rates. Such an increase in tax rates may ultimately be passed on to businesses.

There are risks related to the proposed Financial Transactions Tax ("FTT").

On February 14, 2013, the European Commission published the Commission's Proposal (as defined herein) for a Directive for a common FTT in the participating Member States (as defined herein).

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) under certain circumstances. The issue and subscription for the Notes would, however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both in and outside the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (i) by transacting with a person established in a participating Member State or (ii) where the financial instrument that is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by January 1, 2016. However, the Commission's Proposal remains subject to negotiation by the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective investors are advised to seek professional advice in relation to the FTT. Please see "*Certain Tax Considerations—Spanish Tax Considerations*."

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

Unless and until Notes in definitive registered form ("*Definitive Registered Notes*") are issued in exchange for book-entry interests (which may occur only in very limited circumstances), owners of book-entry interests will not be considered owners or holders of Notes. The common depositary (or its nominee) for Euroclear and Clearstream will be the sole registered holder of the Global Notes. Payments of principal, interest and other amounts owing on or in respect of the relevant Global Notes representing the Notes will be made to Deutsche Bank AG, London Branch, as paying agent, which will make payments to the common depositary, who will then make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to participants' accounts that hold book-entry interests in the Global Notes representing the Notes and credited by such participants to indirect participants. After payment to the common depositary for Euroclear and Clearstream, none of the Issuer, the Guarantors, the Trustee or the Paying Agent will have any responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest in the Notes, you must rely on the procedures of Euroclear and Clearstream and, if you are not a participant in Euroclear and/or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a Holder of the Notes under the Indenture.

Unlike the Holders of the Notes themselves, owners of book-entry interests will not have any direct rights to act upon any solicitations for consents, requests for waivers or other actions from Holders of the Notes.

Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream or, if applicable, from a participant. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any matters or on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until the relevant Definitive Registered Notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. We cannot assure you that the procedures to be implemented through Euroclear and Clearstream will be adequate to ensure the timely exercise of rights under the Notes.

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.

The Notes are a new issue. 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 obliged 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;
- investor perceptions of us and the pulp industry;
- the failure of securities analysts to cover our Notes after this Offering 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 initial offering 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 in 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. Further, 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 in the United States and other countries comply with applicable securities laws. Please see "*Notice to Investors*." In addition, by its acceptance of delivery of any Notes, the holder thereof agrees on its own behalf and on behalf of any investor accounts for which it has purchased Notes that it shall not transfer the Notes in an amount less than €100,000.

USE OF PROCEEDS

The gross proceeds of this Offering of the Notes were €250 million.

The Issuer used the proceeds from this Offering to: (i) redeem the Existing Notes and (ii) pay estimated transaction fees and expenses in connection with this Offering. The following table sets out the estimated sources and uses of the proceeds from this Offering. Actual amounts vary from estimated amounts depending on several factors, including differences from the estimate of fees, expenses and outstanding amounts upon repayment.

Source of Funds	(€ in millions)	Use of Funds	(€ in millions)
Notes offered[1]	€250.0	Repayment of Existing Notes[2]	€225.0
Cash on balance sheet	2.1	Make-whole cost[3]	20.5
		Estimated transaction fees and expenses related to the Offering[4]	6.6
Total	**€252.1**	**Total**	**€252.1**

(1) Assumes Notes are issued at par.

(2) Represents the satisfaction and discharge of the €225 million in aggregate principal amount of the Existing Notes still outstanding following the June Redemption.

(3) Represents the make-whole cost of redeeming the Existing Notes at a price of 109.1%, including a make-whole premium and accrued and unpaid interest and additional amounts, if any, to the date of redemption, of €20.5 million calculated as at October 20, 2015 and assuming a redemption date of November 26, 2015.

(4) Reflects our estimate of fees and expenses associated with this Offering, including discounts and other commissions, advisory and other professional fees and transaction costs.

On or about the Issue Date, we also entered into a new Revolving Credit Facility for an aggregate committed amount of €90 million, with an additional uncommitted amount of €10 million.

CAPITALISATION

The following table sets out our consolidated cash and cash equivalents and total capitalisation as at June 30, 2015 on (i) an actual basis and (ii) an as adjusted basis for the Refinancing as if it had occurred on June 30, 2015. You should read the following table in conjunction with "*Use of Proceeds*," "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," and our Interim Consolidated Financial Statements and Consolidated Financial Statements and the related notes thereto. Except as set out below (including in the footnotes thereto) and in "*Summary—Current Trading and Recent Developments—Recent Developments—Announcement and Distribution of October Dividend*," there have been no other material changes to our capitalisation since June 30, 2015.

	As at June 30, 2015	
	Actual	**As Adjusted**
	(unaudited)	**(unaudited)**
	(€ in millions)	
Cash and cash equivalents:		
Restricted Group	81.1	94.0[(1)]
Unrestricted Group	10.4	37.6[(2)]
Cash and cash equivalents	**91.5**	**131.5**
Other current financial assets:		
Restricted Group	8.5	8.5
Unrestricted Group	—	—
Other current financial assets	**8.5**	**8.5**
Long-term debt, including current portion:		
Restricted Group:		
Notes offered hereby	—	243.4[(3)]
Existing Notes	224.9[(4)]	—
Revolving Credit Facility[(5)]	—	—
Existing Revolving Credit Facility	—	—
CDTI indebtedness	9.9	9.9
Other long-term debt	15.6	30.6[(6)]
Total for Restricted Group	**250.5**	**284.0**
Unrestricted Group:		
Existing project financing for Huelva facility	73.6	—
Existing project financing for Mérida facility	28.8	—
Senior Credit Agreement	—	132.5[(7)]
Total for Unrestricted Group	**102.4**	**132.5**
Total debt	**352.8**	**416.4**
Total equity	**544.3**	**534.8**
Total capitalisation	**897.1**	**951.2**

(1) Cash and cash equivalents for the Restricted Group have been adjusted to reflect the costs estimated to be incurred in connection with the issue of the Notes and the proceeds from the €15 million BBVA Loan, which was signed after June 30, 2015 and which is currently fully drawn, and the use of €2.1 million of cash on balance sheet in connection with the Refinancing. Cash and cash equivalents for the Restricted Group has not been adjusted to reflect the dividend of €11.0 million which was distributed on October 7, 2015. Please see "*Summary—Current Trading and Recent Developments—Recent Developments—Announcement and Distribution of October Dividend*." In addition, pursuant to cash pooling arrangements in place between the Issuer and the Unrestricted Group, approximately €10 million to €20 million of the cash held at the Issuer corresponds to a payable owed to the Restricted Group. Please see *"Certain Relationships and Related Party Transactions—Cash pooling transactions with the Unrestricted Group."*

(2) Cash and cash equivalents for the Unrestricted Group has been adjusted to reflect the repayment of the project financing outstanding as at June 30, 2015 of the amount of €104.7 million and €0.6 million of accrued interest and the proceeds from the €135 million Senior Credit Agreement, net of €2.5 million of costs incurred.

(3) Reflects the €250 million of gross proceeds from the issue of the Notes offered hereby, net of €6.6 million of costs estimated to be incurred in connection with the issue of the Notes. Such costs will be amortised over the life of the Notes.

(4) Represents the redemption of the €225 million in aggregate principal amount of the outstanding Existing Notes and a make-whole premium and accrued and unpaid interest to the Redemption Date of approximately €20.5 million. The book value of the Existing Notes as at June 30, 2015 was €224.9 million representing the aggregate principle amount of €225 million, less €6.5 million of unamortised costs to be written off in connection with their repayment plus €6.5 million of accrued interest.

(5) The Revolving Credit Facility is expected to remain undrawn as at the Issue Date.

(6) Reflects the Bankia Loan entered into in April 2015 in an amount of €15 million to finance part of the capital expenditure investments in the Navia facility and the new BBVA Loan entered into in July 2015 in an amount of €15 million to finance part of the capital expenditure investments in our pulp production facilities.

(7) Reflects the €135 million Senior Credit Agreement entered into by Ence Energia Huelva, S.L.U. and Ence Energia Extremadura on July 31, 2015, which replaces the two syndicated project finance loan agreements entered into by these entities on June 21, 2011 and June 15, 2012, respectively, to finance their respective standalone biomass energy facilities, net of €2.5 million of costs incurred. The book value of the project financing as at June 30, 2015 was €102.4 million, representing the aggregate principle amount of €104.7 million, less €3.0 million of unamortised costs to be written off in connection with the repayment plus €0.6 million of accrued interest.

SELECTED FINANCIAL DATA

The table below sets out selected consolidated financial data and other data for ENCE Energía y Celulosa, S.A. and its consolidated subsidiaries as at and for the years ended December 31, 2012, December 31, 2013 and December 31, 2014, for the six months ended June 30, 2014 and June 30, 2015, as well as certain unaudited financial data for the twelve months ended June 30, 2015.

The consolidated financial data as at and for the years ended December 31, 2012, December 31, 2013 and December 31, 2014 have been derived from our Consolidated Financial Statements, which were prepared in accordance with IFRS and are included elsewhere in these Listing Particulars. The consolidated financial data for the six months ended June 30, 2014 and June 30, 2015 have been derived from our Interim Consolidated Financial Statements, which were prepared in accordance with IFRS and are included elsewhere in these Listing Particulars. The unaudited financial information for the twelve months ended June 30, 2015, has been derived by subtracting from the audited consolidated financial information for the year ended December 31, 2014 the unaudited consolidated financial information for the six months ended June 30, 2014 and adding the unaudited consolidated financial information for the six months ended June 30, 2015. Such compilation has not been audited or reviewed and has been prepared for illustrative purposes only. The unaudited consolidated financial information for the twelve months ended June 30, 2015 is also not intended to be an indicator of our financial condition or results of operations in the future. You should review the unaudited consolidated financial information for the twelve months ended June 30, 2015 together with the Consolidated Financial Statements and the Interim Consolidated Financial Statements.

The Restricted Group financial information set out below includes the results of operations, assets and liabilities of the Issuer and its Restricted Subsidiaries (that is, the companies of the Group subject to the Notes covenants). However, the financial information relating to the Restricted Group (as well the financial information relating to the Unrestricted Group included elsewhere in these Listing Particulars), which is unaudited, has been prepared on this basis for illustrative purposes only and not in the ordinary course of our financial reporting. In addition, prior to the Offering of the Notes hereby and the refinancing of the project financing debt incurred in connection with the Huelva and Mérida biomass energy generation facilities, ENCE Energía y Celulosa, S.A. and its consolidated subsidiaries were operated as a consolidated group, including with respect to financing arrangements. As a result, the financial information relating to the Restricted Group and the Unrestricted Group does not necessarily reflect what the financial position or the results of operations of the Restricted Group and the Unrestricted Group, respectively, would have been if these had actually been operated as separate groups with distinct financing arrangements. In addition, the Restricted Group financial information for the six months ended June 30, 2015, as well as for prior periods, includes the contribution to results of the Biomass Boiler, including certain ancillary equipment, with a total value of €42.6 million at our former pulp production facility in Huelva, Spain, pending the transfer of such assets to the Unrestricted Group. The completion of the transfer of such assets from the Restricted Group to the Unrestricted Group is expected to be completed by no later than 2016. Please see "*Presentation of Financial and Other Information—Restricted Group and Unrestricted Group Financial Information*."

The following table should be read in conjunction with, and is qualified in its entirety by reference to, the Interim Consolidated Financial Statements and the Consolidated Financial Statements and the related notes thereto. The table should also be read together with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

Consolidated Group Selected Financial Data:

	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2012	2013	2014	2014 (unaudited)	2015 (unaudited)	2015 (unaudited)
				(€ in millions)		
Income Statement Data:						
Revenue	**827.6**	**853.1**	**687.5**	**338.3**	**313.2**	**662.5**
Gain/(loss) on hedging transactions	(27.6)	12.1	0.0	(0.4)	(0.6)	(0.1)
Changes in inventory of finished goods and works in progress	0.8	2.1	(10.1)	(6.2)	(4.7)	(8.7)
Purchases	(408.0)	(427.8)	(379.4)	(194.0)	(129.7)	315.2
Gross Profit	**392.8**	**439.5**	**298.0**	**137.7**	**178.2**	**338.6**
Own work capitalised	24.2	14.8	6.2	4.0	4.8	7.0
Other operating income	2.3	7.5	6.4	3.5	2.7	5.7
Government grants taken to income	4.3	6.3	5.7	2.7	1.3	4.2
Employee benefits expense	(82.3)	(80.5)	(87.0)	(33.2)	(30.1)	(83.9)
Depreciation and amortisation	(54.3)	(63.1)	(59.5)	(29.1)	(27.2)	56.7
Depletion of forest reserve	(9.1)	(15.2)	(9.7)	(7.8)	(4.6)	6.5
Impairment and gains/(losses) on disposals, intangibles assets and property, plant and equipment	6.3	(37.5)	(101.2)	(27.3)	0.2	(73.7)
Other operating expenses	(202.0)	(240.0)	(227.6)	(109.0)	(79.7)	(198.3)
Operating Profit/(Loss)	**82.3**	**31.8**	**(168.6)**	**(58.6)**	**45.6**	**(64.4)**
Finance income	0.7	2.0	1.1	0.6	0.1	0.6
Change in fair value of financial instruments	6.8	1.8	(1.3)	(1.2)	0.9	0.8
Finance costs	(24.4)	(30.8)	(28.0)	(13.5)	(16.5)	(31.0)
Exchange differences	(1.8)	0.6	1.6	0.4	0.7	1.9
Financial Gain/(Loss)	**(18.6)**	**(26.3)**	**(26.7)**	**(13.7)**	**(14.7)**	**(27.7)**
Net result from sale of non-current assets classified as held for sale	(0.7)	—	—	—	—	0.0
Profit/(Loss) before tax	**63.0**	**5.6**	**(195.3)**	**(72.3)**	**30.9**	**(92.1)**
Income tax	(19.9)	(1.3)	54.4	23.7	(8.8)	21.9
Profit/(Loss) for the period from continuing operations	**43.0**	**4.3**	**(140.9)**	**(48.6)**	**22.1**	**(70.2)**
Profit/(Loss) for the period	**43.0**	**4.3**	**(140.9)**	**(48.6)**	**22.1**	**(70.2)**

	As at December 31, 2012	2013	2014	As at June 30, 2015 (unaudited)
	(€ in millions)			
Balance Sheet Data:				
Cash and cash equivalents	40.2	103.4	73.4	91.5
Other current financial assets	7.6	55.9	8.5	8.5
Working capital(1)	52.1	59.7	4.3	(22.7)
Total assets	1,378.0	1,362.3	1,154.2	1,151.9
Gross debt (excluding project finance)(2)	248.4	259.5	259.9	250.5
Gross debt(2)	344.6	362.4	366.3	352.8
Total equity	724.7	710.3	542.9	544.3

	Year ended December 31, 2012	2013	2014	Six months ended June 30, 2014 (unaudited)	2015 (unaudited)	Twelve months ended June 30, 2015 (unaudited)
	(€ in millions)					
Cash Flow Data:						
Net cash flows from/(used in) operating activities	111.6	175.9	9.5	2.8	69.2	75.9
Net cash flows from/(used in) investing activities	(120.1)	(48.0)	(59.8)	(26.1)	(12.5)	(46.2)
Net cash flows from/(used in) financing activities	(22.9)	(64.7)	20.4	46.8	(38.6)	(65.0)
Net increase/(decrease) in cash and cash equivalents	**(31.4)**	**63.2**	**(30.0)**	**23.4**	**18.1**	**(35.3)**

(1) We define "*working capital*" as inventories, plus trade and other receivables, plus receivables from public authorities, plus income tax receivable from the tax authorities, plus current financial assets, plus other current assets, less trades and other payables, income tax payable to the tax authorities, less other accounts payable to public authorities, 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.

(2) "*Gross debt*" means current and non-current notes and bank borrowings plus other current and non-current financial liabilities (not including derivatives). For the Consolidated Group, we present our gross debt both including and excluding project finance indebtedness.

Restricted Group Selected Financial Data:

	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2012	2013	2014	2014 (unaudited)	2015 (unaudited)	2015 (unaudited)
				(€ in millions)		
Restricted Group Income Statement Data:						
Restricted Group revenue	760.2	733.3	599.2	303.5	270.1	565.7
Restricted Group gain/(loss) on hedging transactions	(27.6)	12.1	0.0	(0.4)	(0.5)	(0.1)
Restricted Group changes in inventory of finished goods and works in progress	0.5	2.1	(10.1)	(6.4)	(4.7)	(8.5)
Restricted Group Supplies	**(358.1)**	**(363.3)**	**(336.4)**	**(176.4)**	**(118.8)**	**(278.7)**
Restricted Group gross profit	**375.1**	**384.1**	**252.7**	**120.3**	**146.1**	**278.4**
Restricted Group own work capitalised	10.4	9.6	4.7	2.7	2.0	4.0
Restricted Group Other operating income	16.2	23.2	15.4	8.0	6.2	13.6
Restricted Group government grants taken to income	2.5	2.8	4.7	1.5	1.3	4.5
Restricted Group employee benefits expense	(82.1)	(79.4)	(87.0)	(33.2)	(30.1)	(83.9)
Restricted Group depreciation and amortisation	(50.6)	(51.1)	(52.6)	(26.1)	(23.1)	(49.6)
Restricted Group depletion of forest reserve	(6.3)	(11.6)	(7.9)	(6.0)	(3.9)	(5.8)
Restricted Group impairment and gains/(losses) on disposals, intangibles assets and property, plant and equipment	6.3	(13.9)	(74.8)	(0.2)	0.1	(74.5)
Restricted Group other operating expenses	(191.6)	(203.9)	(199.0)	(88.4)	(65.8)	(176.4)
Restricted Group operating Profit/(Loss)	**79.9**	**59.8**	**(143.7)**	**(21.3)**	**32.8**	**(89.6)**
Restricted Group Net Financial Results from subsidiaries	1.0	1.4	2.8	1.2	0.7	2.4
Restricted Group Results from subsidiaries	15.0	(19.5)	17.0	—	—	17.0
Restricted Group finance income	1.9	2.0	1.1	0.6	0.1	0.6
Restricted Group change in fair value of financial instruments	6.8	1.8	(1.3)	(1.2)	0.9	0.8
Restricted Group finance costs	(25.9)	(23.8)	(21.7)	(10.8)	(12.7)	(23.5)
Restricted Group exchange differences	(1.7)	0.2	1.6	0.4	0.7	1.9
Restricted Group financial gain/(loss)	**(2.8)**	**(37.8)**	**(0.6)**	**(9.9)**	**(10.1)**	**(0.8)**
Net result from sale of non-current assets classified as held for sale	0.7	—	—	—	—	—
Restricted Group profit/(loss) before tax	**76.4**	**22.0**	**(144.3)**	**(31.1)**	**22.7**	**(90.4)**
Restricted Group income tax	(18.6)	(12.8)	46.2	11.4	(6.5)	28.3
Restricted Group profit/(loss) for the period from continuing operations	**57.8**	**9.2**	**(98.1)**	**(19.8)**	**16.2**	**(62.1)**
Restricted Group profit/(loss) for the period	**57.8**	**9.2**	**(98.1)**	**(19.8)**	**16.2**	**(62.1)**

	As at December 31,			As at June 30,
	2012	2013	2014	2015 (unaudited)
		(€ in millions)		
Restricted Group balance sheet data:				
Restricted Group cash and cash equivalents	38.3	96.2	73.1	81.1
Restricted Group other current financial assets	7.6	55.9	8.5	8.5
Restricted Group working capital	51.8	60.8	(6.1)	(31.0)
Restricted Group total assets	1,269.1	1,259.2	1,103.5	1,110.6
Restricted Group gross debt(1)	248.4	259.5	259.9	250.5
Restricted Group total equity	714.7	701.8	580.2	574.5

(1) "*Gross debt*" means current and non-current notes and bank borrowings plus other current and non-current financial liabilities (not including derivatives).

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 at and for the years ended December 31, 2012, December 31, 2013 and December 31, 2014 and the six months ended June 30, 2014 and June 30, 2015. This discussion should be read in conjunction with the sections entitled "Presentation of Financial Information," "Summary—Summary Consolidated Financial, Operating and Other Data" and "Selected Financial Data," and the Interim Consolidated Financial Statements and Consolidated Financial Statements and the related notes thereto. Amongst other things, those financial statements, which were prepared in accordance with IFRS, include more detailed information regarding the basis of presentation for the following information.

The following section discusses the results of operations and financial condition of the Consolidated Group, including the contribution of the Unrestricted Group. However, we also present additional disclosure related to the Restricted Group to assist potential investors in analysing our business, of which the Restricted Group will be subject to the restrictive covenants of the Indenture from the Issue Date and will be operated independently from our standalone Energy Business. Please see "Presentation of Financial and Other Information—Restricted Group and Unrestricted Group Information" for more information.

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 these Listing Particulars, including in the sections entitled "Forward-Looking Statements," "Risk Factors" and "Business."

Overview

Our Company

We are a pulp and energy production company and rank amongst the largest pulp businesses in Europe. Our Pulp Business is the largest producer of BHKP from eucalyptus in Europe, measured by capacity, with an annual maximum installed capacity of 960,000 tonnes of pulp as at June 30, 2015. During the twelve months ended June 30, 2015, we produced 879,248 tonnes of pulp (as adjusted to exclude the contribution from our pulp production facility in Huelva, Spain which was shut down in October 2014) across our two pulp production facilities located in Navia and Pontevedra, Spain. Our pulp-linked energy generation and cogeneration activity, through which we produce energy, sell it to the grid and then repurchase it to power our pulp production facilities, had an installed capacity of 112 MW as at June 30, 2015. In addition, as at June 30, 2015, we owned or managed, pursuant to long-term arrangements, 82,860 hectares of forest land.

Our standalone Energy Business, which is run separately from our Pulp Business, had an installed capacity as at June 30, 2015 of approximately 111 MW across three energy generation facilities located in Huelva and Mérida, Spain.

We are publicly listed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, through the Automated Quotation System (Continuous Market) (*Bolsas de Valores de Madrid, Barcelona, Valencia y Bilbao, a través del Sistema de Interconexión Bursátil español, Mercado Continuo*) with a market capitalisation of €767.1 million as at June 30, 2015. For the twelve months ended June 30, 2015, we generated Consolidated Group revenue of €662.5 million, Consolidated Group Adjusted EBITDA of €119.4 million and Consolidated Group unlevered free cash flow (excluding expansion capital expenditure) of €74.0 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, demand in the pulp industry, the 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. Our results of operations are also impacted by company-specific structural and operational factors, as well as acquisitions, dispositions, the re-alignment of our business activities and changes in business focus. Set out 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.

Pulp Business

Pulp Demand and Prices

Long-term demand for pulp is driven by global economic and demographic trends, technological developments and trends in end-user preferences, including demand for paper products and the adjustment of production capacity in response to changes in such 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 and/or significant contractions in demand due to weak economic conditions have led to decreases in product prices during previous industry cycles.

In Europe, BHKP prices fluctuated from approximately $649 per tonne to $786 per tonne during 2012; from $768 per tonne to $821 per tonne during 2013; from $724 per tonne to $771 per tonne during 2014; and from $743 per tonne to $797 per tonne during the six months ended June 30, 2015. During the periods under review, our results of operations were affected by the interaction of these variables affecting, and relating to, pulp prices and production. For example, for the year ended December 31, 2014, BHKP prices per tonne were approximately $46 lower than the prevailing prices for the year ended December 31, 2013 on an aggregated basis (a decrease of 5.8%) which, combined with a 10.5% reduction in sales volumes due to the shutdown of our pulp production facility at Huelva, contributed to a 17.9% decrease in revenue from pulp sales between the two periods.

The results of operations of the Restricted Group are dependent on pulp sales, with pulp sales accounting for 84.6% of Restricted Group revenues during the six months ended June 30, 2015. The international market prices for pulp have historically fluctuated significantly, and we believe that they will continue to do so due to global economic developments. Significant increases in the international market price for pulp, and, consequently, the prices that we are able to charge customers, are likely to increase our Restricted Group revenues and Restricted Group results of operations. Conversely, significant decreases in the international market price of pulp and, consequently, the prices that we are able to charge customers, are likely to reduce Restricted Group revenues and Restricted Group results of operations. For example, during the period from January 1, 2012 to December 31, 2014, a 5% change in international pulp prices in euros would have had an impact on Restricted Group revenues of between approximately 3.9% and 4.3%.

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, Restricted Group 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 tonne is a reflection of this price in U.S. dollar per ton. Restricted Group sales of energy, as well as most of Restricted Group 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, Restricted Group revenue from pulp sales increases. However, when the U.S. dollar depreciates against the euro, Restricted Group revenue from pulp sales decreases. The majority of our Cash Costs are denominated in euro and therefore the effect of currency fluctuations, particularly during periods in which the euro is appreciating against the U.S. dollar, can accentuate the impact of changes in pulp prices since the transaction exposure may make our sales less cost-effective; however, during periods in which the euro is depreciating against the U.S. dollar, the transaction effect can contribute to our results of operations. For example, during the period from January 1, 2012 to December 31, 2014, a 5% appreciation of the dollar against the euro would have increased Restricted Group revenue (before hedges) by approximately 3.9% to 4.3%.

We continuously analyse 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. Our risk management policy with respect to hedging takes into account our financial position and investment plans, the medium-term outlook for exchange rates and the estimated returns from locking in exchange rates through the use of currency derivatives to hedge future pulp sales. Our strategy is to close monthly hedges for a twelve-month period (although this can extend to up to 24 months, depending on exchange rate levels) through the use of derivatives that are considered hedging instruments from an accounting perspective (for example, futures or "plain vanilla" options). We are currently hedging approximately 50% of our expected pulp sales for the twelve-month period ended July 31, 2016. Please see "*—Quantitative and Qualitative Disclosures About Market Risk—Foreign Exchange Risk" and "Description of Other Indebtedness—Hedging Arrangements*."

Operational Productivity and Efficiency

Our profitability can be affected by the productivity and efficiency of our operations. Accordingly, we have implemented our Total Quality Management programme and, beginning in May 2014, our Competitiveness Recovery Plan, across our different business activities in order to optimise our cost structure and increase the productivity, efficiency and fully leverage the complementary nature of our pulp manufacturing, energy generating and forestry activities. For example, as a result of the above initiatives, our Cash Costs decreased by 5.9% from €406 per tonne for the year ended December 31, 2014 to €382 per tonne for the twelve months ended June 30, 2015.

The Competitiveness Recovery Plan was aimed at offsetting the negative impact of regulatory changes in Spain that eliminated cogeneration premiums (which we estimate at €59 million on an annualised basis). In October 2014, as part of this strategy, we shut down our pulp production facility in Huelva, Spain (which had a one-off impact on EBITDA of €43.0 million during the second half of 2014), in the wake of losses for three consecutive quarters as a result of the reduction in cogeneration premiums, cost inefficiencies in the facility and the lack of local timber supplies. This resulted in a reduction of our installed annual pulp production capacity to 940,000 tonnes from the previous 1,340,000 tonnes. Whilst year-on-year energy sales had increased between 2009 and 2013, the shutdown resulted in the loss of 77 MW of cogeneration capacity, reducing our total energy generation capacity from our Pulp Business to 112 MW. The Competiveness Recovery Plan also involved a 20% reduction in our workforce, as well as a reduction in €16 million of annual costs at our remaining pulp production facilities in Navia and Pontevedra and at our headquarters in Madrid, 90% of which had been realised as at June 30, 2015, and also made efficiency-related investments of €8.7 million during the six months ended June 30, 2015 at our facilities in Navia and Pontevedra out of a total of €29.7 million in such improvements expected to be made during 2015 and 2016, which we estimate will result in total annual savings of €8.4 million (of which €2.4 million is expected to be reflected in our full-year 2015 results, primarily during the second half of the year) at these facilities. During the six months ended June 30, 2015, we implemented a capacity increase of 20,000 tonnes at our Navia pulp production facility, resulting in a total installed annual pulp production capacity as at June 30, 2015 of 960,000 tonnes, and are in the process of implementing an additional 20,000-tonne capacity increase at this facility (with an associated capital expenditure of approximately €30.8 million, of which €13.9 million had been committed as at June 30, 2015 and with the remaining €16.9 million expected to be spent during the second half of 2015 and in 2016). Please see "*Forward-Looking Statements.*"

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 and chemicals (including caustic soda). Raw material costs are a significant component of our Cash Costs (defined as Wood Costs plus Other Cash Costs).

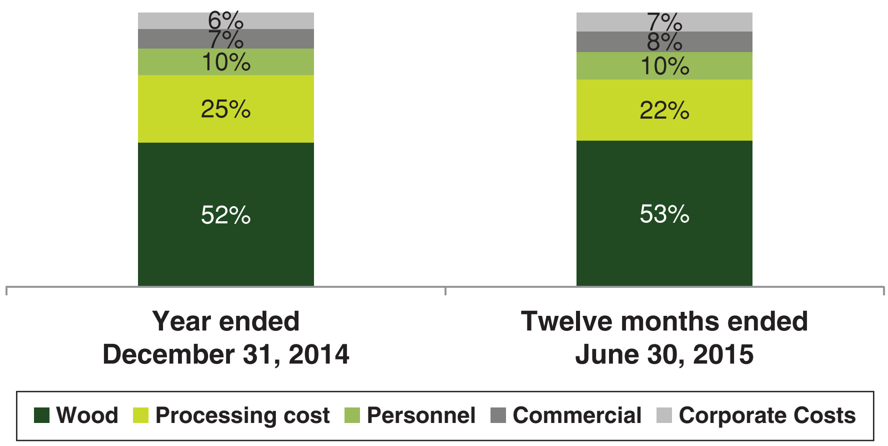
The principal raw materials used in the manufacture of our pulp are wood and chemicals, with the cost dynamics of each such input briefly described below.

- *Wood.* Wood Costs accounted for slightly more than 50% of our Cash Costs during the years ended December 31, 2012, December 31, 2013 and December 31, 2014 and during the six months ended June 30, 2015. Eucalyptus wood is the principal raw material used by us to manufacture pulp. Of the total amount of wood supplied, 84.9%, 82.7%, 85.8% and 96.7% was obtained from local suppliers or landowners in the Iberian Peninsula during the years ended December 31, 2012, December 31, 2013 and December 31, 2014 and during the six months ended June 30, 2015, respectively, with the wood for these same periods 3.7%, 6.4%, 4.4% and 3.3%, respectively, being sourced from our own plantations in the Iberian Peninsula and 11.4%, 10.9%, 9.8% and 0.0%, respectively, being imported from South America or Africa. The price we pay for 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 (with certain species preferred as a result of their higher production yields and other characteristics), 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.

- *Chemicals.* Chemicals accounted for approximately 11.0%, 10.2%, 8.6% and 8.2% of our Cash Costs during the years ended December 31, 2012, December 31, 2013 and December 31, 2014 and during the six months ended June 30, 2015, respectively. We use a number of chemicals, including caustic soda, cryogenic oxygen, ethylenediaminetetraacetic acid ("*EDTA*"), sodium chlorate, hydrogen peroxide, sulphate 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 60% of the chemicals we use tend to have their prices closely linked to that of electricity.

We are focused on tightly controlling our raw material costs as well as diversifying our supplier base and reducing our dependency on imports. We have implemented a number of cost-saving measures focused on the continuous improvement of our operations, including as a part of our Total Quality Management programme first introduced in 2011 and our Competitiveness Recovery Plan introduced in May 2014. Our Total Quality Management program is designed to ensure 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 programme intends to continue the diversification of 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. Our Competitiveness Recovery Plan introduced in May 2014 also includes certain measures aimed at reducing our raw material costs, including through increased efficiency in our pulp production processes and further reductions in the costs of certain chemicals.

As a result of our focus on controlling our costs, we have managed to reduce Cash Costs by 5.9% between the year ended December 31, 2014 and the twelve months ended June 30, 2015, as illustrated by the graphic below.



Pulp and Energy Businesses

Energy Costs

Our energy costs include the cost of electricity and the cost of non-biomass and biomass fuels. The cost of electricity in particular constitutes a significant component of our costs, particularly for our pulp production processes. During the years ended December 31, 2012, December 31, 2013 and December 31, 2014 and during the six months ended June 30, 2015, electricity costs were equivalent to 18.1%, 19.1%, 17.6% and 10.5%, respectively, of our Consolidated Group revenues.

The principal energy costs incurred in the manufacture of our products are as follows:

- *Electricity.* During the years ended December 31, 2012, December 31, 2013 and December 31, 2014 and during the six months ended June 30, 2015, energy costs were equivalent to 19.7%, 22.2%, 20.2% and 12.1%, respectively, of our consolidated Cash Costs. We currently do not enter into hedging activities with respect to electricity costs for our Pulp Business, since we have a natural hedge in that the market effects on the electricity that we buy to operate our Pulp Business are also applicable to the electricity that we sell as part of our Pulp Business. However, we entered into hedging activities in relation to electricity costs for our Energy Business during the year ended December 31, 2014 (hedging 85 MW at €51/MWh for November 2014 and 60 MW at €50/MWh for December 2014) as well as for the year ended December 31, 2015 (hedging all of the electricity generated by our Energy Business for the first half of 2015 at €46/MWh and for the second half of 2015 at €50/MWh).

- *Non-biomass fuel.* Non-biomass fuels accounted for approximately 6.8%, 6.3%, 6.6% and 5.5% of our consolidated Cash Costs during the years ended December 31, 2012, December 31, 2013 and December 31, 2014 and during the six months ended June 30, 2015, respectively. Although we believe that we have a reliable supply of energy for our pulp production facilities as a result of the electricity generated by our standalone facility at Navia and the heat produced by our cogeneration facilities, our energy production activities require us to supplement the biomass being used as fuel with certain fossil fuels which, unlike biomass, are not generated through our other activities. The non-biomass fuels that we use in our operations are comprised primarily of fuel oil, propane and petroleum coke.
- *Biomass fuel.* The cost of biomass fuels, mainly forestry and agricultural waste, constitutes the primary component of the costs of our standalone Energy Business. During the years ended December 31, 2013 and December 31, 2014 and during the six months ended June 30, 2015, biomass fuel costs were equivalent to 19.1%, 23.1% and 33.0%, respectively, of our Unrestricted Group revenues.

Factors Affecting the Comparability of Our Results of Operations

Change in the Presentation of Our Segments

Prior to January 1, 2015, we presented our business in our consolidated financial statements through separate reportable segments comprised of Biomass energy projects, Pulp & Energy, Pulp forest assets and Forest services & other.

As a result of our continuing process of transformation and adaptation to the new market environment and to our business structure, effective January 1, 2015 we began presenting grouped together in our consolidated financial statements those segments which are closely linked to our pulp business. We believe that this new presentation enhances the disclosure of the way in which our businesses are managed, including through the presentation of separate information about the nature and the financial results of our businesses, and we intend to continue to present our business through these segments going forward.

Consequently, our segments of Pulp (which was called Pulp & Energy prior to December 31, 2014), Pulp forest assets and Forest services & other, which have historically been presented on a separate basis, now comprise and are presented as the Pulp Business. Our segment of Energy (which was called Biomass energy projects prior to December 31, 2014), which comprises our standalone energy generation business, now comprises and is presented as the Energy Business. We have not aggregated our reportable segments under the Pulp Business because they do not meet the aggregation criteria established in IFRS 8 (*Operating Segments*).

Prior to January 1, 2015, the results of operations of Celulosa Energía, S.A.U. were classified in the Pulp & Energy segment, because they corresponded to our pulp production activities at Huelva, including, in addition to a 50 MW cogeneration facility with gas, the 41 MW energy generation facility in Huelva which was shut down during the second half of 2014 following the discontinuation of pulp production at our facility in Huelva in October 2014 and was then re-opened as a standalone biomass energy facility in November 2014. With effect from January 1, 2015, we began to report the results of operations of our subsidiary Celulosa Energía, S.A.U. in our Energy Business. This segment currently includes our 50 MW and 20 MW standalone biomass energy generation facilities at Huelva and Mérida, Spain, respectively, as well as our 41 MW standalone biomass energy generation facility at Huelva. As a result, and with a view to facilitating comparisons across periods, the results of operations of Celulosa Energía, S.A.U. for the six-month period ended June 30, 2014 have also been classified in the Energy Business segment for comparative purposes.

However, in these Listing Particulars, we have not recast the financial information by segment for the years ended December 31, 2014 (other than with respect to the six months ended June 30, 2014), December 31, 2013 and December 31, 2012 to reflect the changes in classification for the results of operations of Celulosa Energía, S.A.U.; as a result, the financial information by segments for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 is not fully comparable to the financial information for the six-month periods ended June 30, 2015 and June 30, 2014.

The following table presents our revenue and EBITDA according to the new presentation of our segments for the applicable periods:

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
Revenue:					
Pulp (previously Pulp & Energy)	794.5	792.9	615.4	292.1	266.7
Pulp forest assets	8.7	6.7	18.3	9.0	2.3
Forest services & others	13.6	1.3	1.4	1.0	0.6
Revenue to Energy Business[(1)]	—	—	—	1.4	0.5
Pulp Business revenue[(2)]	**816.8**	**800.9**	**635.1**	**303.5**	**270.1**
Energy (previously Biomass energy projects)	10.8	52.2	52.4	36.1	43.6
Revenue to Pulp Business[(3)]	—	—	—	4.2	0.4
Energy Business revenue	**10.8**	**52.2**	**52.4**	**40.3**	**44.0**
Consolidation adjustments	—	—	—	(5.6)	(0.9)
Total revenue	**827.6**	**853.1**	**687.5**	**338.2**	**313.2**

	Year ended December 31,			Six months ended June 30,	
	2012	2013	2014	2014	2015
				(unaudited)	
EBITDA:					
Pulp & Energy	127.9	125.7	(16.2)	3.3	56.0
Pulp forest assets	10.1	12.5	9.8	8.5	3.8
Forest services & others	1.8	0.9	(1.4)	(0.8)	(0.1)
Pulp Business EBITDA[(2)]	**124.1**	**136.4**	**(8.4)**	**11.0**	**59.7**
Energy Business EBITDA	**2.3**	**10.1**	**8.5**	**(3.4)**	**18.8**
Consolidation adjustments	**(2.8)**	**(1.5)**	**1.0**	**(2.0)**	**(1.3)**
Total EBITDA	**139.3**	**147.7**	**1.7**	**5.6**	**77.3**

(1) Revenue to Energy Business refers to intragroup sales between the Pulp and the Energy Businesses which are eliminated in consolidation for the six months ended June 30, 2015 and June 30, 2014. Financial information for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 as reported has not been recast. For a reconciliation between the financial information by segment as reported for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 and the financial information for the Restricted Group and the Unrestricted Group for these years, please see the table below.

(2) Pulp Business revenue and EBITDA for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 include the results of operations of Celulosa Energía, S.A.U,. which, for the purposes of the Indenture, will form part of the Unrestricted Group. For a reconciliation between the financial information by segment as reported for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 and the financial information for the Restricted Group and the Unrestricted Group for these years, please see the table below.

(3) Revenue to Pulp Business refers to intragroup sales between the Pulp and the Energy Businesses which are eliminated in consolidation for the six months ended June 30, 2015 and June 30, 2014. Financial information for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 as reported has not been recast. For a reconciliation between the financial information by segment as reported for the years ended December 31, 2014, December 31, 2013 and December 31, 2012 and the financial information for the Restricted Group and the Unrestricted Group for these years, please see the table below.

The following table shows the reconciliation between the financial information by segments as reported in our consolidated financial statements and the financial information for the Restricted and Unrestricted Group:

	Year ended December 31,		
	2012	2013	2014
	(€ in millions, unless indicated)		
Revenue:			
Pulp (Revenue as reported)	**816.8**	**800.9**	**635.1**
Revenue attributable to Celulosa Energía, S.A.U.	(71.4)	(71.5)	(38.9)
Revenue to Unrestricted Group	14.9	3.9	2.9
Restricted Group Revenue	**760.2**	**733.3**	**599.2**
Energy (Revenue as reported)	**10.8**	**52.2**	**52.4**
Revenue attributable to Celulosa Energía, S.A.U.	71.4	71.5	38.9
Revenue to Restricted Group	8.2	10.6	6.5
Unrestricted Group Revenue	**90.4**	**134.4**	**97.7**
Consolidation adjustments	**(23.1)**	**(14.5)**	**(9.4)**
Total revenue	**827.6**	**853.1**	**687.5**

	Year ended December 31,		
	2012	2013	2014
	(€ in millions, unless indicated)		
EBITDA:			
Pulp (EBITDA as reported)	**139.8**	**139.1**	**(7.8)**
EBITDA attributable to Celulosa Energía, S.A.U.	(9.4)	(2.7)	(3.3)
Consolidation adjustments	—	—	2.7
Restricted Group EBITDA	**130.4**	**136.4**	**(8.4)**
Energy (EBITDA as reported)	**2.3**	**10.1**	**8.5**
EBITDA attributable to Celulosa Energía, S.A.U.	9.4	2.7	3.3
Consolidation adjustments	—	2.9	—
Unrestricted Group EBITDA	**11.7**	**15.8**	**11.8**
Consolidation adjustments	**(2.8)**	**(4.5)**	**(1.7)**
Total EBITDA	**139.3**	**147.7**	**1.7**

Renewable Energy Production Incentives

Our energy generation activities depend significantly on regulations and economic incentives and subsidies aimed at promoting the greater use of renewable energies. Revenue generated from our production of electricity depends to a large extent on the economic regime established in Spain to incentivise renewable energy generation and cogeneration, which underwent sweeping reforms during recent financial periods as the Spanish government sought to reduce the amount of subsidies it was spending on the renewable energy sector. The new regulations reduced and eliminated certain of these incentives, which adversely impacted our financial condition and result of operations during these periods.

In 2013 and 2014, a set of regulatory provisions was approved modifying the remuneration system and applicable tax regime for renewable energy power generation. On February 1, 2013, Royal Decree Law 2/2013 changed the tariff update formula by replacing the Consumer Price Index ("*CPI*") with the underlying CPI at constant tax rates, excluding unprocessed food and energy products. On July 12, 2013, Royal Decree Law 9/2013 adopted certain measures to reduce the cost of renewable energy to the national electricity grid, amending the 1997 Electricity Law and the "special regime remuneration system" that previously had paid premiums to such renewable energy producers. Further, a new law, Law 24/2013, regarding the electricity sector was passed incorporating the main principles included in Royal Decree Law 9/2013, which was replaced. Amongst other measures, the new regulations repealed Royal Decree 661/2007 and article 4 of Royal Decree Law 6/2009, which created the pre-allocation registry, deploying instead a less favourable regime for renewable energy producers. 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 ten-year government bonds plus 300 basis points, calculated on the basis of standard facility cost and capital expenditure parameters, during the entire regulated life of the facility. Whilst this return provides a degree of certainty of return, it is lower than market price plus feed-in tariff premium paid to renewable energy producers during the previous regime and which many industry participants had used to obtain financing and calculate the costs of running their facilities. In addition, since the new regime imposes limitations on the amount of production allowed at each facility, we can implement restrictions on our operations; for example, during the first half of 2015, we undertook a 40-day work stoppage at all of our energy generation facilities in order to comply with such restrictions on production. The reform package also eliminated the subsidy for efficiency and the reactive energy bonus, pending enactment of the new remuneration regime. On June 6, 2014, Royal Decree 413/2014 established the regulatory framework for renewable energy sources, cogeneration and waste and, on June 16, 2014, Ministerial Order IET/1045/2014 established the remuneration parameters for such energy, both of which were retroactively effective from July 14, 2013; as a consequence, energy producers, including us, were obliged to refund the difference between the amount paid by the previous regime and what the new remuneration system would have paid for the energy their facilities produced, which for our business was equivalent to €13.2 million for the year ended December 31, 2013, to €10.8 million for the year ended December 31, 2014. In addition, a new tax on energy generation was introduced by Law 15/2012. Please see "*Risk Factors—Risks Relating to Our Pulp and Energy Businesses—Regulatory changes have affected our business historically and any future changes may have an adverse effect on our electricity generating activities*" and "*Regulation—European Union and Spanish Regulation Governing Our Production Processes Generally—Spanish Framework*."

Dispositions and Changes in Business Focus

Dispositions can have a substantial impact on our results of operations. During the periods under review, we have disposed of significant assets, particularly assets used in conjunction with our forestry activities. For example, in 2012, we divested forestry-related assets in Uruguay and, in December 2013, we divested forestry-related assets in Portugal. These disposals are in line with our strategy to optimise and diversify our local forestry supply management with a focus on reducing wood imports and fixed assets. We intend to continue to look for opportunities to reduce our forestry asset base, particularly our remaining forestry lands in southern Spain where we no longer engage in pulp production, with €37.9 million of energy crop assets (comprised of €34.0 million of land assets and €3.8 million of wood assets) expected to be divested during 2015 and 2016. Please see "*Forward-Looking Statements*."

More generally, changes in our business focus can also impact our results of operations. In recent years, we have expanded our operations into the biomass energy sector, taking possession in February 2013 of our first standalone biomass energy facility in Huelva, Spain, and in September 2014 of our second standalone biomass energy facility in Mérida, Spain. We are also continuing the process of gradual disengagement from our forestry activity, which includes, in addition to a focus on reducing fixed assets (as evidenced by our December 2013 divestiture of forestry-related assets in Portugal), the exiting of the forestry consultancy services business.

Shutdown of the Huelva Pulp Production Facility

On September 4, 2014, we announced plans to transform the Huelva complex, which had been affected by the impact of the regulatory reforms undertaken in the Spanish electricity sector which reduced premiums for the cogeneration of electricity using lignin and a scarcity of eucalyptus wood within the vicinity of the complex, into a cutting-edge renewable energy facility, thus discontinuing the production of pulp and our related cogeneration activities at this site. Pulp production and energy cogeneration activities at our Huelva pulp production facility ceased on October 11, 2014 and a closure agreement was reached with the facilities employees on October 20, 2014. Please see "*Business—Our History—Group Efficiency Initiatives and Optimisation of Production*."

The comparability of our results of operations was affected by the shutdown of the Huelva pulp production facility, which had produced pulp during the years ended December 31, 2012 and December 31, 2013, but ceased pulp production on October 20, 2014. In addition, our cost structure during the year ended December 31, 2014 was impacted by increased costs attributable to the layoff of 226 employees (which resulted in an increase of €20.4 million in costs related to employee termination benefits during 2014), charges made to our income statement due to the impairment of certain assets (which resulted in an increase of €72.5 million in such charges, primarily consisting of the impairment of industrial assets and spare parts at Huelva which were no longer useful to our remaining business activities and the impairment of certain forestry assets in the proximity of our facility at Huelva during 2014) and provisions in relation to the cancellation of supplier contracts related to Huelva (which resulted in a charge of €16.5 million being recorded for 2014). The shutdown of our pulp production facility also had a one-off impact on EBITDA of €43.0 million during the second half of 2014. As a result, investors may find it difficult to analyse and compare our results of operations for the year ended December 31, 2014, which included significant restructuring-related costs and impairment of assets of €109.4 million attributable to the former Huelva pulp production facility, to prior periods. Accordingly, although we present Restricted Group *pro forma* Adjusted EBITDA elsewhere in these Listing Particulars to illustrate what our results of operations would have been had the shutdown of the Huelva pulp production facility occurred on July 1, 2014 (rather than October 20, 2014), investors are cautioned that it may be difficult to compare our results of operations for periods prior to and including the shutdown of the Huelva pulp production facility with our results of operations for periods including and subsequent to the shutdown.

Assets Held for Sale

In accordance with IFRS 5, we have classified certain assets that we are in the process of disposing as "non-current assets held for sale" in our financial statements for the years ended December 31, 2012 and December 31, 2014, including industrial assets in Huelva which have been idle since pulp production was discontinued at that site, certain forestry lands in Spain encompassing 2,000 hectares of irrigated land and 1,000 hectares of adjacent non-irrigated land and certain other land in the Pontevedra region not used for any core business activity. As at June 30, 2015, the sale of these assets is considered highly probable in accordance with IFRS criteria. However, if we are not successful in selling these assets on acceptable terms, we may have to liquidate these assets, which could result in impairment if they are sold for less than book value. Additionally, if their sale is not highly probable then they will cease to be classified as held for sale in our financial statements and will be measured at the lower of their recoverable amount and their net carrying amount recalculated as if they had not been classified as held for sale. For the purposes of our balance sheet, the assets are reclassified into the separate line item "assets held for sale" on the face of the balance sheet in the period from which they were classified as an asset held for sale. In addition, in accordance with IFRS 5, once classified as held-for-sale, intangible assets and property, plant and equipment are no longer depreciated, resulting in a reduction of our depreciation and amortisation charges for the periods presented. Please see "*Summary—Current Trading and Recent Developments—Recent Developments—Update on assets held for sale*."

Explanation of Key Line Items

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

Revenue

Revenue from pulp includes revenue generated from pulp sales, energy sales from generation facilities related to pulp production and revenues associated with forestry management. Revenue from pulp sales 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. Revenue from energy sales is calculated the same way as per our Energy Business (noted below). 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 and wood swaps with Spanish and Portuguese companies. See "*—Factors Affecting the Comparability of Our Results of Operations—Change in the Presentation of Our Segments*."

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. However, pursuant to Ministerial Order IET/1045/2014 remuneration scheme (which impacted retroactively our results since July 14, 2013), power facilities will be entitled to the Regulated Remuneration. Current regulations permit 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). We currently sell 100% of the energy generated by our Pulp Business to the grid and repurchase 100% of the energy required for our Pulp Business from the grid. During the six months ended June 30, 2015, we produced within our Pulp Business approximately 1.5 times the amount of electricity that we consumed.

Gains or losses on hedging transactions

Gains or losses on hedging transactions 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. We also hedge energy sales in order to counteract fluctuations in the prices of certain types of energy that we use in our Energy Business that impacts our costs of production. 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. Please see *"—Quantitative and Qualitative Disclosures About Market Risk—Commodity Price Risk*."

Changes in inventories of finished goods and work in progress

Changes 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.

Purchases

Purchases 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.

Own work capitalised

Own work capitalised primarily includes the capitalisation of expenses related to biological assets (eucalyptus plantations and energy crop plantations). Items capitalised 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 fertiliser.

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.

Government grants taken to income

Capital grants transferred to profit and loss relate to investments in our production centres and, to a lesser extent, to subsidies for operations. 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 at January 1 of each year.

Employee benefits expense

Employee benefits expense 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 recognised as an expense in the year in which the decision to terminate the employment relationship is taken.

Depreciation and amortisation

Depreciation and amortisation 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.

Depletion of forest reserves

Depletion of forest reserves represents the value used up when the plantations are harvested, recognised as an expense under "depletion of forest reserves" in the income statement at incurred production costs. The criteria for allocating costs to trees felled takes into consideration total costs incurred as at the date the wood is cut and the residual value of the plantation.

Impairment of and gains/(losses) on disposals of intangible assets and property, plant and equipment

Impairment of and gains or losses on disposals of intangible assets and property, plant and equipment 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 the 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 comprising 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 comprising 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 derivatives used to hedge our floating rate bank debt related to our project financing arrangements for our facilities in Huelva and Mérida; 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 our management that were subsequently not granted, although the equity swap remained in place until our counterparty sold its remaining shares under the equity swap contract in March 2015.

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 and pulp sales made in U.S. dollars).

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

Six Months Ended June 30, 2015 Compared to Six Months Ended June 30, 2014

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.

	Six months ended June 30, 2014	Six months ended June 30, 2015	Percentage change
	(€ in millions, unless indicated) (unaudited)		(%)
Income Statement Data:			
Revenue	**338.3**	**313.2**	**(7.4)%**
Of which: Restricted Group Revenue	*303.5*	*270.1*	*(11.0)%*
Of which: Unrestricted Group Revenue	*40.3*	*44.0*	*9.0%*
Gain/(loss) on hedging transactions	(0.4)	(0.6)	33.4%
Changes in inventories of finished goods and works in progress	(6.2)	(4.7)	(23.8)%
Purchases	(194.0)	(129.7)	(33.1)%
Gross Profit/(Loss)	**137.7**	**178.2**	**29.5%**
Own work capitalised	4.0	4.8	20.2%
Other operating income	3.5	2.7	(21.3)%
Government grants taken to income	2.7	1.3	(53.4)%
Employee benefits expense	(33.2)	(30.1)	(9.6)%
Depreciation and amortisation	(29.1)	(27.2)	(6.3)%
Depletion of forest reserves	(7.8)	(4.6)	(41.1)%
Impairment and gains/(losses) on disposals, intangible assets and property, plant and equipment	(27.3)	0.2	nm
Other operating expenses	(109.0)	(79.7)	(26.9)%
Operating Profit/(Loss)	**(58.6)**	**45.6**	**nm**
Finance income	0.6	0.1	(79.1)%
Change in fair value of financial instruments	(1.2)	0.9	nm
Finance costs	(13.5)	(16.5)	22.0%
Exchange differences	0.4	0.7	78.3%
Financial gain/(loss)	**(13.7)**	**(14.7)**	**7.2%**
Net result from sale of non-current assets classified as held for sale	—	—	—
Profit/(Loss) before tax	**(72.3)**	**30.9**	**nm**
Income tax	23.7	(8.8)	nm
Profit/(Loss) for the period from continuing operations	**(48.6)**	**22.1**	**nm**
Profit/(Loss) for the period	**(48.6)**	**22.1**	**nm**
Consolidated Group Adjusted EBITDA	**24.6**	**85.4**	**nm**
Restricted Group Adjusted EBITDA	**14.3**	**67.6**	**nm**
Unrestricted Group Adjusted EBITDA	**12.3**	**19.1**	**nm**

Revenue

Our revenues decreased by €25.1 million to €313.2 million in the six months ended June 30, 2015 from €338.3 million in the six months ended June 30, 2014, a 7.4% decrease. This decrease was primarily attributable to a drop in the volume of pulp sales made during the six months ended June 30, 2015 compared to the six months ended June 30, 2014 as a result of the shutdown of pulp production at our Huelva facility in October 2014, as well as a longer than normal production stoppage at our Navia pulp production facility during the six months ended June 30, 2015, although this decrease in the overall volume of pulp sales was slightly offset by an increase in the price of pulp during the six months ended June 30, 2015 compared to six months ended June 30, 2014 and favourable currency trends as the dollar appreciated against the euro, which had a positive impact on our results of operations. Please see "*—Restricted Group* *revenue*" below. However, the decrease in revenue from our Pulp Business was offset by a 9.0% increase in revenues from our Energy Business, which was primarily attributable to the increase in pool prices between the periods. Please see "*—Unrestricted Group revenue*."

Restricted Group revenue

The following table sets out Restricted Group revenue by products and services in the periods presented:

	Six months ended June 30,	
	2014	**2015**
	(€ in millions) (unaudited)	
Pulp	263.5	228.4
Electricity	28.6	32.9
Forest sales and others	11.4	8.8
Total	**303.5**	**270.1**

Restricted Group revenue decreased by €33.5 million to €270.1 million in the six months ended June 30, 2015 from €303.5 million in the six months ended June 30, 2014, a 11.0% decrease. This decrease was primarily attributable to a reduction in pulp production in 2015 as a result of the closure of our Huelva pulp production facility. As a result of this closure, as well as a longer than normal production stoppage at our Navia pulp production facility undertaken in June 2015 to carry out efficiency upgrades and Phase I of the 40,000-tonne capacity increase, sales volumes of pulp decreased from 601,800 tonnes in the six months ended June 30, 2014 to 431,800 tonnes in the six months ended June 30, 2015. However, the decrease in sales volumes of pulp during the six months ended June 30, 2015 was partially offset by an increase of 20% in the price of pulp in the six months ended June 30, 2015 to 527 €/t (the result of a net sale price of 771 $/t and an exchange rate of 1.12 $/€) from 438 €/t in the six months ended June 30, 2014 (the result of a net sale price of 760 $/t and an exchange rate of 1.37 $/€). Please see "*—Key Factors Affecting Our Results of Operations—Pulp Business—Effect of Currency Fluctuations*."

The geographic distribution of our pulp sales during the six months ended June 30, 2015 were primarily outside Spain (which comprised 18% of our total pulp sales by volume in the six months ended June 30, 2015, compared to 16% of total pulp sales by volume during the six months ended June 30, 2014), with the percentage of pulp sales by volume made to Germany, the Netherlands, Italy and Austria increasing slightly compared to the six months ended June 30, 2014 and the percentage of pulp sales by volume made to France decreasing slightly.

Unrestricted Group revenue

Unrestricted Group revenue increased by €3.7 million to €44.0 million in the six months ended June 30, 2015 from €40.3 million in the six months ended June 30, 2014, a 9.0% increase. This increase was primarily attributable to an 80% increase in electricity sold to the grid from 198 GWh in the six months ended June 30, 2014 to 276 GWh in the six months ended June 30, 2015. The increase in electricity sold to the grid was largely a result of the increased contribution of our 20 MW facility at Mérida, which became operational in April 2014 despite its sales being capitalised until August 2014, combined with the re-opening of the 41 MW facility at Huelva in November 2014. Average electricity income per MWh increased by 10.6% from 141 €/MWh in the six months ended June 30, 2014 to 156 €/MWh in the six months ended June 30, 2015, with the average pool price increasing from 33 €/MWh to 47 €/MWh over this period due to increased demand.

Gain/(loss) on hedging transactions

We recorded a €0.6 million loss on hedging transactions in the six months ended June 30, 2015, compared to a €0.4 million loss in the six months ended June 30, 2014. The loss in the six months ended June 30, 2015 was primarily attributable to the maturity of certain outstanding currency options and energy pool price commodity swaps.

Changes in inventory of finished goods and works in progress

Changes in inventory of finished goods and works in progress decreased by 23.8% to €4.7 million in the six months ended June 30, 2015, compared to €6.2 million in the six months ended June 30, 2014, which was primarily attributable to the shutdown of the Huelva pulp production facility in October 2014 and the sale of its pulp inventories.

Purchases

Purchases decreased by €64.3 million to €129.7 million in the six months ended June 30, 2015 from €194.0 million in the six months ended June 30, 2014, a 33.1% decrease. This decrease was largely attributable to the discontinuation of pulp production at our facility in Huelva in October 2014, which reduced the volume of pulp produced and in turn our expenditure on wood, chemicals, fuel and other variable costs related to the pulp production process. The shutdown of our Huelva pulp production facility also reduced our costs of sales as a percentage of revenue since this facility had historically incurred generally higher Cash Costs than our pulp production facilities at Pontevedra and Navia due to the relative scarcity of timber resources in the surrounding region and the corresponding need to import significant quantities of wood. Please see also "*—Factors Affecting the Comparability of Our Results of Operations—Shutdown of the Huelva pulp production facility*."

The following table sets out the items that constituted our purchases in the periods presented:

	Six months ended June 30,	
	2014	**2015**
	(€ in millions)	
Purchases	179.4	116.5
Change in raw materials, goods held for resale and other inventories	(8.8)	(3.2)
Other external expenses	23.4	16.4
Total	**194.0**	**129.7**

Own work capitalised

Own work capitalised increased by €0.8 million to €4.8 million in the six months ended June 30, 2015 from €4.0 million in the six months ended June 30, 2014, a 20.2% increase. This increase was primarily attributable to higher investment in energy crops in the six months ended June 30, 2015 compared to the six months ended June 30, 2014. We invested more in the first half of 2015 partially because planned investments were not delayed by rain and a changing regulatory environment as was the case in the first half of 2014.

Other operating income

Other operating income decreased by €0.8 million to €2.7 million in the six months ended June 30, 2015 from €3.5 million in the six months ended June 30, 2014, a 21.3% decrease.

Government grants taken to income

Government grants taken to income decreased by €1.4 million to €1.3 million in the six months ended June 30, 2015 from €2.7 million in the six months ended June 30, 2014, a 53.4% decrease, primarily attributable to a decrease in the number and value of CO_2 rights received in previous years (which resulted in income of €2.0 million in the six months ended June 30, 2014 and income of €0.3 million during the six months ended June 30, 2015).

Employee benefits expense

Employee benefits expense decreased by €3.1 million to €30.1 million in the six months ended June 30, 2015 from €33.2 million in the six months ended June 30, 2014, a 9.6% decrease. This decrease was primarily due to a decrease in the size of our workforce due to the layoffs at Huelva and at our headquarters in Madrid, which eliminated approximately 22% of our workforce. This decrease in employee benefit expense was partially offset by an increase in payouts for termination benefits.

The following table sets out the items that constituted our employee benefits expense in the periods presented:

	Six months ended June 30, 2014	Six months ended June 30, 2015
	(€ in millions) (unaudited)	
Wages and salaries	25.0	20.0
Social security	6.8	5.3
Pension contributions and other social benefits	1.7	1.2
Termination benefits	(0.5)	0.3
Long-term remuneration plans	0.2	3.2
Total	**33.2**	**30.1**

Depreciation and amortisation

Depreciation and amortisation decreased by €1.9 million to €27.2 million in the six months ended June 30, 2015 from €29.1 million in the six months ended June 30, 2014, a 6.3% decrease which was primarily attributable to a large write-down for impairment on certain industrial assets at our pulp production facility in Huelva following its closure in October 2014, the impairment of certain land dedicated to the cultivation of biological assets as the result of a change in regulation which decreased the value of such land and the depreciation of certain forestry assets in northern Spain.

Depletion of forest reserves

Depletion of forest reserves decreased by €3.2 million to €4.6 million in the six months ended June 30, 2015 from €7.8 million in the six months ended June 30, 2014, a 41.1% decrease. This was primarily attributable to a decrease in expenditure on forest and energy crop maintenance. We also reduced expenditure on the preparation of land for use in growing energy crops for return following the termination of the related leases.

Impairment of and gains/(losses) on disposals, intangible assets and property, plant and equipment

We recorded a €0.2 million gain in the six months ended June 30, 2015 compared to a €27.3 million loss in the six months ended June 30, 2014, both of which were primarily due to changes in the amount of impairments taken in relation to energy crops.

Other operating expenses

Other operating expenses decreased by €29.3 million to €79.7 million in the six months ended June 30, 2015 from €109.0 million in the six months ended June 30, 2014, a 26.9% decrease. This decrease was primarily attributable to the termination of pulp production at our Huelva facility, which resulted in a reduction in expenditure on external services, emissions allowances and payments made in conjunction with the closure of the Huelva pulp production facility. These decreases were slightly offset by an increased spending on energy, the generation levy and taxes.

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

	Six months ended June 30, 2014	Six months ended June 30, 2015
	(€ in millions)	
External services:		
Transport, freight and business expenses	28.1	18.3
Utilities	21.4	18.0
Repairs and maintenance	11.4	9.8
Leases and royalties	3.9	2.4
Insurance premiums	2.7	2.3
Independent professional services	3.6	3.0
Banking and similar services	0.9	0.7
Advertising, publicity and public relations	0.4	0.4
Research and development expenses	0.2	—
Other services	11.3	11.0
Total external services	83.9	65.9
Use of emission allowances	3.0	1.1
Taxes other than income tax and other management charges	1.4	1.5
Electricity generation levy	5.0	5.4
Change in trade and provisions	3.3	1.3
Other non-recurring charges	12.4	4.5
Total	**109.0**	**79.7**

Operating profit/(loss)

Profit from operations increased by €104.2 million to €45.6 million in the six months ended June 30, 2015 from a €58.6 million loss in the six months ended June 30, 2014, a 177.9% increase. This increase was primarily attributable to increased pulp prices and the elimination of losses generated by our former pulp production facility in Huelva as a result of the tariff paid leading to total production costs exceeding pulp prices. Pulp prices increased by approximately 20.3% in the six months ended June 30, 2015 compared to the six months ended June 30, 2014.

Finance income

Finance income decreased by €0.5 million to €0.1 million in the six months ended June 30, 2015 from €0.6 million in the six months ended June 30, 2014, a 79.1% decrease. This was primarily attributable to a decrease in interest rates.

Change in fair value of financial instruments

We recorded a €0.9 million gain in the six months ended June 30, 2015 compared to a €1.2 million loss in the six months ended June 30, 2014, both of which were primarily due to the equity swap arranged in relation to our executive bonus plans which expired during the six months ended June 30, 2015.

Finance costs

Finance costs increased by €3.0 million to €16.5 million in the six months ended June 30, 2015 from €13.5 million in the six months ended June 30, 2014, a 22.0% increase. This increase was primarily attributable to our repurchase of 10%, or €25.0 million in aggregate principal amount, of the Existing Notes in June 2015 which included €1.3 million in costs relating to accrued and unpaid interest as well as the capitalisation of finance costs accrued during the construction of our 20 MW Mérida facility in the six months ended June 30, 2014 in an amount of €1.2 million.

Exchange differences

We recorded a €0.7 million currency exchange gain in the six months ended June 30, 2015 compared to a gain of €0.4 million in the six months ended June 30, 2014. This gain was primarily attributable to the translational impact of foreign exchange fluctuations (primarily in U.S. dollars against the euro) in relation to our account receivables and trade creditors.

Financial gain/(loss)

Financial loss increased by €1.0 million to €14.7 million in the six months ended June 30, 2015 from €13.7 million in the six months ended June 30, 2014, a 7.2% increase, primarily due to higher finance costs, including in relation to our repurchase of 10% of the Existing Notes.

Profit/(loss) before tax

Profit/(loss) before tax increased by €103.2 million to €30.9 million in the six months ended June 30, 2015 from a €72.3 million loss in the six months ended June 30, 2014. This increase was primarily due to higher pulp prices, higher pool prices and lower production costs, which more than offset the drop in generation premiums.

Income tax

Income tax increased by €32.5 million to a €8.8 million expense in the six months ended June 30, 2015 from a credit of €23.7 million in the six months ended June 30, 2014. This increase was primarily attributable to our return to profit following the recovery in pulp prices and the shutdown of our pulp production facility at Huelva. However, losses before tax in 2014 resulted in tax credits that partially decreased our tax burden in the six months ended June 30, 2015. As at June 30, 2015, our tax rate amounted to 28.4% of our profit before tax.

Profit/(loss) for the period from continuing operations

Profit from continuing operations increased by €70.7 million to a €22.1 million profit in the six months ended June 30, 2015 from a €48.6 million loss in the six months ended June 30, 2014.

Consolidated Group Adjusted EBITDA

Consolidated Group Adjusted EBITDA increased by €60.9 million to €85.4 million in the six months ended June 30, 2015 from €24.6 million in the six months ended June 30, 2014. The increase during the six months ended June 30, 2015 was primarily attributable to the increase in pulp prices, the implementation of our efficiency and cost-cutting plans and the closure of the pulp production facility in Huelva in October 2014, which had generated losses during the six months ended June 30, 2014 as a result of regulatory reforms, as well as, for the Unrestricted Group, adjustments made related to the expected cost of the cancellation of leases for land for the six months ended June 30, 2014.

Restricted Group Adjusted EBITDA

Restricted Group Adjusted EBITDA increased by €53.3 million to €67.6 million in the six months ended June 30, 2015 from €14.3 million in the six months ended June 30, 2014. The increase was primarily attributable to the increase in pulp prices, the implementation of our efficiency and cost-cutting plans and the closure of the pulp production facility in Huelva in October 2014, which had generated losses during the six months ended June 30, 2014 as a result of regulatory reforms.

Unrestricted Group Adjusted EBITDA

Unrestricted Group Adjusted EBITDA increased by €6.8 million to €19.1 million in the six months ended June 30, 2015 from €12.3 million in the six months ended June 30, 2014. This increase was primarily attributable to the contributions of the new 20 MW standalone energy generation facility at Mérida beginning in September 2014 and the 41 MW biomass energy generation facility at Huelva which was reactivated in November 2014 following the closure of the Huelva pulp production facility.

Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013

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.

	Year ended December 31, 2013	Year ended December 31, 2014	Percentage change
	(€ in millions, unless indicated) (unaudited)		(%)
Operating Data:			
Pulp sales ('000 tonnes)	1,270	1,137	(10.5)%
Electricity sales (GWh)	1,896	1,494	(21.2)%
Wood supply to the industrial process ('000 m^3)	3,795	3,323	(12.4)%
Income Statement Data:			
Revenue	**853.1**	**687.5**	**(19.4)%**
Of which: Restricted Group Revenue	*733.3*	*599.2*	*(18.3)%*
Gain/(loss) on hedging transactions	12.1	0.0	(99.7)%
Changes in inventory of finished goods and works in progress	2.1	(10.1)	nm
Purchases	(427.8)	(379.4)	11.3%
Gross Profit/Loss	**439.5**	**298.0**	**(32.2)%**
Own work capitalised	14.8	6.2	(58.0)%
Other operating income	7.5	6.4	(14.5)%
Government grants taken to income	6.3	5.7	(10.0)%
Employee benefits expense	(80.5)	(87.0)	(8.2)%
Depreciation and amortisation	(63.1)	(59.5)	(5.8)%
Depletion of forest reserves	(15.2)	(9.7)	(36.5)%
Impairment of and gains/(losses) on disposals, intangible assets and property, plant and equipment	(37.5)	(101.2)	nm
Other operating expenses	(240.0)	(227.6)	(5.2)%
Operating Profit/(Loss)	**31.8**	**(168.6)**	**nm**
Finance income	2.0	1.1	(47.7)%
Change in fair value of financial instruments	1.8	(1.3)	nm
Finance costs	(30.8)	(28.0)	(8.9)%
Exchange differences	0.6	1.6	nm
Financial Gain/(Loss)	**(26.3)**	**(26.7)**	**1.6%**
Profit/(Loss) before tax	**5.6**	**(195.3)**	**nm**
Income tax	(1.3)	54.4	nm
Profit/(Loss) for the year from continuing operations	**4.3**	**(140.9)**	**nm**
Profit/(Loss) for the year	**4.3**	**(140.9)**	**nm**
Restricted Group Adjusted EBITDA	**136.0**	**38.0**	**(72.0)%**

Revenue

Our revenues decreased by €165.6 million to €687.5 million in the year ended December 31, 2014 from €853.1 million in the year ended December 31, 2013, a 19.4% decrease.

The table below shows the breakdown of our total consolidated revenue generated by each of our products and services for the years ended December 31, 2013 and December 31, 2014, respectively:

	Year ended December 31, 2013		Year ended December 31, 2014		
	Revenue by activity	Revenue by activity	Revenue by activity	Revenue by activity	Percentage Change
	(€ in millions)	(%)	(€ in millions)	(%)	(%)
Pulp sales	611.4	71.7%	502.0	73.0%	(17.9)%
Electricity sales	233.7	27.4%	165.8	24.1%	(29.1)%
Wood and forestry services	8.0	0.9%	19.8	2.9%	147.5%
Revenue	**853.1**		**687.5**		**(19.4)%**

Our revenues from pulp sales amounted to €502.0 million in the year ended December 31, 2014, a 17.9% decrease from the €611.4 million in the year ended December 31, 2013, due to a drop in sales volumes from 1,270 thousand tonnes in the year ended December 31, 2013 to 1,137 thousand tonnes in in the year ended December 31, 2014, a decrease of 10.5%. Approximately 67% of the decrease in pulp sales is attributable to the shutdown of our Huelva pulp production facility. In addition, pulp prices decreased by 8.1% in the year ended December 31, 2014 to 440 €/t when compared to prices in the year ended December 31, 2013. Our revenues from pulp sales were affected during the year ended December 31, 2014 by the shutdown of our pulp production facility in Huelva in October 2014, together with labour disturbances at this facility prior to its shutdown and at our other pulp production facilities at Navia and Pontevedra related to the restructuring process, which decreased the amount of pulp produced by us. The geographic distribution of our pulp sales during the year ended December 31, 2014 continued to be primarily outside Spain (which comprised only 15.6% of our total pulp sales by volume during this period, compared to 14.9% by volume of total pulp sales during the year ended December 31, 2013), with the percentage of pulp sales by volume made to Germany, the United Kingdom, the Netherlands and Spain increasing slightly compared to the year ended December 31, 2013 and the percentage of pulp sales by volume made to Italy and France decreasing slightly.

Our revenues from electricity sales amounted to €165.8 million in the year ended December 31, 2014, a €68.0 million, or 29.1%, decrease from €233.7 million in the year ended December 31, 2013. This decrease is attributable to an 18.4% decrease in electricity sold to the grid from 1,896 GWh in the year ended December 31, 2013 to 1,546 GWh in the year ended December 31, 2014 as a result of regulatory changes which set a cap on annual production as well as the shutdown of the Huelva pulp production facility in October 2014 which led to the loss of 77 MW in cogeneration capacity beginning in October 2014, although the decrease in electricity sold to the grid was partially offset by the electricity produced by our new 20 MW power facility in Mérida which became operational in April 2014 (although its results were capitalised until August 2014 pending the completion of the commissioning phase). Average electricity income per MWh decreased by 8.8% from 122.1 €/MWh in 2013 to 111.4 €/MWh in 2014 as a result of the retroactive modifications from the impact of the new tariff scheme introduced by Royal Decree 413/2014 (as discussed in more detail under "*—Factors Affecting the Comparability of Our Results of Operations—Renewable Energy Production Incentives*") that effectively reduced the amount of incentives we received from the sale of electricity to the national grid. We also incurred a charge to our consolidated income statement in the amount of €6.1 million related to amounts that had been received during the year ended December 31, 2014 (from January 1, 2014 to June 6, 2014) under the previous remuneration system for renewable energy operators, which we had to return to the national grid operator due to the retroactive effect of the new regulations.

Our revenues from wood and forestry services amounted to €19.8 million in the year ended December 31, 2014, an increase of €11.8 million from €8.0 million in the year ended December 31, 2013, which was largely attributable to higher sales of wood to third parties, particularly from our plantations near Huelva in southern Spain, following the shutdown of our pulp production facility at Huelva in October 2014, thus reducing our wood requirements.

Restricted Group revenue

The following table sets out Restricted Group revenue by products and services in the periods presented:

	Year ended December 31, 2013	Year ended December 31, 2014
	(€ in millions) (unaudited)	
Pulp	611.4	502.0
Electricity	110.0	74.6
Forest sales and others	11.9	22.6
Total	**733.3**	**599.2]**

Restricted Group revenue decreased by €134.1 million to €599.2 million in the year ended December 31, 2014 from €733.3 million in the year ended December 31, 2013, an 18.3% decrease. This decrease was primarily attributable to the decrease in pulp sales as a result of the shutdown of our pulp production facility at Huelva in October 2014, combined with a decrease of 8.1% in the price of pulp from 479 €/t to 440 €/t between the years ended December 31, 2013 ((the result of a net sale price of 792 $/t and an exchange rate of 1.33 $/€) and December 31, 2014 (the result of a net sale price of 746 $/t and an exchange rate of 1.33 $/€).

Gain/(loss) on hedging transactions

We did not record any gain or loss on hedging transactions in the year ended December 31, 2014 since we did not engage in any such transactions during this period, compared to a €12.1 million gain in the year ended December 31, 2013 as the result of the settlement of foreign exchange forward contracts in respect of $222 million at an average strike price of 1.236 ($/€) (compared to an average exchange rate of 1.325 ($/€)).

Changes in inventory of finished goods and works in progress

Inventories of finished goods decreased by €10.1 million in the year ended December 31, 2014, compared to an increase of €2.1 million in the year ended December 31, 2013, which was primarily attributable to the shutdown of the Huelva pulp production facility in October 2014 and the sale of its pulp inventories.

Purchases

Purchases during the year ended December 31, 2014 decreased by €48.4 million to €379.4 million from €427.8 million in the year ended December 31, 2013, a 11.3% decrease due to a 14.2% decrease in purchases (mainly wood). This decrease in purchases was attributable to the 12.2% reduction in pulp production that resulted from the shutdown of the Huelva pulp production facility in October 2014. Other external expenses were reduced by 15.1% to €44.1 million due to reduced outsourcing for forestry works.

The following table sets out the items that constituted our purchases in the periods presented:

	Year ended December 31, 2013	Year ended December 31, 2014
	(€ in millions)	
Purchases	372.7	319.6
Changes in raw materials, goods held for resale and other inventories	3.2	15.8
Other external expenses	52.0	44.1
Total	**427.8**	**379.4**

Own work capitalised

Own work capitalised decreased by €8.6 million to €6.2 million in the year ended December 31, 2014 from €14.8 million in the year ended December 31, 2013. This decrease was primarily attributable to our reduced investments in energy crops due to changes in energy regulations and our reduced investment in the plantations for wood in the south of Spain.

Other operating income

Other operating income decreased by €1.1 million to €6.4 million in the year ended December 31, 2014 from €7.5 million in the year ended December 31, 2013, a 14.5% decrease caused by the cancellation of a provision that was no longer required.

Government grants taken to income

Government grants taken to income decreased by €0.6 million to €5.7 million in the year ended December 31, 2014 from €6.3 million in the year ended December 31, 2013, a 10.0% decrease. This decrease was primarily attributable to a decrease in the value of CO_2 rights received in previous years.

Employee benefits expense

Employee benefits expense increased by €6.5 million to €87.0 million in the year ended December 31, 2014 from €80.5 million in the year ended December 31, 2013, an 8.2% increase. This increase was primarily due to €19.8 million in severance payments after the agreement achieved with work councils in Huelva for the shutdown of the pulp and cogeneration activities and works council in Madrid to adapt the overhead to the new company structure. Excluding this impact, wages and salaries would have amounted to €67.2 million. The number of workers at year-end fell in 2014 to 838 from 1,010 in 2013 as a result of the agreements.

The following table sets out the items that constituted our employee benefits expense in the periods presented:

	Year ended December 31,	
	2013	**2014**
	(€ in millions)	
Wages and salaries	57.1	51.1
Social security	13.6	13.4
Pension contributions and other employee social benefits	3.3	3.2
Termination benefits	5.4	19.8
Long-term remuneration plans	1.1	(0.5)
Total	**80.5**	**87.0**

Depreciation and amortisation

Depreciation and amortisation decreased by €3.6 million to €59.5 million in the year ended December 31, 2014 from €63.1 million in the year ended December 31, 2013, a 5.8% decrease, following the write-off of certain industrial assets in Huelva following the shutdown of the pulp production facility as well as certain forestry assets following the change in energy regulations.

Depletion of Forest Reserves

Depletion of Forest Reserves decreased by €5.5 million to €9.7 million in the year ended December 31, 2014 from €15.2 million in the year ended December 31, 2013, a 36.5% decrease.

Impairment of and gains/(losses) on disposals, intangible assets and property, plant and equipment

We recorded a €101.2 million loss in the year ended December 31, 2014 compared to a €37.5 million loss in the year ended December 31, 2013, an increase of €63.7 million. These losses were primarily attributable to the write-off of certain of our pulp production assets at our facility in Huelva (€44.7 million), and impairment losses on energy crop plantations (€22.4 million) and irrigation equipment (€4.0 million) as the result of the new electricity regulations in the year ended December 31, 2014.

Other operating expenses

Other operating expenses decreased by €12.4 million to €227.6 million in the year ended December 31, 2014 from €240.0 million in the year ended December 31, 2013, a 5.2% decrease, despite the inclusion of a charge in this line item related to the shutdown of our pulp production facility at Huelva in the amount of €18.2 million for the year ended December 31, 2014. The decrease in other operating expenses was primarily attributable to lower pulp production activity, which reduced logistical needs, the cessation during 2014 of our natural gas cogeneration activity at Huelva, which reduced our consumption of natural gas and CO_2 rights, and a decrease in total electricity taxes (7% on energy sales) due to lower electricity generation. We also recognised €9.9 million in provisions in conjunction with the estimated costs of cancelling leases on land previously used for the development of energy crops. The following table sets out the items that constitute our other operating expenses in the periods presented:

	Year ended December 31,	
	2013	**2014**
	(€ in millions)	
External services:		
Transport, freight and business expenses	57.9	52.1
Utilities	59.0	48.7
Repairs and maintenance	21.5	24.9
Leases and royalties	7.6	6.2
Insurance premiums	5.3	5.2
Independent professional services	9.0	7.6
Banking and similar services	2.2	1.7
Advertising, publicity and public relations	1.1	0.7
Research and development expenses	0.5	0.3
Other services	23.5	22.5
Total external services	**187.6**	**169.9**
Use of emission allowances	8.7	5.1
Taxes other than income tax and other management charges	4.6	3.8
New Electricity Generation Levy	16.3	12.1
Change in impairment provisions for inventories and bad debt	5.8	3.5
Impact of regulatory changes on Energy Business	5.2	8.9
Impact of the closure of the Huelva factory	—	18.2
Other non-recurring charges	11.8	6.1
Total	**240.0**	**227.6**

Operating profit/(loss)

Profit from operations decreased by €200.4 million to a €168.6 million loss in the year ended December 31, 2014 from a €31.8 million gain in the year ended December 31, 2013. This decrease was primarily attributable to the shutdown of our pulp production facility at Huelva as well as the impact of regulatory changes in the electricity sector and impairment charges linked to these changes.

Finance income

Finance income decreased by €0.9 million to €1.1 million in the year ended December 31, 2014 from €2.0 million in the year ended December 31, 2013, a 47.7% decrease. This was primarily due to lower cash levels following the impact of the new regulations and the fall in market interest rates.

Change in fair value of financial instruments

We recorded a €1.3 million loss in the year ended December 31, 2014 compared to a €1.8 million gain in the year ended December 31, 2013, a decrease of €3.1 million. The loss in the year ended December 31, 2014 was primarily linked to an equity swap after a decrease in the price of our shares, whilst the gain in the year ended December 31, 2013 was primarily attributable to the strong performance of our shares.

Finance costs

Finance costs decreased by €2.8 million to €28.0 million in the year ended December 31, 2014 from €30.8 million in the year ended December 31, 2013, an 8.9% decrease. Finance costs in the year ended December 31, 2013 were negatively impacted by the cancellation of the previous syndicated loan (mainly opening fees) after the issue of our €250.0 million Existing Notes. Lower use of factoring lines also contributed to a reduction in finance costs in the year ended December 31, 2014. In addition, finance costs for the year ended December 31, 2014 included €1.7 million in capitalised borrowing costs related to forest cover, compared to €2.0 million in such capitalised borrowing costs during the year ended December 31, 2013.

Exchange differences

We recorded a €1.6 million currency exchange gain in the year ended December 31, 2014, compared to a gain of €0.6 million in the year ended December 31, 2013. The gain was due to the translational impact of foreign exchange fluctuations (mainly in U.S. dollars against the euro) in relation to our account receivables and trade creditors.

Financial gain/(loss)

Financial loss increased by €0.4 million to €26.7 million in the year ended December 31, 2014 from €26.3 million in the year ended December 31, 2013, a 1.6% increase, primarily due to lower positive impact of the changes in valuation of financial instruments.

Profit/(loss) before tax

Profit/(loss) before tax decreased to a €195.3 million loss in the year ended December 31, 2014, a €200.9 million decrease from a €5.6 million profit in the year ended December 31, 2013. This decrease was primarily due to the impact of the new electricity regulation and the shutdown of our pulp production facility at Huelva.

Income tax

Income tax increased by €55.7 million to €54.4 million in the year ended December 31, 2014 from a €1.3 million expense in the year ended December 31, 2013. This increase was primarily attributable to the losses registered in the period linked to write-offs and lower feed-in tariffs, despite a €10.4 million negative tax credit adjustment. The negative tax adjustment was due to a change in the Spanish corporate tax rate, which will decline from 30% for fiscal years beginning in 2014 to 28% for fiscal years beginning in 2015 and then to 25% for fiscal years beginning in 2016.

Profit/(loss) for the year from continuing operations

Profit/(loss) from continuing operations decreased to a €140.9 million loss in the year ended December 31, 2014, a decrease of €145.2 million from the €4.3 million profit in the year ended December 31, 2013.

Restricted Group Adjusted EBITDA

Restricted Group Adjusted EBITDA decreased by €98.0 million to €38.0 million in the year ended December 31, 2014 from €136.0 million in the year ended December 31, 2013, a 72.0% decrease. This decrease was primarily attributable to the shutdown of our pulp production facility at Huelva as well as the impact of regulatory changes in the electricity sector and impairment charges taken in conjunction with such changes.

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.

	Year ended December 31, 2012	Year ended December 31, 2013	Percentage change
	(€ in millions, unless indicated) (unaudited)		(%)
Operating Data:			
Pulp sales ('000 tonnes)	1,249	1,270	1.8%
Electricity sales (GWh)	1,617	1,896	17.3%
Wood supply to the industrial process ('000 m^3)	3,643	3,795	4.2%
Income Statement Data:			
Revenue	**827.6**	**853.1**	**3.1%**
Of which: Restricted Group Revenue	*760.2*	*733.3*	*(3.5)%*
Gain/(loss) on hedging transactions	(27.6)	12.1	nm
Changes in inventory of finished goods and works in progress	0.8	2.1	nm
Purchases	(408.0)	(427.8)	4.8%
Gross Profit	**392.8**	**439.5**	**11.9%**
Own work capitalised	24.2	14.8	(39.0)%
Other operating income	2.3	7.5	nm
Government grants taken to income	4.3	6.3	47.7%
Employee benefits expense	(82.3)	(80.5)	(2.2)%
Depreciation and amortisation	(54.3)	(63.1)	16.3%
Depletion of forest reserves	(9.1)	(15.2)	66.9%
Impairment of and gains/(losses) on disposals, intangible assets and property, plant and equipment	6.3	(37.5)	nm
Other operating expenses	(202.0)	(240.0)	18.8%
Operating Profit/(Loss)	**82.3**	**31.8**	**(61.3)%**
Finance income	0.7	2.0	nm
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	nm
Financial Gain/(Loss)	**(18.6)**	**(26.3)**	**40.9%**
Net result from sale of non-current assets classified as held for sale	(0.7)	0.0	nm
Profit/(Loss) before tax	**63.0**	**5.6**	**(91.2)%**
Income tax	(19.9)	(1.3)	(93.7)%
Profit/(Loss) for the year from continuing operations	**43.0**	**4.3**	**(90.0)%**
Profit/(Loss) for the year	**43.0**	**4.3**	**(90.0)%**
Restricted Group Adjusted EBITDA	**166.4**	**136.0**	**(18.3)%**

Revenue

Our revenues increased by €25.5 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. An increase in energy sales prompted by higher volumes (which increased by 17.2% in MWh terms) was offset by decreasing sales from forestry-related activities to third parties.

The table below shows the breakdown of our total consolidated revenue generated by each of our products and services 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%	12.1%
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 the year ended December 31, 2013, a 2.4% increase from €597.0 million in the year ended December 31, 2012, largely due to an increase in sales volumes of 1.7% to 1,270,000 tonnes in the year ended December 31, 2013 from 1,249,000 tonnes in the year ended December 31, 2012. Prices remained stable in the year ended December 31, 2013 at 479 €/t when compared to the year ended December 31, 2012. The geographic distribution of our pulp sales continued to be primarily outside Spain (with Spain comprising only 14.9% of our total pulp sales by volume during this period, compared to 13.0% of total pulp sales by volume during the year ended December 31, 2012), with the percentage of pulp sales by volume made to the United Kingdom, the Netherlands, Turkey and Slovenia increasing slightly compared to the year ended December 31, 2012 and the percentage of pulp sales by volume made to Germany, Austria and Sweden (and opportunistically, to China) decreasing slightly.

Our revenues from electricity sales amounted to €233.7 million in the year ended December 31, 2013, a 12.1% increase from €208.4 million in the year ended December 31, 2012. This increase is attributable to a 17.2% increase in electricity sold to the grid from 1,617 GWh in the year ended December 31, 2012 to 1,896 GWh in the year ended December 31, 2013, which was primarily due to the contribution of our new 50 MW power facility in Huelva which became operational in September 2012. Average electricity prices decreased by 4.3% to €/123.3/MWh in the year ended December 31, 2013 from 128.8 €/MWh in the year ended December 31, 2012 as the result of the release of a draft law relating to the tariff scheme.

Our revenues from wood and forestry services amounted to €8.0 million in the year ended December 31, 2013, compared to €22.3 million in the year ended December 31, 2012, a 64.1% decrease. This decrease is attributable to our decision to gradually disengage from this activity, including through the cessation of forestry activities in Uruguay.

Restricted Group revenue

The following table sets out Restricted Group revenue by products and services in the periods presented:

	Year ended December 31,	
	2012	2013
	(€ in millions) (unaudited)	
Pulp	597.0	611.4
Electricity	126.2	110.0
Forest sales and others	37.1	11.9
Total	**760.2**	**733.3**

Restricted Group revenue decreased by €27.0 million to €733.3 million in the year ended December 31, 2013 from €760.2 million in the year ended December 31, 2012, a 3.5% decrease. This decrease was primarily attributable to the decrease in electricity sales as a result of regulatory changes which eliminated the efficiency bonus and reduced feed-in tariffs as well as the sale of our forest assets in Uruguay in December 2012 which decreased revenue from forest sales, although was slightly offset by the increase in revenues from pulp sales attributable to the 1.7% increase in sales volumes.

Gain/(loss) on hedging transactions

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 realised 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 ($/€)). However, during the year ended December 31, 2012, we realised a loss when we settled forward pulp sale contracts in respect of 48,000 tonnes of pulp at an average strike price of $720 per tonne (compared at an average pulp price of $752 per tonne) and $516 million of foreign exchange contracts at an average strike price of 1.374 ($/€) (compared to an average exchange rate of 1.285 ($/€)).

Changes in inventory of finished goods and works 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.

Purchases

Purchases 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, although was partially offset by a reduction in costs for certain raw and other materials of €3.2 million. Other external expenses decreased by 5.9% to €52 million as the result of a reduction in the use of outsourcing for forestry works attributable to a decrease of 27,780 hectares of forest land under management between December 31, 2012 and December 31, 2013.

The following table sets out the items that constituted our purchases in the periods presented:

	Year ended December 31,	
	2012	**2013**
	(€ in millions)	
Purchases	336.2	372.7
Change in raw materials, goods held for resale and other inventories	16.7	3.2
Other external expenses	55.2	52.0
Total	**408.0**	**427.8**

Own work capitalised

Own work capitalised 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 as well as a decrease of €3.2 million in financial costs associated with the construction of facilities.

Other operating income

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

Government grants taken to income

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 mainly received in previous years as a result of economic recovery.

Employee benefits expense

Staff costs decreased by €1.8 million from €82.3 million in the year ended December 31, 2012 to €80.5 million in the year ended December 31, 2013, a 2.2% 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 out the items that constituted our employee benefits expense in the periods presented:

	Year ended December 31,	
	2012	2013
	(€ in millions)	
Wages and salaries	60.0	57.1
Social security	13.9	13.6
Pension contributions and other social benefits	3.5	3.3
Termination benefits	4.7	5.4
Long-term remuneration plans	0.2	1.1
Total	**82.3**	**80.5**

Depreciation and amortisation

Depreciation and amortisation increased by €8.8 million to €63.1 million in the year ended December 31, 2013 from €54.3 million in the year ended December 31, 2012, a 16.3% increase due to the new 50 MW power facility in Huelva. The Group began to operate this facility in February 2013.

Depletion of forest reserves

Depletion of forest reserves increased by €6.1 million to €15.2 million in the year ended December 31, 2013 from €9.1 million in the year ended December 31, 2012, a 66.9% increase. This was primarily attributable to increased depletion of forest cover as the result of an increase in pulp production and an impairment of forest cover earmarked for energy crops. In addition, we disposed of our land used for forestry activities in Uruguay during the year ended December 31, 2013. As a result, the fair value of forest cover (biological assets) decreased from €171.0 million as at December 31, 2012 to €154.1 million as at December 31, 2013.

Impairment of and gains/(losses) on fixed assets and property, plant and equipment

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 the year ended December 31, 2013 was primarily due to an impairment loss on energy crop plantations and irrigation equipment, based on the draft of the new energy regulations, whilst the gain in 2012 was linked to the reversion of provisions. In addition, a sale of 2,608 hectares of forest land containing eucalyptus plantations in Portugal incurred an impairment charge of €2.8 million during the year ended December 31, 2013.

Other operating expenses

Other operating expenses increased by €38.0 million to €240.0 million in the year ended December 31, 2013 from €202.0 million in the year ended December 31, 2012, an 18.8% increase. This increase was primarily attributable to the new electricity tax (7% on energy sales), expenses of €5.2 million corresponding to the estimated cost of terminating estate lease agreements, mainly linked to energy crop plantations, and a €6.5 million impairment on wood inventories.

The following table sets out the items that constituted our other operating expenses in the periods presented:

	Year ended December 31, 2012	Year ended December 31, 2013
	(€ in millions)	
External services:		
Transport, freight and business expenses	60.4	57.9
Utilities	60.8	59.0
Repairs and maintenance	16.5	21.5
Leases and royalties	7.7	7.6
Insurance premiums	5.3	5.3
Independent professional services	6.9	9.0
Banking and similar services	2.5	2.2
Advertising, publicity and public relations	1.0	1.1
Research and development expenses	0.1	0.5
Other services	26.1	23.5
Total external services	**187.3**	**187.6**
Use of emission allowances	3.0	8.7
Taxes other than income tax and other management charges	6.7	4.6
New electricity generation levy	—	16.3
Change in impairment provisions for inventories and bad debt	(1.4)	5.8
Other non-recurring charges	6.3	17.0
Total	**202.0**	**240.0**

Operating profit/(loss)

Operating profit decreased by €50.5 million to €31.8 million in the year ended December 31, 2013 from €82.3 million in the year ended December 31, 2012, a decrease of 61.3%. This decrease was primarily attributable to the impact of regulatory changes in the electricity sector, including impairments taken in conjunction with such changes.

Finance income

Finance income increased by €1.3 million to €2.0 million in the year ended December 31, 2013 from €0.7 million in the year ended December 31, 2012. The improvement is based on the higher cash levels following the divestments of plantations, which cash was invested in a twelve-month deposit.

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. This change was primarily attributable to changes in the value of an equity swap.

Finance costs

Finance costs increased by €6.4 million to €30.8 million in the 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 our previous syndicated loan (mainly opening fees) after the issue of our €250 million Existing Notes and lower capitalisation of interest expenses related to the new biomass energy generation facility in Huelva following the start of operations.

Exchange differences

We recorded a €0.6 million currency exchange 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 the year ended December 31, 2013 was due to the translational impact of foreign exchange fluctuations (mainly in U.S. dollars against the euro) in relation to our account receivables and trade creditors.

Financial gain/(loss)

Financial loss increased by €7.7 million to €26.3 million in the year ended December 31, 2013 from €18.6 million in the year ended December 31, 2012, a 40.9% increase, primarily due to a lower positive impact of the changes in valuation of financial instruments.

Net result from sale of non-current assets classified as held for sale

The sale of non-current assets as held for sale was zero in the year ended December 31, 2013, compared to a net loss of €0.7 million in the year ended December 31, 2012, primarily due to the fact that 27,780 hectares of forest assets in Uruguay classified as assets held for sale were sold in the first quarter of 2013, whereas for the year ended December 31, 2012, the full-year contribution of the results of operations of such assets were reported in this line item.

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 expense decreased by €18.6 million to €1.3 million in the year ended December 31, 2013 from €19.9 million in the year ended December 31, 2012, a decrease of 93.7%. This decrease was primarily attributable to the decrease in profit before tax.

Profit/(loss) for the year from continuing operations

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

Restricted Group Adjusted EBITDA

Restricted Group Adjusted EBITDA decreased by €30.4 million to €136.0 million in the year ended December 31, 2013 from €166.4 million in the year ended December 31, 2012, an 18.3% decrease. This decrease was primarily attributable to the impact of regulatory changes in the electricity sector, including impairments taken in conjunction with such changes.

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, factoring operations, and, from time to time, the debt and equity capital markets. In 2013, we issued the Existing Notes and raised €250.0 million of proceeds (before transaction fees and expenses in connection with the offering) which we used to reduce our indebtedness and repay existing interest rate swaps related to our existing credit facilities. Our principal uses of cash are for working capital needs, 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

Following this Offering, 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.

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.

The following table sets out our cash flow data for the periods presented:

	Year ended December 31,			Six months ended June 30,	
	2012	**2013**	**2014**	**2014**	**2015**
				(unaudited)	
		(€ in millions)			
Cash Flow Data:					
Cash flows from/used in operating activities:					
Consolidated profit/(loss) for the period before tax	63.0	5.6	(195.3)	(72.3)	30.9
Adjustments for:					
Depreciation	53.3	61.7	58.9	28.8	26.6
Depletion of forestry reserves	9.1	15.2	9.7	7.8	4.6
Amortisation	1.0	1.4	0.6	0.3	0.6
Changes in provisions and other deferred expenses (net)	3.7	22.0	32.8	16.9	9.0
Impairment of and gains/(losses) on disposals of intangible assets	(3.0)	35.9	101.2	27.1	(0.4)
Finance costs	18.0	28.7	29.5	14.3	(0.1)
Finance income	(0.7)	(2.0)	(1.1)	(0.6)	14.8
Government grants taken to income	(1.2)	(1.3)	(1.3)	(0.7)	(0.9)
Adjustment to profit	**80.1**	**161.6**	**230.3**	**93.3**	**52.4**
Trade and other receivables	(24.0)	29.8	13.9	10.6	(10.2)
Financial and other current assets	18.2	(2.9)	2.4	2.6	(0.0)
Trade payables, other payables and other liabilities	(13.8)	4.7	(41.9)	(16.0)	0.4
Inventories	18.3	10.4	24.5	(3.9)	1.7
Changes in working capital	**(1.3)**	**41.9**	**(1.2)**	**(6.6)**	**(8.2)**
Interest paid	(21.5)	(18.0)	(25.2)	(12.2)	(15.4)
Interest received	0.7	2.0	1.1	0.6	0.1
Income tax received/(paid)	(9.4)	(17.1)	(0.2)	—	9.3
Other cash flows from operating activities	**(30.2)**	**(33.1)**	**(24.3)**	**(11.5)**	**(5.9)**
Net cash flows from/(used in) operating activities	**111.6**	**175.9**	**9.5**	**2.8**	**69.2**
Cash flows from/used in investing activities:					
Property, plant and equipment and biological assets	(104.4)	(112.8)	(55.7)	(24.3)	(14.5)
Intangible assets	(16.1)	(0.9)	(4.1)	(2.2)	(1.8)
Other financial assets	(0.2)	1.3	(0.0)	0.2	0.1
Investments	**(120.6)**	**(112.4)**	**(59.8)**	**(26.2)**	**(16.1)**
Property, plant and equipment	0.4	64.4	0.1	0.1	3.6
Other financial assets	0.2	—	—	—	—
Disposals	**0.5**	**64.4**	**0.1**	**0.1**	**3.6**
Net cash flows from/(used in) investing activities	**(120.1)**	**(48.0)**	**(59.8)**	**(26.1)**	**(12.5)**
Cash flows from/(used in) financing activities:					
Buyback of own equity instruments	(41.7)	(26.5)	(6.1)	(2.1)	(0.3)
Disposal of own equity instruments	1.3	27.5	0.2	0.2	4.3
Proceeds from and payments for equity instruments	**(40.4)**	**1.0**	**(5.9)**	**(2.0)**	**4.0**
Proceeds from issue of bonds and other marketable securities, net of issue costs	—	239.5	—	—	(25.0)
Increase/(decrease) in bank borrowings, net of issue costs	37.4	(232.1)	1.1	4.3	10.6
Other financial liabilities	(3.3)	(12.0)	(1.3)	(1.3)	(3.3)
Grants received	—	0.1	0.9	0.8	—
Proceeds from and repayments of financial liabilities	**34.2**	**(4.5)**	**0.6**	**3.8**	**(10.7)**
Dividends	(16.5)	(16.2)	(19.4)	—	(24.9)
Dividends payments	**(16.5)**	**(16.2)**	**(19.4)**	**—**	**(24.9)**
Translation differences	**(0.2)**	**(0.0)**	**—**	**—**	**—**
Fixed-term deposits	—	(45.0)	45.0	45.0	—
Other cash received from/(used in) financing activities	**—**	**(45.0)**	**45.0**	**45.0**	**—**
Net cash flows from/(used in) financing activities	**(22.9)**	**(64.7)**	**20.4**	**46.8**	**(38.6)**
Net increase/(decrease) in cash and cash equivalents	**(31.4)**	**63.2**	**(30.0)**	**23.4**	**18.1**

Net cash flows from/(used in) operating activities

During the six months ended June 30, 2015, our net cash flow from operating activities was €69.2 million, compared to €2.8 million during the six months ended June 30, 2014, an increase of €66.4 million. This increase was primarily due to higher pulp prices, increased revenue from sales of electricity and the refunding of €10.4 million in corporate tax paid in the year ended December 31, 2014 as the result of the losses generated by our former pulp production facility in Huelva and offset against tax expense during the second quarter of 2015. We also experienced an increase in trade receivables related to the increase in pulp prices and a €4.1 million decrease in receivables discounting facilities.

During the year ended December 31, 2014, our net cash flow from operating activities was €9.5 million, compared to €175.9 million during the year ended December 31, 2013. The €166.4 million decrease was primarily due to reduced pulp and electricity production as a result of the shutdown of our Huelva pulp production facility, an 8% reduction in pulp price, a reduction in the available feed-in tariff, and an increase in redundancy costs as a result of the layoffs related to this closure.

During the year ended December 31, 2013, our net cash flow 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 currency exchange 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, as discussed in more detail under "*—Working capital*."

Net cash flows from/(used in) investing activities

During the six months ended June 30, 2015, our net cash flow used in investing activities was €12.5 million, compared to €26.1 million used during the six months ended June 30, 2014, or €13.6 million lower. This was primarily due to the June 30, 2014 figure reflecting sizeable investments in our Mérida biomass energy facility and efficiency investments in our Pontevedra pulp production facility.

During the year ended December 31, 2014, our net cash flow used in investing activities was €59.8 million compared to €48.0 million used during the year ended December 31, 2013, or €11.8 million lower. This was due to the fact that during the year ended December 31, 2013 we invested the proceeds of disposals related to our Uruguayan forestry assets. Investments were also higher in the year ended December 31, 2013 than in the year ended December 31, 2014 due to the curtailment of our investments in the biomass energy sector in 2014 due to regulatory uncertainty. In the year ended December 31, 2014, we also invested €17 million in efficiency measures during the maintenance stoppages carried out at the Navia and Pontevedra facilities.

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

Net cash flows from/(used in) financing activities

During the six months ended June 30, 2015, our net cash flow from financing activities was negative €38.6 million, compared to €46.8 million for the six months ended June 30, 2014, or €85.4 million lower. Our principal sources and uses of cash in the financing activities were:

- the redemption in June 2015 of €25 million in aggregate principal amount of our Existing Notes, of which €225,000,000 remains outstanding, at a total cost of €26.3 million;
- a €24.9 million dividend payment to our shareholders in the six months ended June 30, 2015 compared to no dividend payment being made during the six months ended June 30, 2014; and
- a €7.3 million increase in net borrowing in the six months ended June 30, 2015 relating to the €15.0 million Bankia Loan to finance our capital expenditures in Navia, as well as certain debt repayments relating to our project finance arrangements.

During the year ended December 31, 2014, our net cash flow from financing activities was €20.4 million, compared to €64.7 million cash used in financing activities (net) in the year ended December 31, 2013, a €85.1 million increase.

Our principal sources and uses of cash in the financing activities were:

- a €5.9 million net purchase of treasury shares in the year ended December 31, 2014, compared to a net sale of €1.0 million in the year ended December 31, 2013;
- a €19.4 million dividend payment to our shareholders in the year ended December 31, 2014 compared to €16.2 million in the year ended December 31, 2013;
- a €1.1 million net borrowing in the year ended December 31, 2014, resulting from a €2.0 million drawing under our project finance arrangements, as offset by €0.9 million of debt repayments in the year ended December 31, 2014, compared to €7.4 million net borrowing in the year ended December 31, 2013, resulting from a €7.5 million drawing under our project finance arrangements, as offset by €0.1 million of debt repayments; and
- the maturity of an investment in the amount of €45.0 million in long-term deposits made in 2013 using cash received from the sale of our Uruguayan forestry assets in the year ended December 31, 2014.

During the year ended December 31, 2013, our net cash flow used in financing activities was €64.7 million compared to €22.9 million in net cash flow used during the year ended December 31, 2012, an increase of €41.8 million.

Our principal sources and uses of cash in the financing activities were:

- a €1.0 million net sale of treasury shares in the year ended December 31, 2013, compared to a net purchase of €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; and
- a €45.0 million financial investment in long-term deposits in the year ended December 31, 2013.

As at June 30, 2015, we had cash and cash equivalents and other current financial assets of €100.1 million, compared with €81.9 million as at December 31, 2014. As adjusted to give effect to the Refinancing, including the incurrence of debt under the BBVA Loan, we would have had cash and cash equivalents and other current financial assets on June 30, 2015 of €140.0 million, of which €102.5 million relates to the Restricted Group; however, this amount is gross of the Issuer's approved dividend in the amount of €11.0 million distributed on October 7, 2015 and also includes certain cash held by the Issuer belonging to the Unrestricted Group pursuant to cash pooling arrangements. Please see "*Certain Relationships and Related Party Transactions—Transactions with the Unrestricted Group—Cash pooling transactions with the Unrestricted Group*."

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 and as at December 31,			Six months ended June 30,
	2012	2013	2014	2015
			(€ in millions)	(unaudited)
Inventories	87.6	71.0	37.9	34.1
Trade and other receivables	138.6	114.4	100.4	104.2
Receivables from public authorities	28.6	18.6	9.7	16.7
Income tax receivable from the tax authorities	1.0	8.2	11.9	0.3
Current financial assets	7.6	55.9	8.5	8.5
Other current assets	0.9	1.0	1.3	3.0
Trade and other payables	(201.9)	(197.2)	(156.3)	(175.8)
Income tax payable to the tax authorities	(1.3)	(0.0)	(0.1)	(6.7)
Other accounts payable to public authorities	(8.5)	(11.3)	(8.6)	(7.0)
Other current liabilities	(0.5)	(0.7)	(0.5)	(0.0)
Consolidated Group working capital	**52.1**	**59.7**	**4.3**	**(22.7)**
Change in working capital as per cash flow statement	**(1.3)**	**41.9**[(1)]	**(1.2)**[(1)]	**(8.2)**
Restricted Group working capital	**51.8**	**60.8**	**(6.1)**	**(31.0)**

(1) This includes the €45 million received from the maturity of the investment of the cash received from the divestment of our forestry assets in Uruguay, which we present here as part of working capital since they were classified as a current asset.

We define "working capital" as inventories, plus trade and other receivables, plus receivables from public authorities, plus income tax receivable from the tax authorities, plus current financial assets, plus other current assets, less trades and other payables, income tax payable to the tax authorities, less other accounts payable to public authorities, 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. We believe that our working capital requirements are inversely related to the pulp price cycle. For example, in 2013, we realised a net working capital increase of €41.9 million, whilst in 2014 we saw a €1.2 million reduction in net working capital as a result of the shutdown of our Huelva pulp production facility and the impact of the maturity of the investment of the cash received from the divestment of our forestry assets in Uruguay.

During the six months ended June 30, 2015, the fluctuation in our Restricted Group working capital was due to the refunding of €10.4 million in corporate tax paid in the year ended December 31, 2014 as the result of the losses generated by our former pulp production facility in Huelva, as well as an increase in financing from forestry and equipment suppliers.

As at June 30, 2015, we had non-recourse factoring facilities in place under which we are allowed to factor up to €85 million, of which €32 million was drawn. As at June 30, 2015 we also had confirming lines in place with an aggregate limit of €114 million, of which €71 million was drawn. For further information, please see "*Description of Other Indebtedness—Working Capital Facilities*."

Capital expenditures

	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2012	2013	2014	2014	2015	2015
				(unaudited)		(unaudited)
			(€ in millions)			
Capital expenditures	112.5	114.1	60.0	34.5	26.0	51.5
of which maintenance capital expenditure	30.4	46.7	18.8	10.5	12.3	20.6

During the six months ended June 30, 2015, capital expenditures decreased by €8.5 million, or 24.6%, to €34.5 million, from €26.0 million in the six months ended June 30, 2014. This decrease was primarily related to lower investments made in standalone biomass power generation facilities. In the year ended

December 31, 2014, capital expenditures totalled €60.0 million, a decrease of €54.1 million, or 47.4%, from the year ended December 31, 2013. This decrease was primarily due to reduced investment in energy generation facilities and energy crops. Expenditures during the year ended December 31, 2014 related principally to investments in industrial assets which totalled €45.4 million, including €11.5 million for the construction of our standalone biomass power generation facility at Mérida, and €28.1 million for efficiency improvements at our facilities in northern Spain. In the year ended December 31, 2013, capital expenditures amounted to €114.1 million, an increase of €1.6 million from the year ended December 31, 2012. These capital expenditures included €18.3 million for investment in biological assets for reforestation and enhancement of forest assets to support pulp production and the development of energy crops to support the standalone biomass power generation facilities at Huelva and Mérida. Investments in industrial assets totalled €91.5 million, of which approximately 53% related to the expansion of these standalone biomass power generation facilities.

Due in large part to the shutdown of the pulp production facility in Huelva in October 2014 and the capital improvements at our facilities in Navia and Pontevedra, we expect our maintenance capital expenditure (excluding expansion programmes and restructuring costs related to the shutdown at Huelva) for our Restricted Group to remain low, at approximately €20 million to €30 million per annum. Please see "*Forward-Looking Statements*."

Financial liabilities

Our financial liabilities decreased to €352.8 million as at June 30, 2015 from €366.3 million as at December 31, 2014. As adjusted to give effect to the Refinancing, as at June 30, 2015, we would have had total debt on June 30, 2015 of €416.4 million (representing a book value of €426.3 million of the aggregate principal amount of our indebtedness, of which €291.3 million would have corresponded to the Restricted Group, including €250.0 million which would have been represented by the Notes, net of the transaction costs incurred which will be amortised over the life of the indebtedness). Please see "*Description of Other Indebtedness*" for a discussion of our outstanding debt liabilities.

Financial and Other Material Contractual Obligations

Financial Obligations

The following table summarises the aggregate principal amount of our financial liabilities as at June 30, 2015 and the related amounts falling due within the periods indicated, as adjusted to give effect to the issue of the Notes offered hereby and the use of the proceeds therefrom:

	Payments Due by Period		
Pro Forma Maturities of Financial Liabilities (unaudited)	**Until December 31, 2015**	**Between January 1, 2016 and December 31, 2019**	**After January 1, 2020**
		(€ in millions)	
Notes offered hereby	—	—	250.0
Project finance[1]	7.2	51.8	76.0
CDTI and other indebtedness[2]	2.1	33.3	6.0
Total Financial Liabilities	**9.3**	**85.1**	**332.0**

(1) Represents the project finance arrangements for the Huelva and Mérida standalone biomass energy facilities, which are part of the Unrestricted Group.

(2) Represents two bilateral loans, each of which amounts to €15.0 million, and maturing in 2019 and 2020, respectively, as well as CDTI indebtedness. Please see "*Description of Other Indebtedness*."

Other Material Contractual Obligations

We are party to a long-term contract for the supply of natural gas. Under the terms of this contract, we are committed to acquire 201 GW of natural gas per annum (with the flexibility to either increase or decrease this amount by 20%). The contract expires in December 2016; if we have not consumed 80% of the total volume of natural gas we have committed to acquire under the contract by this time, we may either extend the length of the contract or pay a small penalty.

In addition to the above obligation, 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 (as defined herein), we are required to obtain certain greenhouse gas emissions authorisations. In order to cover our future consumption of CO_2 rights, we have entered into contractual commitments to purchase a total of 601,000 tonnes of such rights: 401,000 tonnes at a price of €15.69/tonne exercisable in December 2015 and 200,000 tonnes at a price of €15.79/tonne exercisable in December 2016.

In addition, at December 31, 2014, our future minimum payments under non-cancellable leases, without factoring in costs which would be reimbursed by the lessor, inflation-related adjustments or contractually agreed rent increases, were as follows:

	Year ended December 31,
	2014
	(€ in millions)
Less than one year	2.3
Between one and five years	6.7
More than five years	11.9
Total	**20.9**

There are also leases in relation to certain land on which energy crops have been developed under which committed expenditure amounts to €18.1 million. We are currently negotiating the termination of such agreements, with the negotiation process with respect to such terminations expected to be completed in 2016.

ENCE Energía, S.L.U. also has an obligation to indemnify ENCE Energía Huelva, S.L.U. and ENCE Energía Extremadura, S.L.U. for expenses that could arise as a result of the cancellation of certain such leases on land that was previously used for the development of energy crops, and ENCE Energía y Celulosa S.A. has agreed to provide an intragroup credit in an amount of up to €7 million to finance any such expenses. These expenses would include payment for work to dismantle the irrigation network, removal of trees and the repair of damage caused to the property during the lease and could also include the cost of litigation and/or the payment of legal damages. Within the Unrestricted Group, ENCE Energía, S.L.U., ENCE Energía Huelva, S.L.U. and ENCE Energía Extremadura, S.L.U. have set aside provisions of €1.7 million, €3.8 million and €1.7 million, respectively, to cover the expected costs of the cancellations of such leases and related expenses.

Other than the above, 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 summarises our estimated derivative positions as at June 30, 2015, as adjusted to give effect to the issue of the Notes offered hereby and the use of the proceeds therefrom:

	As at June 30, 2015	
Liabilities/Assets	**Non-current liabilities**	**Current liabilities**
	(€ in millions)	
Huelva interest rate swap	4.8	2.3
Mérida interest rate swap	2.0	0.8
Foreign currency hedges	0.0	0.2
Pulp price hedges	0.0	0.4
Total	**6.8**	**3.7**

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 Group revenues by approximately 3.6% in the six months ended June 30, 2015.

Energy price

For purposes of our Energy Business, we had previously hedged electricity prices through the use of derivative instruments. Please see "*—Key Factors Affecting Our Results of Operations—Pulp and Energy Businesses—Energy Costs*." Based on our contractual arrangements as at December 31, 2014, we estimate that a 10% increase in electricity prices would have a negative impact of €2.3 million on our results of operations for the year ended December 31, 2014 whereas a 10% decrease in electricity prices would have a positive impact of €2.3 million on our results of operations for the year ended December 31, 2014.

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 maximise the value added in our products by increasing our use of certified timber, which is more costly. We estimate that a 5% increase in the price per cubic meter of eucalyptus timber used in the production process would have reduced our operating margin by approximately €9.7 million in the twelve months ended December 31, 2014.

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 tonne. Since our cost structure is primarily in euro, changes in the U.S. dollar exchange rate can have a significant impact on earnings volatility. We estimate that a 5% increase in the international pulp price in euro would have increased our Consolidated Group revenues by approximately 3.6% in the six months ended June 30, 2015.

We continuously monitor our foreign exchange risk and, from time to time, enter into certain hedging transactions when deemed appropriate in order to eliminate the uncertainties arising from fluctuations in foreign currency exchange rates, and in particular to fluctuations in the value of the U.S. dollar and the euro. Whilst the majority of our sales are made in the European market, revenues from sale of pulp are affected by the U.S. dollar/euro exchange rate since the benchmark sale price on the international market is in U.S. dollars per tonne. In July 2015, we arranged tunnel structure options for the period from July 2015 to July 2016 over U.S. dollars to hedge future revenue benchmarked to that currency in a notional amount of $90 million; the exercise prices for the options purchased range between $/€ 1.0445 and 1.0690 and, for the options sold, between $/€ 1.115 and 1.096.

All hedging schemes are subject to the approval of our Board of Directors. As at June 30, 2015, the notional amount of these hedges amounted to negative €9.5 million.

Interest Rate Risk

Following the Offering, the Restricted Group will have limited exposure to floating interest rate debt since its primary obligation will be the Notes offered hereby. However, the Unrestricted Group is exposed to floating rate debt, primarily due to its project financing arrangement. We use interest rate swap contracts to manage our exposure to interest rate movements on portions of such existing debt. As at June 30, 2015, our hedges associated with the project financing of our Huelva and Mérida facilities covered approximately 75% of the Project Finance Limit Amount.

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 Judgements

Our consolidated financial statements are prepared in accordance with IFRS. The preparation of these financial statements requires management to make estimates and judgements 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 judgements could cause actual results to differ.

Our accounting policies are more fully described in Note 4 to our audited consolidated financial statements for the year ended December 31, 2014. 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 judgements. See also note 5 to the consolidated financial statements for the year 2014.

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 recognised 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 recognised in prior years. A reversal of an impairment loss is recognised 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	8–25
Other fixtures, tools and furniture	5–12
Other items of property, plant and equipment	5–10

Whilst 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 recognised 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; and

(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 recognised at the fair value of the consideration given plus any directly attributable transaction costs. Loans and receivables are measured at amortised cost. We also recognise 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 recognised 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 recognised are taken to the net consolidated profit or loss for the year.

We derecognise 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 derecognise such financial assets and recognise 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 recognised at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost. We derecognise 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 recognised 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 recognised under "*Derivatives*" in the consolidated balance sheet, and any eventual write-backs are recognised under "*Financial assets—Derivatives*." The gains or losses on these changes in value are recognised in the consolidated income statement, unless the derivative has been designated as a hedging instrument, in which case it is recognised 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 recognised 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 recognised in "Equity—Valuation adjustments." The cumulative loss or gain recognised 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 recognised 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 recognised directly in equity is maintained until the expected commitment or transaction materialises, 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 recognised 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 maximise 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 recognised in equity for the amount of the proceeds received, net of issue costs. Treasury shares acquired by the Issuer are recognised 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 recognised directly in equity. No amounts are recognised in the income statement in this respect.

Commitments with Employees

The fair value of the Special Variable Executive Compensation Plan, our management incentive plan, has been determined using the Black-Scholes method, which is generally accepted for financial instruments of this type.

Provisions

The consolidated financial statements include all provisions where there is a likelihood that an obligation will have to be settled. Contingent liabilities are not recognised 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 recognised 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 realised or the liability settled. Deferred tax assets are recognised 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 utilised. Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognised in equity. The deferred tax assets recognised 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, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that they will be recovered through future taxable profits.

BUSINESS

We are a pulp and energy production company and rank amongst the largest pulp businesses in Europe. Our Pulp Business is the largest producer of BHKP from eucalyptus in Europe, measured by capacity, with an annual maximum installed capacity of 960,000 tonnes of pulp as at June 30, 2015. During the twelve months ended June 30, 2015, we produced 879,248 tonnes of pulp (as adjusted to exclude the contribution from our pulp production facility in Huelva, Spain which was shut down in October 2014) across our two pulp production facilities located in Navia and Pontevedra, Spain. Our pulp-linked energy generation and cogeneration activity, through which we produce energy, sell it to the grid and then repurchase it to power our pulp production facilities, had an installed capacity of 112 MW as at June 30, 2015. In addition, as at June 30, 2015, we owned or managed, pursuant to long-term arrangements, 82,860 hectares of forest land.

Our standalone Energy Business, which is run separately from our Pulp Business, had an installed capacity as at June 30, 2015 of approximately 111 MW across three energy generation facilities located in Huelva and Mérida, Spain.

We are publicly listed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, through the Automated Quotation System (Continuous Market) (*Bolsas de Valores de Madrid, Barcelona, Valencia y Bilbao, a través del Sistema de Interconexión Bursátil español, Mercado Continuo*) with a market capitalisation of €767.1 million as at June 30, 2015. For the twelve months ended June 30, 2015, we generated Consolidated Group revenue of €662.5 million, Consolidated Group Adjusted EBITDA of €119.4 million and Consolidated Group unlevered free cash flow (excluding expansion capital expenditure) of €74.0 million.

Business Areas

We currently organise our economic activities into two business areas, comprising our Pulp Business and our standalone Energy Business. The Issuer and its subsidiaries engaged in our Pulp Business will comprise the Restricted Group and will be subject to the restrictive covenants under the Indenture. The subsidiaries of the Group engaged in our Energy Business will be designated as Unrestricted Subsidiaries within the meaning of the Indenture and will therefore comprise the Unrestricted Group and not be subject to the restrictive covenants under the Indenture.

Pulp Business

We are the largest BHKP producer in Europe, focused on eucalyptus pulp, with an annual maximum installed capacity of 960,000 tonnes as at June 30, 2015, more than 18% above that of the next largest BHKP producer in Europe. For the twelve months ended June 30, 2015, our Pulp Business generated Restricted Group revenue of €565.7 million (representing 85.1% of our Consolidated Group revenue), Restricted Group Adjusted EBITDA of €91.3 million (representing 76.5% of our Consolidated Adjusted EBITDA) as at June 30, 2015, comprised assets of €1,110.6 million (representing 96.4% of our Consolidated Group assets).

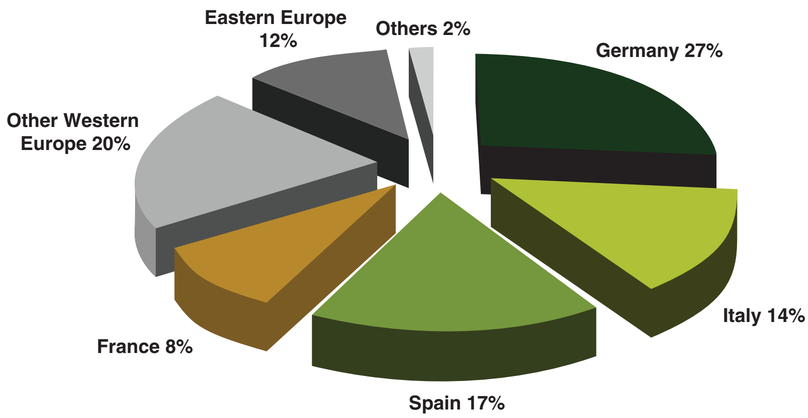
Our activities within our Pulp Business are organised into three segments: *Pulp*, which includes our pulp-linked energy generation and sales activities; *Pulp forest assets*, which includes our forestry management and eucalyptus timber procurement activities; and *Forest services & other*.

We have two pulp production facilities in Navia and Pontevedra, Spain. During the twelve months ended June 30, 2015, we produced an aggregate of 879,248 tonnes of eucalyptus pulp from our pulp production facilities, representing a utilisation rate of 93.5% (excluding routine maintenance stoppages and as adjusted to exclude the contribution of our pulp production facility in Huelva, which was shut down in October 2014).

We principally sell our pulp to customers in western European countries (particularly Germany, Italy, Spain and France) where we are able to leverage our logistical advantages which we believe make our high-quality products cost-competitive with foreign imports of pulp into the European Union. During the twelve months ended June 30, 2015, we exported approximately 86% of our eucalyptus pulp production to the western European market (excluding Spain). Including Spain, we hold a 12% market share in Western Europe, which is the largest global pulp market and a net importer of market pulp. We hold leading positions in market share by volume for BHKP in each of Germany, Spain, Italy and France, the principal markets for our pulp products, which accounted for 27%, 17%, 14% and 8% of our sales volume, respectively, for the twelve months ended June 30, 2015. During the same period, we also exported our pulp products to other western European countries (20%) as well as, on an opportunistic basis, to eastern European countries and to countries outside of Europe (2%).

The following chart shows the sales (by volume) of our pulp products by country for the twelve months ended June 30, 2015:

Pulp Sales (by volume) by Country
Twelve months ended June 30, 2015

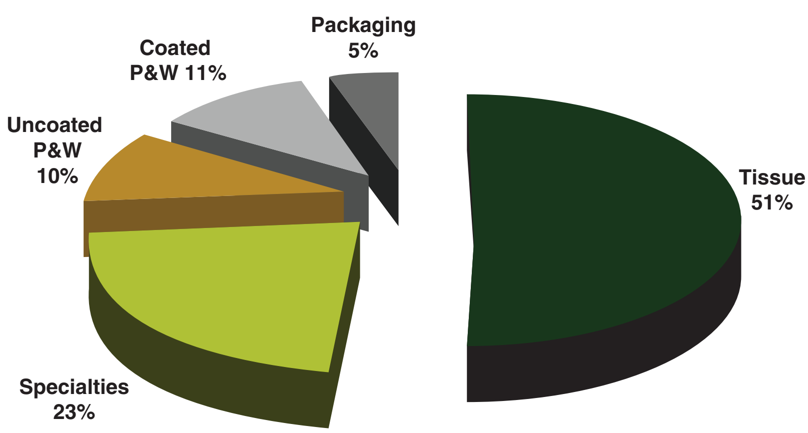


Source: Company records.

Our sales are focused on end-market paper segments with high forecasted growth rates. Our biggest end-market by volume is the tissue segment (generally used for the production of household and hygienic disposable products), which represented 51% of our pulp sales by volume during the twelve months ended June 30, 2015. According to RISI, the tissue segment benefits from a resilient and stable end-customer demand, and is forecasted to grow globally at a CAGR by volume of 3.8% from 2014 to 2019, which is, according to RISI, the highest forecasted CAGR amongst the various paper segments by global demand during that period. Of the remaining 49% of our pulp sales by volume for the twelve months ended June 30, 2015, 28% came from specialty paper and packaging segments, including beauty products and white-top packaging, whilst 21% came from the P&W segment. According to RISI, the specialties and packaging and the containerboard segments are expected to grow globally at a CAGR by volume of 1.6% and 2.4%, respectively, from 2014 to 2019, whilst the P&W and newsprint segments are expected to shrink globally at a CAGR by volume of 0.2% and 2.9%, respectively, from 2014 to 2019.

The following charts show the percentage of our sales by volume generated from each end-market for the twelve months ended June 30, 2015:

Pulp Sales by End-Market Segment
Twelve months ended June 30, 2015



Source: Company records.

As part of the pulp production process, the eucalyptus wood is separated into fibre, water and lignin. To produce energy, we burn the lignin to heat water, creating steam that is then converted into electricity, which is in turn sold to the grid and repurchased for use in the pulp production process. This use of such energy is referred to as "cogeneration" and is an integral part of our Pulp Business, enabling us to recover heat that would otherwise be wasted and convert it into electricity to power our pulp production facilities. We also independently generate energy at an energy generation facility in Navia to supplement, when necessary, the energy cogenerated in the pulp production process at our Navia pulp production facility. Our two cogeneration facilities at our Navia and Pontevedra sites are fully integrated into our respective pulp production facilities at those sites and are primarily fuelled by the lignin produced during the wood separation process, whilst our independent energy facility at Navia is fuelled by waste and agricultural residue (consisting of both wood barks and other wood-based residues related to our own harvesting activities and purchased from third parties). We currently have a total installed energy generation and cogeneration capacity of approximately 112 MW within our Pulp Business.

All of our generation facilities use an "all–all" sale and purchase system, such that all energy generated at our facilities is sold at a specific level of remuneration that includes the price obtained in the Spanish wholesale market, as well as an amount intended to cover the costs (both in terms of our investment in the facility itself and our operational costs) that we are otherwise unable to recover on the Spanish electricity market (the "*Regulated Remuneration*"). All electricity required to power our pulp production processes is subsequently repurchased at a market rate (plus an access toll). For more information on the regulations governing our renewable energy generation activities, please see "*—Our Businesses—Energy Business—Regulation*" and "*Regulation*." Some of the waste and agricultural waste that we use to fuel our independent energy facility at Navia is waste from harvesting activities related to forestry management activities.

Finally, our two other segments within our Pulp Business consist of: (i) the management of eucalyptus plantations (primarily comprised of the globulus variety of eucalyptus) owned by third parties pursuant to long-term forestry management contracts; and (ii) the sourcing, purchase and supply of timber to our facilities, both through the purchase and supply of such timber from third parties in Spain or Portugal, as well as from our own forestry assets, including through overseeing the harvesting and/or transport of this timber to our facilities.

We have over 55 years of experience in the forestry business. As at June 30, 2015, we managed approximately 82,860 hectares of forest plantations, of which we owned approximately 59%, with the remainder being managed in collaboration with third parties. Under typical management arrangements, the land continues to be owned by a third party, whilst we manage the preparation, planting and maintenance of the land. These arrangements usually have a duration of two to three rotation cycles (the period necessary for a tree to grow and reach a harvestable maturity), or approximately 30 years.

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 for our Pulp Business (wood from our plantations accounted for only 3% of our total wood supply as at June 30, 2015) has led us to look for opportunities to divest our forestry asset base and move towards an asset-light forestry management model. We divested 27,780 hectares in Uruguay and an additional 2,608 hectares in Portugal, both of which closed in 2013. We intend to continue to look for opportunities to reduce our forestry asset base in Spain, particularly in our remaining forestry lands in southern Spain where we no longer engage in pulp production, with €37.9 million of energy crop assets expected to be divested during 2015 and 2016. Please see "*Forward-Looking Statements*."

Energy Business

Our other core business is our standalone Energy Business, which corresponds to our reportable segment. Our Energy Business will be operated by subsidiaries designated as Unrestricted Subsidiaries under the Indenture and therefore will not be subject to the restrictive covenants of the Indenture.

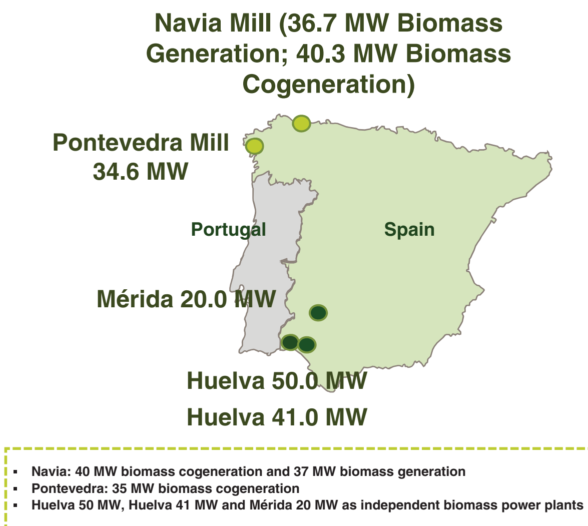
Our Energy Business, which is primarily fuelled by agricultural and forest waste residues (consisting of both wood barks and other wood-based residues related to our own harvesting activities and purchased from third parties), generates renewable electricity independently from the pulp-linked energy we produce as part of our Pulp Business. We sell all of the electricity that we produce in our Energy Business to the national electricity grid in Spain.

We currently operate three standalone energy generation facilities in Spain, located in Huelva and Mérida. Our two standalone energy generation facilities in Huelva are comprised of a 50 MW biomass energy generation facility, which we took possession of in February 2013 following the completion of its construction, and a 41 MW generation installation that was reactivated after the shutdown of our pulp production facility at Huelva. We also operate a 20 MW biomass energy generation facility in Mérida, which we took possession of in September 2014 following the completion of its construction. All of these facilities use an "all–all" sale and purchase system and are entitled to preferential Regulated Remuneration as well as guaranteed sale of the energy generated. For more information on the regulations governing our renewable energy generation activities, please see "*—Our Businesses—Energy Business—Regulation*" and "*Regulation*."

Our 50 MW biomass generation facility at Huelva and our 20 MW biomass generation facility at Mérida have recently been refinanced under a long-term project finance agreement. Please see "*Summary—Current Trading and Recent Developments—Recent Developments—Refinancing of project finance debt of our standalone Energy Business which will form our Unrestricted Group in connection with the Offering*" and "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements—Senior Credit Agreement*."

Our Energy Business currently has a total installed capacity of approximately 111 MW. For the twelve months ended June 30, 2015, our Energy Business produced revenues of €101.4 million (representing 14.9% of our Consolidated Group revenue) and Adjusted EBITDA of €28.9 million (representing 24.2% of our Consolidated Group Adjusted EBITDA). Our three independent energy generation facilities sold energy generating revenues of €40.3 million, including approximately €6.9 million at the Huelva co-generation facility that was shut down in October 2014, during the six months ended June 30, 2014 and €44.0 million in the six months ended June 30, 2015.

Industrial Footprint



We have a high-quality asset base underpinning our strong operating and environmental performance, having invested, between 2009 and June 30, 2015, over €653 million in our consolidated asset base (of which over €369 million was invested in our pulp production assets, including in our pulp production facility at Huelva which is no longer operational).

Following the closure of a pulp production facility located in Huelva, Spain in October 2014 due to, amongst other things, regulatory changes introduced by the Spanish government (please see "*—Our History—Group Efficiency Initiatives and Optimisation of Production*"), the industrial infrastructure for our Pulp Business currently comprises two pulp production facilities and three energy generation facilities located in Navia and Pontevedra, Spain which generate and cogenerate energy by taking advantage of synergies from the industrial process of pulp production. Please see "*—Our Sites and Facilities—Pulp Business sites and facilities*." The industrial infrastructure for our Energy Business is currently comprised of three standalone energy generation facilities, two of which are standalone biomass energy generation facilities and the third a condensation installation, in Huelva and Mérida, Spain. Please see "*—Our Sites and Facilities—Energy Business sites and facilities*."

We support internationally recognised standards on health and safety and voluntarily adhere to applicable environmental and pollution prevention best practices, and also adhere to internationally recognised guidelines on corporate responsibility and sustainability. As at June 30, 2015, approximately 70% of our owned forestry assets were certified under the Programme for the Endorsement of Forest Certification

(“*PEFC*”) scheme and 48% under the Forest Stewardship Council (“*FSC*”) scheme, both of which are internationally recognised certification schemes promoting sustainable forest management. We intend to continue focusing on the sustainability of our production as well as to continue complying with strict environmental standards.

Our History

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 maintain today. In 1987, the Motril facility was sold and, in 1999, we acquired full ownership of Celulosa de Asturias, S.A., which owned the Navia facility. We underwent two partial privatisations in 1990 and 1995 (which included public listings), followed by a full privatisation in 2001. The configuration of our pulp production and forestry activities took place in 1995. We began generating renewable energy in 1997.

Group Efficiency Initiatives and Optimisation of Production

Our company has faced significant market, regulatory and other external changes and demands. Our management has taken action to align our operations to such conditions, including undertaking significant transformation of, and changes in, our strategy over the last eight years, thereby demonstrating our ability to quickly adapt to the changing economic and regulatory environment.

Prior to 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, a greenfield pulp production project in Uruguay, as well as, in line with the then-existing renewable energy regulatory regime in Spain, a pipeline of biomass projects), which were managed with internal financial and construction resources. During this period, our revenue from our energy generation business represented less than 10% of our total revenue, and we financed our biomass expansion projects on our balance sheet. As a consequence of this focus on growth, we were highly leveraged. We also operated a forestry ownership business model with only a limited focus on sourcing wood from third parties.

From 2010 onwards, our management’s focus and strategy shifted from capacity expansion to cost optimisation and efficiency improvements across our pulp production facilities to exploit the business cash flow potential and to better protect our financial performance during challenging macroeconomic periods. As a result, we reduced fixed costs and introduced our Total Quality Management programme in 2011, designed to drive operational efficiencies, balance maintenance capital expenditure requirements across our facilities and significantly improve utilisation rate and productivity levels. In May 2014, we introduced our Competitiveness Recovery Plan aimed at offsetting the negative impact of regulatory changes in Spain that eliminated cogeneration premiums (which we estimate at €59 million on an annualised basis based on the historical performance of our facilities). As part of this strategy, we shut down our pulp production facility in Huelva in October 2014 (which had a one-off negative impact on EBITDA of €43.0 million during the second half of 2014) and eliminated €16 million in annual costs at our remaining pulp production facilities in Navia and Pontevedra and at our headquarters in Madrid, 90% of which had been realised as at June 30, 2015.

In addition, during the six months ended June 30, 2015, we paid €4.9 million in restructuring costs related to the shutdown of our Huelva pulp production facility, although we expect to incur an additional €11 million (provisioned in our June 30, 2015 accounts) in restructuring costs related primarily to the cancellation of contracts in relation thereto during the second half of 2015 and in 2016. We also made efficiency-related investments of €8.7 million during the six months ended June 30, 2015 at our facilities in Navia and Pontevedra out of a total of €29.7 million in such improvements expected to be made during 2015 and 2016, which we estimate will result in total annual savings of approximately €8.4 million (of which €2.4 million is expected to be reflected in our full-year 2015 results, primarily during the second half of the year) at these facilities. During the six months ended June 30, 2015, we implemented a capacity increase of 20,000 tonnes at our Navia pulp production facility, and are in the process of implementing an additional 20,000-tonne capacity increase at this facility (with an associated capital expenditure of approximately €30.8 million, of which €13.9 million had been committed as at June 30, 2015 and with the remaining €16.9 million expected to be spent during the second half of 2015 and in 2016). Please see “*Regulation—*

European Union and Spanish Regulation Governing Our Production Processes Generally—Spanish Framework" and "*Forward-Looking Statements.*"

As a result of our adaptation process, we have been able to significantly reduce our net debt as well as successfully adapt our business, strategy and focus to movements in pulp prices, changes in the regulatory environment and cost pressures. We have also put in place a conservative financial policy, characterised by low leverage and adequate liquidity, which is a fundamental element of our strategy to further enhance the resilience of our business. Please see "*Forward-Looking Statements*" and "*Risk Factors—Risks Relating to Our Pulp and Energy Businesses—We may experience unforeseen difficulties, delays or costs in successfully implementing our business strategy, including cost-cutting initiatives, reductions in capital expenditures and the raising of capital from asset disposals and achieving previously announced targets (including some included in these Listing Particulars), and any such actions may not result in the anticipated benefits.*"

Our Key Strengths

Leading Market Positions

We are the largest BHKP producer in Europe, focused on eucalyptus pulp, with an annual maximum installed capacity of 960,000 tonnes as at June 30, 2015, more than 18% above that of the next largest BHKP producer in Europe. During the twelve months ended June 30, 2015, we exported approximately 86% of our eucalyptus pulp production, primarily to customers in the western European market, the largest global pulp market, where we have a market share of 12%. We hold a leading market position in terms of market share by volume for our pulp products in each of Germany, Spain, Italy and France, the principal markets for our pulp products, which accounted for 27%, 17%, 14% and 8% of our sales volume, respectively, during the twelve months ended June 30, 2015.

We believe that our leading market positions provide us with significant economies of scale and flexibility, and thus a competitive advantage over South American pulp producers in particular. In addition, the adaptation of our pulp production processes to the changing demands of customers for certain types and grades of pulp and for the use of either the elemental chlorine free (ECF) or the totally chlorine free (TCF) bleaching method helps us to retain our leading market positions.

Focus on Key Growth Segments of the Paper Market

The type of pulp that we produce, BHKP, is made from hardwood (eucalyptus), whose shorter fibres make this type of pulp generally better suited to the manufacturing of tissue paper, which is a segment that exhibits particularly strong growth potential in our core markets. Short fibres are also the best type for the manufacturing of wood-free paper with good printability, smoothness, opacity and uniformity. By contrast, pulp made from softwood (or long fibre), such as pine, spruce or fir, has longer fibres and is generally better suited for the manufacturing of paper that requires durability and strength.

The global BHKP market grew at a CAGR by volume of approximately 3.3% over the period from 2011 to 2014, compared to the market for BSKP, which grew at a lower CAGR of 1.4% over the same period. According to RISI, growth in the BHKP market is expected to continue over the period from 2014 to 2019 at a global CAGR by volume of 3.3%, including by a CAGR of 0.4% in Western Europe, primarily driven by continued underlying growth in the demand for tissue, whilst the BSKP market is expected to grow by a CAGR of only 2.0% over this same period. Our hardwood eucalyptus pulp is highly suited to the tissue segment in particular, which accounted for 51% of our pulp sales by volume for the twelve months ended June 30, 2015. According to RISI, demand in the tissue segment is forecasted to grow globally at a CAGR by volume of 3.8% per annum over the period from 2014 to 2019. We believe that our ability to adapt our pulp production process to create specialty pulp products, particularly products intended for the tissue segment, leads to a differentiated and less commoditised product and hence increased customer satisfaction and retention. For example, different customers require different degrees of whiteness or softness in the pulp they use to manufacture various products including decorative paper, cigarette paper and paper for money, which we are able to adapt our production processes to produce. We are also able to produce pulp with different levels of bulk and porosity, as well as types of pulp that do not require significant amounts of processing by end-customers.

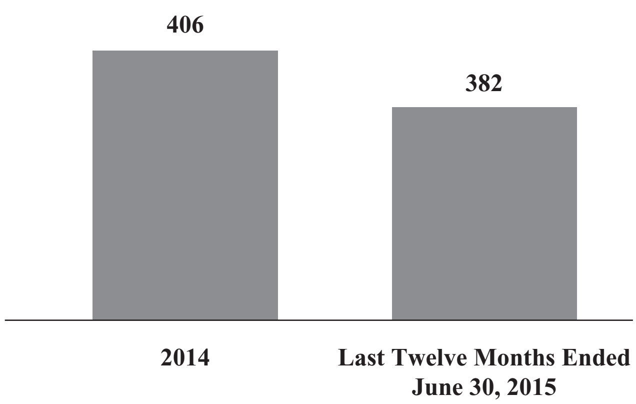
Of the remaining 49% of our pulp sales by volume for the twelve months ended June 30, 2015, 28% came from certain specialty paper and packaging segments, including beauty products and white-top packaging, whilst 21% came from the P&W segment. According to RISI, the specialties and packaging and the containerboard segments are expected to grow globally at a CAGR by volume of 1.6% and 2.4%, respectively, from 2014 to 2019, whilst the P&W and newsprint segments are expected to shrink globally at a CAGR by volume of 0.2% and 2.9%, respectively, from 2014 to 2019. We also believe that because short fibre pulp is primarily used to make household paper products, the BHKP market has been affected significantly less by the trend towards digitalisation that has adversely affected the market for paper used for newspaper, office products and advertising.

Strong Focus on Cost Leadership

Our focus on cost reduction across all of our business activities, including through improving the cost base and production efficiency of our pulp production facilities, shifting from a forestry ownership to a forestry management business model, divesting non-core assets, increasing and stabilising production and reducing overhead costs, has allowed us to optimise our business and run it more efficiently. For example, we introduced our Total Quality Management programme in 2011, which is designed to drive operational efficiencies, balance maintenance capital expenditure requirements across our facilities and significantly improve utilisation rates and productivity levels. More recently, our Competitiveness Recovery Plan, introduced in May 2014, enabled us to quickly and effectively respond to the evolving regulatory environment in Spain, and, in particular, to offset the negative impact of certain regulatory changes resulting from the completion of a structural reform of the Spanish energy industry undertaken by the Spanish government during 2012 and 2013 and which we believe has established a stable energy generation framework under which we can develop our business in the medium- to long-term, through the implementation of a comprehensive cost optimisation strategy. As part of this plan, we completely shut down our pulp production and energy cogeneration activities at Huelva in October 2014, which were no longer profitable due to a reduction in cogeneration premiums, cost inefficiencies at this particular facility and a lack of local timber supplies. At our other facilities at Navia and Pontevedra, we have also increased our focus on automation, which has enabled us to reduce our workforce and other costs, and plan to continue to work to reduce raw material usage and, more generally, to increase operational efficiencies at these facilities.

As a result of these initiatives, our Cash Costs decreased by 5.9% from €406 per tonne in the year ended December 31, 2014 to €382 per tonne in the twelve months ended June 30, 2015. In addition, our Total Costs in the year ended December 31, 2014 and in the twelve months ended June 30, 2015 were €483.7 per tonne and €472.5 per tonne, respectively.

Evolution of Cash Costs
(in € per tonne)



Source: Company.

Strategically Located Production Facilities

Our two pulp production facilities are strategically located along the northern Spanish coast, in close proximity to a significant supply of wood, our core customer base and port terminals. The strategic locations of our pulp production facilities, and our ability to manage the logistics and supply-chain elements of shipping and delivery to 13 different ports, gives us an advantage over South American pulp producers in particular, since this enables us to (i) maintain low transportation costs (using a combination of trucks, trains, vessels and barges), (ii) reduce inventory levels and (iii) provide quality customer service since we are able to respond quickly to our customers' specific product and delivery needs, thus delivering a higher value-added, more specialised and hence less commoditised product directly addressing customer requirements on a timely basis. For example, it would typically take only four days for pulp we ship to reach a customer in Amsterdam, as opposed to the approximately 20 days that we estimate would be required for a competitor located in southern Brazil to ship a similar order of pulp to Amsterdam, not including the time required to process and package the order.

Well-Invested and Efficient Facilities Benefiting from Significant Barriers to Entry

Having invested over €653 million in our consolidated asset base between 2009 and June 30, 2015 (of which over €369 million was invested in our pulp production assets, including in our pulp production facility at Huelva which is no longer operational), we now have cost-efficient, low-maintenance production facilities with improved environmental performance. As a result, we had a 93.5% utilisation rate (excluding routine maintenance stoppages) during the twelve months ended June 30, 2015 at our pulp production facilities in Navia and Pontevedra.

We also benefit from significant barriers to entry in our market, which include the complexity and cost of wood supply, the high investment required in industrial equipment, the significant lead times and financing necessary to build new production facilities, the required regulatory consents, the establishment of customer relationships with large paper companies and the development of the necessary logistics expertise to provide certainty of supply to such customers.

Due in large part to the shutdown of the pulp production facility in Huelva in October 2014 and the capital improvements at our facilities in Navia and Pontevedra, we expect our maintenance capital expenditure (excluding expansion programmes and restructuring costs related to the shutdown at Huelva) for our Pulp Business, which amounted to €18.8 million during the year ended December 31, 2014 and €12.3 million during the six months ended June 30, 2015, to remain low, at approximately €20 million to €30 million per annum. Please see "*Forward-Looking Statements*."

Cash Generation Underpinned by a Strong Balance Sheet

For the twelve months ended June 30, 2015, we generated Consolidated Group unlevered operating free cash flow (excluding expansion capital expenditures) of €74.0 million.

We have successfully reduced our Restricted Group net debt from €178.3 million as at December 31, 2014 to €160.8 million as at June 30, 2015 for our Pulp Business.

Experienced and Proven Management Team Complemented by a Supportive Shareholder Base

We have an experienced, proven and fully committed management team with a history of successfully managing both our Pulp Business and our Energy Business through several industry cycles. Our management team has an average operating experience of over 13 years in both the pulp and paper and renewable energy sectors, including within highly ranked multinationals. Our senior management team also includes individuals with strong backgrounds in applying cost reduction techniques and cost efficiency initiatives in an industrial setting, as well as significant experience in treasury management and financial reporting.

Our major shareholders as at the date of these Listing Particulars remain fully committed to the business. Our largest shareholder, Retos Operativos XXI, S.L., has held a shareholding interest in excess of 20% of our shares since 2007. In addition, Juan Luis Arregui, who represents the interests of Retos Operativos XXI, S.L., which currently owns 26.5% of our shares, is currently the Chairman of our Board of Directors.

Our Strategy

For our Pulp Business, our strategy is to conservatively grow this business organically using only local timber supplies and with a focus on harnessing operational efficiencies from our pulp production and cogeneration facilities. We intend to achieve this strategy through the continual improvement of the operational performance of our existing pulp production facilities and by focusing on strict cost reduction and efficiency, stability of production, delivering superior customer satisfaction and maintaining an efficient equilibrium between pulp production and forestry supply management. In addition, we intend to continue maximising cash flow generation through strategic capital expenditures and a conservative financial policy. We also intend to continue to explore opportunities to grow our Pulp Business through limited capacity expansions in order to optimise the balance of efficiency and cost reductions.

For our standalone Energy Business, we intend to employ a separate strategy of selective expansion, as well as to leverage our extensive experience in building and operating standalone biomass-based renewable energy generation facilities in order to optimise efficiency at our existing facilities.

Maintain Low-Cost, Efficient Pulp Production with a Focus on International Markets

We believe that we are amongst the lowest-cost pulp producers in Europe, largely as a result of our significant past investments in our production facilities, resulting in well-invested, cost-efficient production facilities with high utilisation rates and expected low maintenance capital expenditures. Our cost leadership is also underpinned by the strategic location of our production facilities. We seek to further optimise our production process and improve the cost efficiency at all of our facilities. Our strategy is to do so by leveraging the operational advantages that our integrated business model, including our pulp-linked energy generation and forestry activities, provide, thereby reducing the need for further investments and further enhancing our competitiveness, profitability and cash generation. We strive to continuously increase the productivity of our Pulp Business (as measured by tonnes 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, including through strong management attention to these indicators and through internal processes which ensure the sharing of best practices across our facilities.

In May 2014, we introduced our Competitiveness Recovery Plan, aimed at offsetting the negative impact of regulatory changes in Spain that eliminated cogeneration premiums (which we estimate at €59 million for 2014 on an annualised basis). In October 2014, as part of this strategy, we shut down our pulp production facility in Huelva, Spain in the wake of losses for three consecutive quarters as a result of the reduction in cogeneration premiums, cost inefficiencies at this facility and the lack of local timber supplies. This resulted in a reduction of our installed annual pulp production capacity to 940,000 tonnes from the previous 1,340,000 tonnes. Whilst year-on-year energy sales had increased between 2009 and 2013, the shutdown also resulted in the loss of 77 MW of cogeneration capacity, thus reducing our total energy generation capacity from our Pulp Business to 112 MW. As part of the Competiveness Recovery Plan, we have also implemented a 20% reduction in our workforce, as well as a reduction of €16 million of annual costs at our remaining pulp production facilities in Navia and Pontevedra and at our headquarters in Madrid, 90% of which had been realised as at June 30, 2015, and also made efficiency-related investments of €8.7 million during the six months ended June 30, 2015 at our facilities in Navia and Pontevedra out of a total of €29.7 million in such improvements expected to be made during 2015 and 2016, which we estimate will result in total annual savings of €8.4 million (of which €2.4 million is expected to be reflected in our full-year 2015 results, primarily during the second half of the year) at these facilities. We are also in the process of implementing a 40,000-tonne capacity increase (of which 20,000 tonnes has already been completed, thus resulting in a total installed annual pulp production capacity as at June 30, 2015 of 960,000 tonnes) at our Navia pulp production facility (with an associated capital expenditure of approximately €30.8 million, of which €13.9 million had been committed as at June 30, 2015 and with the remaining €16.9 million expected to be spent during the second half of 2015 and in 2016). Please see "*—Our History—Group Efficiency Initiatives and Optimisation of Production*," "*Regulation—European Union and Spanish Regulation Governing Our Production Processes Generally—Spanish Framework*" and "*Forward-Looking Statements.*"

Additionally, we seek to maintain and strengthen our leading market positions across Europe, maintaining a diversified client base with long-standing customer relationships in such key countries as Germany, Spain, Italy and France, expanding pulp sales in the high growth tissue market and maintaining a selective approach to other international markets such as Eastern Europe and China.

Continue Shift to Asset-Light Forestry Supply Management Model

As part of a broader move towards an asset-light forestry supply management model, we intend to continue to focus on selectively divesting our owned forestry asset base and managing plantations owned by third parties whilst at the same time increasing our direct purchases of standing timber from local landowners, which we believe will enable us to reduce costs derived across the entire wood value chain. Leveraging our 55 years of experience in the forestry business, we aim to increase our collaboration with plantation owners through long-term agreements and shared know-how on forestry management and logistics, thereby ensuring the long-term availability of wood from local supplies. We also intend to continue to focus on increased purchases from small suppliers in order to leverage our purchasing power and diversify our wood supply sources. Currently, we are able to source 100% of our wood supply from the open market, principally from suppliers in Spain and Portugal. We have also already significantly reduced the percentage of imported wood (which can be up to 50% more expensive than wood sourced from Spain and Portugal due to transportation costs) within our wood supply, which has further reduced costs and improved our efficiency.

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

Our strategy across all of our business activities underpins our focus on continued strong free cash flow generation whilst maintaining a conservative financial policy, which includes the continuing divestiture of certain non-core assets and cost optimisation. In past years, we have successfully reduced our net debt by using proceeds from disposals from our Uruguayan and Portuguese forestry assets. We seek to further optimise capital expenditures and working capital in order to maintain our leading cash conversion capabilities amongst our European peers. For example, a strong focus on cash generation has led to a reduction in our net debt (excluding project finance debt) from €200.7 million as at December 31, 2012 to €150.4 million as at June 30, 2015 despite changes in energy regulations and the implementation of our restructuring process.

Selective Further Expansion of Our Energy Business

We will operate our Energy Business through Unrestricted Subsidiaries within the meaning of the Indenture governing the Notes offered hereby. We aim to leverage our extensive experience in building and operating standalone biomass-based renewable energy generation facilities to optimise efficiency at our existing facilities as well as to grow selectively in the biomass renewable energy sector by developing profitable opportunities both domestically and internationally that fulfil our disciplined return-on-investment and operational criteria. We also intend to continue to selectively explore and potentially pursue opportunities for further expansion in the biomass renewable energy sector in Spain as well as in other jurisdictions that offer attractive regulatory regimes for such investments.

Going forward, we expect that the Unrestricted Group will be financed independently from the Restricted Group using the Energy Business' own cash flows and credit fundamentals, as well as through proceeds from the sale of certain assets (currently classified as "held for sale" within our financial statements) that we no longer consider central to our business model. We intend to finance any potential expansion opportunities on a non-recourse project finance basis and transfer the execution risk to engineering, procurement and construction ("*EPC*") providers, and we anticipate approaching international opportunities through carefully vetted strategic partnerships in order to reduce our equity contribution whilst proactively managing associated risks.

Our Businesses

Pulp Business

Our pulp activities comprise managing the production of pulp at our two pulp production facilities in Navia and Pontevedra, Spain (and, until October 2014, at our former pulp production facility in Huelva, Spain).

The combined nominal production capacity of our two pulp production facilities is 960,000 tonnes per annum and, during the twelve months ended June 30, 2015, the combined utilisation level of these two facilities was 93.5%.

The pulp that we produce is used for the manufacture of tissue (including hygienic tissues, facial tissues, kitchen tissues, wrapping tissue, toilet paper and table napkins), specialty paper and packaging (including packaging for beauty products, labels, cigarette papers, currency, coasters and décor paper), and P&W paper, with the principal western European paper producers being our primary clients.

Pulp Production and Sales

Pulp Production

We produce short-fibre chemical pulp exclusively from eucalyptus timber.

Two types of wood pulp can be produced. Pulp made from hardwood (or short fibre), such as eucalyptus, aspen, birch or acacia, has shorter fibres and is generally better suited for the manufacturing of, for example, tissue papers and P&W papers. Short fibres are the best type for manufacturing wood-free paper with good printability, smoothness, opacity and uniformity. Pulp made from softwood (or long fibre), such as pine, spruce or fir, has longer fibres and is generally better suited for manufacturing paper that requires durability and strength.

We use the Kraft process, which consists of treating wood chips with a mixture of sodium hydroxide and sodium sulphide to break the bonds linking the lignin to the cellulose, in our pulp production facilities. Our pulp production facility in Navia, Spain, produces pulp by using the 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 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 utilisation as at and for the twelve months ended June 30, 2015 for each of our facilities are detailed below:

Type of Bleaching Process Used/Facility	Average installed capacity (tonnes/ year)[(1)]	Production (tonnes)	Percentage utilisation (twelve-month average)
Navia	500,000	477,231	95.4%
Total ECF	**500,000**	**477,231**	
Pontevedra	440,000	402,018	91.4%
Total TCF	**440,000**	**402,018**	
Total	**940,000**	**879,248**	**93.5%**

(1) Pulp production installed capacity for a particular period represents the average installed capacity during such period. In June 2015, a capacity increase of 20,000 tonnes was completed at our pulp production facility at Navia, thereby increasing our pulp production installed capacity at Navia to 520,000 tonnes/year and our total pulp production installed capacity to 960,000 tonnes/year.

In addition to eucalyptus timber, received in the form of logs (mainly with bark) or in the form of chippings, 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, and antifoaming and dispersion agents are also used.
- *Lignin.* 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 fibres) present in the wood, thus causing the cellulose fibres to separate. The resulting mixture is washed with water in a virtually closed circuit, separating the dissolved lignin from the suspended cellulose fibres 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 a 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 cogeneration 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. Please see "*Risk Factors—Risks Relating to Our Pulp and Energy Businesses—We may be materially adversely affected if operations at the pulp production, energy generation, transportation, storage, distribution and port facilities we own or utilise were to experience significant interruptions or suffer any mechanical failures or difficulties.*" In addition, we sometimes experience labour disturbances, including strikes, at our pulp production facilities. Please see "*—Employee Matters*" and "*Risk Factors—Risks Relating to Our Pulp and Energy Businesses—A large percentage of our employees are unionised and wage increases or work stoppages by our unionised employees may have a material adverse effect on our business.*"

Customers

During the twelve months ended June 30, 2015, our top ten customers by pulp volume sold accounted for 54.9%, and our top 50 customers accounted for 95.0%, of our consolidated revenues from sales of pulp.

We principally sell to customers in western European markets where we are able to leverage our logistical advantages. Our most important markets are Germany, Italy, Spain and France. It is our strategy to have a diversified customer base. Within Europe, for the twelve months ended June 30, 2015, we exported by volume 27% of our eucalyptus pulp production to Germany, 17% to Spain, 14% to Italy, 8% to France, 20% to other western European markets and 12% to eastern European markets. The remaining 2% by volume of our eucalyptus pulp production was exported to countries outside Europe.

We have long-standing 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 to supply their requirements during the following year, which can account for up to 100% of our yearly pulp sales. For example, for the year ended December 31, 2015, we had signed annual contracts by January 1, 2015 that totalled almost 100% of our expected pulp sales for this year. These contracts outline agreed sales volumes and product specifications (including certifications), and provide the basis for any agreed commercial discounts that will be applied to any purchases by a particular customer. These contracts also typically 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. Annual pulp contracts for larger customers usually specify a total volume in tonnes and the distribution of deliveries to the relevant customer's facilities. We invoice on delivery, with payment generally settled between 30 to 90 days following such invoice, depending on the customer and market practice in the buyer's country. Delivery logistics are coordinated centrally in Madrid. Because our prices are usually set on a Cost, Insurance and Freight (CIF) basis, i.e. including freight and insurance, 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. Under these circumstances, we retain the risk of loss for our products until delivery is made at the point of delivery specified by the customer. Please see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk—Credit Risk*" for information regarding our credit insurance policies.

Logistics

Most of our pulp deliveries are to customers in 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 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. Further, the flow of goods from northern Europe to southern Europe around Spain and Portugal is greater than the reverse, which enables us to operate in a market with a surplus of logistical resources, including ships, that would otherwise be forced to return to northern Europe empty or not filled to capacity, enabling us to obtain lower logistics costs when shipping our goods to northern Europe.

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

These facilities are designed to provide us with the manufacturing flexibility to tailor our pulp products to the specifications of each individual client. This, and our relative proximity to the majority of our clients, gives us an additional advantage over our Latin American competitors, which, given the logistical difficulties in accessing Europe, tend to ship pulp of a single grade in bulk.

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 unsold pulp is stored in covered buildings located close to our pulp production facilities for less than 20 days. Different products are clearly marked and stored separately. In addition, to ensure that our high standards in quality assurance are met, damaged and/or contaminated pulp is identified and stored separately.

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 out in our pulp production facility management systems. Further, since December 2008, all of our pulp facilities have been required to receive a corresponding Integrated Environmental Authorisation, 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, 2012, which develops certain aspects of the allocation of allowances (the "*Spanish Greenhouse Regulation*") implementing Directive 2009/29/EC with regard to greenhouse gas emission rights for carbon dioxide. Under the Spanish Greenhouse Regulations we are required to obtain certain greenhouse gas emission authorisations. From January 2013 to January 2020, our regulatory allocation of CO_2 rights was reduced from an average of 657,970 tonnes annually in the period from 2008 to 2012, to an average of 137,473 tonnes annually, which creates a deficit for our operational requirements. However, we secured sufficient emissions rights to conduct our activities and are contractually committed to the forward purchase of allowances covering a total of 601,000 tonnes, including 401,000 tonnes at a price of €15.69/tonne exercisable in December 2015 and 200,000 tonnes at €15.79/tonne exercisable in December 2016. Following the termination of the pulp production activity in Huelva, including a gas cogeneration facility with a capacity of 50 MW (the main consumer of CO_2 emission rights in our group), it is estimated that some of the rights which we have committed to purchase, amounting to approximately 288 tonnes of rights, will not be used during the period of the current EU plan for 2013–2020. Therefore, for accounting purposes, a market valuation has been used, which has led to the recognition of a provision of €2.4 million.

Energy Cogeneration

Our cogeneration installations generate both electricity and steam that are used in the pulp production processes at Navia and Pontevedra. Our efforts are focused on reducing steam consumption in order to maximise the amount of electricity that will be sold to the grid. We subsequently repurchase from the grid the electricity we generate in order to use it for our own purposes, with an annual net effect on EBITDA ranging from €1.0 million to €3.0 million due to the price differential between energy sold and our energy purchases. In addition, the Navia complex has two condensing turbines to maximise the quantity of energy generated from biomass.

Our energy sales by location and installed capacity in MW for the twelve months ended June 30, 2015 were as follows:

	Twelve months ended June 30, 2015	
	(total sales in GWh)	**(installed capacity in MW)**
Pontevedra	202.0	34.6
Navia	488.4	77.0
Total	**690.4**	**111.6**

Forestry Management

We have over 55 years of experience in the forestry business. Our forestry activities currently consist of two distinct activities: (i) the management of eucalyptus plantation assets, which are comprised primarily of the globulus variety of eucalyptus; and (ii) the facilitation of the sourcing, purchase and supply of eucalyptus timber to our facilities, both from our own forestry assets (around 3%) and through the purchase and supply of such timber from third parties (around 97%) in Spain and Portugal.

Wood represents the largest portion of the cost of the production of pulp. Whilst we previously sourced wood through direct purchases from large and small local and international suppliers, and from our own forestry assets, we now focus on increasing direct purchases of standing timber from local landowners so as to reduce the costs derived across the entire wood value chain and increase visibility on the availability of wood for our facilities. By increasing the proportion of our total wood supply sourced locally, we have significantly reduced our reliance on wood imports. As a result of the continuing implementation of this strategy, the proportion of imported wood within our total wood supply decreased from 11.4% during the year ended December 31, 2012 to 4% during the twelve months ended June 30, 2015, and following the closure of our pulp production facility at Huelva in October 2014, we no longer need to import wood.

For the twelve months ended June 30, 2015, our forestry activities produced revenues of €18.5 million, representing 2.8% of our total revenue.

Management

As at June 30, 2015, we managed approximately 82,860 hectares of forest plantations in Spain and Portugal, of which we owned approximately 59%, with the remainder being managed in collaboration with third parties.

Where we manage forests on behalf of third parties, the owner will retain the ownership of the land whilst 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 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 programme seeks to achieve greater productivity of future assets by applying forestry technology (primarily consisting of planting techniques and treatments, land preparation, fertilisation 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 and Navia, Spain. We planted 64.1 hectares during the twelve months ended June 30, 2015.
- *Maintenance.* We carried out conservation and forestry work on 4,349 hectares during the twelve months ended June 30, 2015.
- *Harvesting.* The crop cycle for pulp wood is ten to 14 years. We harvested 79.1 thousand m^3 from our owned plantations during the twelve months ended June 30, 2015.

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

As at June 30, 2015, 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	15,640	**2,997**	19.2%
Southwest Spain	64,623	**46,150**	71.4%
Portugal	2,597	**0**	—
Total	**82,860**	**49,147**	**59%**

During the twelve months ended June 30, 2015, our total investments in forests in the Iberian Peninsula amounted to €9.4 million.

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 only 3% of our total wood supply during the twelve months ended June 30, 2015) 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 an agreement to divest 2,608 hectares in Portugal in December 2013. We intend to continue to look for opportunities to reduce our forestry asset base in Spain, with €37.9 million of energy crop assets in particular expected to be divested during 2015 and 2016.

Our RD&I has reduced the acquisition cost of our raw materials compared with the cost of purchasing from suppliers. However, according to the new remuneration parameters included in RD 413/2014 issued by the Ministry of Industry, the specific energy crop tariffs are to be eliminated and are expected to ultimately have the same remuneration as forestry and agricultural waste, thereby damaging the profitability of our energy crop plantations. We have therefore stopped investing in energy crops and intend to progressively dismantle these plantations. As part of our estimation of the quantitative impact of the application of these regulations, we have already recognised an impairment loss amounting to a total of €63.7 million, of which €26.9 million was recognised during the year ended December 31, 2013 and the remaining €36.8 million recognised during the year ended December 31, 2014.

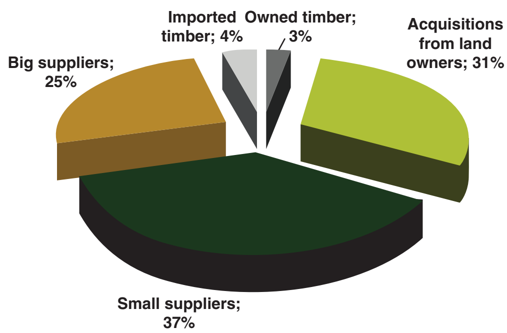
We also engage in RD&I activities related to our forestry activities as well as activities focusing on health and safety at work and environmental, quality and forestry activity sustainability management systems, all of which are fully integrated in the day-to-day management of our forestry activities.

As at June 30, 2015, the net book value of the standing timber in our owned forest plantations was €87.6 million.

Timber Supply

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 and certain third-party suppliers. During the twelve months ended June 30, 2015, we sourced our timber as follows:

Forestry Supply in Twelve Months Ended June 30, 2015



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 favourable conditions for the development of forest plantations, and where current wood growth and availability is in excess of our timber requirements.

- *Own wood.* Although we have been providing 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—Continue Shift to Asset-Light Forestry Supply Management Model*."
- *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 continue increasing 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 silviculture 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.
- *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. On average the timber is delivered from locations within 100 kilometres of 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 whilst simultaneously reducing costs. We are not reliant on any particular supplier and we believe that we will have access to significant quantities of timber for the foreseeable future.

- *Imports.* We define "imports" as timber sourced from outside Spain and Portugal. Since the shutdown of our pulp production facility in Huelva in October 2014, we no longer need to import wood.

In addition to sourcing, our forestry activity includes the harvesting of timber and the logistics of delivering this timber to our facilities when these services are not provided by the seller of the wood. We have been focusing on the mechanisation of the harvesting process in order to generate cost savings and, when the timber must be manually harvested, we outsource the harvesting. On the logistics side, we monitor the transportation of wood by subcontractors in order to decrease inefficiencies.

Energy Business

We are a biomass renewable energy generator. We generate renewable electricity independent from our pulp production, primarily fuelled by biomass from energy crops and forestry residues (mostly consisting of wood barks and other wood-based residues related to harvesting activities). We sell all of the electricity that we produce to the national electricity grid in Spain.

Production Process

We operate three standalone biomass energy generation facilities in Spain, located in Huelva and Mérida. Our first standalone biomass power facility 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 February 2013, following the successful completion of a test phase in December 2012. The Huelva standalone biomass energy facility was specifically designed to produce electricity from energy crops and forestry waste and is currently the largest biomass energy facility supplying electricity to the Spanish electricity grid. We also own a 20 MW biomass energy facility in Mérida, Spain, which received its definitive commissioning certificate on March 31, 2014. We took ownership of this facility from our EPC in September 2014. The renewable biomass energy facilities in Huelva and Mérida are entitled to receive the Regulated Remuneration. Please see "*Regulation*."

Our energy sales by location and installed capacity for the twelve months ended June 30, 2015, by location, were as follows:

	Twelve months ended June 30, 2015	
	(total sales in GWh)	(installed capacity in MW)
Huelva 50 MW	327.6	50 MW
Mérida 20 MW	143.6	20 MW
Huelva 41 MW	126.6	41 MW
Total	**597.8**	**111 MW**

For the twelve months ended June 30, 2015, our electricity sales from our Energy Business produced revenue of €83.9 million, representing 12.7% of our total revenue.

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, amongst others.

The biomass which we currently use as raw material for renewable energy generation originates from 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.

We have experience and know-how in the 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 lower cost.

Regulation

On July 12, 2013, Royal Decree Law 9/2013 adopted urgent measures to guarantee the financial stability of the national electricity grid, amending the Electricity Act and the "special regime remuneration system" and providing for a transitional period until the effective date of Royal Decree 413/2014 and Ministerial Order IET/1045/2014. Amongst other measures, this law repealed RD 661/2007 and article 4 of RDL 6/2009, which created the pre-allocation registry, in preparation for the current remuneration regime. The main characteristic of the regime included guaranteeing a pre-tax return on investment in Renewable Energy Facilities equivalent to the yield on the ten-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 eliminated the supplement for efficiency and the reactive energy bonus. On June 6, 2014, Royal Decree 413/2014 established the regulatory framework for renewable energy sources, cogeneration and waste and, on June 16, 2014, Ministerial Order IET/1045/2014 established the remuneration parameters for such energy, both of which are retroactively effective from July 14, 2013. Please see "*Risk Factors—Risks Relating to Our Pulp and Energy Businesses—Regulatory changes have affected our business historically and any future changes may have an adverse effect on our electricity generating activities*."

Conversely, we acquire the electricity necessary to supply our production processes at the pool price plus an access toll (payable by persons accessing the national electricity 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 national electricity grid and all electricity required by the facilities to cover production process needs is purchased from the national electricity grid.

All facilities with an installed capacity exceeding 10 MW (and groupings of power generation facilities amounting to 10 MW or more) must be built or connected to a generation control centre (*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 in order to ensure the reliability of the electricity system at all times. We have our own generation control centre which is responsible for the operation as well as the negotiation of energy in the electricity market. Our generation control centre 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 CNMC, the Ministry of Industry, Energy and Tourism and other industry public authorities. Please see "*Regulation*."

Ancillary Businesses

In addition to our three primary activities, we also have several ancillary activities, including our RD&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 ancillary RD&I activity covers the whole spectrum of our activities, from the cultivation of raw materials through to the production process. Our RD&I activity is focused on three basic objectives:

- in pulp production, producing ecological paper pastes of improved quality and at competitive costs through the improvement of pulp manufacturing processes;
- in energy generation, optimising renewable energy products as measured in Kcal per hectare per year; and
- in forest management, increasing forestry productivity as measured in tonnes of final cellulose per hectare planted per year.

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

Our Sites and Facilities

Pulp Business sites and facilities

Navia

Our Navia facilities are situated on land owned by us which measures approximately half a million square meters. Following the completion of a 20,000-tonne capacity increase at our pulp production facility at this site in June 2015, our Navia pulp production facility had, as at June 30, 2015, a capacity of approximately 520,000 tonnes of pulp annually. We are in the process of implementing an additional 20,000-tonne capacity increase at this facility which is expected to be completed by the second half of 2016 (with an associated capital expenditure for the 40,000-tonne capacity increase of €30.8 million, of which €13.9 million had been committed as at June 30, 2015 and with the remaining €16.9 million expected to be spent during the second half of 2015 and in 2016). At this facility, we use the ECF process to perform the bleaching of the pulp. This process uses chlorine dioxide instead of elemental chlorine gas during the bleaching process, thus preventing the formation of dioxins and other carcinogens. During the twelve months ended June 30, 2015, the pulp production facility at Navia produced a total of 477,231 tonnes of pulp.

There are also two electricity facilities with a total installed nominal power of 77.0 MW on-site: CEASA NAVIA I (an electrical biomass cogeneration facility of 40.3 MW) and BIOMASA CEASA (an electrical biomass generation facility of 36.7 MW). During the twelve months ended June 30, 2015, these two facilities together produced a total of 520.4 GWh of energy which was sold to the Spanish national grid at the Regulated Remuneration on operations (in €/MWh produced, up to a cap on production hours per year), calculated to cover, when appropriate, the standard operating costs (defined according to a standard installation applicable in each case) not recovered through the sale of electricity at the expected wholesale market price. All the energy produced at Navia is then repurchased and used in the pulp production process.

Pontevedra

Our pulp production facility at Pontevedra has a maximum production capacity of 440,000 tonnes of pulp annually. At this facility, we use the TCF process to perform the bleaching of the pulp. This process uses an oxygen bleaching process (typically utilising hydrogen peroxide) instead of the chlorine dioxide that is used in the ECF process. During the twelve months ended June 30, 2015, our pulp production facility at Pontevedra produced a total of 402,018 tonnes of pulp.

We also have an electrical biomass cogeneration facility situated on this site, which is composed of two counter-pressure turbines of 8.0 MW and 26.6 MW, respectively, with a combined total installed nominal power of 34.6 MW. During the twelve months ended June 30, 2015, this facility produced a total of 209.3 GWh of energy and generated a total of 202.0 GWh in electricity sales. This facility currently sells its energy to the Spanish national grid at the Regulated Remuneration on operations (in €/MWh produced, up to a cap on production hours per year), calculated to cover, when appropriate, the standard operating costs (defined according to a standard installation applicable in each case) not recovered through the sale of electricity at the expected wholesale market price.

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, although according to the subsequent Coast Act the expiry date of the concession would be July 2018.

On October 10, 2014, Spanish Royal Decree 876/2014, implementing the General Coast Regulations (which took effect on October 12, 2014) and the amended Coast Act passed in May 2013, established the legal framework governing the renewal of concessions located on public-domain coastal land. This new regulation gives us the right to extend the concession for a maximum of 60 years from the date the application for such an extension is filed.

On November 11, 2013, we asked the State Administration to grant us an extension of the concession for up to the maximum term permitted by law, which we reactivated on July 31, 2015 following a decision by the Ministry for Agriculture, Food and the Environment on July 30, 2015 that the concession should be partially terminated, with such partial termination not affecting the land on which our pulp production facility is located or that is otherwise essential to our pulp production activities at this site. We are currently awaiting the issue of the environmental report from the government of Galicia which is necessary to extend the concession, which we believe will be favourable, after which the Ministry for Agriculture, Food and the Environment may expressly approve the extension of the concession. However, we cannot guarantee that the extension will be granted or, in the event that it is, the term of such an extension. Please see "*Risk Factors—Risks Relating Exclusively to Our Pulp 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*" and "*—Legal Proceedings and Tax Audits*."

Huelva pulp production facility

Our Huelva pulp production facility had a maximum production capacity of approximately 410,000 tonnes of pulp annually. We also had three electricity generation facilities situated on the site of the Huelva pulp production facility: CENER I (a natural gas cogeneration facility with a nominal installed power of 49.94 MW), CBIO (an electrical biomass cogeneration facility with a nominal installed power of 27.50 MW) and CENER II (a condensation installation with a nominal installed power of 40.95 MW, using biomass as fuel), with a combined total installed nominal power of 118.4 MW. However, on September 4, 2014, we announced plans to transform the Huelva complex, which had been adversely affected by a reduction in cogeneration premiums, cost inefficiencies and a lack of local timber supplies, into a renewable energy facility, thus discontinuing the production of pulp and our related cogeneration activities at this site. Pulp production at our Huelva pulp production facility ceased on October 11, 2014 and a closure agreement was reached with the facilities employees on October 20, 2014.

Energy Business sites and facilities

Huelva energy production facility

When the Huelva pulp production facility closed, we decided to keep the condensation installation CENER II operational, with energy generation at this facility resuming on November 1, 2014 after being temporarily shut down for one month following the shutdown of the pulp production facility in October 2014.

CENER II is a condensation installation that uses biomass as a fuel with a nominal installed power of 40.95 MW, comprised of a turbo alternator. This facility currently uses forestry and agricultural waste as fuel. During the year ended December 31, 2014 and the twelve months ended June 30, 2015 (including a one-month shutdown in October 2014), this facility produced a total of 86.3 GWh and 155.3 GWh of electricity, respectively. Prior to being temporarily shut down in October 2014, the Huelva co-generation facility generated 86.3 GWh during the six months ended June 30, 2014. During the twelve months ended June 30, 2015, the 41 MW facility at Huelva generated a total of 126.6 GWh in electricity sales.

In addition, in September 2012, a 50 MW standalone biomass generation facility at a nearby site in Huelva, Spain became operational following the completion of its construction, which had been conducted through Ence Energía Huelva, S.L.U. This facility was specifically designed to produce electricity from agricultural and forestry waste. The test phase for this facility was completed in December 2012, with its ownership subsequently transferred from our EPC contractor to us in February 2013. Our standalone biomass generation facility at Huelva is entitled to sell all of the energy it produces at the Regulated Remuneration. During the year ended December 31, 2014 and the twelve months ended June 30, 2015, this facility produced a total of 202.9 GWh and 345.9 GWh of electricity, respectively. During the twelve months ended June 30, 2015, the 50 MW facility at Huelva generated a total of 327.6 GWh in electricity sales. The Huelva facility has a maximum energy generation allowance of 6,500 hours per year which, multiplied by its installed capacity, allows for a total generation of 325 GWh.

Mérida

In September 2014, we took possession of our second standalone biomass generation facility, a 20 MW facility located in Mérida, Spain. The construction of this facility had been conducted through ENCE Energía Extremadura, S.L.U., with the facility receiving its Definitive Certificate of Commissioning from the Extremadura Department of Agriculture, Rural Development, Environment and Energy on March 31, 2014, which enabled it to begin supplying energy to the Spanish electrical grid. This facility, like our other standalone biomass generation facility in Huelva, was specifically designed to produce electricity from energy crops and forestry waste, and is entitled to sell all the energy it produces at the Regulated Remuneration. During the year ended December 31, 2014 and the twelve months ended June 30, 2015, this facility produced a total of 83.0 GWh and 146.8 GWh of electricity, respectively. During the twelve months ended June 30, 2015, the facility at Mérida generated a total of 143.6 GWh in electricity sales. The Mérida facility has a maximum energy generation allowance of 6,500 hours per year which, multiplied by its installed capacity, allows for a total generation of 130,000 MW.

Raw Materials

For our Pulp Business, the principal raw materials used to manufacture our products are wood, energy, water and chemicals. We believe that we have access to adequate sources of the raw materials necessary to ensure that there is no interruption to our required supply of such materials for the foreseeable future.

Wood. Eucalyptus wood is the principal raw material used by us to manufacture pulp. Wood Costs accounted for over 50% of our Cash Costs during the years ended December 31, 2012, December 31, 2013 and December 31, 2014 and during the six months ended June 30, 2015. The price we pay for 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. Although we maintain our own timber resources based on plantations that we own or manage, the majority of the wood we use is sourced from third parties from plantations in Spain and Portugal. Our wood supply contracts are typically evidenced by written contracts of one year's duration that specify the amount of wood to be purchased in that particular year as well as the type of wood required, the frequency and point of delivery and certification specifications. Suppliers are responsible for the harvesting of the wood and its transportation to either Navia or Pontevedra. Invoices are produced at delivery and payment is typically remitted by us within 30 days.

Energy. Energy costs for electricity also constitute a significant component of our costs. During the years ended December 31, 2012, December 31, 2013 and December 31, 2014 and during the six months ended June 30, 2015, energy costs were equivalent to 19.7%, 22.2%, 20.2% and 12.1%, respectively, of our consolidated Cash Costs. We also make use of non-biomass fuels, which accounted for approximately 6.8%, 6.3%, 6.6% and 5.5% of our Cash Costs during the years ended December 31, 2012, December 31, 2013 and December 31, 2014 and during the six months ended June 30, 2015, respectively. The non-biomass fuels that we use in our operations are composed primarily of fuel oil, propane and petroleum coke and are produced as waste from our pulp production process and purchased from third parties. The fuel supply contracts are typically evidenced by written contracts for durations of one year or one month, but are typically extended for subsequent periods. The contracts specify a maximum price of fuel for the duration of the agreement, with a reference point to the current market price of fuel and adjustments to be made based on price fluctuations. The contracts also specify a minimum amount of fuel to be delivered on a monthly basis.

Chemicals. Chemical costs accounted for approximately 11.0%, 10.2%, 8.6%, and 8.2% of our Cash Costs during the years ended December 31, 2012, December 31, 2013 and December 31, 2014 and during the six months ended June 30, 2015, respectively. We use a number of chemicals, including caustic soda, cryogenic oxygen, EDTA, sodium chlorate, hydrogen peroxide, sulphate 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. We purchase these chemicals from third parties. These supply contracts are typically multi-year agreements, with prices negotiated between the parties based on a number of market factors (for example, the average price of other suppliers with quotes in writing or mathematical adjustments to the price based on fluctuations in market prices) and specify the minimum amount to be supply on an annual basis. Approximately 60% of the chemicals we use tend to have their prices closely linked to that of electricity.

The prices of certain raw materials are subject to commodity price fluctuations, and generally the relevant contract includes an index mechanism which recalculates the cost according to an industry benchmark. In addition, due to competitive pressures, the prices of our products are not always correlated with increases and decreases in the cost of raw materials. Please see "*Risk Factors—Risks Relating Exclusively to Our Pulp Business—The market prices for our pulp products are cyclical*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results of Operations—Pulp Business—Costs of Raw Materials*."

Competitors

We sell the majority of the pulp we produce to customers in the western European market, due in part to a shortage of fibre 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 and Cenibra in Latin America.

Whilst historically Latin American producers have been the low variable cost producers in the industry, inflationary pressures and currency appreciation have closed 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. We also differentiate ourselves from our competitors by providing a flexible, low-cost and high-value service, including sales and distribution support. We also provide technical support for both pulp and paper production. Our production process is tailored to customer preferences on pulp grade and type, since, amongst other capabilities, we are able to produce both TCF and ECF processed pulp. In addition, the pulp we produce from eucalyptus globulus is generally considered to be better suited for the production of certain paper grades due to its unique characteristics, which differentiate it from the pulp produced by our Latin American competitors from eucalyptus urograndis. Further, our proximity to European clients is an advantage to us because we are able to offer a faster service with lower logistical costs. For example, it would typically take only four days for pulp we ship to reach a customer in Amsterdam, as opposed to the approximately 20 days that we estimate would be required for a competitor located in southern Brazil to ship a similar order of pulp to Amsterdam, not including the time required to process and package the order.

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

Seasonality

The demand for our pulp is not subject to seasonality in any material way.

Since we are currently subject to a cap of 6,500 MWh per year, we aim to undertake the annual maintenance stoppages for our standalone biomass power facilities during the second quarter. Historically, pool prices in Spain have fallen during this quarter due to the increased availability of hydro-generated electricity.

Intellectual Property

We seek to protect our intellectual property rights in Spain, Portugal and other markets. We also have trade secret protected intellectual property 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 and 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 Pulp and Energy Businesses—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. However, our current property insurance does not cover damage to our property, and in particular to our forestry assets, resulting from forest fires, although we do make a provision in our accounts in an amount which we believe is sufficient to cover this risk.

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, during the year ended December 31, 2014, the total amount we paid for insurance premiums in relation to policies held by us was €5.2 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 Pulp and Energy Businesses—Our insurance coverage may be insufficient to cover our losses*."

Employee Matters

In the first half of 2015, we had 835 employees in total, including 713 full-time equivalent employees and 122 temporary employees.

Substantially all of our employees are represented by labour unions pursuant to collective bargaining agreements. We observe local practice and legislation in our labour relations matters and in negotiating collective bargaining agreements. The following collective bargaining agreements are currently in effect: a collective bargaining agreement for the Pontevedra work centre, which is effective from 2014 to 2016; a collective bargaining agreement for the office centre in Pontevedra, which is effective from 2014 to 2016; a collective bargaining agreement for our headquarters in Madrid, which is effective from 2014 to 2016; and an Asturias pulp workers collective bargaining agreement, which is effective from 2014 to 2017. However, recent labour 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 expiry dates, which we believe increases employees' incentive to negotiate for more favourable terms since the expiry of such an extension would result in the employees becoming subject to the less favourable general labour regulations.

We believe that we maintain generally good relations with our employees and their representatives. However, we experienced labour disturbances, including a two-day strike, at certain facilities located in Huelva and Pontevedra in June 2014. In addition, we are obliged in certain situations to enter into agreements with our employees regarding workforce reductions, closures and other restructurings, which can lead to labour disturbances. For example, in October 2014 employees at our former pulp production facility in Huelva went on strike for ten days, whilst employees at our pulp production facilities in Navia and Pontevedra went on strike for four days, following the negotiation of a restructuring agreement that affected 226 employees in our former pulp production facility located in Huelva and at our headquarters in Madrid. Please see "*Risk Factors—Risks Relating to Our Pulp and Energy Businesses—A large percentage of our employees are unionised and wage increases or work stoppages by our unionised employees may have a material adverse effect on our business.*"

Our employees participate in defined contribution plans. Certain executives also participate in a long-term management incentive plan consisting of the granting of options over shares. Please see "*Management—The Issuer—Director and Executive Compensation—Management Incentive Plan.*"

Environmental, Health and Safety Matters

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 odour 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 licences, each of which is subject to periodic and increasingly more stringent modifications and requirements. Violations of these laws, regulations or permits and licences 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 licences.

All of our pulp production facilities have environmental management systems in place that are presently certified to the ISO 14001 standard (including in relation to sustainable forestry management) of the International Organisation for Standardisation. These standards are routinely renewed following routine voluntary certification audits. The International Organisation for Standardisation (to which 163 nations currently belong) is a global association comprised of representatives of several national standard organisations that establishes and maintains international proprietary, industrial and commercial standards for, amongst other things, certain technical measurements. 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 operations have obtained certifications from the Spanish national certifying body of either the PEFC or the FSC, the two industry bodies responsible for the certification of sustainable forestry management, including the sustainable use of timber resources and related environmental management. In addition, our pulp production operations have obtained chain of custody certification from the FSC which covers pulp delivery to clients, thus enabling us to market and sell pulp that is FSC-certified. For purchases of timber from third parties, our standard contract for such purchases also includes representations regarding the origin of the timber and its lawful harvesting as well as undertakings by the supplier to provide chain of custody information to us upon our request. Certifications typically require renewal every five years.

We also endeavour to ensure that our contractors adhere to the same environmental, health and safety standards through the inclusion of representations and undertakings in our standard contractual arrangements.

The health and safety of persons is a priority 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 as well as in the 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 Occupational Health and Safety Advisory Services (the "*OHSAS*"), similar to the International Organisation for Standardisation, is an internationally applied set of health and safety standards designed to provide best practices for employers and employees to protect against occupational hazards and boost employee morale. The industrial complexes at our forestry subsidiaries Norte Forestal, S.A.U. and Silvasur Agroforestal, S.A.U., as well as our Navia and Pontevedra pulp production facilities, are certified in accordance with these standards. Our Navia facility has received the OHSAS certification, as well as the equivalent certification from the health and safety accreditation body in Spain (*Asociación Española de Normalización y Certificación*). In addition, our Employee Code of Conduct encourages behaviour that guarantees the health, safety and well-being of all employees by encouraging the adoption of attitudes that respect the health and safety of all employees, clients, suppliers and other third parties visiting or working with us.

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. The system also 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. Whilst 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:

- There have been two legal proceedings before the Spanish Supreme Court related to the early expiry of the Pontevedra concession. One of them was decided by a court ruling dated July 11, 2014 and the other by a court ruling dated July 29, 2015. The Supreme Court determined in both rulings that an early termination process for the Pontevedra concession should be commenced. The early termination process begun pursuant to the first court ruling was completed on July 30, 2015 when the Ministry for Agriculture, Food and the Environment issued a decision stating that the concession is to be partially terminated. Because the land subject to such partial termination only encompasses a wastewater treatment facility operated by a third-party utility, a submarine pipeline and sports fields, the land on which our pulp production facility is situated or that is otherwise essential to our pulp production activities at this site is not affected. Although this decision may be appealed through the end of October 2015, our public concession remains fully valid and we have already begun the proceedings to effectuate the separation of the affected land from the land on which our facilities are located. However, any appeals, if successful, could ultimately reverse all or part of any extension of our concession. In addition, as a result of this decision, on July 31, 2015 we reactivated our application to the administrative authorities for the concession to be extended. We are currently awaiting the issue of the environmental report from the government of Galicia necessary to extend the concession and which we believe will be favourable, after which the Ministry for Agriculture, Finance and the Environment may expressly approve the extension of the concession. Moreover, because the early termination process that was completed on July 30, 2015 included the same termination causes that were cited in the Supreme Court decision dated July 30, 2015 ruling that a second early termination process be commenced, we believe that a second early termination process will not take place. Please see also "*Risk Factors—Risks Relating Exclusively to Our Pulp 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*" and "*—Our Sites and Facilities—Pulp Business sites and facilities—Pontevedra*."

- The extension of the Integrated Environmental Authorisation granted to our Pontevedra facilities on December 31, 2011 was challenged by an NGO and the town council of Pontevedra. The regional Superior Court of Galicia rejected the claims from both the Council and the NGO. However, the claim has been appealed to the Spanish Supreme Court.

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 proceedings 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 2009 share purchase agreement in an aggregate amount of approximately US$3.8 million, which we are contesting. However, no arbitral proceedings have yet begun in conjunction with these claims.

The Spanish tax authorities concluded several tax inspections of us, including certain of our subsidiaries, 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 business tax from 2009 until 2012. The income tax assessments for 2007 through 2009, which seek a settlement in respect of unpaid taxes and a late-interest payment of €6.7 million, have been signed by us under protest because we do not believe that we are liable. Out of this balance, only €3.6 million would result in an outflow of cash.

INDUSTRY OVERVIEW

Industry and Market Overview

Our Pulp Business is active in the production and sale of wood pulp, specifically Bleached Hardwood Kraft Pulp (BHKP), the generation and sale of energy from biomass (lignin and forestry waste) linked to the production of wood pulp and forestry management. In our Energy Business, we focus solely on the operation and development of standalone biomass energy projects that are completely independent from the pulp production facilities we operate in Navia and Pontevedra.

Introduction

Wood pulp is one of the principal raw materials required to manufacture paper and paperboard. Wood pulp is classified according to the type of wood or fibre from which it is made (hardwood or softwood), the manner in which it is processed (chemical or mechanical process) and whether it is bleached or not. Paper and paperboard may alternatively be manufactured from recycled fibre.

Two types of wood pulp are generally produced. Pulp made from hardwood (short fibre), such as eucalyptus, aspen, birch or acacia, has shorter fibres and is better suited for the manufacturing of, for example, tissue paper. Short fibres are the type of pulp best suited for manufacturing wood-free paper with good printability, smoothness, opacity and uniformity. In contrast, pulp made from softwood (long fibre), such as pine, spruce or fir, has longer fibres and is better suited for manufacturing paper that requires durability and strength, such as paper used for packaging.

The pulp manufacturing process determines the suitability of pulp for particular end-uses. Pulp is converted from wood by means of either chemical or mechanical processes. Chemical pulp is produced by cooking wood chips in chemical solutions, with the goal of separating the cellulose fibres and removing lignin, a chemical compound which fills the space between the cellulose fibres and provides strength to the wood. On the other hand, lignin remains in mechanical pulp, the fibres of which are separated by a mechanical process. The mechanical process exerts greater physical impact on the cellulose fibres, resulting in a higher fibre yield and a shorter fibre length.

Wood pulp can be bleached for whiteness, particularly when manufacturing printing, writing, specialty and tissue papers. Unbleached pulp is brown and is used in the production of corrugated board, paperboard, packaging papers and bags. We believe that hardwood pulp derived from eucalyptus is superior to that produced from other hardwood trees, as the greater consistency and uniformity of its fibres improves the opacity, softness and printability of the produced paper. Eucalyptus trees also have a shorter growth cycle than other types of hardwood trees, yield higher productivity per hectare planted and require a smaller amount of space between individual facilities to grow. According to RISI, BEKP is thus widely used by producers of printing, writing and tissue paper worldwide because of its properties and accounts for an increasing percentage of globally produced hardwood pulp.

The pulp we produce is sold to third parties rather than being used in integrated pulp and paper mills and is termed “market pulp.” According to RISI, global paper grade wood pulp production capacity reached 196 million tonnes in 2014, of which market pulp accounted for 67.0 million tonnes, or 34%. Of that market pulp, 32.5 million tonnes, or 48%, were BHKP, as reported by RISI. We compete in the BHKP segment of the pulp industry, and more specifically in the BEKP segment, as we use 100% eucalyptus wood in our production process. According to Hawkins Wright, BEKP accounted for 62% of BHKP production capacity in 2014 and has recently been gaining market share. It will likely continue to do so in the future, as all of the new projects in Latin America are based on consumption of wood originating from eucalyptus plantations. The remaining BHKP produced is mainly sourced from acacia fibre (usually cultivated in Asia) and a mix of hardwood from North America and Europe.

Europe is expected to remain a net importer of BHKP due to expected regional demand remaining larger than local production supply.

Our estimated market share for BEKP in Europe, based on sales volume in the twelve months ended December 31, 2014, was 12.9% in Germany, 14.0% in Italy, 27.4% in Spain and 11.5% in France. According to management estimates and management’s review of publicly available industry statistics, as at June 30, 2015, the ENCE group possessed the largest single BEKP production capacity in Europe (with approximately 47% of total European BEKP production capacity), followed by Altri (with approximately 39%) and Portucel (with approximately 14%).

Analysis of Demand of Hardwood and Softwood

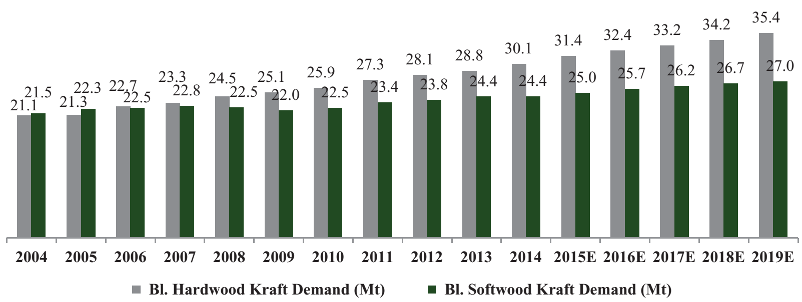
According to RISI, the annual global demand growth rate for BHKP between 2004 and 2014 was 3.6%, compared to the 7.6% for BEKP as reported by Hawkins Wright and 1.3% for BSKP.

Global demand for BHKP amounted to 30.1 million tonnes during 2014, according to RISI, whilst global demand for BEKP during 2014 amounted to 18.5 million tonnes, according to Hawkins Wright.

According to RISI, between 2014 and 2019, global demand for BHKP is expected to grow by an average annual rate of 3.3%, or an average of 1.1 million tonnes per annum, to 35.4 million tonnes. According to Hawkins Wright, over the same period, global demand for BEKP is forecast to expand by an average annual growth rate of 3.3%, or an average of 0.6 million tonnes per annum, to 21.8 million tonnes.

The chart below sets out the global annual demand for BHKP and BSKP from 2004 through 2014 and a growth projection of global annual demand for BHKP and BSKP between 2015 and 2019:

Evolution of BHKP and BSKP Global Annual Demand (Mt)

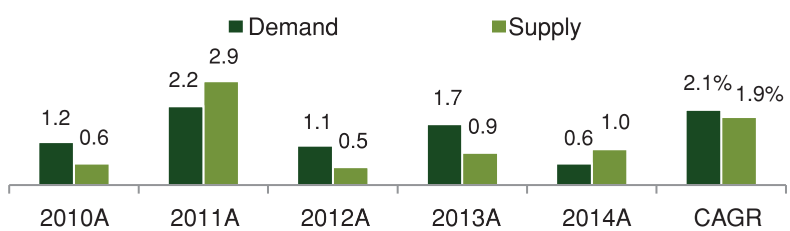


Source: RISI.

In terms of geographic areas, emerging markets, and China in particular, are expected to account for an increasing share of the demand for pulp, and are projected to drive market growth going forward. According to RISI, China is expected to contribute the most to growing global demand for paper-grade market pulp over the next five years, increasing demand by an average of 0.5 million tonnes, or 4.8%, per annum. This is more than the 4.4% growth expected in the country's total paper and paperboard output, because wood pulp's share of the fibre mix is predicted to rise gradually. RISI estimates that net pulp imports to China will increase by 7.8% in 2015 and by an average of 5.9%, or 0.9 million tonnes, per annum from 2014 to 2019, due to the scarcity of natural fibre in the country. Demand from China in the tissue segment has structural underpinnings, which is expected to exert a stabilising influence on BEKP prices as Chinese consumers continue to use more hygiene products. This is connected to long-standing trends of urbanisation and general growth in consumer spending in China. Due to the lack of domestic eucalyptus plantations, China is heavily dependent on hardwood imports to satisfy the demand for tissue paper. With the expected increase in demand for tissue paper in China, a growing share of international hardwood pulp is consumed by China, which helps to balance the global hardwood market and stabilise prices.

The chart below illustrates the increase in demand and supply for BEKP between 2010 and 2014:

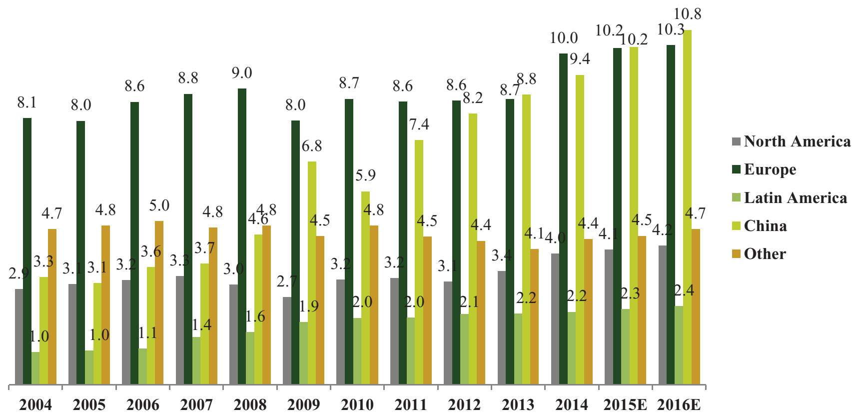
BEKP Increase in Demand and Supply (M tonnes)



Source: PPPC: Hawkins Wright, RISI

The chart below illustrate the geographic evolution of the global annual demand for BHKP, including an estimate for 2015 and 2016:

Geographic Evolution of Global Annual Demand in BHKP (Mt)



Source: *RISI.*

According to management and management's review of industry data, the main end-markets for BHKP in Europe in 2013 were P&W (approximately 37%), tissue (approximately 32%), specialties (approximately 26%) and containerboard (approximately 5%). We operate in three pulp end-markets: tissue; specialty paper and packaging; and P&W. End-products for tissue mainly comprise hygienic paper. End-products for specialty paper and packaging include boxboard, packaging papers and cardboard boxes used for products such as beauty products, cereals and dry detergents. End-products for P&W include printing and writing paper.

Demand for tissue has historically been resilient and has continued to grow even during economic downturns. Its consumption is less dependent on the economic cycle than the consumption of printing and writing grades or packaging grades. The main drivers of tissue demand are growth in global domestic product, growth in relevant demographics, economic development and growth in disposable income. RISI expects global annual growth for tissue demand to average 3.8% (by volume) between 2014 and 2019. Western European tissue usage is predicted to rise at an average annual rate of 1.8% over the same period, despite virtually no growth in the region's population. Growth in tissue usage in developing markets, especially in China, has been tremendous over the past several years, and the fact that per capita usage nevertheless remains relatively low in developing regions indicates that demand for tissue has the potential to keep growing strongly for some time. RISI anticipates an average annual growth rate in Chinese tissue demand of 6.8% between 2014 and 2019.

Our operating projections for the specialty paper and packaging end-market are comparable to those RISI produced for the segment in general. RISI anticipates that the global demand growth for other paper and paperboard will average 1.6% annually between 2014 and 2019. Major drivers of demand growth for such products in developing markets include the upgrading of distribution systems, strong construction activity and the rising consumption of specialty products.

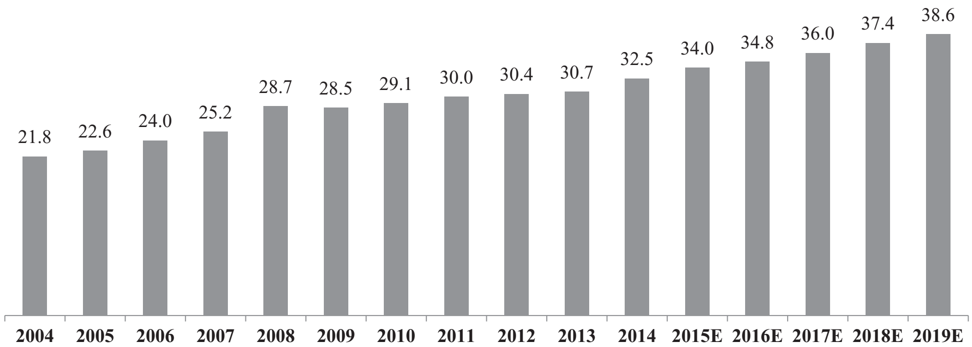
Global demand for P&W paper is declining due to a decrease in demand in North America and Western Europe, and a maturing growth curve in many other markets. RISI anticipates global P&W paper demand to decline at an average rate of 0.2% annually between 2014 and 2019.

Analysis of Supply

In 2014, global BHKP production capacity was 31.3 million tonnes, a net increase of 9.9 million tonnes since 2004, of which Brazil alone accounted for 7.3 million tonnes. Between 2004 to 2014, capacity additions in Latin America more than offset BHKP capacity closure and conversion in the rest of the world largely as a result of the favourable conditions for expansion in South America. During the first six months of 2015, further capacity increases equivalent to approximately 3.2 million tonnes of annual production capacity were announced in Brazil.

The chart below shows the evolution of annual BHKP production capacity from 2004 through 2014 and a projection of annual BHKP production capacity growth between 2015 and 2019:

Evolution of BHKP Global Annual Capacity (Mt)

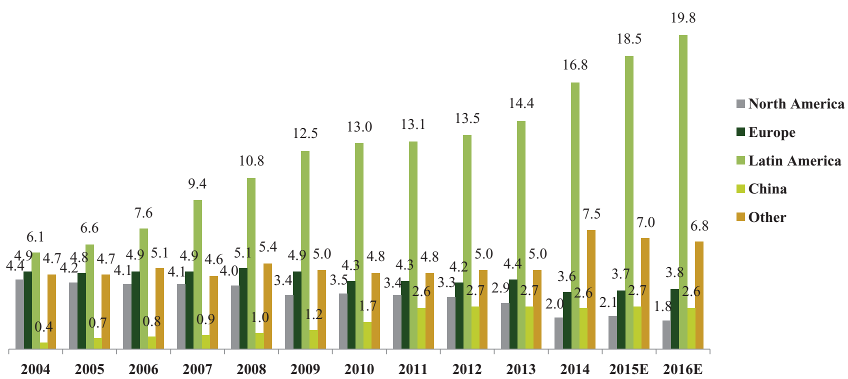


Source: *RISI.*

In 2014, Latin America was the largest regional producer of BHKP worldwide, with a capacity of 18.4 million tonnes in Brazil alone and a capacity of 2.7 million tonnes in the rest of the region.

The chart below illustrates the geographic evolution of global annual BHKP production capacity, including an estimate for 2015 and 2016:

Geographic Evolution of Global Annual Capacity in BHKP (Mt)



Source: *RISI.*

According to RISI, a total of 3.2 million tonnes of BHKP market supply were generated between the first and third quarters of 2014, although important supply-side developments offset a considerable amount of this tonnage. Looking ahead, the pace of expansion is expected to slow down compared to estimates made over the past five years. The table below lists new BHKP projects that, as at May 2015, are expected by RISI to be launched in the near term:

Company	Location	Country	Mkt Capacity (Mt)	Year	Quarter
Suzano	Imperatriz	Brazil	1.5 (New Mill)	2014	1
Eldorado	Tres Lagoas	Brazil	0.2 (Debottleneck)	2014	1
Montes del Plata	Punta Pereira	Uruguay	1.3 (New Mill)	2014	2
Oji	Nantong	China	0.24 (New Line)	2014	2
CMPC	Guaiba	Brazil	1.3 (New Line)	2015	2
Resolute*	Calhoun	USA	0.075 (New Digester)	2015	4
Portucel	Cacia	Portugal	0.065 (Expansion)	2015	
Klabin	Ortigueira	Brazil	1.1 (New Line)	2016	1
Double A	Alizay	France	0.13 (Restart)	2016	
PT OKI (APP)**	Sumatra	Indonesia	1.9 (New Line)	2017	1
Fibria	Tres Lagoas	Brazil	1.8 (New Line)	2018	

* Capacity change estimated.

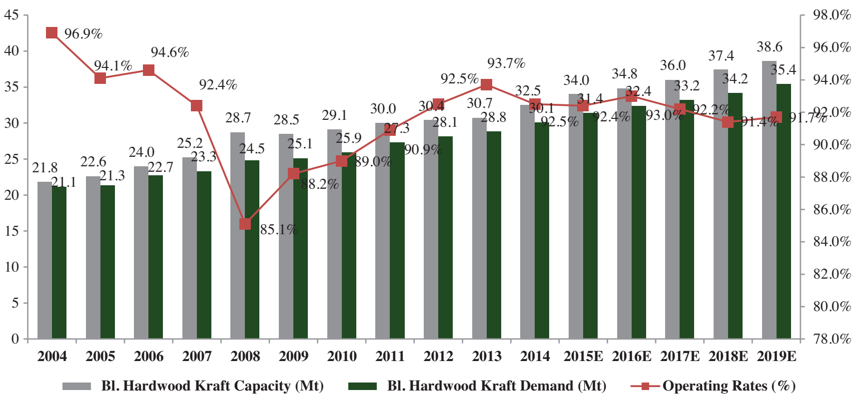
** Timing estimated, reflecting commercial production. Believed to be one digester, one recovery boiler and two 1.4 million tpy dryers.

Supply growth will slightly lag behind demand growth, resulting in expected increased global operating rates.

Whilst other new large BEKP lines are being considered in South America during the 2016–2018 period, RISI projects that not all of these projects will be funded.

The chart below sets out the global annual demand for BHKP and BSKP from 2004 through 2014 and a growth projection of global annual demand for BHKP and BSKP between 2015 and 2019:

Evolution of BHKP Global Annual Demand and Supply (Mt)



Source: *RISI.*

Therefore, for bleached Kraft pulp as a whole, operating rates are estimated by RISI in the range of 92–93% in 2015–2016.

According to Hawkins Wright, the five largest global BHKP producers in 2014 were Fibria (5.3 million tonnes of installed capacity), APRIL (3.9 million tonnes of installed capacity), Suzano (3.4 million tonnes of installed capacity), CMPC (2.4 million tonnes of installed capacity) and Eldorado Cellulose (1.7 million tonnes of installed capacity), with these five producers, in aggregate, representing 16.7 million tonnes, or 51%, of worldwide BHKP installed capacity. According to RISI, we are the largest BHKP producer in Europe with slightly more capacity than the next largest BHKP producer in Europe, Altri. Please see "*Business—Competitors*."

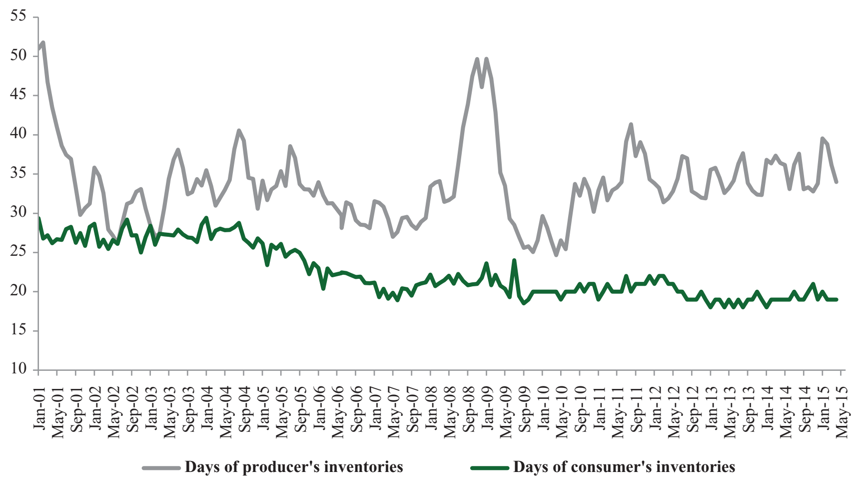
Pricing Environment

The pulp industry is highly competitive. It is also sensitive to changes in industry supply, shifts in producer and consumer inventories, economic cycles and fluctuations in demand for paper. Global pulp prices are cyclical because demand for certain paper grades depends on general economic conditions and because production supply tends to adjust slowly to any changes in demand. The price of BHKP generally increases as the global economy expands. Pulp 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 due to mill openings and closures and supply and demand for both raw materials and finished products, amongst other factors. Prices for BHKP are generally set by producers on a monthly basis, based on pulp delivered to North American, European and Asian ports.

Global consumer inventories have also driven short-term wood pulp demand and pricing. Excluding China, global consumer inventories have fluctuated within a very narrow range of 18–21 days of consumption since early 2009. These levels are near historical lows, having been driven down by shrinking paper demand and more efficient supply chain management. Statistics for Chinese consumer stocks are not available but anecdotal evidence suggests that stock levels are relatively volatile. This is primarily the result of China opportunistically buying pulp during times of depressed pulp prices and selling pulp when prices recover, because traders account for a significant portion of Chinese imports. This is not the case in Europe, where the majority of pulp sales comes directly from paper companies.

According to PPPC, the chart below illustrates the historical evolution of producer and consumer days of inventories from January 2001 through May 2015:

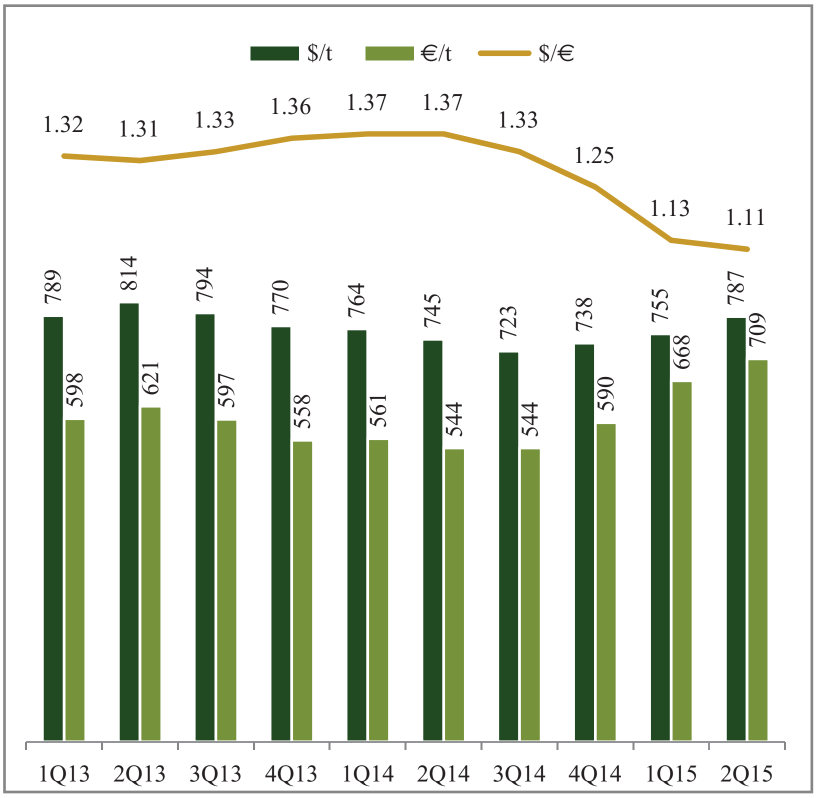
Evolution of Producer and Consumer Days of Inventories



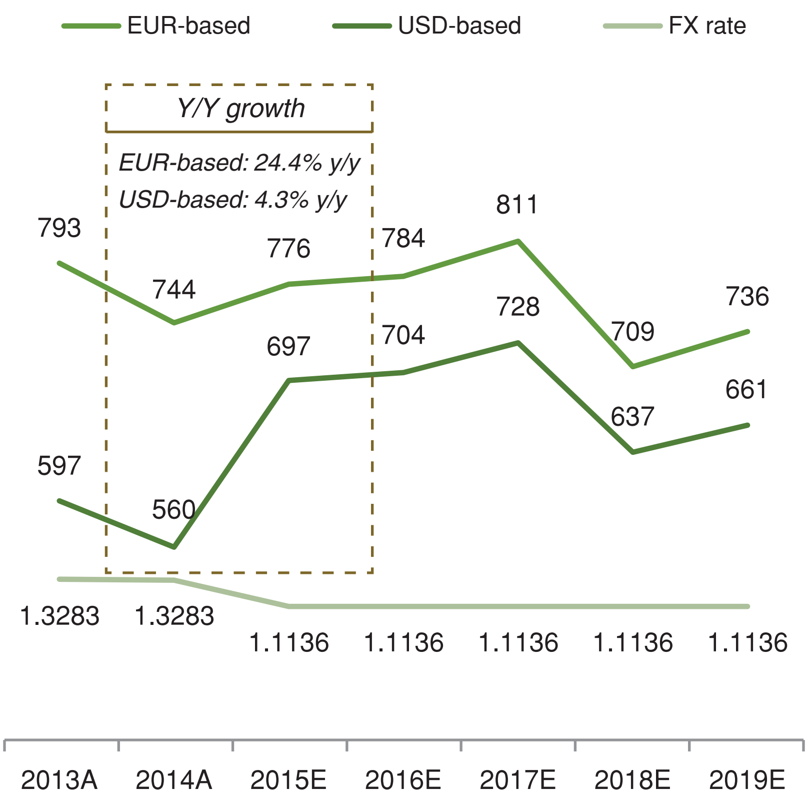
The divergence in pulp demand between China and the rest of the world continues to grow, and is now the key feature of the demand side of the pulp market. We believe that the volatility in China's demand has become the key driver of short-term cycles in the world pulp market and price evolution.

Over the past five years, average list prices of BHKP in Europe have been volatile. The chart below shows the historical evolution of average annual pulp prices in U.S. dollars per metric tonne for pulp delivered in Northern Europe between 2009 and 2014, including projections from 2015 through 2018 by RISI, from 2015 to 2018 by Hawkins Wright, and a quarter-on-quarter evolution of pulp prices in U.S. dollars per metric tonne for pulp delivered in Northern Europe from the first quarter of 2014 to the second quarter of 2015.

The graphic below sets out the quarterly price evolution for BEKP for the periods indicated, according to data from RISI:



The chart below sets out BEKP prices in both U.S. dollars and euro for 2013 and 2014 as well as a projection of BEKP prices in both U.S. dollars and euro between 2015 and 2019, according to data from RISI:



Cost of Production

According to RISI, the average total cost of producing one tonne of BHKP to be delivered to Europe will average U.S. $575 in 2015 amongst the major producing countries, which include Brazil, Canada, Chile, Finland, Indonesia, Portugal, Spain, Sweden and the United States.

RISI projects that Brazil will continue to retain its position as one of the countries with the lowest variable cost of production. However, Brazilian pulp mills source a high proportion of wood from their own plantations, with only a small amount bought from third parties, making comparisons to pulp mills located in other countries difficult. The average cost of wood referenced above refers only to the costs of harvesting and transportation and excludes silviculture (forestry management) costs, which are capitalised. Self-supplied wood cost is considered depreciable as a depreciation of biological assets (usually called forestry depletion) and does not impact variable costs and EBITDA. The differential in variable costs between Brazilian and other producers is therefore largely driven by varied accounting for forestry depletion. On a total cost basis, Brazilian producers have cost levels comparable with other producers because Brazilian producers incur higher depreciation, amortisation and financial expenses, resulting from the necessary financing of silviculture.

Iberian pulp companies manage their own plantations but nevertheless source a high proportion of wood from third parties, mainly from small domestic plantation owners. Timber costs in Iberia have remained stable as producers have been able to maintain balance in the domestic market by managing the amount of imports. This contrasts with higher cost volatility driven by an increasing demand for wood seen in international wood markets in which producers lack a strong influence over imports. The depreciation of the euro has also lowered U.S. dollar costs for Iberian BHKP producers in absolute terms.

Over the next 15 years, RISI forecasts nominal U.S. dollar-denominated production costs for both BSKP and BHKP to trend upward. However, RISI notes that its analysis is sensitive to certain assumptions about exchange rates over the forecasting period and expects the price to production cost ratio for BHKP to remain constant in the mid-to-long run.

REGULATION

Overview

Our business is highly regulated. Our activities are subject to both national and international regulatory regimes. Since 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—within our Pulp Business, pulp production and sales, pulp-linked energy generation and sales and forestry and, within our Energy Business, standalone energy generation—is subject to a different but sometimes overlapping set of regulations, both at 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

General European Union and Spanish Environmental Regulation

Directive on industrial emissions

In January 2011, the European Parliament and Council passed Directive 2010/75/EC, which regulates industrial emissions through an integrated framework of pollution prevention and control (the "*IED*"). The IED replaces Directive 2008/1/EC (the "*IPPC Directive*") whilst also subsuming Directive 2001/80/EC (the "*LCP Directive"*). Now covered by the IED, the LCP Directive limited emissions of certain air pollutants from large combustion facilities with a thermal capacity of at least 50 MW, and curbed emissions from specific sources, such as sulphur dioxide, nitrogen oxide and their particulates.

As part of the IED's integrated pollution prevention and control mechanism, the IED regulates air, water and ground pollution. The IED also contains provisions designed to prevent waste generation in an effort to advance a comprehensive framework of environmental protection. Finally, the IED establishes rigorous deadlines for compliance; subject to temporary derogation mechanisms available under the IED, we must comply with the new air emissions requirements by January 1, 2016.

The IED was implemented in Spain through Law 16/2002 of July 1, 2002 and Royal Decree 815/2013 of October 18, 2013. Royal Decree 430/2004 implemented the previous LCP Directive now covered by the IED, which applies to our facilities with a thermal capacity of over 50 MW. All of our facilities of this size hold all required permits under these directives and decrees, and are compliant with their limits.

Environmental Liability Directive

The European Parliament and Council's Directive 2004/35/EC on environmental liability regulates prevention, avoidance and remediation relating to environmental damage (the "*ELD*"). The ELD framework is based on the "polluter pays" principle, which holds that an operator whose activity has caused or may threaten to cause environmental damage should be financially liable to the extent of damage. Under this regime, operators will be obliged to return affected sites to their original condition. The ELD was implemented in Spain by Law 26/2007 of October 23, 2007 and Royal Decree 2090/2008 of December 22, 2008. Law 26/2007 is aimed at preventing and remedying environmental damages under the principles of "prevention" and "polluter pays" and establishes a number of preventive and reparative administrative obligations and applies generally to operators whose activities cause environmental damage or an imminent threat of environmental damage.

Further, such facilities are subject to Law 22/2011 of July 28, 2011 On Waste and Contaminated Soils (*Ley 22/2011, de 28 de julio, de Residuos y Suelos Contaminados*) concerning both contaminated soils and the management of hazardous waste. The infringement or the failure to comply with the obligations stated in the above-mentioned regulations may trigger administrative sanctions, including fines, the disqualification to carry out certain activities, and the obligation to compensate for damages and restore the environment to the status it had before the relevant infringement.

Emissions Trading System

Our operations are subject to the EU Emissions Trading System ("*ETS*"), which the European Parliament and Council introduced through Directive 2003/87/EC of October 13, an amendment to Directive 96/61/EC and amended by Directive 2009/29/EC. The ETS is an EU-wide system of trading allowances that covers industrial greenhouse gas emissions. It has been coming into force gradually over three phases: Phase I between 2005 and 2007; Phase II between 2008 and 2012; whilst Phase III is ongoing and applies between 2013 and 2020.

ETS-regulated industrial sites receive a certain number of allowances that correspond to allowable carbon dioxide (CO_2) emissions. These sites must surrender one allowance for each equivalent ton of CO_2 emitted. Sites that exceed their allowable emissions limits must purchase further allowances from other sites whose emissions fall beneath their allowable limits. Non-compliance will give rise to penalties in addition to the obligation to acquire missing allowances.

The current Phase III of ETS provides for a single EU-wide cap on emissions, decreasing annually. Phase III also contemplates the gradual replacement of free allowance credits with an auctioning system. As a result of this system, we will be required to purchase an increasing number of emissions allowances in the future.

Directive 2003/87 has been implemented in Spain by Law 1/2005 and Royal Decree 1722/2012. Law 1/2005 governs the system of trading allowances whilst Royal Decree 1722/2012 develops certain aspects of the allocation of allowances.

Regulation Promoting Renewable Energy and Biomass Generation

The following paragraphs describe the main industry-related regulations that are currently in force in Spain and the European Union, applying more specifically to our Renewable Energy Facilities.

European Framework and Spanish Targets in the Renewable Sector

On November 26, 1997, the EU published a report (the "*White Paper*"), which outlined an action plan for the European Community that aimed at doubling energy production from renewable sources in the European Union from 6% in 1996 to 12% by 2010. This became even more important after the European Union and its Member States ratified the Kyoto Protocol, which imposed a target of reducing EU greenhouse gas emissions by 8% by 2012. The White Paper proposed several measures to promote the use of renewable energy sources, including the provision of better access to the electricity market for renewable energy activities.

In March 2007, the European Council approved a Climate and Energy Package that included a series of legislative instruments that aimed to support the European Union's efforts to meet ambitious climate and energy targets by 2020. These targets, known as the "20–20–20" targets, set the following three objectives for 2020: (i) a 20% reduction in EU greenhouse gas emissions from 1990 levels; (ii) raising the share of EU energy consumption produced from renewable sources to 20%; and (iii) a 20% improvement in the European Union's energy efficiency. The European Parliament adopted this legislative package in December 2008.

The European Parliament and Council's Directive 2009/28/EC on the promotion of the use of energy from renewable sources (the "*2009 Renewable Energy Directive*") set national targets for each Member State consistent with the European Union's objective to derive 20% of its total energy use from renewable energy sources by 2020. In order to comply with these mandatory targets, all EU Member States, including Spain, were required to develop a national action plan in the form of a National Renewable Energy Action Plan 2011–2020 ("*NREAP*"). Issued on June 30, 2010, Spain's NREAP set out a target of 22.7% of total energy use as coming from renewable energy sources by 2020.

In 2011, the European Parliament and Council of the European Union developed a Renewable Energies Plan, known as REP 2011–2020 (the "*REP*"). The REP added a new target to the 2009 Renewable Energy Directive: a minimum of 10% of transportation energy consumption to be supplied from renewable energy sources in each Member State by 2020. Hence, in addition to Spain's NREAP target of 22.7%, the REP requires Spain to derive 10% of its transportation consumption from renewable sources by 2020.

Article 3.3(a) of the 2009 Renewable Energy Directive states that in order to reach the targets set for 2020, Member States may apply support schemes and incentives for renewable energy. These support systems or incentives are different in each country, but the most common are:

(i) *Green certificates*. Producers of renewable energy receive a "green certificate" for each MWh they generate, and suppliers of energy have an obligation to purchase part of the energy that they supply from renewable sources.

(ii) *Investment grants and direct subsidies*. These help defray the costs of installing renewable energy generation facilities.

(iii) *Tax exemptions or relief*. These include cash grants in lieu of tax credits and accelerated depreciation, amongst others.

(iv) *System of direct support of prices*. These include regulated tariffs and premiums and involve a regulatory guarantee to purchase energy generated by a renewable energy facility for an allotted period of time at a fixed tariff per kWh for a maximum annual number of hours. This ensures that the producer achieves a reasonable return on its investment.

On October 24, 2014, the European Council published its conclusions regarding the "2030 Climate and Energy Policy Framework," which set out the European Union's climate and energy goals to be achieved by 2030. Amongst other things, the framework proposes that by 2030, emissions of greenhouse gases should be reduced by 40% from 1990 levels, energy efficiency should be increased to 27% and 27% of total energy consumption should come from renewable energy sources.

Spanish Framework

Since the enactment of Royal Decree 661/2007, of May 25, regulating the activity of electricity production under a special regime ("*RD 661/2007*"), a special regulatory regime applied to cogeneration facilities, mini-hydro power stations and other facilities using renewable energy sources which have an installed capacity of 50 MW or less. However, this special regulatory regime no longer exists as it has been replaced by a new regulatory scheme.

During 2012 and 2013, the Spanish government completed a structural reform of the energy industry to establish a new regulatory framework in order to reduce and control one of the main problems of the Spanish energy sector: the "tariff deficit," which is the divergence between the electricity costs and the income obtained from regulated electricity activities. Royal Decree Law 6/2009, dated April 30, had previously attempted to limit the increase of the aforementioned general tariff deficit; however, it was not sufficient, given that only a year later further steps needed to be taken by the government: a new Royal Decree Law 14/2010 was passed for the same purpose. The purpose of Royal Decree Law 1/2012 was to limit the impact of renewable premiums in the tariff deficit, thus reducing costs; in similar terms, Royal Decree Law 2/2013 aimed to mitigate the tariff deficit by modifying the remuneration system of regulated activities as well as the remuneration formula of the special regime facilities.

The reform began with the enactment of Royal Decree Law 9/2013, of July 12, whereby certain urgent measures were taken to ensure the financial stability of Spain's electrical system. The main changes introduced by such regulation aimed to provide the industry with a uniform, transparent and stable regulatory framework as well as to give economic and financial sustainability to the electricity system and avoid the generation of tariff deficit.

The new Electricity Act 24/2013 of December 26, which repealed the former Electricity Act 54/1997, of November 27, sets out the main provisions governing all aspects of the electricity industry. Articles 14 and 21 to 27 specifically govern the generation of electricity, including some provisions applicable to facilities using renewable energy sources, cogeneration and waste ("*Renewable Energy Facilities*"). The distinction between the ordinary and the special regime contained in former regulations has been abolished and the former economic framework applicable to Renewable Energy Facilities has been repealed.

Generally, the applicable legal framework in Spain for Renewable Energy Facilities is set out in the following legal sources:

(i) Royal Decree Law 9/2013, of July 12, 2013, containing urgent measures to guarantee the financial stability of the electricity system ("*Royal Decree Law 9/2013*"). This regulation establishes the remuneration principles to be applied to existing Renewable Energy Facilities in operation on the date on which it came into force.

(ii) Law 24/2013, of December 26, 2013, on the Electricity Sector (the "*2013 Electricity Act*"). This law sets out the general rules applicable to the entire electricity sector, and incorporates the main principles set out by Royal Decree Law 9/2013 in respect of the renewable energy sector.

(iii) Royal Decree 413/2014, of June 6, 2014, governing electricity production from renewable energy sources, combining heat, power and waste ("*Royal Decree 413/2014*"). This decree implements the rules contained in both Royal Decree Law 9/2013 and the 2013 Electricity Act regarding the specific remuneration regime applicable to Renewable Energy Facilities.

(iv) Order IET/1045/2014, of June 16, 2014, establishing the remuneration parameters applicable to existing electricity generation facilities using renewable energy sources, combining heat, power and waste ("*Ministerial Order IET/1045/2014*").

Change of Remuneration Scheme Applicable to Renewable Energy Facilities by Royal Decree Law 9/2013 and the 2013 Electricity Act

The purpose of Royal Decree Law 9/2013 was to adopt a set of measures to ensure the sustainability of the electricity system and, in particular, to combat the shortfalls between the electricity system revenues and costs (referred to as the "tariff deficit" and further explained below). Royal Decree Law 9/2013 and the 2013 Electricity Act established an entirely new remuneration scheme applicable to, amongst other things, all Renewable Energy Facilities, abolishing the previous feed-in-tariff system. This new regime applies to existing facilities in operation at the time the Royal Decree Law 9/2013 entered into force, as well as to facilities beginning operations following its enactment.

The provisions contained in Royal Decree Law 9/2013 relating to the remunerative system of energy producers from renewable sources, cogeneration and waste have basically been passed to the new 2013 Electricity Act. Accordingly, Section 5 of Article 14 of said Act determines that the remuneration for generation activities will include the following concepts:

- the correspondent remuneration for the participation in the generation daily and intra-day market;
- the system adjustment services required to guarantee a suitable supply to the consumer;
- when applicable, the remuneration for the capacity mechanism;
- when applicable, the additional remuneration for the generation activities carried on in the electricity systems of non-peninsular territories; and
- when applicable, the specific remuneration for the generation of electricity using Royal Decree Law 9/2013.

Royal Decree Law 9/2013 provided for a transitional settlement regime under which regulated payments, during the period until the effective date of Royal Decree 413/2014 and Ministerial Order IET/1045/2014, would be made in accordance with the former remuneration regime. After Royal Decree 413/2014 and Ministerial Order IET/1045/2014 come into effect, any amounts received during the transitional settlement regime in excess of or below the new regulated payments provided for in Royal Decree 413/2014 and Ministerial Order IET/1045/2014 would be reimbursed by or paid to renewable producers. Please see "—*Transitional Regime Applicable to Renewable Energy Facilities Already in Operation*."

Calculation of the Remuneration to be received by existing Renewable Energy Facilities

Until the entry into force on July 14, 2013 of Royal Decree Law 9/2013 (and transitionally until Royal Decree 413/2014 and Ministerial Order IET/1045/2014 entered into force), Renewable Energy Facilities were entitled to receive a regulated remuneration level tied to their electricity produced through a feed-in tariff system composed by: (i) the pool price of the electricity sold in the market; and (ii) an equivalent premium, consisting of the difference between the pool price and the set feed-in tariff for each technology (feed in tariff = pool price *plus* equivalent premium). This revenue was received for a maximum annual number of hours and for a predetermined number of years, depending on the technology used in each case. For any additional hours produced, producers received the pool price.

Pursuant to the 2013 Electricity Act, the principles driving the new economic regime are that the incentives that an electricity producer receives should be equivalent to the costs that it is unable to recover on the electricity market where it competes with non-renewable technologies. The new economic regime seeks to allow a "well-run and efficient undertaking" to recover the costs of building and running a facility, plus a reasonable return on investment (the "*Reasonable Rate of Return*"). In order to reach this Reasonable Rate of Return, renewable energy producers may receive, in addition to the price obtained in the Spanish wholesale market, a specific level of remuneration that covers the costs (investment and operation) that they are unable to recover on the Spanish electricity market.

According to these criteria, producers will receive:

(i) a market remuneration (in €/MWh produced) equivalent to the renewable production sold every hour to the wholesale market price;

(ii) in addition to the electricity market price, renewable biomass energy facilities may also receive a specific remuneration composed of a return on operation (*retribución a la operación*) (in €/MWh produced, up to a cap of production hours per year), which has been calculated to cover, when appropriate, the standard operating costs (defined according to a standard installation applicable in each case) not recovered through the sale of electricity at the expected wholesale market price. This supplementary remuneration must be sufficient to reach the minimum level necessary to cover all the costs which, unlike conventional technologies, producers cannot recover in the market. Operating expenses include, as applicable, the cost of land, electricity, gas and water bills, management, security, corrective and preventive maintenance, market representation costs, the Spanish tax on special real properties, insurance, applicable generation charges (including a €0.5/MWh access fee to be paid by electricity producers) and a generation tax equal to 7% of total revenue; and

(iii) a return on investment (*retribución a la inversión*) per unit of installed capacity (in €/MW of installed capacity), which covers, when appropriate, the investment costs for each standard installation (without any relation whatsoever to the amount of power they generate), which cannot be recovered through the sale of the energy on the market in question.

Ministerial Order IET/1045/2014 establishes a number of parameters for calculating the return on investment and the return on operation for Renewable Energy Facilities. The most relevant parameters are: (i) the standard value of the initial investment; (ii) the estimated daily and intra-day market price received; (iii) the number of hours of operation annually; (iv) the estimated future revenues from the market; and (v) the estimated future operating cost.

In addition, Ministerial Order IET/1045/2014 establishes a number of remuneration parameters for each type of Renewable Energy Facility, the most relevant parameters of which include: (i) the return on investment; (ii) the return on operation; (iii) the regulatory useful life; (iv) the minimum number of operating hours; (v) the operation threshold; (vi) the maximum number of operating hours for the purposes of receiving the return on operation; and (vii) the upper and lower annual limits of the market price.

Reasonable Rate of Return

The Royal Decree 413/2014 defines the concept "Reasonable Rate of Return" by referencing the pre-tax return on the secondary market average yield on Spanish government ten-year bonds for the 24 months prior to the month of May of the previous year as at the beginning of the statutory period, increased by a spread. Each statutory period will last for six years, the first beginning on July 14, 2013, and lasting until December 31, 2019. Therefore, those facilities that benefited from a feed-in tariff regime as at July 14, 2013 will receive a Reasonable Rate of Return as determined by reference to market yields for the ten-year Spanish government bond during the ten years prior to July 14, 2013, plus a spread of 300 basis points.

For existing facilities that were entitled to receive incentives at the time Royal Decree Law 9/2013 entered into force (as at July 14, 2013), the Reasonable Rate of Return is 7.398% pre-tax, and will apply until December 31, 2019 (when the first statutory period ends). Please see "*—Revision of the Remuneration Parameters*."

Annex III of Ministerial Order IET/1045/2014 specifies that the ten-year average yield for the ten-year bond is 4.398%, which, increased by 300 basis points, results in 7.398% per annum.

For new Renewable Energy Facilities, the specific remuneration will be granted by means of a comprehensive tendering process respecting transparency, non-discrimination and objectivity principles.

Revision of the Remuneration Parameters

Royal Decree 413/2014 establishes statutory periods of six years, with the first statutory period running from July 14, 2013 (the date of entry into force of Royal Decree Law 9/2013) to December 31, 2019. Each statutory period is divided into two statutory half-periods of three years. The first such half-period runs from July 14, 2013 to December 31, 2016.

This "statutory period" mechanism aims to set out how and when the government is entitled to revise the different parameters used to determine the remuneration to be received by the Renewable Energy Facilities. Neither the parameters of the regulatory useful life nor the standard value of the initial investment can be modified.

Every year the government is entitled to update the cost of fuel for those renewable energy or CHP assets that use fuel in their operations and that, therefore, have a variable cost linked to commodities energy prices.

End of Statutory Half-period

At the end of each statutory half-period the Spanish government may amend (i) the net investment value, and consequently, the remuneration per investment to be received, in accordance with the difference, whether positive or negative, between the actual average wholesale market price and the estimated average wholesale market price for the preceding period; as well as (ii) the estimates on revenues to be achieved by the Renewable Energy Facilities during the next half-period to come (taking into account the estimates on the average wholesale market price for such half-period). Remuneration per investment is calculated by reference to the estimated revenues of the Renewable Energy Facilities, thus taking into account an estimate of the average wholesale market price throughout the period.

End of Statutory Period

At the end of each statutory period, the Spanish government may amend the following:

(i) the pending net investment value and remuneration to investment, in this case not only to adjust it in respect of the wholesale market price deviations from estimates, but also to:

(ii) the estimated operating costs; and

(iii) the rate of return (currently 7.398% for our assets).

More precisely, the rate of return may be revised every six years based on the cyclical situation of the Spanish economy and the profitability of the power generation business in view of the Spanish economy as well as electricity demand.

Before the start of a new statutory period (i.e. from the second statutory period onwards) a revised Reasonable Rate of Return can be established for each type of facility (as identified in Ministerial Order IET/1045/2014) calculated as the average yield on Spanish government ten-year bonds on the secondary market in the 24 months preceding from the month of May prior the commencement of the new statutory period (e.g. the second statutory period beginning on January 1, 2020) plus a spread.

This spread is based on the following criteria: (i) appropriate profit for this specific type of technology and the electricity generation business as a whole, considering the financial condition of the Spanish electricity system and Spanish prevailing economic conditions; and (ii) borrowing costs for an efficient and well-run electricity generation company using renewable energy sources with regulated payment systems within Europe.

Renewable installations only receive the specific remuneration until they reach their regulatory useful life, at which time they cease to receive the return on investment and the return on operation. Such installations can continue to sell the energy generated to the market.

Market price adjustments

Market price estimates are made by reference to the annual average price of the future arrangements negotiated in the Iberian Energy Derivatives Exchange (OMIP) in the six months preceding the start date of the relevant statutory half-period.

If the real annual average hourly wholesale market prices in the daily and intra-day wholesale markets actually achieved deviate significantly from the estimated wholesale market prices in a given statutory half-period, the remuneration per investment to be received by the corresponding facilities are adjusted upwards or downwards, as the case may be. Such "adjustment for market price deviation" is made every statutory half-period (i.e. every three years).

The regulation provides for two floors (LI1 and LI2) and two caps (LS1 and LS2), as determined by the Ministry of Industry, Energy and Tourism, for how potential deviations from the estimated wholesale market price will be compensated. Risk shifts from the Spanish government to producers of energy depending upon where such risk falls on the scale between the established floors and caps as follows:

(i) for market risk within the first band, i.e. between the estimated market price and LS1 or LI1, producers bear the market risk;

(ii) for market risk that deviates beyond the second band, producers compensate the electricity system if prices are above LS2 or are compensated by the electricity system if prices are below LI2, by means of a corresponding adjustment to be applied in the next statutory half-period (pursuant to certain formulas included in Royal Decree 413/2014); and

(iii) for market risk between the first and second band, i.e. between LS1 and LS2 and LI and LI2, producers share 50% of such risk with the electricity system.

For the first statutory half-period, the average price for the period from July 14 to December 31, 2013, as published by OMIE, was €51.29/MWh. Based on that amount, Ministerial Order IET/1045/2014 sets out the following bands and values for the first statutory half-period:

	2014	2015	2016	2017 and onwards
LS2	56.21	57.52	57.75	60
LS1	52.21	53.52	53.75	56
Estimated market prices (€/MWh)	**48.21**	**49.52**	**49.75**	**52**
LI1	44.21	45.52	45.75	48
LI2	40.21	41.52	41.75	44

These values are then modified by an adjusting coefficient (*coeficiente de apuntamiento*), which varies depending on the type of technology.

Transitional Regime Applicable to Renewable Energy Facilities Already in Operation

Royal Decree Law 9/2013 provides that the new remuneration scheme for Renewable Energy Facilities would be applied from July 14, 2013, but only once the implementing regulations (i.e. Royal Decree 413/2014 and Ministerial Order IET/1045/2014) were put in place, which did not occur until June 2014. Royal Decree Law 9/2013 and Royal Decree 413/2014 provide that: (i) from July 14, 2013 until the date on which Royal Decree 413/2014 became effective, settlements corresponding to Renewable Energy Facilities already operating would be made in accordance with the former regulated tariff regime; and (ii) there would be an adjustment mechanism for the reimbursement of those amounts received in excess of or below the regulated amount by the renewable producers as a result of the application of the transitional regime, as described below.

In this sense, the Third Transitional Provision of Royal Decree Law 9/2013 provides for the adjustment of the amounts actually received during this transitional period so that renewable producers reimburse the excess or default earnings achieved during the July 2013 to June 2014 period by means of corresponding adjustments to nine settlements of the electricity system applicable to the relevant facilities, commencing with settlement No. 7/2014. The total amount corresponding to this adjustment will be equally distributed amongst these nine settlements. However, the adjustment is capped at 50% of the total amount to be received under each of the affected settlements.

Notwithstanding the above, under no circumstances will amounts received by producers for electricity generated before July 14, 2013 be required to be returned or reimbursed under the new system.

Regime Applicable to New Renewable Projects

The entitlement to receive a specific remuneration for Renewable Energy Facilities, developed after the entry into force of the new regime in June 2014, will be established by public tender processes. These processes will be called by the Spanish authorities if needed in order to meet the 20% renewable target set out in the EU policy.

Until such competitive proceedings are organised, new facilities may be developed and constructed outside the specific remuneration scheme and will only receive the market price (although there are some exceptions and specific provisions applicable to non-mainland Renewable Energy Facilities included in the 2013 Electricity Act).

A new royal decree to allocate new capacity for new wind (up to 500 MW) and biomass (up to 200 MW) projects has been approved by the Spanish government by means of new Royal Decree 947/2015, of October 16, pursuant to which a tender for the granting of the specified system of remuneration to new biomass production facilities in the peninsular electric system and for wind power technology installations.

Generally, the authorisations, permits, licences and registrations required for new Renewable Energy Facilities to be constructed and operated do not differ from those required from Renewable Energy Facilities already operating.

Access Fee to Be Paid by Electricity Producers

Royal Decree Law 14/2010 was also passed in order to solve the problem of the tariff deficit, which reached approximately €28 billion as at December 2013.

The First Transitional Provision of Royal Decree Law 14/2010 states that the owners of electricity production facilities must pay a fee to the transmission and distribution companies for access to the electricity grid from January 1, 2011. Such access was previously free of charge. The access fee was set out on a temporary basis as follows: (i) calculated at €0.5 per MWh delivered to the network; or (ii) any other amount that the Ministry of Industry, Energy and Tourism establishes.

Royal Decree 1544/2011 implemented the First Transitional Provision of Royal Decree Law 14/2010 and confirmed the interim access fee imposed on electricity producers (€0.5 per MWh), subject to the adoption of a final method for calculating the access fee, which has not yet been approved.

Financing the Tariff Deficit

As stated above, the main purpose of the electricity reform contained in the 2013 Electricity Act is to resolve the tariff deficit problem from previous years, where the regulated costs, such as the remuneration of distribution and transmission activities, the servicing of the tariff deficit debt, the additional production cost outside the Spanish mainland, and the former premiums payable to Renewable Energy Facilities, have exceeded the regulated income, namely, tolls and charges paid by the consumers for the use of the electricity network.

In this regard, the 2013 Electricity Act states that from January 1, 2014, the tariff deficit will be financed by the companies that receive regulated payments on a pro-rata basis, including distributors, transporters, producers of electricity from renewable energy sources, companies receiving payments for availability of production capacity and others (as opposed to the previous regime, under which only the five most significant electric utility companies were obliged to finance the tariff deficit). Each of these entities will temporarily fund the tariff deficit in proportion to the costs that they represent for the electricity system in a given year.

There are two types of tariff deficit, provisional and final, and the mechanism to recover each one is different. Such different mechanisms are related to the settlement procedure of the regulated activities, which consists mainly of distribution and transmission of electricity in Spain, and is managed by the National Markets and Competition Commission ("*CNMC*"):

(i) All sector agents provide the CNMC with information on their electricity system revenues and costs on a monthly basis. Each natural year, there are 14 provisional settlements and one final settlement approved in December of the following year. There are 14 provisional settlements (one per month of the corresponding year and two further on the months of January and February of the following year) due to the fact that transmission and distribution companies charge access fees corresponding to each calendar year on invoices submitted from January of the relevant year to February of the following year.

(ii) In each settlement, transmission and distribution companies include the amounts received from their suppliers/consumers corresponding to the third-party access tariffs.

(iii) The CNMC settles its accounts by either depositing, or receiving the difference between, the amounts collected and the payments recognised in favour of each of them, respectively. These are the main revenues of the Spanish electricity system.

(iv) If revenues are not sufficient to cover all system costs, there is a "provisional tariff deficit." The provisional deficit which appears in each of the 14 provisional settlements is financed by the "agents subject to the settlement system" in proportion to the payments they receive in each monthly settlement. "Agents subject to the settlement system" are those who receive settlement of their payments with a charge to the various system cost items, directly or through the system operator or distributors (such as renewable energy producers).

(v) The "final tariff deficit" results from the final settlement approved in December of the following year and will also be financed proportionally by those subject to the settlement system. These amounts are entitled to recover amounts paid in the corresponding settlements within the five years after the deficit arose. The amounts paid for this reason will be repaid plus interest on terms equivalent to the market.

The final tariff deficit cannot exceed 2% of the estimated system revenues for each year. Further, the accumulated debt due to previous years' deficit also cannot exceed 5% of the estimated system revenues for that period. If these thresholds are exceeded, the government is forced to review the access fees so that the system revenues increase accordingly.

Tax on Electricity Sales

On December 27, 2012, the Spanish Parliament approved Law 15/2012 on tax measures to achieve environmental sustainability which became effective as at January 1, 2013. The aim of Law 15/2012 is also to help solve the problem of the tariff deficit.

Law 15/2012 establishes a tax triggered by the sale of electricity and affects all electricity producers in Spain. The tax on electricity generation (the "*TEG*"), a flat rate of 7%, is levied on the total revenue achieved by the electricity producers from the power produced at each of their facilities.

The TEG is a direct tax with an *in rem* nature, levied on the generation and delivery to the Spanish grid of output electricity as measured at a power facilities' busbars (*barras de central*). The main features of this tax can be summarised as follows:

- All types of electricity generation facilities are subject to the TEG. No exceptions are made for any renewable energy producer or nuclear facilities, nor is there a minimum installed capacity threshold.
- The taxable base is calculated on the basis of the total proceeds to be received by the taxpayer for the generation and delivery of the output electricity. The taxable base is determined individually for each electricity production facility and referred to the tax period that, in general terms, coincides with the calendar year.
- The applicable rate is 7%.

Thus, every calendar year, the owners of Renewable Energy Facilities must pay 7% of the total amount they are entitled to receive in connection with their electricity production activity, measured as the net output generated.

Forestry Management Regulation

European Union regulation

EU Regulation 995/2010 (the "*Timber Regulation*") sets out the obligations of operators who place timber and timber products on the market, imposing the following key obligations:

(i) The Timber Regulation 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.

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

(iii) Traders (those after the operators in the supply chain) must keep records of their suppliers (and customers). In this way the operators can always be traced.

The Timber Regulation does not need to be implemented in Spanish law as the regulation is binding in its entirety and directly applicable in all Member States.

Spanish regulation

In Spain, the main legal framework consists of the Hillside Act 43/2003, of November 21 (*Ley de Montes*) and the rules concerning the organisation of hillsides (*ordenación de montes*), both nationwide and at the autonomous community level. Pursuant to these regulations, the relevant public authorities regularly approve and review forest management and organisation plans.

Other rules of an environmental nature such as those on waste, water or protected spaces or species may also apply.

Internationally recognised initiatives

In addition to EU and Spanish regulations applicable to forestry management activities, there is a set of sustainable forest management practices and internationally accepted criteria acknowledged by the Food and Agriculture Organisation of the United Nations since 1981. These have been promoted regularly since the Río de Janeiro Earth Summit of 1992. Over the years, these practices and criteria have been implemented and broadened through regulation and on a voluntary basis in successive international summits and by means of non-governmental initiatives.

The most common forest certification system worldwide is the Program for the Endorsement of Forest Certification, with more than 240 million certified hectares. Further, the Forest Stewardship Council, or FSC, has over 180 million certified hectares.

In Spain, the UNE-EN-ISO 14001-2004 environmental certification applies to all of our forestry activities. Moreover, approximately 70% of our owned forest assets are certified in accordance with PEFC systems and, to a lesser extent, FSC (approximately 48% of owned forest assets).

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 by-laws 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 out, as at the date of these Listing Particulars, the name, age and title of each member of the Board of Directors, and is followed by a biography of each director. The business address of each member of the Board of Directors is located at Calle de Beatriz de Bobadilla, 14, Planta 4, 28040 Madrid, Spain.

Name	Age	Position
Juan Luis Arregui Ciarsolo	72	Chairman
Ignacio de Colmenares y Brunet	54	Chief Executive Officer and Vice-Chairman
Retos Operativos XXI, S.L., represented by Oscar Arregui Abendivar	42	Non-Executive Proprietary Director
Pascual Fernández Martínez	55	Non-Executive Proprietary Director
Javier Echenique Landiribar	54	Non-Executive Director
José Carlos del Álamo Jiménez	64	Non-Executive Independent Director
Fernando Abril-Martorell Hernández	53	Non-Executive Director
Gustavo Matías Clavero	63	Non-Executive Independent Director
José Guillermo Zubía Guinea	69	Non-Executive Independent Director
Mendibea 2002, S.L., represented by Jose Ignacio Comenge Sánchez-Real	64	Non-Executive Proprietary Director
Pedro Barato Triguero	56	Non-Executive Independent Director
Isabel Tocino Biscarolasaga	66	Non-Executive Independent Director
Victor de Urrutia Vallejo	73	Non-Executive Proprietary Director

Juan Luis Arregui Ciarsolo is Chairman of the Board of Directors, Chairman of the Executive Committee and a 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, specialising 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 cogeneration 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 and, in 2002, created Foresta Biomasa, which became the world leader in the production of plants with *in vitro* technology. He became our Chairman in 2006 and has led the diversification of our activities with the production of renewable energy through forest biomass. He has also served as 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 (of which he serves as Vice-Chairman), 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 a 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 optimisation, 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 proprietary non-executive member of our Board of Directors and our Audit 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 an MBA from IESE Business School. He has worked in the Guascor group, occupying a variety of positions in research and development as well as having responsibility for the group's expansion in America.

Pascual Fernández Martínez is currently a proprietary non-executive 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 Products. 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) programme at the Instituto de Empresa Business School, a lecturer in the master's programme 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 a non-executive 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. and Telefónica Móviles México. 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.

José Carlos del Álamo Jiménez is an independent non-executive member of our Board of Directors and Chairman 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's degree programme at the Environmental Sciences University Institute, part of Madrid's Complutense University, a lecturer in the Environmental Project Engineering master's degree programme 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 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 a 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, a member of the Environmental Advisory Board of the Ministry of Environment, Chairman of the Galician Environmental Council and, between 2003 and 2013, Chairman and CEO of Tecnoma, S.A. 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 Environmental Council of the regional government of Castilla y León and Madrid. He is currently Vice-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 a non-executive member of our Board of Directors, and a member of our Appointments and Remuneration Committee and of our Executive Committee. He joined us in March 2007.

After receiving a degree in law, 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 and in 2011 CEO of Promotora de Informaciones, S.A., a position he held until 2014. He currently holds the position of Chairman of Indra Sistemas, S.A.. 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 non-executive 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 organisation at the Universidad Autónoma of Madrid, where he has been teaching since 1986. 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 Organisation (*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. In addition to serving as a managing adviser to the Telematics master's programme (Caixa Galicia), 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, and an economics journalist for Europa Press, El País and Gaceta de los Negocios as well as a columnist for El Mundo-Nueva Economía. 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 as well as for economic journalism.

José Guillermo Zubía Guinea is an independent non-executive member of our Board of Directors and is a member of our Executive Committee and Chairman 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, 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. In addition, he is a member of the standing committee at the Andalusia School of Economics and a member of the Economic and Social Council of Spain and its economic and labour relations committees.

José Ignacio Comenge Sánchez-Real is the representative of Mendibea 2002, S.L., a proprietary non-executive member of our Board of Directors and of our Audit Committee. He joined us in June 2014. Mr Comenge has a degree in Economics and International Banking from the Complutense University in Madrid. He has extensive experience in the financial sector and has held director and executive positions at several financial institutions and insurance companies, such as Banco Hispano Americano, Mutua Madrileña and AXA Winterthur, amongst others. He is also Chairman of Rexam Ibérica and director of Coca-Cola Iberian Partners SA, Ebro Foods, Barbosa & Almeida, SA, Azora, SA and Compañía Vinicola del Norte de España (CVNE).

Pedro Barato Triguero is an independent non-executive member of our Board of Directors, Chairman of our Appointments and Remunerations Committee and a member of our 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 Organisations (CEOE), a member of the presidium of the Committee of Agricultural Organisations (COPA) of the European Union, a member of the CAP advisory committee of the European Commission, president of the Inter-trade Organisation 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 non-executive member of our Board of Directors, secretary and member of the Audit Committee and a member of the Advisory Committee for Forestry and Regulatory Policies. She joined us in March 2013.

Ms. Isabel Tocino Biscarolasaga has a law degree and has studied business administration at IESE and the Harvard Business School. She has also served as Spanish Minister for the Environment (1996-2000), as chairwoman of the European Affairs Committee and of the Foreign Affairs Committee of the Spanish Congress and as 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, a member of the Advisory Board of Accenture and a member of the Royal Academy of Doctors. She is also a director of Banco Santander, S.A. and Enagas SA.

Victor de Urrutia Vallejo is a proprietary non-executive member of our Board of Directors and a member of our Appointments and Remuneration Committee. He joined us in July 2013. Mr. Urrutia Vallejo has a degree in economics from the University of Orviedo and a degree in law from the Universidad Complutense de Madrid. He currently serves as the chairman of Compañía Vinicola del Norte de España (CVNE) and as Vice-Chairman of OCIBAR SA. Previously, Mr. Urrutia Vallejo had served as Vice President of Iberdrola, as a director of Barclays Bank, SAE, as a director and a member of the executive committee of Vocento and Prensa Española, as Chairman of CASBEGA, S.A., as a member of the Executive Committee and as Director of Coca-Cola Iberian Partners, IBM España and Firestone Hispania.

The Senior Management of the Issuer

Our senior management team is led by Juan Luis Arregui Ciarsolo. The following table sets out our current senior management team and their respective ages and positions. The business address of each member of our senior management team is located at Calle de Beatriz de Bobadilla, 14, Planta 4, 28040 Madrid, Spain.

Name	Age	Position
Juan Luis Arregui Ciarsolo	72	Chairman
Ignacio de Colmenares y Brunet	54	Chief Executive Officer
Alfredo Avello de la Peña	49	Chief Financial and Corporate Development Officer
José Jaime Argüelles Álvarez	45	Chief Operating Officer
Javier Arregui Abendivar	45	Chief Forestry Officer
Álvaro Eza Bernaola	40	Chief Procurement Officer
María José Zueras Saludas	55	Chief Corporate Resources Officer
Luis Carlos Martínez Martín	56	Chief Communications Officer

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:

Alfredo Avello de la Peña is our Chief Financial Officer. He joined us in 2013.

Mr. Avello de la Peña joined us as Director of Strategy and Corporate Development in May 2013, and was appointed as our Chief Financial Officer in November 2014. Mr. Avello de la Peña has a law degree from the Universidad San Pablo CEU in Madrid, a master's degree in International Business Transactions (LLM) from the University of London and a DD in Business Administration from IESE (University of Navarra). Prior to joining us, he served as the Chief Executive Officer of GISA ALFANEXT, Chief Financial Officer at Foresta Capital and Multitel Group and the Director of Finance at Atlantic Copper (Freeport McMoRan Copper & Gold).

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

Mr. Argüelles Álvarez has a degree in industrial engineering from the Escuela Técnica in Gijón, and completed a general management course at IESE (University of Navarra). 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 has a degree in Business Administration from the University of Missouri. Prior to joining us, he worked at several plantations in North and South America, including the development of 10,000 hectares at the Palm Oil Plantations in Ecuador, the management and development of €180 million hard wood plantation in the United States and labour-intensive olive oil plantations in Spain.

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

Mr. Eza has a bachelor of science in Electrical Engineering and an MBA from the IESE Business School in Navarra. Prior to joining us, he was the Managing Director of Cosidesa (part of the Celsa group) from 2004 to 2008. Previously, he was the Procurement Director at Celsa.

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

Ms. Zueras Saludas has law degrees from the Facultad de Derecho de Zaragoza and the Universidad Complutense in Madrid and a master's 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 labour relations roles at AXA Winterthur, Telefónica de España, Arcelor and Aceralia. She has also held various positions at TENEO and the State Industrial Agency in Spain.

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

Mr. Martínez has 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.

Corporate Governance

The Board of Directors comprises executive directors (*consejeros executivos*), and non-executive directors, which are divided into proprietary directors (*consejeros dominicales*), independent 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 with us or our subsidiaries other than as a director. The rest of the members of the Board of Directors shall be characterised as non-executive directors. Proprietary directors are those proposed by shareholders or who have been appointed due to a stable holding in our capital. Independent directors are professionals of acknowledged prestige who can contribute their experience and knowledge to corporate governance and who fulfil the remaining conditions required by the regulations, including not being connected to the Issuer, the executive team or to significant shareholders. Finally, other external directors are those directors who cannot be classified as proprietary or independent directors.

Our Board of Directors believes that its actions, composition, organisation, remuneration and responsibilities comply with existing corporate governance recommendations in accordance with the specific indications set out 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 with Article 540 of the Spanish Companies Act and the 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 for 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 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, if the proposed director is to be classified as "independent," or by favourable report, in all other situations. 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 that the candidates for non-executive directors selected are persons of recognised 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 non-executive directors represent an ample majority amongst 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 free float.

In addition, in accordance with applicable law, the Board of Directors is required to evaluate its own functioning and the quality and effectiveness of its work at least once per year, and pursuant to the applicable board regulations, the performance of the Chairman of the Board of Directors and the Chief Executive Officer, as well as the functioning of the board committees based on the reports submitted by the same.

Board Committees

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

Executive 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 currently comprises of Juan Luis Arregui Ciarsolo (Chairman), Ignacio de Colmenares y Brunet, Javier Echenique Landiríbar, Fernando Abril-Martorell Hernández, Pedro Barato Triguero 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 directors, all of whom, pursuant to the applicable law, must be non-executive directors, and two of which must be independent. In addition, at least one of the members of the Audit Committee shall have competence in accounting and/or auditing.

The Audit Committee currently comprises José Guillermo Zubía Guinea (Chairman), Javier Echenique Landiribar, Mendibea 2002, S.L. (represented by Jose Ignacio Comenge Sánchez-Real), Oscar Arregui Abendivar and Isabel Tocino Biscarolasaga.

Appointments and Remuneration Committee

The Appointments and Remuneration Committee reports on proposals to appoint and dismiss directors and senior managers of the Issuer; ensures that the selection procedures for vacancies on the Board of Directors are fair and unbiased; and proposes to the Board of Directors a system and an amount of annual remuneration for the directors, as well as the basic conditions of the agreement with the executive directors including remuneration, and overseeing the fulfilment of the remuneration policy for the Company. The Appointments and Remuneration Committee also oversees succession for the Chairman and the Chief Executive Officer and may present succession proposals to the Board of Directors.

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 currently comprises Pedro Barato Triguero (Chairman), Fernando Abril-Martorell Hernández, Victor Urrutia Vallejo, 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 currently comprises José Carlos del Álamo Jiménez (Chairman), Ignacio de Colmenares y Brunet, Pedro Barato Triguero, Juan Luis Arregui Ciarsolo, 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 amongst 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 2014.

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, provided the same are held until these directors cease to hold office.

Executive Directors' compensation

Executive directors may receive any other remuneration contemplated in their respective services agreements for other executive functions that they provide to the Company, as long as such compensation is covered in the directors' remuneration policy in force and from time to time approved by the General Shareholders' Meeting.

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 was to incentivise management for the achievement of objectives that were set out for financial years 2010, 2011 and 2012, and was in force until June 30, 2015, the date on which all the granted options had to be exercised (and all non-exercised options expired). For such purposes, each year the Beneficiaries (as defined below) received a number of options over shares of the Company, subject to certain limits for each member of management. The Beneficiaries of the First Plan included our Chief Executive Officer, members of our Management Committee, managers at the "second rank management level" (*Segundo Nivel Directivo*), as well as any other manager whom the Board of Directors designated from time to time (the "*Beneficiaries*").

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

Additionally, our shareholders approved a new Management Incentive Plan (the "*Second Plan*") at the General Shareholders' Meeting held on March 21, 2013. The purpose of the Second Plan is to incentivise management to achieve the 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 determined by the Board of Directors according to the extent the goals set for the Company have been achieved and the particular management level of the Beneficiary. In any case, the maximum amount of incentive that Beneficiaries may receive shall never exceed 120% of average annual compensation over 2013, 2014 and 2015 for each management level. 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 criteria for awarding the incentive, consideration for which will fall to the Board of Directors, shall be as follows: (i) the increase in the value of ENCE stock during the applicable periods, on a percentage basis or 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 capitalisation); (ii) 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 companies in the sector on the terms and conditions established by the Board of Directors; and (iii) the increase in the value of the Company as at December 31, 2015, calculated on the terms agreed to by the Board of Directors, taking into account the EBITDA achieved and outstanding debt with respect to market value of the Company at December 31, 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 formalise the Second Plan, including but not limited to: (i) implement the Second Plan as it sees fit and in the specific manner it deems appropriate; (ii) identify when persons in their role as directors of the company will be designated as beneficiaries of the Second Plan, and specify the levels to which each one will be attributed; and (iii) develop and set the specific terms of the Second Plan where the agreement does not specify, including 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 Second Plan and the power to set the requirements that beneficiaries must meet in order to receive the incentive.

Employment Agreements

Several 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 €1.03 million as at June 30, 2015.

PRINCIPAL SHAREHOLDERS

As at June 30, 2015, the authorised 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 €0.90. Mr. Juan Luis Arregui, currently the Chairman of our Board of Directors, represents the interests of our largest shareholder, Retos Operativos XXI, S.L., which owns 26.5% of our shares.

The following table sets out information regarding the beneficial ownership of Ence Energía y Celulosa, S.A. as at June 30, 2015:

	As at June 30, 2015	
Owner	**Number of shares held**	**Per cent**
Retos Operativos XXI, S.L.	66,204,504	26.5%
Alcor Holding, S.A.[(a)(b)]	24,787,009	9.9%
La Fuente Salada, S.L.	13,406,250	5.4%
Asúa Inversiones, S.L.	12,904,276	5.2%
Amber Capital UK LLP[(a)]	10,070,000	4.0%
Norges Bank Investment Management[(a)(c)]	7,576,352	3.0%
Public Float[(d)]	113,378,446	45.2%
Treasury Stock[(e)]	1,945,663	0.8%
Total	**250,272,500**	**100%**

(a) Unless they cross a certain threshold, these shareholders are under no legal obligation to disclose their shareholdings. Their shareholdings reflected herein are based on publicly available information from the Spanish Securities and Exchange Commission (*Comisión Nacional del Mercado de Valores*) as at June 30, 2015. Therefore, such shareholders' actual shareholdings may differ from what is reflected herein.

(b) Alcor Holding, S.A. subsequently notified the Issuer that, as at June 30, 2015, it held a shareholding of 5.9%.

(c) On July 15, 2015, Norges Bank Investment Management notified the Spanish Securities and Exchange Commission that its shareholding in the Issuer had fallen to 2.8%.

(d) On September 11, 2015, LSV Asset Management notified the Spanish Securities and Exchange Commission that its shareholding in the Issuer had reached 3.0%.

(e) Treasury Stock is based on the most recent notification to the Spanish Securities and Exchange Commission (*Comisión Nacional del Mercado de Valores*) on September 25, 2014.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Transactions with the Unrestricted Group

Certain subsidiaries of the Issuer (namely, ENCE Energía, S.L.U., ENCE Energía Huelva, S.L.U., Celulosa Energía, S.A.U., ENCE Energía Extremadura, S.L.U. and their respective subsidiaries) will each be designated as Unrestricted Subsidiaries within the meaning of the Indenture. As a result, certain transactions with such Unrestricted Subsidiaries will be subject to the covenant described under "*Description of the Notes—Certain Covenants—Transactions with Affiliates.*" However, this covenant is subject to a number of exceptions for transactions that are conducted in accordance with past practice or in the ordinary course of business, including:

- the €63.3 million intragroup loan between the the Issuer, as lender, and ENCE Energía, S.L.U., as borrower, as further described under "*Description of Other Indebtedness—Loan from the Issuer to an Unrestricted Subsidiary*";
- a credit line of up to €7 million provided by the Issuer to ENCE Energía, S.L.U. to indemnify ENCE Energía Huelva, S.L.U. and ENCE Energía Extremadura, S.L.U. for expenses that could arise as the result of the cancellation of leases on land that was previously used for the development of energy crops, as further described under "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Off-Balance Sheet Arrangements*" and "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements—Credit Line from Issuer to ENCE Energía, S.L.U.*";
- the tax guarantee granted by the Issuer in conjunction with certain project finance indebtedness of the Unrestricted Group, as further described under "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements—Tax Guarantee*" (in addition, the Issuer is the holding company of the tax group for all subsidiaries located in Spain (including both Restricted Subsidiaries and Unrestricted Subsidiaries));
- the ongoing process to transfer the Biomass Boiler (including certain ancillary equipment) from the Restricted Group to the Unrestricted Group, which is expected to be completed by no later than 2016; and
- in connection with the separation of the Unrestricted Group from the rest of the Group, the Issuer expects to transfer its shares of Celulosa Energía, S.A.U. (which will be designated as an Unrestricted Subsidiary on the Issue Date) to ENCE Energía, S.L.U., which will become the new holding company of the Unrestricted Group. As a result of this transfer, which the Issuer intends to complete by the end of 2015, the shares and assets of Celulosa Energía, S.A.U. will become assets of the Unrestricted Group. Celulosa Energía, S.A.U. operates the 41 MW biomass plant at Huelva.

Cash pooling transactions with the Unrestricted Group

Celulosa Energía, S.A.U., an entity which will be designated as an Unrestricted Subsidiary under the Indenture, is currently the only entity in our Group that is licensed to invoice and collect money from the national electricity grid of Spain. Celulosa Energía, S.A.U. centralises all energy sales and procurement activity on behalf of the Group, meaning that it sells the energy produced by the Unrestricted Subsidiaries and Restricted Subsidiaries involved in energy generation and collects cash payments from the electricity grid on their behalf, whilst also purchasing energy on behalf of the Restricted Subsidiaries that buy back the energy they produce at their energy generation facilities to support their pulp production activities.

We operate a cash pooling arrangement whereby the Issuer performs cash management for the broader Group on a daily basis. This cash pooling arrangement also captures the cash collected by Celulosa Energía, S.A.U. from the electricity grid on behalf of the energy generation entities within the Group, both Unrestricted and Restricted Subsidiaries. A portion of the cash placed in the Issuer's bank account as a result of the cash pooling arrangement is required to be returned to the energy generation entities in the Unrestricted Group as payment for the energy generated by such entities and sold to the grid through Celulosa Energía, S.A.U. as intermediary. As a result of this arrangement, an intercompany payable is created between the Restricted Group and the Unrestricted Group in the normal course of operations and, since the Unrestricted Group produces but does not purchase energy, the payable is always in favour of the Unrestricted Group. Historically, the balance of this intercompany payable by the Issuer has ranged from €10 million to €20 million and is typically settled between 30 and 60 days from the date payment is received from the grid.

In connection with the Refinancing, we intend to designate the Issuer as the new intermediary to replace the functions performed by Celulosa Energía, S.A.U. This process, which is expected to be concluded at the beginning of 2016, will centralise all invoicing and cash collection (for both the Restricted Group and the Unrestricted Group) and payment (only for the Restricted Group) related to energy at the Issuer level. Therefore, the intragroup payments to the Unrestricted Group for energy produced by such entities will continue.

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 six months ended June 30, 2015 and the years ended December 31, 2014, December 31, 2013 and December 31, 2012:

Treasury Share Sale to La Fuente Salada. S.L. and Asúa Inversiones, S.L.

On June 13, 2013, we sold 12,513,625 treasury shares, representing 5% of our share capital, for a total amount of €27.4 million at a price of €2.19 per share. The shares were acquired in equal proportions by Asúa Inversiones, S.L. and La Fuente Salada, S.L. with a long-term outlook to promote stability in the Company's shareholder base.

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 that will require the payment of €0.25 million per year for the next two years. On May 5, 2013, this services agreement was amended to require making a payment of €0.12 million in the second year and €0.20 million in the third year.

Share Repurchase from Fidalser, S.L.

On December 7, 2012, we acquired a total of 12,815,353 of our 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.

For further information, please refer to the discussion of related party transactions in the notes to our audited financial statements.

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."

Revolving Credit Facility

On or about the Issue Date, the Issuer (as original borrower and guarantor), entered into a revolving credit facility agreement (the "*Revolving Credit Facility Agreement*") between, amongst others, Banco Santander, S.A., Banco Bilbao Vizcaya Argentaria, S.A, and CaixaBank S.A. (as Mandated Lead Arrangers and Bookrunners) and Bankia, S.A., Citibank International Bank plc, Banco de Sabadell S.A. and Bankinter S.A. (as Arrangers), Banco Santander, S.A. (as Facility Agent) and the lenders under the Revolving Credit Facility. The Revolving Credit Facility Agreement provides for a €90 million committed revolving credit facility (the "*Revolving Credit Facility*"). In the event that the €90 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 €10 million to up to €100 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. 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 Revolving Credit Facility Agreement bear interest at LIBOR or, in relation to any loan in euro, EURIBOR, plus a margin of 2.25% per annum payable on the last day of each applicable interest period (as determined in accordance with the terms of the Revolving Credit Facility Agreement); *provided* that at the end of the first quarter following the Issue Date 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 Revolving Credit Facility Agreement) at a rate per annum of between 2.25% and 1.50%. The lowest margin will be applicable if our ratio of Net Debt to EBITDA is less than 1:50, whilst the highest margin will be applicable if our ratio of Net Debt to EBITDA is greater than or equal to 2.50:1. The margin will be increased at a rate per annum of between 0.125% per annum and 0.50% per annum determined by the percentage of total commitments under the Revolving Credit Facility that have been utilised. The lowest increase will be applicable if less than 33% of the total commitments have been utilised and the highest increase will be applicable if 66% or more of the total commitments have been utilised.

The termination date of the Revolving Credit Facility is the fifth anniversary of the Issue Date. The Issuer may request that the termination date of the Revolving Credit Facility be extended to the sixth anniversary of the Issue Date.

Covenants and Events of Default

The Revolving Credit Facility Agreement contains certain restrictive covenants and events of default which, subject to conforming amendments, largely reflect the covenants and events of default contained in the Notes. The Revolving Credit Facility 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 (a "*Senior Note Purchase*") or offer to do so unless (to the extent such Notes purchases made since the date of the Revolving Credit Facility Agreement have resulted in the aggregate principal amount outstanding under the Notes being 70% or less than the aggregate principal amount outstanding under the Notes on the Issue Date) the commitments under the Revolving Credit Facility Agreement are also cancelled in a pro rata amount and no Event of Default (as defined in the Revolving Credit Facility Agreement) is outstanding or would result from the Senior Note Purchase.

Guarantees

Our obligations under the Revolving Credit Facility Agreement are unsecured. Guarantees, subject to certain limitations in relation to unlawful financial assistance, were jointly and severally provided by the same subsidiaries guaranteeing the Notes.

In particular, the obligations and liabilities of any Spanish Guarantor or Portuguese Guarantor must 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*) or article 322 of the Portuguese Companies Code, as applicable.

Voluntary Prepayments

The Issuer and, in the case of voluntary prepayment, 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 €500,000 (and in multiples of €500,000 or 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 Notes, 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.

Bilateral Loans

On April 22, 2015, the Issuer entered into a loan agreement with Bankia, S.A. (the "*Bankia Loan*") for an amount of €15 million, all of which is outstanding. The Bankia Loan matures on March 19, 2019 and is guaranteed by Celulosas de Asturias, S.A.U., Norte Forestal, S.A.U. and Silvasur Agroforestal, S.A.U. The loan bears interest at EURIBOR plus a margin of 2.1%. The Bankia Loan was obtained to finance part of the capital expenditure investment in the Navia facility.

The Bankia Loan contains, *inter alia*, the following covenants: (i) the Issuer will not transfer, sell, segregate, spin-off, cede, convey or dispose any asset or receivable that individually or in aggregate represents more than 20% of the Issuer's consolidated net assets as reflected on its latest consolidated balance sheet, except (a) when such sale, segregation, spin-off, transfer, conveyance or disposal is made in the context of an asset swap (which is of the same nature) or if payment is received in cash or cash equivalents within two months of the transaction and such cash is reinvested in the company within a period of six months or (b) ordinary course factoring transactions or when the receivables are transferred to a securitisation fund (provided certain requirements provided for therein are met); (ii) the Issuer will not pledge or encumber any assets in excess of 25% of consolidated assets as reflected on its latest consolidated balance sheet; (iii) the Issuer will maintain a ratio of net financial debt to recurring EBITDA of less than 2.5, tested annually; (iv) the Issuer will maintain a guarantor coverage of companies representing 80% of EBITDA (provided that in any event the companies of the Unrestricted Group will become Guarantors under the Bankia Loan); and (v) the Issuer will maintain the Bankia Loan *pari passu* with the rest of the financing of the Issuer (except when expressly provided for in the agreement). Certain covenants provided for in the Bankia Loan are also applicable to Celulosas de Asturias, S.A.U., Norte Forestal, S.A.U. and Silvasur Agroforestal, S.A.U.

The Bankia Loan contains customary information covenants and events of default, including, *inter alia,* a €15.0 million cross-default clause and an event of default if assets representing 12% of the consolidated net assets are destroyed, damaged beyond repair or replacement (following any insurance) or expropriated or forcibly seized without the provision of any indemnity of equal value.

In addition, on July 15, 2015, the Issuer entered into the BBVA Loan for an amount of €15 million, all of which is outstanding. The BBVA Loan, which is amortising, matures on June 30, 2020. The loan bears interest at 2.1% per annum, which is payable semi-annually each June 30 and December 31. The BBVA

Loan, which is unsecured and is not guaranteed by any of the Issuer's subsidiaries, was obtained to finance part of the capital expenditure investments in the pulp production facilities.

Working Capital Facilities

We have a number of non-recourse factoring lines in place for an aggregate amount of €85.3 million, of which €32 million was drawn as at June 30, 2015, related to pulp and energy receivables. No individual facility is considered material in order to meet our working capital requirements.

To manage our indebtedness, we have entered into certain non-recourse factoring facilities and confirming agreements with different financial institutions. As at June 30, 2015, we had non-recourse factoring facilities in place under which we are allowed to factor up to €85.0 million, of which €32.0 million was drawn (of which €25.1 million related to pulp sales and €6.9 million related to electricity sales). As at June 30, 2015, we also had ordinary course of business confirming lines in place with an aggregate limit of €114.0 million, of which €71.0 million was drawn (of which €51.7 million related to wood supplies).

Hedging Arrangements

As part of our risk management of fluctuations in interest rates, exchange rates, pulp prices, gas prices, fuel-oil prices and the cost of electricity, we use a range of derivatives including futures contracts, options and swaps to reduce cash flow and inventory volatility. These derivatives are transacted with banks that have allocated uncommitted credit lines to cover any potential mark-to-market value of these deals. As at June 30, 2015, the aggregate fair value of these derivatives (derivative financial assets less derivative financial liabilities) was negative €10.5 million.

Loan from the Issuer to an Unrestricted Subsidiary

As at June 30, 2015, €63.3 million was outstanding under an intragroup loan between the Issuer, as lender, and ENCE Energía, S.L.U., as borrower. The purpose of the intragroup loan is to provide financing for the development by ENCE Energía, S.L.U. of energy generation facilities as well as energy crops.

Although the Issuer can call this intragroup loan at any time, any such call would be subject to the ability of the Unrestricted Group to make payments in accordance with the terms of the Senior Credit Agreement. This intragroup loan has no fixed maturity and regular payments have not been made since the loan was incurred because the loan is intended to finance a portion of the capital expenditures and fixed assets necessary in connection with the development of the Unrestricted Group.

Unrestricted Group Financing Arrangements

Senior Credit Agreement

On July 31, 2015, ENCE Energía Huelva, S.L.U. ("*ENCE Huelva*") and ENCE Energía Extremadura, S.L.U. ("*ENCE Extremadura*"), as borrowers, ENCE Energía, S.L.U., and ENCE Energía y Celulosa, S.A. (only for the purposes of the tax guarantee described below), entered into a €135,018,272.09 project financing credit facility agreement (the "*Financing*" or the "*Senior Credit Agreement*") with Banco Santander, S.A., Caixabank, S.A., Banco Bilbao Vizcaya Argentaria, S.A., Bankinter, S.A., Banco de Sabadell, S.A., and Instituto de Crédito Oficial. The entire aggregate amount is outstanding as at the date of these Listing Particulars.

ENCE Energía, S.L.U., a wholly owned subsidiary of the Issuer, is the sole shareholder of ENCE Huelva and ENCE Extremadura. ENCE Energía, S.L.U., ENCE Huelva and ENCE Extremadura, as well as their respective subsidiaries, will each be designated as Unrestricted Subsidiaries within the meaning of the Indenture.

The Senior Credit Agreement replaces the two project financing entered by ENCE Huelva and ENCE Energía in June 2011 and June 2012, respectively (the "*Huelva Project Finance*" and the "*Mérida Project Finance*").

The Senior Credit Agreement is divided into two tranches: (i) the Huelva Tranche, for an amount of €96,530,633.99, which purpose is the repayment in full of the outstanding amounts under the Huelva Project Finance by ENCE Huelva and the partial repayment of the outstanding amounts under the related subordinated debt agreement; and (ii) the Mérida Tranche, for an amount of €38,487,638.10, which purpose is the repayment in full of the outstanding amounts under the Mérida Project Finance by ENCE

Extremadura and the partial repayment of the outstanding amounts under the related subordinated debt agreement.

The Senior Credit Agreement bears an interest rate equal to EURIBOR plus a margin of 2.50% during years one through four, 2.75% during years five through seven and 3% from year eight onwards, with a maturity date of June 30, 2025.

The Senior Credit Agreement contains certain customary events of default that entitle the lenders to terminate it early, including, amongst others, and subject to certain exceptions and grace periods, defaults in the payment or prepayment of any amounts payable, the breach of any obligations or undertakings provided for therein, the breach of any representation or warranties, the enforcement of security, the failure to comply with certain financial covenants, a cross-default under other financing agreements entered into in relation to the Senior Credit Agreement and the occurrence of certain bankruptcy and insolvency events.

Security package

In connection with the Senior Credit Agreement, ENCE Energía, S.L.U. granted a pledge over the shares of ENCE Huelva and ENCE Mérida. In addition, each of ENCE Huelva and ENCE Mérida granted a security package which includes pledges over certain credit rights, pledges over biomass stock, and a commitment to mortgage the surface rights of the land where the Huelva biomass facility is located (including the Huelva biomass energy generation facility itself) and the land where the Mérida biomass plant is located (including the Mérida biomass energy generation facility itself), respectively.

Likewise, ENCE Huelva and ENCE Extremadura irrevocably guaranteed on first demand, unconditionally, jointly and expressly waiving the benefits and exceptions that may apply to them, all obligations assumed by the other party under the relevant tranche and the hedging agreements related to the Financing.

In addition, ENCE Energía, S.L.U. granted certain guarantees within the framework of the Financing and also undertook to comply with certain obligations, including, but not limited to, an electricity production shortfall guarantee, a biomass supply guarantee, a guarantee related to termination of land leases and the pay-in of a share capital increase for an amount of €5,373,180.95 to be carried out by ENCE Extremadura.

Tax Guarantee

The Issuer has also agreed to compensate ENCE Energía Huelva and ENCE Energía Extremadura for the consequences that they may suffer as a result of their inclusion in the tax group of the Issuer for corporate tax purposes (the "*ENCE Tax Group*"). This guarantee covers the tax consequences of (i) both improved profits and extra losses due to their inclusion within the ENCE Tax Group and/or (ii) an adverse tax treatment/position under the interest barrier rules applicable in Spain as a consequence of Energía Huelva and ENCE Energía Extremadura being included within the ENCE Tax Group.

Credit Line from Issuer to ENCE Energía, S.L.U.

In addition, ENCE Energía, S.L.U. has an obligation to indemnify ENCE Energía Huelva, S.L.U. and ENCE Energía Extremadura, S.L.U. for expenses that could arise as a result of the cancellation of certain leases on land that was previously used for the development of energy crops, in relation to which the Issuer has agreed to provide an intragroup credit in an amount of up to €7 million in order to finance any such expenses. These expenses could include payment for work to dismantle the irrigation network, the removal of trees and the repair of any damage caused to the property during the lease, as well as the cost of any litigation and/or the payment of legal damages.

DESCRIPTION OF THE NOTES

ENCE Energía y Celulosa, S.A. (the "*Company*") issued €250.0 million 5.375% senior notes due 2022 (the "*Notes*") under an indenture (the "*Indenture*") among itself, the Guarantors (as defined herein), Deutsche Trustee Company Limited, as trustee (the "*Trustee*") and the other parties named therein. The terms of the Notes are stated in the Indenture. The Notes issued on the Issue Date (as defined herein) are denominated in euro. The Indenture is unlimited in aggregate principal amount subject to the provisions of the Indenture, although the issuance of Notes on the Issue Date was limited to €250 million. The Indenture is qualified under, not incorporated by reference or included or subject to any provisions of the U.S. Trust Indenture Act 1939, as amended.

Certain terms used in this description are defined under the heading "—Certain Definitions." In this description: (i) the "Company" refers only to ENCE Energía y Celulosa, S.A. and not to any of its Subsidiaries; and (ii) "Guarantor" refers only to such Guarantor and not to any of its Subsidiaries.

The following description is only a summary of the material provisions of the Indenture. It does not restate the Indenture in its entirety. You should read the Indenture because it, not this description, defines your rights as Holders. You may request copies of the Indenture at the address set forth under the heading "Where You Can Find More Information" and, for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, you may inspect copies of such documents at the office of the Listing Agent in Luxembourg. To the extent any Pari Passu Intercreditor Agreement is entered into in the future, the Indenture, the Notes and the Guarantees will be subject to the terms thereof.

The Holder of a Note will be treated as the owner of the Note for all purposes. Only the Holder will have rights under the Indenture.

Brief Description of the Notes

The Notes:

- are general senior obligations of the Company;
- rank *pari passu* in right of payment with all existing and future Debt of the Company that is not subordinated to the Notes;
- rank senior in right of payment to any existing and future Subordinated Obligations of the Company;
- are structurally subordinated to all liabilities (including trade payables), disqualified stock and preferred stock of the Company's Subsidiaries that do not guarantee the Notes; and
- are effectively subordinated to any existing and future Debt of the Company that is secured, to the extent of the value of the property or assets securing such Debt calculated in accordance with applicable laws.

Only certain Restricted Subsidiaries of the Company guarantee the Notes, and those Guarantees are subject to significant limitations.

As of the Issue Date, not all of the Company's Subsidiaries were "Restricted Subsidiaries"; the following Subsidiaries of the Company were designated as "Unrestricted Subsidiaries" under the Indenture as of the Issue Date: Celulosa Energía, S.A.U. and ENCE Energía, S.L.U. and its Subsidiaries (which on the Issue Date comprise ENCE Energía Huelva, S.L.U. and ENCE Energía Extremadura, S.L.U.). Most of the restrictive covenants in the Indenture do not apply to Unrestricted Subsidiaries. The Company's Unrestricted Subsidiaries do not and will not guarantee the Notes. The Unrestricted Subsidiaries as of the Issue Date were engaged in biomass energy production and development (separately from our Pulp Business). Under the circumstances described below under the caption "—Certain Covenants—Restricted and Unrestricted Subsidiaries," the Company will be permitted to designate additional Restricted Subsidiaries as "Unrestricted Subsidiaries." For the twelve months ended June 30, 2015, on an aggregated basis, the Unrestricted Subsidiaries of the Company generated 16.3% of the Company's consolidated revenue, 58.9% of the Company's consolidated EBITDA and as of June 30, 2015 accounted for 44.6% of the Company's consolidated total assets. As of June 30, 2015, the Company's Unrestricted Subsidiaries had €135.0 million in indebtedness outstanding as of June 30, 2015 giving effect to the refinancing. See "Risk Factors—Risks Related to the Notes and Our Structure—Our Unrestricted Subsidiaries will constitute Unrestricted Subsidiaries under the Indenture governing the Notes, and will, therefore, not be subject to the restrictive covenants thereunder and may incur additional indebtedness without limitation in the future.”

Principal, Maturity and Interest

The Company issued the Notes in an initial aggregate principal amount of €250.0 million. The Notes were issued pursuant to the Indenture. The issuance of the Notes was raised into public status by means of a notarial deed (*escritura pública de emisión*) which was subsequently registered with the Mercantile Register of Madrid. The Notes will mature on November 1, 2022. The Company issued the Notes in denominations of €100,000 and integral multiples of €1,000 in excess thereof. Notes in denominations of less than €100,000 will not be available. Subject to the Company’s compliance with the covenant described under the heading “—Certain Covenants—Limitation on Debt,” the Company is permitted to issue additional Notes from time to time under the Indenture in an unlimited principal amount (the “*Additional Notes*”). The Notes and the Additional Notes, if any, will be treated as a single class for all purposes of the Indenture, including waivers, amendments, redemptions and offers to purchase; *provided, however* that unless such Additional Notes are fungible with the existing Notes U.S. federal income tax purposes, such Additional Notes will be issued with a separate ISIN or Common Code. Unless the context otherwise requires, for all purposes of the Indenture and this “Description of the Notes,” references to the Notes include any Additional Notes actually issued.

Notes

Interest on the Notes accrues at the rate of 5.375% per annum. Interest on the Notes is payable semi-annually in arrears on each Interest Payment Date commencing May 1, 2016, to the person in whose name the Notes are registered on the relevant record date as stated below. Interest on the Notes accrues from the most recent date to which interest has been paid or, if no interest has been paid, from and including the Issue Date. Interest is computed on the basis of a 360-day year comprising twelve 30-day months.

“*Interest Payment Date*” means May 1 and November 1 in each year from and including May 1, 2016. If any Interest Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would then fall into the next calendar month, in which event, the Interest Payment Date shall be brought forward to the immediately preceding Business Day. The Company will make each interest payment to the Holders of record on the immediately preceding April 15 and October 15.

The rights of Holders of beneficial interests in the Notes to receive the payments of interest on the Notes are subject to applicable procedures of Euroclear and Clearstream and of the relevant participant, as applicable.

Optional Redemption

Optional Redemption Prior to November 1, 2018

At any time prior to November 1, 2018 upon not less than 30 nor more than 60 days’ prior notice (which notice shall be irrevocable), the Company may at its option on any one or more occasions redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 105.375% of the principal amount of the Notes being redeemed, plus accrued and unpaid interest and Additional Amounts, if any, to the redemption date (subject to the right of Holders of the Notes on the relevant record date to receive interest due on the relevant Interest Payment Date), with the net proceeds from one or more Public Equity Offerings after the Issue Date. The Company may only do this, however, if:

(a) at least 65% of the aggregate principal amount of Notes that were initially issued would remain outstanding immediately after the proposed redemption; and

(b) the redemption occurs within 90 days after the closing of such Public Equity Offering.

At any time prior to November 1, 2018 upon not less than 30 nor more than 60 days’ prior notice (which notice shall be irrevocable), the Company may at its option redeem all or part of the Notes at a redemption price equal to 100% of the principal amount thereof plus the Applicable Redemption Premium and accrued and unpaid interest and Additional Amounts, if any, to the redemption date (subject to the right of Holders of the Notes on the relevant record date to receive interest due on the relevant Interest Payment Date).

The Notes will not otherwise be redeemable at the option of the Company prior to November 1, 2018, except as described above and in "—Optional Tax Redemption."

Optional Redemption On and After November 1, 2018

On and after November 1, 2018 upon not less than 30 nor more than 60 days' prior notice (which notice shall be irrevocable), the Company may at its option redeem at any time as a whole, or from time to time in part, the Notes at the following Redemption Prices (expressed as percentages of the aggregate principal amount), plus accrued and unpaid interest and Additional Amounts, if any, to the redemption date (subject to the right of Holders of the Notes on the relevant record date to receive interest due on the relevant Interest Payment Date), if redeemed on or during the 12-month period commencing on November 1 of the years set forth below:

Year	Redemption Price
2018	102.688%
2019	101.344%
2020 and thereafter	100.000%

The Company may acquire Notes by means other than a redemption, whether by tender offer, open market purchases, negotiated transactions or otherwise, in accordance with applicable securities laws, so long as such acquisition does not otherwise violate the terms of the Indenture.

Selection and Notice of Redemption

If less than all the Notes are to be redeemed, the particular Notes to be redeemed will be selected not more than 60 days prior to the relevant redemption date by the Trustee or the Registrar (as appropriate) on a *pro rata* basis by application of a pool factor or in accordance with the requirements or procedures of the relevant clearing system, if any, on which the Notes being redeemed are listed and the requirements of any depositary holding the global certificates representing the Notes; *provided*, *however*, that if the Notes are in a definitive form, no Note of €100,000 in original principal amount or less shall be redeemed in part and only Notes in integral multiples of €1,000 will be redeemed. Neither the Trustee nor the Registrar will be liable for any selections made by it in accordance with this paragraph.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount thereof to be redeemed. The Company will issue a new Note in a principal amount equal to the unredeemed portion of the original Note if the Notes are in definitive form, in the name of the Holder upon cancellation of the original Note. Subject to the terms of the applicable redemption notice, Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest will cease to accrue on the Notes or portions thereof called for redemption (unless the Company defaults in providing the funds for such redemption) and such Notes will cease to be outstanding.

Notices of redemption, while the Notes are in definitive form, will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder of Notes, with a copy to the Trustee, to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to the redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture. For Notes which are represented by global certificates held on behalf of Euroclear and/or Clearstream, notices of redemption may be given by delivery of the relevant notices to Euroclear and/or Clearstream for communication to entitled account holders in substitution to the aforesaid mailing. So long as any Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Company shall publish any notice to the Holders of the Notes in a newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange (*www.bourse.lu*) and in connection with any redemption, the Company will notify the Luxembourg Stock Exchange of any change in the aggregate principal amount of Notes outstanding.

None of the Trustee, the Paying Agent, the Registrar or the Transfer Agent shall be liable for any such selections made by them in accordance with the provisions described in the three preceding paragraphs.

Sinking Fund

The Company is not required to make mandatory sinking fund payments with respect to the Notes.

Additional Amounts

All payments made under or with respect to the Notes or any Guarantee shall be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge of whatever nature (including penalties, interest and other liabilities related thereto) (hereinafter "*Taxes*"), unless the withholding or deduction of such Taxes is required by law.

If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of: (1) the government of any of the countries in which any of the Company or the relevant Guarantor and, in each case, any successor thereof (each, a "*Payor*") is organized or engaged in business for tax purposes, or any political subdivision or any authority or agency therein or thereof having power to tax; (2) any other jurisdiction in which a Payor is otherwise resident for tax purposes; or (3) any jurisdiction from or through which any payment under or with respect to the Notes or any Guarantee is made, or any political subdivision or any authority or agency therein or thereof having power to tax (each, a "*Relevant Taxing Jurisdiction*") will at any time be required from any payment made under or with respect to the Notes or a Guarantee, as applicable, such Payor will be required to pay such additional amounts ("*Additional Amounts*") as may be necessary so that the net amount received in respect of such payments after such withholding or deduction (including any such deduction or withholding from such Additional Amounts) will equal the amount that would have been received if such Taxes had not been withheld or deducted; *provided, however*, that the foregoing obligation to pay Additional Amounts does not apply to:

(1) any Taxes that would not have been imposed but for the existence of any present or former connection between the relevant Holder (or between a fiduciary, settlor, beneficiary, partner, member or shareholder of, or possessor of power over, the relevant Holder, if the relevant Holder is an estate, nominee, partnership, limited liability company, trust or corporation) and the Relevant Taxing Jurisdiction, including such Holder (or such fiduciary, settlor, beneficiary, partner, member, shareholder, or possessor) of the Notes being or having been a citizen, resident for tax purposes, or national thereof or being or having been present or engaged in a trade or business therein or having or having had a permanent establishment therein, other than a connection resulting from the mere receipt of such payment or the ownership, holding or enforcement of such Note or Guarantee;

(2) any estate, inheritance, gift, sales, transfer, personal property Tax or similar Tax or excise Tax imposed on a transfer of Notes;

(3) any withholding or deduction in respect of the Notes or any Guarantee where such withholding or deduction is imposed on a payment to an individual or a residual entity within the meaning of the European Council Directive 2003/48/EC and is required to be made pursuant to such Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26 and 27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives;

(4) any Taxes imposed where the applicable Notes were presented (where presentation is required) for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the Notes to any other Paying Agent in a European Union Member State;

(5) any Taxes imposed where the payment could have been made without such deduction or withholding if the Notes had been presented for payment (where presentation is required) within 30 days after (i) the date on which such payment became due and payable, or (ii) the date on which payment thereof is duly provided for, whichever is later (except to the extent that the Holder would have been entitled to Additional Amounts had the Notes been presented during such 30-day period);

(6) any Taxes imposed with respect to any payment of principal of (or premium, if any, on) or interest on the Notes by a Payor to any Holder who is a fiduciary or partnership or any Person other than the sole beneficial owner of such payment, to the extent that such payment would be required by the laws of the Relevant Taxing Jurisdiction to be included for tax purposes in the income of a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment and such beneficiary, settlor, member or beneficial owner would not have been entitled to

the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual Holder of such Notes;

(7) any Taxes that are payable other than by deduction or withholding from payments made under or with respect to the Notes or any Guarantee;

(8) any Taxes that would not have been imposed but for the failure of the Holder or beneficial owner to comply with the Payor's or the Paying Agent's reasonable and timely request, in accordance with the "—Notices" provision herein, to the Holder to provide certification, documentation, information or other evidence concerning the nationality, residence for tax purposes, identity or connection with the Relevant Taxing Jurisdiction of the Holder or beneficial owner of such Notes or to make any valid or timely declaration or similar claim or satisfy any other reporting requirement relating to such matters (in each case to the extent that such Holder or beneficial owner is legally eligible to do so), whether required or imposed by law, statute, treaty, regulation or administrative practice of the Relevant Taxing Jurisdiction, as a precondition to exemption from, or reduction in the rate of withholding or deduction of, Taxes imposed by the Relevant Taxing Jurisdiction;

(9) any Taxes imposed under the laws of Spain (or any administrative subdivision or authority therein or thereof having power to tax) because the Company or the Guarantor, as the case may be, does not receive such information, in a timely manner, as may be necessary to allow payments on such Notes to be made free and clear of Spanish withholding taxes, including a duly executed and completed Payment Statement from the Paying Agent, pursuant to the Kingdom of Spain's Law 10/2014 of 26 June, Royal Decree 1065/2007 of 27 July, as amended or reinstated, and any implementing legislation or regulation thereof;

(10) any Tax that is imposed pursuant to sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "*Code*"), any regulations or other official guidance thereunder, any intergovernmental agreement entered into in connection therewith, any similar law or regulation adopted pursuant to an intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to any of the foregoing or any agreement entered into pursuant to section 1471(b)(1) of the Code; or

(11) any combination of any of the above.

Such Additional Amounts also will not be payable where, had the beneficial owner of the Notes been the Holder, it would not have been entitled to payment of Additional Amounts by reason of clauses (1) to (10) inclusive above.

The Payor will (i) make any required withholding or deduction and (ii) remit the full amount deducted or withheld to the Relevant Taxing Jurisdiction in accordance with applicable law. The Payor will use all reasonable efforts to provide the Trustee with certified copies of tax receipts (or, if such certified copies are not available using all reasonable efforts, such other evidence reasonably acceptable to the Trustee in its discretion), evidencing the payment of any Taxes so deducted or withheld from each Relevant Taxing Jurisdiction imposing such Taxes. The Payor will attach to each certified copy (or other documentation) a certificate stating (x) that the amount of such Tax evidenced by the certified copy (or other documentation) was paid in connection with payments in respect of the Notes then outstanding and (y) the amount of such Tax paid per €1,000 of principal amount of the Notes.

At least 30 days prior to each date on which any payment under or with respect to the Notes or any Guarantee, as the case may be, is due and payable (unless such obligation to pay Additional Amounts arises shortly before or after the 30th day prior to such date, in which case it shall be promptly thereafter), if the Payor will be obligated to pay Additional Amounts with respect to such payment, the Payor will deliver to the Trustee and the Paying Agent an Officer's Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Paying Agent to pay such Additional Amounts to Holders of the Notes on the payment date.

The Trustee and the Paying Agent shall be entitled to rely upon each such Officer's Certificate as conclusive proof that such payments are necessary.

Whenever in the Indenture there is mentioned, in any context:

(1) the payment of principal;

(2) redemption prices or purchase prices in connection with a redemption or purchase of Notes;

(3) interest; or

(4) any other amount payable on or with respect to any of the Notes or Guarantees,

such reference will be deemed to include payment of Additional Amounts as described under this heading to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Company will pay any present or future stamp, issue, registration, court or documentary Taxes or any other excise or property Taxes (other than net wealth Taxes or similar Taxes imposed on the Holder irrespective of such Holder's investment in the Notes and based on the total net value of the Holder's property), charges or similar levies that arise in any Relevant Taxing Jurisdiction from the execution, delivery, enforcement or registration of the Notes, the Guarantees, the Indenture or any other document or instrument in relation thereto (other than a transfer of the Notes).

The obligations described under this heading will survive any termination, defeasance or discharge of the Indenture or any Guarantee.

Optional Tax Redemption

The Company may at its option, upon not less than 30 nor more than 60 days' prior notice (which notice shall be irrevocable and given in accordance with the procedures described in "—Selection and Notice of Redemption"), redeem at any time as a whole, but not in part, the Notes at 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of Holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date) and Additional Amounts, if any, in the event the Company or Guarantor, as the case may be, has become or would become obligated to pay, on the next date on which any amount would be payable with respect to the Notes, Additional Amounts (but in the case of a Guarantor, only if the payment giving rise to such requirement cannot be made by the Company or another Guarantor without the obligation to pay Additional Amounts) as a result of:

(1) a change in or an amendment to the laws (including any regulations promulgated thereunder) of a Relevant Taxing Jurisdiction affecting taxation; or

(2) any change in or amendment to any official position regarding the application or interpretation of such laws or regulations (each of (1) and (2) a "*Change in Tax Laws*"),

which change or amendment has not been publicly announced before and becomes effective on or after the date hereof (or, in the case of a Relevant Taxing Jurisdiction that was not a Relevant Taxing Jurisdiction as of the date hereof, the date on which such Relevant Taxing Jurisdiction became a Relevant Taxing Jurisdiction under the Indenture) and the Company or Guarantor (as the case may be) cannot avoid such obligation by taking reasonable measures available to it.

No such notice of redemption may be given earlier than 90 days prior to the earliest date on which the Company or Guarantor (as the case may be) would be obligated to pay such Additional Amounts were a payment in respect of the Notes then due and payable.

Before the Company publishes or mails notice of redemption of the Notes as described above, it will deliver to the Trustee (i) an Officer's Certificate to the effect that the Company or any Guarantor, as the case may be, cannot avoid its obligation to pay Additional Amounts by taking reasonable measures available to it and (ii) an Opinion of Counsel by an independent tax counsel of recognized standing in form and substance reasonably satisfactory to the Trustee stating that the Company or Guarantor, as the case may be, is or would be obligated to pay Additional Amounts as a result of a Change in Tax Laws. The Trustee shall be entitled to accept such Officer's Certificate and Opinion of Counsel as sufficient existence of the satisfaction of the conditions precedent described above, in which event it will be conclusive and binding on the Holders.

The foregoing provisions will apply *mutatis mutandis* to any successor person to the Company or Guarantor after such successor person becomes a party to the Indenture.

For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market of the Luxembourg Stock Exchange, and to the extent the rules of the Luxembourg Stock Exchange so require, the Company will provide a copy of any such notice to the Luxembourg Stock Exchange. Notices of redemption will be given in accordance with the provisions set forth under "—Selection and Notice of Redemption."

Guarantee Arrangements

Overview

The Notes are guaranteed, subject to limitations under applicable law, (the "*Guarantees*") on a senior unsecured basis as of the Issue Date by the following Subsidiaries (the "*Guarantors*") of the Company:

- Celulosas de Asturias, S.A.U.
- Norte Forestal, S.A.U.
- Silvasur Agroforestal, S.A.U.
- Iberflorestal-Comércio e Serviços Florestais S.A.
- Ibersilva, S.A.U.

The Guarantees are subject to significant limitations. On a aggregated basis for the twelve months ended June 30, 2015, the Company and the Guarantors together generated 105.2% of the Company's consolidated revenue and 54.2% of the Company's consolidated EBITDA and as of June 30, 2015 accounted for 120.1% of the Company's consolidated total assets. As of June 30, 2015, on an as adjusted basis and the application of the proceeds therefrom, the Guarantors would have had €291.3 million in indebtedness outstanding, of which €250.0 million would have been represented by the Notes.

Not all of the Company's Subsidiaries guarantee the Notes. Any right of the Holders of the Notes to participate in the assets of any of the Company's Subsidiaries that is not a Guarantor, upon the bankruptcy, liquidation or reorganization of any such Subsidiary will (except insofar as the Company has an unsubordinated claim against such Subsidiary for intercompany debt) also be subject to the prior claims of the creditors of such Subsidiary, including but not limited to trade creditors. Claims by the Trustee against a Guarantor on behalf of the Holders of the Notes will be direct claims on that Guarantor. However, some of the Guarantors may be holding companies, and hence claims under any such Guarantee will be structurally subordinated to the prior claims of the creditors of the Subsidiaries of such Guarantors, including but not limited to trade creditors.

Guarantees

Each Guarantor jointly and severally guarantees, subject to limitations described in "Risk Factors—Risks Relating to the Notes and Our Structure—The Guarantees are significantly limited by applicable laws and are subject to certain limitations or defenses", as a general unsubordinated obligation, and as a primary obligor and not merely as a surety, the Company's obligations under the Notes and the Indenture. In addition, each Guarantor agrees to pay any and all costs and expenses (including counsel fees and expenses) incurred by the Trustee or the Holders in enforcing any rights under the Guarantees.

The Guarantee of the Notes by each Guarantor is a general senior obligation of such Guarantor and:

- ranks at least *pari passu* in right of payment with any existing and future Debt that is not subordinated to such Guarantee (including indebtedness under the Revolving Credit Facility); and
- ranks senior in right of payment to any existing and future subordinated obligations of such Guarantor;
- is effectively subordinated to any existing and future Debt of such Subsidiary that is secured, to the extent of the value of the assets securing such Debt calculated in accordance with applicable laws; and
- is structurally subordinated to any existing and future indebtedness of the subsidiaries of such Guarantor that do not guarantee the Notes.

The obligations of each Guarantor under its Guarantee are limited to an amount that can be guaranteed under applicable laws, including corporate benefit laws and financial assistance, fraudulent conveyance or fraudulent transfer restrictions under applicable insolvency laws, and will not apply to the extent a Guarantee would be illegal or unenforceable under applicable local laws. See "Risk Factors—Risks Related to the Notes and Our Structure—The Guarantees are significantly limited by applicable laws and are subject to certain limitations or defences" and "Certain Insolvency Law and Enforceability Considerations" elsewhere in these Listing Particulars. The Guarantees provide that, in the event of default in the payment of principal of or premium, if any, interest, Additional Amounts, if any, and any other payment obligations in respect of the Notes (including any obligation to repurchase the Notes), the Trustee may institute legal proceedings directly against the relevant Guarantor without first proceeding against the Company. The Trustee (acting of its own volition or on the direction of the Holders of a majority in aggregate principal amount of the outstanding Notes), and not the Holders of the Notes individually, may enforce the Guarantees.

Release of Guarantees

Pursuant to the Indenture, the Capital Stock of a Guarantor may be sold, leased, transferred or otherwise disposed of to another Person under the covenant described under "—Certain Covenants—Limitation on Sales of Assets and Restricted Subsidiary Stock."

Upon any sale or disposition (including, without limitation, by way of merger, consolidation or otherwise) of: (i) Capital Stock of a Guarantor following which such Guarantor is no longer a Restricted Subsidiary of the Company; (ii) all or substantially all of the properties and assets of such Guarantor to a Person that is not (either before or after giving effect to such transaction) the Company or a Restricted Subsidiary of the Company; (iii) all or substantially all of the properties and assets of such Guarantor to another Guarantor in connection with a liquidation or dissolution of such Guarantor or merger or consolidation with such other Guarantor (*provided* that such other Guarantor expressly assumes in writing, in a form satisfactory to the Trustee in its sole discretion, all the obligations of such Guarantor under the Indenture); or (iv) all or substantially all of the properties and assets of such Guarantor to the Company in connection with a liquidation or dissolution of such Guarantor or merger or consolidation with the Company, and so long as, in any of the foregoing cases, the sale or disposition either does not constitute an Asset Disposition or complies with clauses (i) and (ii) of the covenant described in "—Certain Covenants—Limitation on Sales of Assets and Restricted Subsidiary Stock," the Guarantee of any such Restricted Subsidiary will be released.

The Guarantee provided by a Guarantor also will be released under the Indenture:

(i) upon the valid designation of such Guarantor as an Unrestricted Subsidiary;

(ii) if the Company exercises its legal defeasance option or covenant defeasance option as described under "—Defeasance" or if its obligations under the Indenture are discharged in accordance with the terms of the Indenture, in each case in accordance with the terms and conditions in the Indenture;

(iii) upon repayment in full of the Notes;

(iv) upon a sale or other disposition (including by way of consolidation or merger) of all of the Capital Stock of the applicable Guarantor (or any parent of such Guarantor) or in accordance with certain enforcement actions pursuant to any Pari Passu Intercreditor Agreement;

(v) in the event that the continued obligations of such Guarantor or the continued existence of such Guarantor could reasonably be expected to give rise to or result in (now or in the future): (a) any violation of applicable law or (b) any personal liability for the officers or directors of such Guarantor; which in each case of (a) and (b) cannot be avoided or otherwise prevented through measures reasonably available to the Company and the Guarantor;

(vi) as described under "—Amendments and Waivers"; and

(vii) as a result of a transaction permitted by the covenant described under "—Certain Covenants—Consolidation, Merger and Sale of Assets."

Upon request and direction and at the cost of the Company, or, as the case may be, the relevant Guarantor and upon delivery by the Company to the Trustee of an Officer's Certificate and an Opinion of Counsel to the foregoing effect, the Trustee will execute any documents reasonably requested by the Company or the relevant Guarantor, as the case may be, in writing in order to evidence the release, discharge and termination in respect of any Guarantee to be released as described above.

Change of Control

If a Change of Control occurs, the Company will, within 30 days after the occurrence of such Change of Control, notify each Holder of the Notes in accordance with the provisions set forth under "—Notices," with a copy of such notice to the Trustee in writing, of the occurrence of the Change of Control and will make an offer to purchase (the "*Change of Control Offer*") the Notes, in whole or in part, in principal amounts of €100,000 and integral multiples of €1,000 in excess thereof at a purchase price equal to 101% of the aggregate principal amount thereof, plus any accrued and unpaid interest and Additional Amounts, if any, thereon to the Change of Control Purchase Date (such price, together with such interest, the

"*Change of Control Purchase Price*"), on or before the date specified in such notice, which date (the "*Change of Control Purchase Date*") shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed, or such later date as may be required by law or any applicable requirements of any securities exchange on which such Notes are listed. The Change of Control Offer is required to remain open for at least 20 Business Days. The Company will purchase all Notes properly tendered in the Change of Control Offer and not withdrawn in accordance with the procedures set forth in such notice. The Change of Control Offer will state, among other things, the procedures that Holders of the Notes must follow to accept the Change of Control Offer.

The Revolving Credit Facility has similar provisions requiring the Company or borrowers under the Revolving Credit Facility to offer to repay the Revolving Credit Facility. No assurance can be given that the Company will have sufficient liquidity to comply with such provisions and to make the Change of Control Offers required by the Indenture, or a similar offer required by the Revolving Credit Facility.

The Company will not be required to make a Change of Control Offer following a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer or (2) a notice of redemption has been given pursuant to the Indenture as described above under the caption "—Optional Redemption," unless and until there is a default in payment of the applicable redemption price. Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

The occurrence of certain of the events which would constitute a Change of Control would require mandatory prepayment of Debt outstanding under the Revolving Credit Facility and might constitute a default under, or require prepayment of, future Debt of the Company or its Subsidiaries. The occurrence of a Change of Control would also trigger an obligation of the Company to repurchase the Notes, which may in turn lead to a default under the Notes if the Company cannot finance such a repurchase. In addition, the exercise by the Holders of the Notes of their right to require the Company to repurchase the Notes could cause a default under the Debt of the Company or its Subsidiaries, even if the Change of Control itself does not, due to the financial effect of such repurchase on the Company. Finally, if a Change of Control Offer is made, there can be no assurance that the Company will have sufficient funds or other resources to pay the Change of Control Purchase Price for all the Notes that might be delivered by Holders thereof seeking to accept the Change of Control Offer. See "Risk Factors—Risks Related to the Notes and Our Structure—We may not have the ability to raise the funds necessary to finance a change of control offer" and "Risk Factors—Risks Related to the Notes and Our Structure—Our substantial indebtedness may make it difficult for us to service our debt, including the Notes, and to operate our business."

The Change of Control provisions described above may deter certain mergers, tender offers and other takeover attempts involving the Company and, thus, the removal of incumbent management. One of the events that constitutes a Change of Control under the Indenture is a sale, conveyance, transfer or lease of all or substantially all the assets of the Company and its Subsidiaries, taken as a whole. The phrase "all or substantially all" is subject to judicial interpretation depending on the facts and circumstances of the subject transaction. The Indenture will be governed by New York law and, although there is limited case law interpreting the phrase "substantially all," there is no established quantitative definition under New York law of the phrase "substantially all." Accordingly, in certain circumstances, it may be unclear whether a Change of Control has occurred and whether the Company may therefore be required to make a Change of Control Offer. In addition, case law suggests that, in the event that incumbent directors are replaced as a result of a contested election, the Company may nevertheless avoid triggering a Change of Control under a clause similar to clause (c) of the definition of "Change of Control," if the outgoing directors were to approve the new directors for the purpose of such change of control clause.

If at the time of such Change of Control, the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market of the Luxembourg Stock Exchange, to the extent required by the rules of the Luxembourg Stock Exchange, the Company will notify the Luxembourg Stock Exchange that a Change of Control has occurred and any relevant details relating to such Change of Control.

The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the U.S. Securities Exchange Act of 1934, as amended (the "*U.S. Exchange Act*"), and any other securities laws or regulations in connection with the repurchase of Notes pursuant to any Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with provisions relating to the Change of Control Offer, the Company will comply with applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control covenant by virtue thereof.

Certain Covenants

The Indenture contains, among others, the following covenants:

Limitation on Debt

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, Incur any Debt (including Acquired Debt) other than Permitted Debt; *provided, however,* that the Company may, and may permit any Restricted Subsidiary to, Incur Debt if (i) no Default or Event of Default shall have occurred and be continuing at the time of such Incurrence or would occur as a consequence of such Incurrence and (ii) after giving *pro forma* effect to such Incurrence, the Consolidated Coverage Ratio as of the date of the Incurrence of such Debt would exceed 2.50 to 1.00.

"*Permitted Debt*" is defined as follows:

(i) Debt (a) of the Company evidenced by the Notes issued on the Issue Date (not including Additional Notes) and (b) of the Guarantors in respect of the Guarantees, including any Additional Guarantees;

(ii) Debt of the Company or any Restricted Subsidiary (x) Incurred under Credit Facilities (including, without double counting, any Debt to the extent backed by letters of credit, guarantees or bonds issued under Credit Facilities), (y) any Refinancing Debt, *provided*, that the aggregate principal amount of all such Debt under (x) and (y) of this clause (ii) at any one time outstanding does not exceed €100 million, which amount shall be permanently reduced by any payments made by the Company under a Credit Facility with the Net Available Cash from any Asset Disposition (which are accompanied by a corresponding permanent commitment reduction) pursuant to clause (iii) of the first paragraph of the covenant described under "—Limitation on Sales of Assets and Restricted Subsidiary Stock";

(iii) Debt of the Company owing to and held by any of its Restricted Subsidiaries and Debt of any Restricted Subsidiary of the Company owing to and held by the Company or any Restricted Subsidiary; *provided, however*, that if such Debt is owed by the Company or a Guarantor, then it shall be expressly subordinated to the prior payment in full in cash of all obligations with respect to the Notes; and *provided*, further, that any subsequent transfer of any such Debt (except to the Company or to any of its Restricted Subsidiaries), shall be deemed, in each case, to constitute the Incurrence of such Debt by the issuer thereof;

(iv) Debt (other than Debt permitted by the immediately preceding paragraph or elsewhere in this paragraph) in an aggregate principal amount outstanding at any time not to exceed €80 million;

(v) the Incurrence by the Company or any of its Restricted Subsidiaries of Debt represented by Capitalized Lease Obligations, mortgage financings or purchase money obligations, in each case, Incurred for the purpose of financing or refinancing all or any part of the purchase price or cost of construction or improvement of property, plant or equipment used in the business of the Company or such Restricted Subsidiary, in an aggregate principal amount, not to exceed €30 million at any time outstanding;

(vi) Debt Incurred pursuant to the factoring of Receivables and reverse factoring or confirming of accounts payable, in each case arising in the ordinary course of business pursuant to customary arrangements, *provided*, that either (a) no portion of such Debt has, directly or indirectly, contingent or otherwise, recourse to any property or assets of the Company or any of its Restricted Subsidiaries (other than the Receivables that are the subject of the factoring), or (b) if such Debt has recourse to any property or assets of the Company or any of its Restricted Subsidiaries, only the portion of such Debt that is not recourse to any property or assets of the Company or any of its Restricted Subsidiaries (other than the Receivables that are the subject of the factoring) may be considered as "Permitted Debt" under this clause (vi);

(vii) Debt under Hedging Obligations that are Incurred in the ordinary course of business (1) for the purpose of fixing or hedging interest rate risk with respect to any Debt Incurred without violation of the Indenture; (2) for the purpose of fixing or hedging currency exchange rate risk with respect to any currency; (3) for the purpose of fixing or hedging commodity price risk with respect to any commodities or (4) for the purpose of fixing or hedging electricity price risk with respect to electricity purchased from the Spanish national grid; and, in each case, (x) not for speculative purposes, and (y) with respect to any Hedging Obligations, for a maximum maturity period of 36 months;

(viii) Debt in connection with one or more standby letters of credit, bank guarantees, bankers' acceptances or performance, bid, surety, judgment, appeal, customs, VAT or other tax guarantees or similar bonds or completion guarantees provided by the Company or any of its Restricted Subsidiaries and issued in the ordinary course of business or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances of credit;

(ix) Debt arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds, overdrafts or cash pooling arrangements in the ordinary course of business; *provided*, *however*, that any such Debt that arises is extinguished within six Business Days of Incurrence;

(x) Debt of the Company or any of its Restricted Subsidiaries represented by letters of credit for the account of the Company or such Restricted Subsidiary, as the case may be, in order to provide security for workers' compensation claims, payment obligations in connection with self-insurance or similar requirements in the ordinary course of business;

(xi) Debt arising from agreements of the Company or any of its Restricted Subsidiaries providing for indemnification, adjustment of purchase price, earn out or similar obligations, in each case, Incurred in connection with the disposition of any business, assets or Subsidiary, other than guarantees of Debt Incurred by any Person acquiring all or any portion of such business, assets or Subsidiary for the purpose of financing such acquisition; *provided*, that the maximum aggregate liability in respect of all such Debt shall at no time exceed the gross proceeds actually received by the Company and such Restricted Subsidiary in connection with such disposition;

(xii) guarantees by the Company or any of its Restricted Subsidiaries of Debt Incurred by the Company or such Restricted Subsidiary so long as the Incurrence of such Debt by the Company or any such Restricted Subsidiary is otherwise permitted by the terms of the Indenture;

(xiii) guarantees by the Company or any of its Restricted Subsidiaries of Debt Incurred by Joint Ventures that does not exceed €5 million in the aggregate at any one time outstanding;

(xiv) Debt of a Person existing at the time that Person becomes a Restricted Subsidiary of the Company or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Company or any Restricted Subsidiary of the Company and not Incurred in connection with or in anticipation of, such Person becoming a Restricted Subsidiary of the Company; *provided,* that the holders of any such Debt do not, at any time, have direct or indirect recourse to any property or assets of the Company or any of its Restricted Subsidiaries other than the property or assets of such acquired Person; *provided*, *further*, that on the date of such acquisition or such other transaction and after giving *pro forma* effect thereto, either (1) the Company would have been able to Incur at least €1.00 of additional Debt pursuant to the immediately preceding paragraph or (2) the Consolidated Coverage Ratio would be greater than or equal to the Consolidated Coverage Ratio immediately prior to giving *pro forma* effect to such acquisition;

(xv) Debt of the Company or any of its Restricted Subsidiaries Incurred pursuant to an obligation imposed by law to transfer employee benefit obligation to a third party;

(xvi) Debt of the Company or any of its Restricted Subsidiary (1) for money borrowed from government, quasi-governmental entities, local authorities or other statutory, public or quasi-public entities for the purposes of funding research, development and innovation, *provided*, that (a) such Debt is borrowed on terms that are, in the good faith judgment of a responsible financial officer of the Company, more favorable to the Company or such Restricted Subsidiary than could be obtained by it from commercial banks on arm's length terms at the time of Incurrence, and (b) the aggregate amount at any one time outstanding under this clause (xvi) does not exceed €20 million, and (2) any Refinancing Debt in respect of Debt under (1);

(xvii) Debt of the Company or any of its Restricted Subsidiaries not otherwise described in clauses (i) through (xvi) above (1) outstanding on the Issue Date and disclosed in these Listing Particulars and (2) any Refinancing Debt Incurred in respect thereof; and

(xviii) Refinancing Debt Incurred in respect of Debt Incurred under the first paragraph of this covenant or under clauses (i) or (xiv) hereof.

Notwithstanding the foregoing, a Restricted Subsidiary that is not a Guarantor may only Incur Debt (other than Debt Incurred pursuant to clauses (iii), (ix), (x), (xi) or (xv) of the second paragraph of this covenant) to the extent that the Non-Guarantor Leverage Ratio for the Company's most recently ended four fiscal quarters for which internal financial statements are available immediately preceding the date on which such Debt is Incurred would have been no greater than 0.5 to 1.0, as determined on a *pro forma* basis (including a *pro forma* application of the net proceeds therefrom), as if such Debt had been Incurred at the beginning of such four-quarter period; *provided* that Refinancing Debt Incurred under clause (xviii) of the second paragraph of this covenant to renew, refund, refinance, replace, defease or discharge any Debt originally Incurred by a Restricted Subsidiary that is not a Guarantor after the Issue Date and in compliance with the Non-Guarantor Leverage Ratio shall always be permitted hereunder; provided further that, for the avoidance of doubt, no such amounts may be reclassified at any time in accordance with the next succeeding paragraph.

For purposes of determining the compliance of any non-euro-denominated Debt Incurred under clauses (ii), (iv), (v), (xiii), (xiv) or (xvi) above with the euro-denominated restriction contained therein, the euro-equivalent principal amount of such Debt Incurred pursuant thereto will be calculated based on the relevant currency exchange rate in effect on the date such Debt was Incurred, in the case of term Debt, or first committed, in the case of revolving credit Debt; *provided*, that (i) the euro-equivalent principal amount of any such Debt outstanding on the Issue Date under clause (ii) above (other than term Debt) will be calculated based on the relevant currency exchange rate in effect on the date thereof and (ii) (A) any Refinancing Debt Incurred to refinance non-euro-denominated Debt previously Incurred which would cause the euro-denominated restriction under such clause to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing (the "*Initial Refinancing Rate*") will be deemed not to exceed such euro-denominated restriction under such clause so long as the principal amount of such Refinancing Debt does not exceed the principal amount of the Debt being refinanced, and (B) all subsequent Incurrences of Refinancing Debt subject to the euro-denominated restriction under such clause will be determined as if the relevant currency exchange rate applied to any subsequent Refinancing Debt was the Initial Refinancing Rate; *provided*, *however*, that the principal amount of any such subsequent Refinancing Debt, if Incurred in a currency other than the currency of the Debt being refinanced, will be calculated based on the currency exchange rate applicable to the currency or currencies in which such proposed Refinancing Debt is denominated on the date of such refinancing.

For purposes of determining any particular amount of Debt under this "—Limitation on Debt" covenant, accrual of interest, accrual of dividends, the accretion of accreted value, the obligation to pay commitment fees and the payment of interest in the form of additional Debt shall not be treated as Debt. In addition, for purposes of determining compliance with this "—Limitation on Debt" covenant, in the event that an item of proposed Debt meets the criteria of more than one of the categories of Permitted Debt described in clauses (i) through (xviii) above, or is entitled to be Incurred pursuant to the first paragraph of this covenant, the Company shall be permitted to classify such item of Debt on the date of its Incurrence and, except with respect to Debt Incurred under clause (ii) above, reclassify such item of Debt, in each case in any manner that complies with this covenant.

Limitation on Restricted Payments

The Company will not make, and will not permit any of its Restricted Subsidiaries to make, directly or indirectly, any Restricted Payment if at the time of, and after giving effect to, such proposed Restricted Payment,

(a) a Default or Event of Default shall have occurred and be continuing, or

(b) the Company could not Incur at least €1.00 of additional Debt pursuant to the first paragraph of the covenant described under "—Limitation on Debt," or

(c) the aggregate amount of such Restricted Payment and all other Restricted Payments (excluding Restricted Payments permitted by clauses (b), (c), (d) and (f) of the next paragraph) declared or made since the Issue Date (the amount of any Restricted Payment, if made other than in cash, to be based upon Fair Market Value) would exceed an amount equal to the sum of:

   (i) 50% of the aggregate Consolidated Net Income accrued during the period (treated as one accounting period) from the beginning of the most recently completed fiscal quarter of the Company before the Issue Date to the end of the Company's most recently completed fiscal quarter for which internal financial statements are available at the time of such proposed Restricted Payment (or, in case such Consolidated Net Income is a deficit, minus 100% of such deficit),

   (ii) Capital Stock Sale Proceeds and (without duplication of any amounts included in Capital Stock Sale Proceeds) Capital Stock Contributions, and

   (iii) the amount by which Debt of the Company or any of its Restricted Subsidiaries is reduced on the Company's balance sheet upon the conversion or exchange (other than by a Subsidiary) subsequent to the Issue Date of any Debt of the Company or any of its Restricted Subsidiaries convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash or other property distributed by the Company or any of its Restricted Subsidiaries upon such conversion or exchange).

Notwithstanding the foregoing limitation, the Company and any of its Restricted Subsidiaries may:

(a) pay dividends on its Capital Stock within 60 days of the declaration thereof if, on said declaration date, such dividends could have been paid in compliance with the Indenture; provided, however, that such dividend shall be included in the calculation of the amount of Restricted Payments;

(b) redeem, repurchase, defease, acquire or retire for value, any Subordinated Obligation of the Company with the proceeds of any Refinancing Debt in respect of such Subordinated Obligation; *provided*, *however*, that the proceeds of any such Refinancing Debt that is used for any such redemption, repurchase, defeasance or other acquisition or retirement for value shall be excluded from clause (c)(ii) of the preceding paragraph;

(c) make any Restricted Payment by exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Company issued after the Issue Date (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Company or an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees) or Capital Stock Contributions; *provided*, *however*, that the Net Cash Proceeds from such sale or contribution shall, to the extent so used to acquire, redeem or retire Capital Stock of the Company or Subordinated Obligations of the Company, be excluded from clause (c)(ii) of the preceding paragraph;

(d) make cash payments in lieu of issuing fractional shares pursuant to the exercise or conversion of any exercisable or convertible securities;

(e) make payments or distributions to dissenting shareholders pursuant to applicable law in connection with or in contemplation of a merger, consolidation or transfer of assets that complies with the covenant described under "—Certain Covenants—Consolidation, Merger and Sale of Assets";

(f) make payments of dividends on Disqualified Stock issued in accordance with the covenant described under "—Limitation on Debt";

(g) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby and the Free Float Percentage exceeds 20%, make payments of dividends on, or repurchase, redeem or otherwise acquire or retire for value, the Capital Stock of the Company up to 5% per annum of the Market Capitalization of the Company; *provided,* that if the aggregate amount of such Restricted Payments exceeds €5 million in any twelve- month period, then any such Restricted Payment may only be made if after giving *pro forma* effect to such payment on that date the Leverage Ratio of the Company and its Restricted Subsidiaries shall be no greater than 2.50 to 1.00; and

(h) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, make additional Restricted Payments in an aggregate amount not to exceed €60 million since the Issue Date (net of, with respect to Investments in Listed Shares made in reliance on this clause (h), the Net Cash Proceeds thereon received after the Issue Date as a result of any sale or other realization of

Investments in Listed Shares, not to exceed the amount of Investments made after the Issue Date in reliance on this clause (h)).

Transactions with Affiliates

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate of the Company (an "*Affiliate Transaction*") involving aggregate payments or consideration in excess of €2 million, unless (a) the terms of such Affiliate Transaction are no less favorable to the Company or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable arm's length transaction with a Person that is not an Affiliate of the Company or such Restricted Subsidiary, (b) with respect to an Affiliate Transaction involving aggregate payments or value in excess of €5 million, the terms of such Affiliate Transaction are set forth in writing and the Board of Directors (including a majority of the disinterested members of the Board of Directors) approves such Affiliate Transaction and, in its good faith judgment, believes that such Affiliate Transaction complies with clause (a) of this paragraph, and (c) with respect to an Affiliate Transaction involving aggregate payments or value in excess of €20 million, the terms of such Affiliate Transaction are set forth in writing and the Company obtains a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction is fair, from a financial point of view, to the Company or is not less favorable to the Company or such Restricted Subsidiary than could have been obtained in a comparable arms' length transaction with a Person that is not an Affiliate of the Company or any of its Restricted Subsidiaries.

The foregoing covenant will not prohibit:

(A) Permitted Investments and any Restricted Payment permitted to be paid as described above under "—Limitation on Restricted Payments";

(B) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of or other transactions pursuant to, employment arrangements, stock options and stock ownership plans approved by the Board of Directors of the Company;

(C) loans or advances to directors, officers or employees of the Company in the ordinary course of business;

(D) the payment of reasonable fees, compensation and employee benefit arrangements, customary insurance and indemnities to directors, officers, managers, employees or consultants of the Company and of any of its Restricted Subsidiaries;

(E) (i) any transaction between the Company and any of its Restricted Subsidiaries or between Restricted Subsidiaries of the Company; and (ii) any transaction between the Company or any of its Restricted Subsidiaries and any Unrestricted Subsidiary of the Company in the ordinary course of business and consistent with past practice pursuant to which a payable is created in favor of such Unrestricted Subsidiary (by the Company or any Restricted Subsidiary) in respect of funds relating to electricity generated and sold by an Unrestricted Subsidiary;

(F) the performance of any agreement as in effect on the Issue Date which is disclosed to Holders of the Notes in these Listing Particulars under the heading "Certain Relationships and Related Party Transactions" or any amendment or renewal thereto or any transaction contemplated thereby (including in respect of the Biomass Boiler) or in any replacement agreement thereto so long as any such amendment or renewal or replacement agreement is not more disadvantageous to the Holders of Notes (as determined by the Board of Directors of the Company in their reasonable and good faith judgment) in any material respect than the original agreement;

(G) transactions between the Company or any of its Restricted Subsidiaries and any Person that is an Affiliate of the Company solely as a result of the ownership by the Company or any of its Restricted Subsidiaries of Capital Stock of such Person;

(H) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business and otherwise in compliance with the terms of the Indenture which are fair to the Company or its Restricted Subsidiaries, or are on terms at least as favorable as might reasonably have been obtained at such time from an unaffiliated party, in each case in the reasonable determination of the Board of Directors of the Company or the senior management thereof; or

(I) any issuance of Capital Stock (other than Disqualified Stock) of the Company to an Affiliate of the Company.

Limitation on Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, Incur or suffer to exist any Lien, in each case, to secure any Debt on any asset or property, whether owned on the date of the Indenture or acquired after that date, of the Company or its Restricted Subsidiaries (including Capital Stock of Restricted Subsidiaries of the Company), or any income, profits or proceeds therefrom, or assign or convey any right to receive income, profits or proceeds therefrom, except Permitted Liens, unless contemporaneously with (or prior to) all payments due under the Indenture, the Notes and the Guarantees are secured on an equal and ratable basis with the obligations so secured until such time as such obligations are no longer secured by a Lien.

Additional Guarantees

The Company will not permit, directly or indirectly, any of its Restricted Subsidiaries that is not a Guarantor, to guarantee, assume or in any other manner become liable for the payment of any Debt of the Company or a Guarantor under any Debt unless such Incurrence is permitted by the covenant entitled "—Certain Covenants—Limitation on Debt," and:

(1) (A) such Restricted Subsidiary simultaneously executes and delivers to the Trustee a supplemental indenture providing for a Guarantee of payment of the Notes by such Restricted Subsidiary on the same terms and conditions as those set forth in the Indenture and which Guarantee of the Notes will be senior to or *pari passu* with such Restricted Subsidiary's guarantee of such other Debt; and

(B) with respect to any guarantee of Subordinated Obligations by such Restricted Subsidiary, any such guarantee will be subordinated to such Restricted Subsidiary's Guarantee at least to the same extent as such Subordinated Obligations are subordinated to the Notes; and

(2) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other of its Restricted Subsidiaries as a result of any payment by such Restricted Subsidiary under its Guarantee.

Notwithstanding the foregoing, the Company shall not be obligated to cause any such Restricted Subsidiary to guarantee the Notes to the extent that such Guarantee would reasonably be expected to give rise to or result in (i) any violation of applicable law, rule, regulation or order that cannot be avoided or otherwise prevented through measures reasonably available to the Company or such Restricted Subsidiary or (ii) any liability for the officers, directors or shareholders of such Restricted Subsidiary and obligations of each Guarantor under its Guarantee will be limited to an amount that can be guaranteed under applicable laws, including corporate benefit laws and financial assistance, fraudulent conveyance or fraudulent transfer restrictions under applicable insolvency laws (the "*Guarantee Limitations*"). See "Risk Factors—Risks Related to the Notes and Our Structure—Fraudulent conveyance laws may limit your rights as a holder of Notes" elsewhere in these Listing Particulars.

In addition, notwithstanding the foregoing and the other provisions of the Indenture, any Guarantee issued pursuant to this covenant by a Restricted Subsidiary of the Company shall provide by its terms that it shall be automatically and unconditionally released and discharged in the circumstances described under "—Guarantee Arrangements—Release of Guarantees."

Limitation on Restrictions on Distributions from Restricted Subsidiaries

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any of its Restricted Subsidiaries to (a) pay dividends or make any other distributions on its Capital Stock, (b) make any loans or advances to the Company or any other of its Restricted Subsidiaries or (c) transfer any of its property or assets to the Company or any other of its Restricted Subsidiaries, except:

(i) any encumbrance or restriction which is in effect at or entered into on the Issue Date, including, without limitation, pursuant to the Revolving Credit Facility, and which is disclosed in these Listing Particulars under the heading "Description of Other Indebtedness";

(ii) any encumbrance or restriction with respect to a Restricted Subsidiary of the Company or property or assets pursuant to an agreement on or prior to the date on which such Restricted Subsidiary or property or assets was acquired by the Company or any of its Restricted Subsidiaries (other than Debt Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was acquired by the Company or any of its Restricted Subsidiaries or the property or assets were acquired by the Company or any of its Restricted Subsidiaries) and outstanding on such date;

(iii) any encumbrance or restriction pursuant to an agreement effecting an amendment, modification, restatement, renewal, increase, supplement, refund, replacement or refinancing of an agreement referred to in clauses (i) or (ii) of this covenant or this clause (iii); *provided, however*, that the encumbrances and restrictions contained in any such agreement or amendment, taken as a whole, are no less favorable to the Holders of the Notes than encumbrances and restrictions contained in such predecessor agreements;

(iv) any encumbrance or restriction (A) consisting of customary provisions restricting subletting or assignment of leases and customary provisions in other agreements that restrict assignment of such agreements or rights thereunder or customary restrictions contained in asset sale agreements limiting the transfer of such property pending the closing of such sale, (B) arising by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of the Company or any of its Restricted Subsidiaries not otherwise prohibited by the terms of the Indenture, or (C) arising or agreed to in the ordinary course of business and that does not, individually or in the aggregate, detract from the value of property or assets of the Company and its Restricted Subsidiaries, taken as a whole, in any manner material to the Company and its Restricted Subsidiaries, taken as a whole;

(v) in the case of clause (c) in the first paragraph of this covenant, restrictions contained in Capitalized Lease Obligations, security agreements or mortgages securing Debt of a Restricted Subsidiary of the Company to the extent such restrictions restrict the transfer of the property subject to such Capitalized Lease Obligations, security agreements or mortgages;

(vi) any restriction with respect to a Restricted Subsidiary of the Company imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition;

(vii) any encumbrance or restriction imposed pursuant to any Interest Rate Protection Agreement, Currency Exchange Protection Agreement or Commodity Agreement, in each case, entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business and not for speculative purposes;

(viii) any encumbrance or restriction imposed by applicable law, rules, regulations or orders;

(ix) any encumbrances or restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business;

(x) any encumbrances or restrictions Incurred in accordance with the covenant described under "—Limitation on Liens"; and

(xi) customary encumbrances or restrictions imposed pursuant to, or required by, shareholder agreements or similar agreements governing the rights and obligations of the holders of Capital Stock of a Restricted Subsidiary (including any encumbrance or restriction included in the corporate by-laws or organizational documents as required by any such joint venture agreement, shareholder agreement or similar agreement).

Limitation on Sales of Assets and Restricted Subsidiary Stock

The Company will not, and will not permit any of its Restricted Subsidiaries to, make any Asset Disposition unless:

(i) the Company or such Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value of the assets subject to such Asset Disposition;

(ii) at least 75% of such consideration consists of cash or Cash Equivalents, and is received at the time of the Asset Disposition; and

(iii) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Company or such Restricted Subsidiary, as the case may be (at the option of the Company or such Restricted Subsidiary):

  (A) to make an investment in, or expenditures for, properties and assets which are Additional Assets (including by means of an investment in Additional Assets by a Restricted Subsidiary of the Company with Net Available Cash received by the Company or another of its Restricted Subsidiaries) within twelve months from the later of such Asset Disposition or the receipt of such Net Available Cash or pursuant to arrangements in place within the twelve-month period (to the extent such arrangements are completed within 180 days after execution of such arrangement);

  (B) to the extent such Net Available Cash derives from an Asset Disposition in respect of an asset which, immediately prior to such Asset Disposition was subject to a Lien, to prepay, repay or purchase (i) Debt of a Subsidiary of the Company that is not a Guarantor (other than Debt owed to the Company or an Affiliate of the Company) or (ii) Debt which is secured by a Lien on such asset (other than Debt owed to the Company or an Affiliate of the Company) within twelve months from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;

  (C) to prepay, repay or purchase Senior Debt (other than Debt owed to the Company or an Affiliate of the Company) within twelve months from the later of the date of such Asset Disposition or the receipt of such Net Available Cash; *provided* that the Company shall prepay, repay or purchase Senior Debt pursuant to this clause (C) only if the Company makes at such time an offer to the Holders of the Notes to purchase their Notes in accordance with the provisions under Prepayment Offer (as defined below) for an aggregate principal amount of Notes at least equal to the proportion that (x) the total aggregate principal amount of Notes outstanding bears to (y) the sum of the total aggregate principal amount of Notes outstanding plus the total aggregate principal amount of such Senior Debt; or

  (D) to purchase the Notes pursuant to an offer to all Holders of Notes at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest to (but not including) the date of purchase (a "*Notes Offer*")

provided, *however*, that, in connection with any prepayment, repayment or purchase of Debt pursuant to clause (B), (C) or (D), the Company or such Restricted Subsidiary will retire such Debt and will cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased.

Notwithstanding the foregoing provisions, the Company and its Restricted Subsidiaries will not be required to apply any Net Available Cash in accordance with such foregoing provisions to the extent that such Net Available Cash does not exceed €10 million during any fiscal year, except to the extent that the aggregate Net Available Cash from all Asset Dispositions which are not applied in accordance with the foregoing provisions exceeds €20 million. Pending application of Net Available Cash pursuant to this provision, such Net Available Cash may be used to temporarily reduce revolving credit borrowings or otherwise invested in any manner that is not prohibited by the terms of the Indenture.

If the aggregate principal amount of Notes and other Senior Debt tendered into (or to be prepaid or redeemed in connection with) any prepayment, repayment or purchase of Debt pursuant to sub-clauses (C) or (D) of clause (iii) of the first paragraph of this covenant exceeds the amount of Net Available Cash available or if the aggregate amount of Notes tendered pursuant to a Notes Offer exceeds the amount of the Net Available Cash so applied, the Notes and such other Senior Debt, if applicable, will be purchased on a *pro rata* basis (or in the manner described under "—Selection and Notice of Redemption"), based on the amounts tendered or required to be prepaid or redeemed.

The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the U.S. Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes as described above. To the extent that the provisions of any securities laws or regulations conflict with provisions relating to the Prepayment Offer, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations described above by virtue thereof.

For the purposes of the provisions described under "—Limitation on Sales of Assets and Restricted Subsidiary Stock," each of the following will be deemed to be cash: (a) any liabilities, as recorded on the balance sheet of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are Subordinated Obligations), that are assumed by the transferee of any such Asset Disposition and as a result of which the Company and its Restricted Subsidiaries are no longer obligated with respect to such liabilities; (b) any securities, notes or other obligations received by the Company or any such Restricted Subsidiary from the transferee of any such Asset Disposition that are converted by the Company or such Restricted Subsidiary into cash or Cash Equivalents within 180 days following the closing of such Asset Disposition, to the extent of the cash or Cash Equivalents received in that conversion; (c) any Capital Stock or assets of the kind referred to in clause (A) of the first paragraph of this covenant; (d) Debt (other than Subordinated Obligations) of any Restricted Subsidiary of the Company that is no longer a Restricted Subsidiary of the Company as a result of such Asset Disposition, to the extent that the Company and each other Restricted Subsidiary are released from any guarantee of such Debt in connection with such Asset Disposition; and (e) consideration in connection with such Asset Disposition consisting of Debt of the Company or any Guarantor (other than Subordinated Obligations) received from Persons who are not the Company or any of its Restricted Subsidiaries.

No Monitoring by the Trustee

The Trustee shall have no responsibility for monitoring any of the covenants described in this section "—Certain Covenants" and shall be entitled to assume, unless it receives written notice to the contrary, that the Company and any of its Restricted Subsidiaries are all complying with their covenant obligations described herein. The Company shall, pursuant to the Indenture, provide to the Trustee a certificate of compliance on an annual basis certifying compliance (or not, as applicable) with such covenants, and the Trustee will be entitled to rely on such certificates absolutely and without further enquiry.

Reports to Holders

For so long as any Notes are outstanding, the Company will provide to the Trustee the following reports:

(a) within 120 days after the end of the Company's fiscal year, annual reports commencing with the fiscal year ending December 31, 2015, in a level of detail that is comparable in all material respects to that included in these Listing Particulars (with appropriate revisions, as reasonably determined by the Company, to reflect changes in segment reporting, and except that the Company shall not be required to commission expert reports as part of any description of the industry), containing, to the extent applicable, the following information: (i) audited consolidated balance sheets of the Company as of the end of the two most recently completed fiscal years and audited consolidated income statements and statements of cash flow of the Company for the two most recently completed fiscal years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (ii) *pro forma* income statement and balance sheet information of the Company (which need not comply with Article 11 of Regulation S-X under the U.S. Exchange Act) together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal year unless *pro forma* information has been provided in a previous report pursuant to clause (b)(ii) or (b)(iii) below (*provided,* that an acquisition, disposition or recapitalization that has occurred less than 75 calendar days prior to the date such report is to be provided, such acquisition, disposition or recapitalization shall be included in the report for the next fiscal quarter); (iii) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources of the Company, and a discussion of material commitments and contingencies and critical accounting policies; (iv) a description of the business, management and shareholders of the Company, all material affiliate transactions and a description of all material contractual arrangements, including material debt instruments; (v) a description of material risk factors and material recent developments; (vi) earnings before interest, taxes, depreciation and amortization; (vii) capital expenditures; (viii) depreciation and amortization; and (ix) operating profit (loss) in IFRS;

(b) within 60 days following the end of the first three fiscal quarters in each fiscal year of the Company commencing with the quarter ending September 30, 2015, quarterly financial statements of the Company containing the following information: (i) an unaudited condensed consolidated balance sheet as of the end of such quarter and unaudited condensed statements of income and cash flow for the most recently completed quarter and year-to-date periods ending on the unaudited condensed balance sheet date, and the comparable prior year period, together with condensed footnote disclosure; (ii) *pro forma* income statement and balance sheet information of the Company, together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal year unless *pro forma* information has been provided in a previous report pursuant to clause (b)(i) or (b)(iii) (*provided,* that an acquisition, disposition or recapitalization that has occurred less than 75 calendar days prior to the date such report is to be provided, such acquisition, disposition or recapitalization shall be included in the report for the next fiscal quarter or the current fiscal year, whichever occurs first); (iii) an operating and financial review of the unaudited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources of the Company; and (iv) any event reported pursuant to clause (c) of this paragraph; and

(c) promptly after the occurrence of any event that the Company announces to the securities and exchange commission in Spain (*Comisión Nacional del Mercado de Valores*) or, if the Company ceases to be publicly listed on a recognized exchange in Spain, promptly after any material acquisition, disposition or restructuring of the Company and its Restricted Subsidiaries, taken as a whole, or any senior executive officer changes at the Company or change in auditors of the Company, or any other material event that the Company or any of its Restricted Subsidiaries announces publicly, a report containing a description of such event.

At any time that any of the Company's Subsidiaries are designated as Unrestricted Subsidiaries, then the quarterly and annual financial information required by (a) and (b) above will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Company and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries.

All the financial statements and *pro forma* financial information shall be prepared in accordance with IFRS on a consistent basis for the periods presented. Except as provided for above, no report need include separate financial statements or information for the Company or Subsidiaries of the Company or any disclosure with respect to the results of operations or any other financial or statistical disclosure not of a type included in these Listing Particulars.

Contemporaneously with the furnishing of each such report discussed above, the Company will also post such reports on the Company's website. The reports and press releases that the Company will need to provide or file in accordance with the Indenture, will be in English. In the event that the Company becomes subject to the reporting requirements of Section 13(a) or 15(d) of the U.S. Exchange Act, or elects to comply with such provisions, the Company will, for so long as it continues to file the reports required by Section 13(a) with the SEC, make available to the Trustee the annual reports, information, documents and other reports that the Company is required to file with the SEC pursuant to such Section 13(a) or 15(d). Upon complying with the foregoing requirement, the Company will be deemed to have complied with the provisions contained in the preceding three paragraphs. So long as any Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Company will also provide a copy of all reports and press releases that the Company will need to provide or file in accordance with the Indenture to the Luxembourg Stock Exchange.

The Indenture will also provide that, so long as any of the Notes remain "restricted securities" within the meaning of Rule 501 under the U.S. Securities Act and during any period during which the Company is not subject to Section 13 or 15(d) of the U.S. Exchange Act nor exempt therefrom pursuant to Rule 12g3-2(b), the Company will make available to any prospective purchaser of the Notes or beneficial owner of Notes in connection with any sale thereof the information required by Rule 144A(d)(4) under the U.S. Securities Act. The Company will also make any of the foregoing information available during normal business hours at the offices of the listing agent in Luxembourg if and so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of that exchange so require.

Delivery of such reports, information and documents to the Trustee shall be for informational purposes only and the Trustee's receipt of such reports, information and documents shall not constitute constructive notice of any information contained therein, including the Issuer's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officer's Certificates).

Consolidation, Merger and Sale of Assets

The Company will not merge or consolidate with or into any other entity (other than a merger or consolidation of a Restricted Subsidiary of the Company into the Company, or the Company into one of its Restricted Subsidiaries (except that such merger or consolidation shall comply with clauses (b) and (e) below) or sell, transfer, assign, lease, convey or otherwise dispose of all or substantially all of the property or assets of the Company or its Restricted Subsidiaries taken as a whole, in any one transaction or series of transactions, unless the following requirements are satisfied:

(a) the Company shall be the surviving Person or the surviving Person (if other than the Company), formed by such consolidation or merger or the Person to which such sale, transfer, assignment, lease, conveyance or disposition is made shall be a corporation organized and existing under the laws of the United States of America or a State thereof or the District of Columbia or any European Union Member State (any such Person, the "*Surviving Person*");

(b) the Surviving Person (if other than the Company) expressly assumes all the obligations of the Company (i) by a supplemental indenture in form satisfactory to the Trustee, executed and delivered to the Trustee by such Surviving Person, including the Company's obligations with respect to the due and punctual performance and observance of all the covenants and conditions, including covenants relating to payment of principal, interest, premium and Additional Amounts, of the Indenture to be performed by the Company; and (ii) any Pari Passu Intercreditor Agreement;

(c) immediately before and after giving effect to such transaction or series of transactions on a *pro forma* basis (and treating any Debt which becomes, or is anticipated to become, an obligation of the Surviving Person or any of its Restricted Subsidiaries as a result such transaction or series of transactions as having been Incurred by the Surviving Person or such Restricted Subsidiary at the time of such transaction or series of transactions), no Default or Event of Default shall have incurred and be continuing;

(d) immediately after giving effect to such transaction or series of transactions on a *pro forma* basis (and treating any Debt which becomes, or is anticipated to become, an obligation of the Surviving Person or any of its Restricted Subsidiaries as a result of such transaction or series of transactions as having been Incurred by the Surviving Person or such Restricted Subsidiary at the time of such transaction or series of transactions), (i) the Company or the Surviving Person (if other than the Company) would be able to Incur at least €1.00 of additional Debt under the first paragraph of the covenant described under "—Certain Covenants—Limitation on Debt," or (ii) the Consolidated Coverage Ratio would be greater than or equal to the Consolidated Coverage Ratio immediately prior to giving *pro forma* effect to such transaction or transactions; and

(e) in connection with any consolidation, merger, transfer or other transaction contemplated by this provision, the Company shall deliver, or cause to be delivered, to the Trustee, in form satisfactory to the Trustee, an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation, merger, transfer or other transaction and the supplemental indenture in respect thereto comply with this provision and that all conditions precedent herein provided for relating to such transaction or transactions have been complied with and that the supplemental indenture, the Indenture and the Notes will be the legal, valid and binding obligations of the Surviving Person or Company, enforceable in accordance with their terms.

Any Guarantor (other than a Guarantor whose Guarantee is to be released in accordance with the terms of the Guarantee and the Indenture as described under "—Guarantee Arrangements—Release of Guarantees") will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not such Guarantor is the surviving corporation), or (2) sell, assign, transfer, convey, lease or otherwise dispose of all or substantially all of the properties or assets of such Guarantor and its Subsidiaries which are Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(a) either: (x) a Guarantor is the surviving corporation; or (y) the Person formed by or surviving any such consolidation or merger (if other than a Guarantor) or the Person to which such sale, assignment, transfer, conveyance, lease or other disposition has been made assumes all the obligations of such Guarantor under its Guarantee and any Pari Passu Intercreditor Agreement; and

(b) immediately after giving *pro forma* effect to such transaction or transactions (and treating any Debt which becomes an obligation of the surviving corporation as a result of such transaction as having been incurred by the surviving corporation at the time of such transaction or transactions), no Default or Event of Default exists.

Notwithstanding anything in this covenant to the contrary: (i) the Company (A) may merge with an Affiliate that has no material assets or liabilities and that is incorporated or organized solely for the purpose of reincorporating or reorganizing the Company in any state of the United States, the District of Columbia or any state which is a European Union Member State and (B) may otherwise convert its legal form under the laws of its jurisdiction of organization, in each case, without complying with clause (d) of the first paragraph of this covenant, (ii) a Guarantor (A) may merge with an Affiliate that has no material assets or liabilities and that is incorporated or organized solely for the purpose of reincorporating or reorganizing or such Guarantor in another jurisdiction and (B) may merge with the Company or another Guarantor, in each case, without complying with clause (b) of the second paragraph of this covenant, (iii) any Restricted Subsidiary that is not a Guarantor may merge with the Company or a Guarantor, and (iv) any transaction characterized as a merger under applicable law where each of the constituent entities survives, shall not be treated as a merger for purposes of this covenant, but shall instead be treated as (x) an Asset Disposition, if the result of such transaction is the transfer of assets by the Company or any of its Restricted Subsidiaries, or (y) an Investment, if the result of such transaction is the acquisition of assets by the Company or any of its Restricted Subsidiaries.

Upon assumption by the Surviving Person of the obligations of the Company under the Indenture, the Surviving Person will succeed to, and be substituted for, and may exercise every right and power of the Company under the Indenture, and the predecessor (except in the case of a lease) and the Company will be released from its obligations under the Indenture.

Restricted and Unrestricted Subsidiaries

The Board of Directors of the Company may designate or re-designate any Subsidiary of the Company or any of its Restricted Subsidiaries to be an Unrestricted Subsidiary if: (i) the Subsidiary to be so designated does not own any Capital Stock, Redeemable Stock or Debt of, or own or hold any Lien on any property or assets of, the Company or any other of its Restricted Subsidiaries; (ii) the Subsidiary to be so designated is not obligated by any Debt, Lien or other obligation that, if in default, would result (with the passage of time or notice or otherwise) in a default on any Debt of the Company or any of its Restricted Subsidiaries; and (iii) such designation complies with the covenant described under "—Certain Covenants—Limitation on Restricted Payments." For purposes of the covenant described under "—Certain Covenants—Limitation on Restricted Payments," "Investment" will include the portion (proportionate to the Company's equity interest in any of its Restricted Subsidiaries to be designated as an Unrestricted Subsidiary) of the Fair Market Value of the net assets of such Restricted Subsidiary at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary; *provided, however*, that upon a re-designation of such Subsidiary as a Restricted Subsidiary, the Company will be deemed to continue to have a permanent "Investment" in an Unrestricted Subsidiary in an amount (if positive) equal to (a) the company's "Investment" in such Subsidiary at the time of such re-designation less (b) the portion (proportionate to the Company's equity interest in such Subsidiary) of the Fair Market Value of the net assets (as conclusively determined by the Board of Directors of the Company in good faith) of such Subsidiary at the time that such Subsidiary is so re-designated a Restricted Subsidiary. Unless so designated as an Unrestricted Subsidiary, any Person that becomes a Subsidiary of the Company or of any of its Restricted Subsidiaries will be classified as a Restricted Subsidiary. Except as provided in the first sentence of this paragraph, no Restricted Subsidiary of the Company may be re-designated as an Unrestricted Subsidiary. Any such designation by the Board of Directors of the Company will be evidenced to the Trustee by the Company by promptly filing with the Trustee a copy of the resolution of such Board giving effect to such designation and delivering an Officer's Certificate, in form satisfactory to the Trustee, certifying that such designation complies with the foregoing provisions.

The Company will not, and will not permit any Unrestricted Subsidiary to, take any action or enter into any transaction or series of transactions that would result in a Person becoming a Restricted Subsidiary of the Company (whether through an acquisition, the re-designation of an Unrestricted Subsidiary or otherwise) unless after giving effect to such action, transaction or series of transactions, on a *pro forma* basis, (i)(a) the Company could Incur at least €1.00 of additional Debt pursuant to the first paragraph of the covenant described under "—Certain Covenants—Limitation on Debt," or (b) the Consolidated Coverage Ratio would be greater than or equal to the Consolidated Coverage Ratio immediately prior to giving *pro forma* effect to such transaction or transactions and (ii) no Default or Event of Default would occur or be continuing.

Suspension of Certain Covenants When Notes Rated Investment Grade

If on any date following the date of the Indenture, (1) the Notes are rated (a) Baa3 or better by Moody's and (b) BBB− or better by S&P (or, if either Moody's or S&P ceases to rate the Notes for reasons outside of the control of the Company, the equivalent investment grade credit rating from Fitch Ratings or, in the absence of such, any other "nationally recognized statistical rating organization" within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the U.S. Exchange Act selected by the Company as a replacement agency so that the Notes are so rated by at least two such credit rating agencies); and (2) no Default or Event of Default shall have occurred and be continuing, the Company shall notify the Trustee and then, beginning on that day and subject to the provisions of the following paragraph, the covenants specifically listed under the following captions in these Listing Particulars will be suspended:

(1) "—Limitation on Debt";

(2) "—Limitation on Restricted Payments";

(3) "—Transactions with Affiliates";

(4) "—Limitation on Guarantees of Debt by Restricted Subsidiaries";

(5) "—Limitation on Restrictions on Distributions from Restricted Subsidiaries";

(6) "—Limitation on Sales of Assets and Restricted Subsidiary Stock"; and

(7) clause (d) of the first paragraph of the covenant described under "—Consolidation, Merger and Sale of Assets."

During any period that the foregoing covenants have been suspended, the Company's Board of Directors may not designate any of its Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant described above under the caption "—Certain Covenants—Restricted and Unrestricted Subsidiaries."

Notwithstanding the foregoing, if the rating assigned by any such Rating Agency should subsequently decline to below Baa3 or BBB−, as applicable, the foregoing covenants will be reinstituted as of and from the date of such rating decline, and, upon any such event, the Company shall promptly notify the Trustee. Such covenants will not, however, be of any effect with respect to actions properly taken during the period of suspension. Calculations under the reinstated "—Certain Covenants—Limitation on Restricted Payments" covenant will be made as if the "—Certain Covenants—Limitation on Restricted Payments" covenant had been in effect since the date of the Indenture, except that no default will be deemed to have occurred by reason of a Restricted Payment made while that covenant was suspended. There can be no assurance that the Notes will ever achieve an investment grade rating or that any such rating will be maintained.

The Company shall notify the Trustee in writing that the conditions set forth in the first paragraph under this caption have been satisfied, *provided* that such notification shall not be a condition for the suspension of the covenants described under this caption to be effective.

Events of Default

An "*Event of Default*" will occur under the Indenture if:

(i) the Company fails to make any payment of interest (including Additional Amounts) on any Note when the same shall become due and payable, and such failure continues for a period of 30 days;

(ii) the Company fails to make the payment of the principal or premium, if any, on any Note when the same becomes due and payable at its Stated Maturity, upon declaration, redemption, acceleration, required purchase or otherwise;

(iii) the Company, any Guarantor or any Restricted Subsidiary fails to comply with any of its respective covenants or agreements described under "—Certain Covenants—Consolidation, Merger and Sale of Assets";

(iv) the Company fails to comply with its obligations under the covenants described under "—Change of Control" above or under the covenants described under "—Certain Covenants" (other than a failure to purchase Notes which will constitute an Event of Default under clause (ii) and other than a failure to comply with "—Certain Covenants—Consolidation, Merger and Sale of Assets" which will constitute an Event of Default under clause (iii)) and such failure continues for a period of 30 days after the notice specified below;

(v) the Company fails to comply with any of the covenants in the Indenture (other than those specified in clauses (i), (ii), (iii) and (iv)) and such failure continues for a period of 60 days after the notice specified below;

(vi) there is a default under any Debt for money borrowed of the Company or any of its Restricted Subsidiaries if that default:

  a. is caused by a failure to pay principal of such Debt prior to the expiration of any applicable grace period provided in such Debt ("*Payment Default*"), or

  b. results in the acceleration of such Debt prior to its express maturity,

  and, in each case, the aggregate principal amount of such Debt, together with the principal amount of any other Debt under which there has been a Payment Default, or the maturity of which has been so accelerated, exceeds €20 million or its equivalent;

(vii) any final, non-appealable judgment or decree aggregating in an uninsured amount in excess of €20 million or its equivalent at the time is rendered against the Company or any of its Restricted Subsidiaries and there is a period of 60 days following the entry of such judgment or decree during which such judgment or decree is not discharged, waived or the execution thereof stayed or is not covered by indemnities or third-party insurance as to which the Person giving such indemnity or such insurer has not discharged coverage and such default continues for ten days after the notice specified below;

(viii) the Company or any of its Significant Restricted Subsidiaries pursuant to or within the meaning of any Bankruptcy Law (A) commences a voluntary case, (B) consents to the entry of an order for relief against it in an involuntary case, (C) consents to the appointment of a Custodian of it or for any substantial part of its property or (D) makes a general assignment for the benefit of its creditors; or takes any comparable action under any laws relating to insolvency or laws having a similar effect for creditors;

(ix) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that: (A) is for relief against the Company or any of its Significant Restricted Subsidiaries in an involuntary case, (B) appoints a Custodian of the Company or any of its Significant Restricted Subsidiaries or for any substantial part of its property, or (C) orders the winding up or liquidation of the Company or any of its Significant Restricted Subsidiaries; or any similar relief is granted under any foreign laws, and, in each case, the order or decree remains unstayed and in effect for 60 days; or

(x) any Guarantee ceases to be, or is asserted by any Guarantor, or any Person acting on behalf of any Guarantor, not to be in full force and effect or enforceable in accordance with its terms (other than as provided for in the Indenture or any Guarantee) and any such Default continues uncured for a period of 21 days.

A Default under clause (iv) or (v) will not be an Event of Default until the Trustee notifies the Company or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding notify the Company and the Trustee in writing of the Default and the Company does not cure such Default within the time specified after receipt of such notice. Such notice must specify the Default, demand that it be remedied and state that such notice is a "Notice of Default."

For the avoidance of doubt, the voluntary liquidation or dissolution of a Significant Restricted Subsidiary of the Company in connection with the transfer of all or substantially all of the properties and assets of such Significant Restricted Subsidiary to another Significant Restricted Subsidiary of the Company in compliance with the terms of the Indenture shall not constitute an Event of Default.

The Company will deliver to the Trustee, within 30 days after the occurrence thereof, written notice in the form of an Officer's Certificate of any event which, with the giving of notice and the lapse of time, would become an Event of Default under clause (iv) or (v), its status and what action the Company is taking or proposes to take with respect thereto.

If an Event of Default (other than an Event of Default specified in clause (viii) or (ix)) occurs and is continuing, the Trustee, by notice in writing to the Company, or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding by notice to the Company and the Trustee, may, and the Trustee, if directed by Holders of at least 25% in aggregate principal amount of the Notes then outstanding, shall declare the principal of, premium, if any, and accrued interest on all Notes to be due and payable. Upon such declaration, such principal accrued interest will be due and payable immediately. If an Event of Default specified in clause (viii) or (ix) occurs, the principal of and interest on all the Notes will *ipso facto* become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders of the Notes and the transaction security will *ipso facto* become immediately enforceable. After any such acceleration, but before a judgment or decree based on such acceleration is obtained by the Trustee, the registered Holders of a majority in aggregate principal amount of the Notes then outstanding may, under certain circumstances, rescind and annul such declaration or acceleration if all Events of Default, other than the non-payment of accelerated principal, premium or interest, have been cured or waived as provided in the Indenture.

The Holders of a majority in aggregate principal amount of the Notes by notice to the Trustee may waive an existing Default and its consequences except (i) a Default in the payment of the principal of, premium if any, or interest on a Note or (ii) a Default in respect of a provision that cannot be amended without the consent of Holders of a percentage higher than 50.1% of the aggregate principal amount of Notes affected. When a Default is waived, it is deemed cured, but no such waiver will extend to any subsequent or other Default or impair any consequent right.

The Holders of a majority in aggregate principal amount of the Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of other Holders or would involve the Trustee in personal liability; *provided, however*, that the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction. Prior to taking any action under the Indenture, the Trustee will be entitled to indemnification and/or security (including by way of pre-funding) satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action.

A Holder of the Notes may not pursue any remedy with respect to the Indenture or the Notes unless: (i) such Holder gives to the Trustee written notice stating that an Event of Default is continuing; (ii) Holders of at least 25% in aggregate principal amount of the Notes then outstanding make a written request to the Trustee to pursue the remedy; (iii) such Holder or Holders offer to the Trustee, and the Trustee received security and/or indemnity (including by way of pre-funding) satisfactory to it against any loss, liability or expense; (iv) the Trustee does not comply with the request within 60 days after receipt of the request and the offer and receipt of security and/or indemnity (including by way of pre-funding); and (v) the Holders of a majority in principal amount of the Notes do not give the Trustee a written direction inconsistent with the request during such 60-day period.

Notwithstanding the foregoing, the Guarantees may only be enforced by, or at the discretion of, the Trustee (acting of its own volition or on the direction of the Holders of a majority in principal amount of the outstanding Notes) (see "—Guarantee Arrangements").

It may not be possible for the Trustee to take certain actions in relation to the Notes and accordingly, in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for the Holders to take action directly.

Amendments, Supplements and Waivers

Subject to certain exceptions, the Indenture, the Notes, the Guarantees and any Pari Passu Intercreditor Agreement may be amended or supplemented with the consent of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding (including consents obtained in connection with a consent solicitation, tender offer or exchange for the Notes) and any existing or past default or compliance with any provisions may be waived with the consent of the Holders of at least a majority in an aggregate principal amount of the Notes then outstanding, *provided*, that, if any amendment, waiver or other modification will only affect one series of the Notes, only the consent of a majority in principal amount of the then outstanding Notes of such series shall be required. However, without the consent of Holders of at least 90% of the aggregate principal amount of the outstanding Notes affected thereby, no amendment may, among other things:

(i) reduce the amount of Notes whose Holders must consent to an amendment, supplement or waiver;

(ii) reduce the rate of or extend the time for payment of interest on any Note;

(iii) reduce the principal of or extend the Stated Maturity of any Note;

(iv) reduce the premium payable upon the redemption of any Note or change the time or times at which any Notes may or shall be redeemed;

(v) make any Note payable in money other than that stated in the Note; or

(vi) impair the right of any Holder of the Notes to institute suit for the enforcement of any payment on or with respect to any Notes.

Notwithstanding the foregoing, the Indenture may be amended with the consent of Holders of 66⅔% of the aggregate principal amount of the outstanding Notes to release a Guarantee (if such consent is required by the Indenture) that may have been granted in respect of the Notes other than as otherwise permitted under the Indenture.

Notwithstanding the foregoing, without the consent of any Holder of the Notes, the Company, the Guarantors and the Trustee (as applicable) may, among other things, amend or supplement the Indenture, the Notes, the Guarantees or any Pari Passu Intercreditor Agreement to cure any ambiguity, omission, defect or inconsistency, to provide for the assumption by a Surviving Person of the obligations of the Company under the Indenture, to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture (including for the issuance of Additional Notes denominated in U.S. dollars) and to add security to or for the benefit of the Notes and/or any Guarantee and enter into a Pari Passu Intercreditor Agreement with respect thereto, or to effectuate or confirm and evidence the release, termination, discharge or retaking of any Lien or any amendment in respect thereof with respect to or securing the Notes or any Guarantee when such release, termination, discharge or retaking or amendment is provided for under the Indenture or any Pari Passu Intercreditor Agreement, to provide for uncertificated Notes in addition to or in place of certificated Notes (*provided* that such uncertificated Notes are in registered form for purposes of Section 163(f)(5) of the Code), evidence and provide for the acceptance and appointment under the Indenture of a successor trustee pursuant to the requirements thereof, to comply with the rules of any applicable securities depository, to conform the text of the Indenture, the Notes and the Guarantees to any provision of this "Description of the Notes" to the extent that such provision in the Description of the Notes was intended to be a *verbatim* recitation of a provision of the Indenture, the Notes or the Guarantees, to add Guarantees with respect to the Notes or to release a Guarantor upon its designation as an Unrestricted Subsidiary or as otherwise permitted by the Indenture; *provided, however*, that the release is in accord with the applicable provisions of the Indenture, to secure the Notes and to amend the mechanical provisions to facilitate the release of all or any portion of any security interests granted pursuant to the terms of the Indenture, to add to the covenants of the Company for the benefit of the Holders of the Notes or to surrender any right or power conferred upon the Company, or to make any change that does not adversely affect the rights of any Holder of the Notes.

The consent of the Holders of the Notes is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the Indenture by any Holder of Notes given in connection with a tender of such Holder's Notes will not be rendered invalid by such tender.

After an amendment under the Indenture becomes effective, the Company is required to mail to each registered Holder of the Notes at its address appearing in the security register a notice briefly describing such amendment. However, the failure to give such notice to all Holders of the Notes, or any defect therein, will not impair or affect the validity of the amendment.

Intercreditor Agreements

At the request of the Company, at the time of, or prior to, any time that the Company or any of its Restricted Subsidiaries incurs or guarantees any Indebtedness to be secured by a Lien on assets of the

Issuer or any of its Restricted Subsidiaries permitted to be incurred under the covenant described above under "—Certain Covenants—Liens" ("*Pari Passu Indebtedness*"), which assets (the "*Shared Collateral*") will also ratably secure the Notes and/or a Guarantee, the Company or the relevant Restricted Subsidiary, the Trustee and the relevant security agent will enter into an intercreditor agreement (each a "*Pari Passu Intercreditor Agreement*") in respect of the Shared Collateral with the other creditors sharing the benefit of such Lien (together with the Holders of the Notes, the "*Pari Passu Creditors*") (or their agent, representative or trustee), containing provisions which reflect the following (together, the "*Fundamental Intercreditor Rights*"):

(i) Obligations under the Notes and the Guarantees shall rank *pari passu* in all respects with any Pari Passu Indebtedness and any obligations under hedging agreements permitted to be secured on a senior ranking basis, including in respect of the Shared Collateral (and shall share pro rata in the net proceeds thereof arising by virtue of the enforcement of the Shared Collateral).

(ii) Any Pari Passu Intercreditor Agreement shall not restrict payments in respect of any obligations under Pari Passu Indebtedness or obligations under the Notes or the Guarantee (together, the "*Pari Passu Creditor Obligations*") except that, following the occurrence of an acceleration event under any Pari Passu Indebtedness or the Notes under the Indenture or certain events of bankruptcy or insolvency, none of the Company, the Company or the Restricted Subsidiaries (the "*Debtors*") may make and no Pari Passu Creditors may receive payments of the Pari Passu Creditor Obligations except amounts properly distributed in accordance with such Pari Passu Intercreditor Agreement.

(iii) Upon any of the Liens becoming enforceable, enforcement decisions under the Shared Collateral documents will be made by the Pari Passu Creditors constituting at least a majority (50% + €1.00) of the Pari Passu Creditor Obligations (the "*Instructing Group*"), on a euro-for-euro basis, provided that the Holders of the Notes and any class of Pari Passu Creditors shall be entitled to vote on enforcement decisions regardless of whether a default or event of default has occurred or is continuing under the respective indenture or credit agreement. No Pari Passu Creditor shall have any independent right to enforce any of the Liens or to instruct or require the security agent to enforce any of the Shared Collateral documents except as instructed by the Instructing Group. Any instructions given by the Instructing Group will be binding on all of the Pari Passu Creditors.

(iv) The Pari Passu Intercreditor Agreement will contain customary turnover provisions.

(v) The Pari Passu Intercreditor Agreement shall include provisions such that if, for any reason, any of the Pari Passu Creditor Obligations remain unpaid after the date enforcement action is taken and the resulting losses are not borne by the Pari Passu Creditors in the proportions which their respective exposures at such enforcement date bore to the aggregate exposures of all of the Pari Passu Creditors at such enforcement date, the Pari Passu Creditors will make such payments among themselves as the security agent shall require to put the Pari Passu Creditors in such a position that (after taking into account such payments) those losses are borne in those proportions. The Trustee will not be required to make payments if it has distributed amounts received to Holders of the Notes and did not have actual notice on the date of such distribution of the obligation to make such equalization payments.

(vi) If in relation to any request for a vote, action or decision to be taken by any group of Pari Passu Creditors as required under the Pari Passu Intercreditor Agreement (including, without limitation, for the purpose of constituting the Instructing Group as defined above), any Pari Passu Creditor within such respective class fails to vote in favor of or against such request, or fails to provide details of its relevant participation or liabilities owed to it to the security agent within 30 Business Days from the date on which notice of such request, action or decision was given to all the Pari Passu Creditors then eligible to vote thereon, then that Pari Passu Creditor's participation and/or liabilities owed to it shall be deemed to be zero for the purpose of calculating the relevant total participations and/or liabilities when ascertaining whether any relevant percentage has been obtained to carry that vote or approve that action or decision.

(vii) Any Pari Passu Intercreditor Agreement shall permit, on customary terms, any Pari Passu Creditor Obligations to be refinanced with other senior secured equal ranking debt and for such new indebtedness to be rank equally with other Pari Passu Creditor Obligations (including sharing in the security under the Liens), provided that such debt is permitted to be incurred under the terms of the relevant credit documentation in respect of any Pari Passu Creditor Obligations that will remain following such refinancing.

(viii) Any Pari Passu Intercreditor Agreement shall be governed by the laws of England and Wales.

The Shared Collateral will only be released, and Liens will only be granted on the assets the subject of the Shared Collateral, to the extent permitted under (or not prohibited by) both the Indenture and the documents governing the terms of the Pari Passu Indebtedness, and the terms for release of the Shared Collateral will be substantially similar to the terms of the release of the Guarantees in the Indenture.

Each Pari Passu Intercreditor Agreement will have an intercreditor agent or security agent who acts on behalf of all of the Pari Passu Creditors, including the Holders of the Notes and the Trustee.

Any Pari Passu Intercreditor Agreement may contain provisions in addition to those described above to the extent necessary or desirable to enable the Company or any of its Restricted Subsidiaries to enter into and consummate corporate, financing and other transactions. Provided such provisions do not conflict with the Fundamental Intercreditor Rights described above, and provided that such Pari Passu Intercreditor Agreement contains such provisions as are customarily requested by note trustees when entering into intercreditor agreements on behalf of Holders, the Trustee shall enter into such Pari Passu Intercreditor Agreements on behalf of the Holders of Notes.

The Indenture will provide that, at the written direction of the Company and without the consent of the Holders of the Notes, the Trustee may from time to time enter into one or more amendments to any Pari Passu Intercreditor Agreement or deed to: (i) cure any ambiguity, defect or inconsistency therein; (ii) increase the amount of Indebtedness of the types covered by the Pari Passu Intercreditor Agreement in a manner not prohibited by the Indenture and in a manner substantially consistent with the ranking and terms of such Pari Passu Intercreditor Agreement; (iii) add Guarantors or other parties (such as representatives of new issuances of Indebtedness) thereto; (iv) make any change necessary or desirable, in the good faith determination of the Board of Directors of the Company, in order to implement any transactions permitted under the caption "—Certain Covenants—Merger, Consolidation, or Sale of Assets"; *provided* that such change does not adversely affect the Fundamental Intercreditor Rights of any Holder of the Notes in any material respect; or (v) make any other such change thereto that does not in any material respect adversely affect the Fundamental Intercreditor Rights of any Holder of the Notes. The Company shall not otherwise direct the Trustee to enter into any amendment to any Pari Passu Intercreditor Agreement without the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted below under "—Amendment, Supplement and Waiver" and shall not direct the Trustee to enter into any amendment to any Pari Passu Intercreditor Agreement which adversely affects the rights or immunities of the Trustee.

Any Pari Passu Intercreditor Agreement may be terminated at the option of the Company if at the date of such termination the Pari Passu Indebtedness covered thereby has been repaid or refinanced or otherwise discharged. At the request of the Company, the Trustee shall take all necessary actions to effectuate the termination of any Pari Passu Intercreditor Agreement in accordance with these provisions, subject to customary protections and indemnifications.

Each Holder of a Note, by accepting such Note, will be deemed to have: (1) appointed and authorized the Trustee to give effect to such provisions; (2) authorized the Trustee to become a party to any future intercreditor arrangements described above; (3) agreed to be bound by such provisions and the provisions of any future Intercreditor arrangements described above; and (4) irrevocably appointed the Trustee to act on its behalf to enter into and comply with such provisions and the provisions of any future intercreditor arrangements described above.

Satisfaction and Discharge

The Indenture, any supplemental indenture and each of the Guarantees applicable to the Indenture will be discharged and will cease to be of further effect (except as otherwise expressly provided for in the Indenture) when either: (i) all outstanding Notes issued pursuant to the Indenture have been delivered (other than lost, stolen or destroyed Notes which have been replaced) to the Paying Agent for cancellation; or (ii) all outstanding Notes issued pursuant to the Indenture not theretofore delivered to the Paying Agent for cancellation have become due and payable by reason of the making of a notice of redemption or otherwise or will become due and payable by reason of the making of a notice of redemption or otherwise within one year and the Company has irrevocably deposited with the Trustee, or such other entity designated or appointed (as agent) by the Trustee for this purpose, cash in euro or euro-denominated European Government Obligations or a combination thereof sufficient to pay at maturity or upon redemption all outstanding Notes issued pursuant to the Indenture, including interest thereon (other than lost, stolen or destroyed Notes which have been replaced), and, in either case, the Company has paid all sums payable by it under the Indenture. The Trustee will be required to acknowledge satisfaction and discharge of the Indenture on written demand of the Company accompanied by an Officer's Certificate and an Opinion of Counsel to the effect that all conditions precedent under the Indenture to the satisfaction and discharge of the Indenture have been complied with at the cost and expense of the Company.

Defeasance

The Company may, at any time, terminate: (i) all obligations under the Notes, the Guarantees and the Indenture ("*legal defeasance option*"); or (ii) obligations to comply with certain restrictive covenants, including certain of the covenants described under "—Certain Covenants" ("*covenant defeasance option*"). The Company may exercise its legal defeasance option notwithstanding any prior exercise of their covenant defeasance option.

If the Company exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default. If the Company exercises its covenant defeasance option, payment of the Notes may not be accelerated because of certain Events of Default described under "—Defaults" (not including, among others, Events of Default relating to non-payment, bankruptcy and insolvency events) or because of the failure of the Company to comply with certain covenants specified in the Indenture. If the Company exercises its legal defeasance option or its covenant defeasance option, each Guarantor will be released from all of its obligations with respect to its Guarantee.

The Company may exercise its legal defeasance option or its covenant defeasance option only if: (1) the Company irrevocably deposits in trust with the Trustee, or such other entity designated or appointed (as agent) by the Trustee for this purpose, cash in euro or euro-denominated European Government Obligations or a combination thereof, for the payment of principal of and interest on the Notes to maturity or redemption, as the case may be; (2) the Company delivers to the Trustee a certificate from a nationally recognized firm of independent certified public accountants expressing their opinion that the payments of principal and interest when due and without reinvestment will provide cash at such times and in such amounts as will be sufficient to pay principal and interest when due on all the Notes to maturity or redemption, as the case may be; (3) the deposit does not constitute a default under any other agreement or instrument binding on the Company; (4) the Company delivers to the Trustee an Opinion of Counsel satisfactory to the Trustee in its sole discretion to the effect that the trust resulting from the deposit does not constitute, or is qualified as, a regulated investment company under the U.S. Investment Company Act of 1940, as amended; (5) in the case of the legal defeasance option, the Company delivers to the Trustee an Opinion of Counsel satisfactory to the Trustee in its sole discretion stating that (i) the Company has received from, or there has been published by, the U.S. Internal Revenue Service a ruling, or (ii) since the date of the Indenture there has been a change in the applicable U.S. federal income tax law, to the effect, in either case, that, and based thereon such Opinion of Counsel shall confirm that, the Holders of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred, *provided, however*, that such Opinion of Counsel shall not be required if all the Notes will become due and payable on the Maturity Date within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustee; (6) in the case of the covenant defeasance option, the Company delivers to the Trustee an Opinion of Counsel satisfactory to the Trustee in its sole discretion to the effect that the Holders of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such covenant defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred; (7) the Company delivers to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent relating to the defeasance and discharge of the Notes have been complied with as required by the Indenture; and (8) the Company delivers to the Trustee an Officer's Certificate stating that the deposit was not made by the Company with the intent of defeating, hindering, delaying, defrauding or preferring any creditors of the Company.

Notices

Notices to Holders of the Notes (while any Notes are represented by one or more global notes) shall be delivered to Euroclear and Clearstream for communication to entitled account holders, or in the case of definitive Notes, shall be given by mail to the addresses of Holders of such Notes appearing on the register for such Note, and in each case shall be published (so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of that exchange so require) in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or on the website of the Luxembourg Stock Exchange at *www.bourse.lu*.

No Personal Liability of Directors, Officers, Employees and Shareholders

No past, present or future director, officer, employee, incorporator, promoter, advisor or shareholder of the Company or any Guarantor, as such, will have any liability for any obligations of the Company or the Guarantors under the Notes, the Indenture, the Guarantees or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.

Listing

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and for admission and trading on the Euro MTF Market. The listing agent is Deutsche Bank Luxembourg S.A.

Judgment currency

The euro is the sole currency of account and payment for all sums payable by the Company and the Guarantors under or in connection with the Notes and the guarantees, if any, including damages. Any amount received or recovered in any other currency, whether as a result of, or the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Company, any Guarantor or otherwise by any Holder or by the Trustee, in respect of any sum expressed to be due to it from the Company or a Guarantor will only constitute a discharge to the Company or such Guarantor, as applicable, to the extent of the euro amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that euro amount is less than the euro amount expressed to be due to the recipient or the Trustee under any Note, the Company and the Guarantors will indemnify them against any loss sustained by such recipient or the Trustee as a result. In any event, the Company and the Guarantors will indemnify the recipient or the Trustee on a joint and several basis against the cost of making any such purchase. For the purposes of this currency indemnity provision, it will be prima facie evidence of the matter stated therein for the Holder of a Note or the Trustee to certify in a manner reasonably satisfactory to the Company (indicating the sources of information used) the loss it incurred in making any such purchase. These indemnities constitute a separate and independent obligation from the Company's and the Guarantors' other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any waiver granted by any Holder of a Note or the Trustee (other than a waiver of the indemnities set out herein) and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any guarantee, or to the Trustee.

Concerning the Trustee

Deutsche Trustee Company Limited is the Trustee under the Indenture. The Trustee's current specified address is Winchester House, 1 Great Winchester Street, London EC2N 2DB.

The Indenture provides that, except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Indenture. During the existence of an Event of Default, the Trustee will exercise such rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder of Notes, unless such Holder has offered to the Trustee security and/or indemnity (including by way of pre-funding) satisfactory to it against loss, liability or expense as provided in the Indenture.

The Indenture provides for the indemnification of the Trustee and for its relief from responsibility in connection with its actions under the Indenture. The Indenture provides that the Trustee may rely absolutely, without further enquiry, on any certificates, reports, opinions or other documents (whether or not any such document contains any limit on liability) from the Company, its Subsidiaries, legal counsel, auditors, valuers or any other experts.

The Indenture provides that the Trustee will be permitted to engage in other transactions with the Company; *provided,* that if the Trustee has actual knowledge that it has acquired any conflicting interest in its capacity as Trustee, it must eliminate such conflict or resign.

No Standing Committee of Holders of Notes and No Commissioner

As a consequence of the Notes, the Guarantees and the Indenture being governed by New York law, a Holder of the Notes will not benefit from the constitution of a standing committee of Holders of the Notes (*sindicato de obligacionistas*) or the appointment of a commissioner (*comisario*) pursuant to Chapter X, Section 4 of the Spanish Corporations Law (*Ley de Sociedades de Capital*). By purchasing a Note, the Holder of such Note will be deemed: (i) to have expressly agreed that no such standing committee of Holders of the Notes is required to be constituted and that no such commissioner is required to be appointed with respect to this Offering; (ii) to have expressly agreed that the lack of such standing committee of Holders of the Notes and such commissioner does not affect the validity of the Notes or the Guarantees; and (iii) to have irrevocably instructed the Trustee to take any action or to sign or execute and deliver any documents or notices that may be necessary or desirable to comply with and give effect to clause (i) and (ii).

Paying Agent and Registrar for the Notes

The Company will maintain a paying agent for the Notes in the City of London. The Company will undertake to maintain a paying agent in a European Union Member State that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26 and 27, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive. The initial Paying Agent will be Deutsche Bank AG, London Branch, in London.

The Company will also maintain one or more registrars (each, a "*Registrar*") and a transfer agent with offices in Luxembourg. The initial Registrar is Deutsche Bank Luxembourg, S.A. The initial Transfer Agent is Deutsche Bank Luxembourg, S.A. The Registrar in Luxembourg will maintain a register reflecting ownership of certificated securities (the "*Definitive Registered Notes*") outstanding from time to time and will make payments on and facilitate transfers of Definitive Registered Notes on behalf of the Company. The Transfer Agent shall perform the functions of a transfer agent.

The Company may change the Paying Agent, Registrar or Transfer Agent for the Notes without prior notice to the Holders of such Notes. However, for so long as the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange and its rules so require, the Company will deliver notice of the change in the Paying Agent, Registrar or Transfer Agent on the website of the Luxembourg Stock Exchange at *www.bourse.lu*. The Company or any of its Restricted Subsidiaries may act as Paying Agent or Registrar in respect of the Notes.

Consent to Jurisdiction and Service of Process

The Indenture provides that the Company and each Guarantor will irrevocably appoint CT Corporation Systems as their agent for service of process in any suit, action or proceeding with respect to the Indenture, the Notes or any Guarantee brought in any U.S. federal or state court located in the Borough of Manhattan, City and State of New York and that each of the parties submit to the jurisdiction thereof.

Governing Law

The Indenture provides that it, each Guarantee and the Notes will be governed by, and construed in accordance with, the laws of the State of New York. The due authorization of the Notes is governed by, and construed in accordance with, Spanish law.

Certain Definitions

"*Acquired Debt*" means Debt: (i) of any Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary of the Company; or (ii) assumed in connection with the acquisition of assets from such Person, in each case whether or not Incurred by such Person in connection with, or in anticipation or contemplation of, such Person becoming a Restricted Subsidiary of the Company or such acquisition. Acquired Debt shall be deemed to have been Incurred, with respect to clause (i) of the preceding sentence, on the date such Person became a Restricted Subsidiary of the Company and, with respect to clause (ii) of the preceding sentence, on the date of consummation of such acquisition of assets.

"*Additional Assets*" means any: (i) property or assets (other than Debt and Capital Stock) that are used or useful in a Related Business; (ii) Capital Stock of a Person that becomes a Restricted Subsidiary of the Company as a result of the acquisition of such Capital Stock by the Company or another of its Restricted Subsidiaries; or (iii) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary of the Company; *provided, however,* that in the case of clauses (ii) and (iii), such Restricted Subsidiary is primarily engaged in a Related Business.

"*Additional Guarantee*" means a guarantee on the terms set forth in the Indenture of the Company's obligations under the Notes and the Indenture issued by a company that becomes a Guarantor (as defined in the Indenture) in accordance with the terms of the Indenture.

"*Affiliate*" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or officer (A) of such specified Person, (B) of any Subsidiary of such specified Person or (C) of any Person described in clause (i) above. For the purposes of this definition, "control" when used with respect to any Person will mean the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. For purposes of "—Certain Covenants—Transactions with Affiliates," "—Certain Covenants—Limitation on Sales of Assets and Restricted Subsidiary Stock" and the definition of "Free Float Percentage" only, "Affiliate" will also mean any beneficial owner of shares representing 10% or more of the total voting power of the Voting Stock (on a fully diluted basis) of such specified Person or of rights or warrants to purchase such Voting Stock (whether or not currently exercisable) and any Person who would be an Affiliate of any such beneficial owner pursuant to the first sentence hereof.

"*Applicable Redemption Premium*" means, with respect to any Note on any redemption date, the greater of:

(a) 1.0% of the principal amount of the Note; and

(b) with respect to any Note the excess of:

    a. the present value at such redemption date of: (x) the redemption price of such Note at November 1, 2018 (such redemption price being set forth in the table appearing below the caption "Optional Redemption—Optional Redemption On and After November 1, 2018"); plus (y) all required interest payments that would otherwise be due to be paid on such Note during the period between the redemption date and November 1, 2018 (excluding accrued but unpaid interest), computed using a discount rate equal to the Bund Rate at such redemption date plus 50 basis points; over

    b. the outstanding principal amount of such Note,

as calculated by the Company or on behalf of the Company by such Person as the Company shall designate.

For the avoidance of doubt, calculation of the Applicable Redemption Premium shall not be a duty or obligation of the Trustee, the Registrar or any Paying Agent.

"*Asset Disposition*" means any direct or indirect sale, lease, transfer or other disposition (or series of sales, leases, transfers or dispositions) by the Company or any of its Restricted Subsidiaries, including any disposition by means of a merger, consolidation or other similar transaction (each referred to for the purposes of this definition as a "disposition"), of (i) any shares of Capital Stock of a Restricted Subsidiary of the Company (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Company or any of its Restricted Subsidiaries), (ii) all or substantially all the assets of any division or line of business of the Company or any of its Restricted Subsidiaries, or (iii) any other assets of the Company or any of its Restricted Subsidiaries outside of the ordinary course of business of the Company or such Restricted Subsidiary, other than, in the case of (i), (ii) and (iii) above:

(1) a disposition by a Restricted Subsidiary of the Company to the Company or by the Company or any of its Restricted Subsidiaries to a Restricted Subsidiary of the Company,

(2) for purposes of the covenant described under "—Certain Covenants—Limitation on Sales of Assets and Restricted Subsidiary Stock" only, a disposition that constitutes a Restricted Payment permitted by the covenant described under "—Certain Covenants—Limitation on Restricted Payments,"

(3) a disposition of Listed Shares,

(4) disposition of assets with a Fair Market Value in any calendar year of less than €10 million,

(5) sales or grants of licenses to use the patents, trade secrets, know-how and other intellectual property of the Company or any of its Restricted Subsidiaries to the extent that such license does not prohibit the Company or any of its Restricted Subsidiaries from using the technologies licensed (other than pursuant to exclusivity or non-competition arrangements negotiated on an arm's length basis) or require the Company or any of its Restricted Subsidiaries to pay any fees for any such use,

(6) the sale, lease, conveyance, disposition or other transfer (A) of all or substantially all of the assets of the Company, any Guarantor or any Restricted Subsidiary as permitted under the covenant "—Certain Covenants—Consolidation, Merger and Sale of Assets," (B) pursuant to any foreclosure of assets or other remedy provided by applicable law to a creditor of the Company or any Subsidiary of the Company with a Lien on such assets, which Lien is permitted under the Indenture; *provided,* that such foreclosure or other remedy is conducted in a commercially reasonable manner or in accordance with any bankruptcy law, (C) involving only inventory in the ordinary course of business or obsolete or worn out property or property that is not or no longer useful in the conduct of the business of the Company or its Restricted Subsidiaries (in the reasonable and good faith judgment of the Board of Directors of the Company) or cash or Cash Equivalents or (D) including only the lease or sub-lease of any real or personal property in the ordinary course of business,

(7) Permitted Investments or, solely for purposes of clause (iii) under covenant "—Certain Covenants—Limitation on Sales of Assets and Restricted Subsidiary Stock", asset sales related to Assets Held for Sale the proceeds of which are used to make a Permitted Investment pursuant to clause (xviii) of the definition thereof,

(8) sale of timber to any Person in connection with the substantially concurrent acquisition of an approximately equivalent Fair Market Value of timber from such Person (or any Affiliate thereof),

(9) sale of forestry assets to any Person with a Fair Market Value in any calendar year of less than €5 million provided that the Company or a Restricted Subsidiary of the Company enters into a substantially concurrent contract with such Person or its Affiliate for the purchase of substantially all of the wood to be harvested in at least the next cutting of such forestry assets, and

(10) sales or dispositions of Receivables in connection with any factoring transaction arising in the ordinary course of business pursuant to customary arrangements; *provided*, that any Debt Incurred in relation thereto is permitted to be Incurred by clause (vii) of the second paragraph of the covenant described under "—Certain Covenants—Limitation on Debt."

"*Assets Held for Sale*" means any assets of the Company or its Restricted Subsidiaries that are classified as assets held for sale under IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations) as indicated in the financial statements of the Company as of and for the six months ended June 30, 2015 and related notes thereto included in these Listing Particulars.

"*Average Life*" means, as of the date of determination, with respect to any Debt or Preferred Stock, the quotient obtained by dividing (i) the sum of the products of the numbers of years (rounded to the nearest one-twelfth of one year) from the date of determination to the dates of each successive scheduled principal payment of such Debt or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment by (ii) the sum of all such payments.

"*Bankruptcy Law*" means Title 11, United States Code, or any similar U.S. federal or state law for the relief of debtors, or any analogous law of any other jurisdiction or any political subdivision thereof or therein.

"*Biomass Boiler*" means the certain biomass boiler and associated equipment and assets at the Company's former pulp production plant at Huelva as of the Issue Date that is expected to be transferred and contributed to Energía Celulosa, S.A. (or another Unrestricted Subsidiary) for use in relation to such energy generation business as further described in these Listing Particulars.

"*Board of Directors*" means the Board of Directors of the Company or any committee thereof duly authorized to act on behalf of such Board.

"*Bund Rate*" means, as selected by the Company, with respect to any redemption date, the rate per annum equal to the equivalent yield to maturity as of such redemption date of the Comparable German Bund issue, assuming a price for the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price for such redemption date, where:

(a) "*Comparable German Bund Issues*" means the German *Bundesanleihe* security selected by any Reference German Bund Dealer as having a fixed maturity most nearly equal to the period from such redemption date to November 1, 2018 and that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of Euro-denominated corporate debt securities in a principal amount approximately equal to the then outstanding principal amount of the Notes and of a maturity most nearly equal to November 1, 2018; *provided,* that if the period from such redemption date to November 1, 2018, is less than one year, a fixed maturity of one year shall be used;

(b) "*Comparable German Bund Price*" means, with respect to any redemption date, the average of the Reference German Bund Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference German Bund Dealer Quotations, or if the Company obtains fewer than four such Reference German Bund Dealer Quotations, the average of all such quotations;

(c) "*Reference German Bund Dealer*" means any dealer of German *Bundesanleihe* securities appointed by the Company in consultation with the Trustee; and

(d) "*Reference German Bund Dealer Quotations*" means, with respect to each Reference German Bund Dealer and any redemption date, the average as determined by the Company of the bid and offered prices for the Comparable German Bund issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference German Bund Dealer at 3:30 p.m. Frankfurt, Germany time on the third business day preceding such redemption date.

"*Business Day*" means each day that is not a Saturday, Sunday or other day on which banking institutions in any of London, United Kingdom, Madrid, Spain, New York City, New York, United States of America or Luxembourg are authorized or required by law to close, and that is also a TARGET2 settlement day for settlement of payments in euro.

"*Capital Stock Contribution*" means the aggregate Net Cash Proceeds received by the Company as a contribution (other than from a Subsidiary or an employee stock ownership plan or trust established by the Company or any Subsidiary) in respect of any class of its Capital Stock (other than Disqualified Stock and Capital Stock of the Company held by the Company on or prior to the Issue Date) after the Issue Date.

"*Capital Stock Sale Proceeds*" means the aggregate Net Cash Proceeds received by the Company from the issue or sale (other than to a Subsidiary or an employee stock ownership plan or trust established by the Company or any Subsidiary) by the Company of any class of its Capital Stock (other than Disqualified Stock and Capital Stock of the Company held by the Company on or prior to the Issue Date) after the Issue Date.

"*Capital Stock*" means, with respect to any Person, any and all shares or other equivalents (however designated) of corporate stock, partnership interests or any other participation, right, warrant, option or other interest in the nature of an equity interest in such Person, but excluding any debt security convertible or exchangeable into such equity interest.

"*Capitalized Lease Obligations*" means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes in accordance with IFRS; and the amount of Debt represented by such obligation will be the capitalized amount of such obligation determined in accordance with IFRS; and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty. For purposes of "—Certain Covenants—Limitation on Liens," a Capitalized Lease Obligation shall be deemed secured by a Lien on the property or assets being leased.

"*Cash Equivalents*" means:

(1) direct obligations of the United States of America or any European Union Member State or any agency thereof or obligations guaranteed by the United States of America or any European Union

Member State, or any agency thereof, in each case denominated in U.S. dollars, euro or pounds sterling and with maturities not exceeding two years from the date of acquisition;

(2) certificates of deposit, time deposits and eurodollar time deposits with maturities of 12 months or less from the date of acquisition, bankers' acceptances with maturities not exceeding 12 months and overnight bank deposits, in each case, with any lender party to the Revolving Credit Facility or with any commercial bank having capital and surplus in excess of €500 million and whose long-term debt is rated "BBB−" or higher by S&P or "Baa3" or higher by Moody's;

(3) repurchase obligations with a term of not more than 30 days for underlying securities or the types described in clauses (1) and (2) above entered into with any financial institution meeting the qualifications specified in clause (2) above;

(4) commercial paper maturing within 12 months after the date of acquisition and having a rating of at least "A1" from Moody's or "P-1" from S&P;

(5) securities with maturities of two years or less from the date of acquisition issued or fully guaranteed by any State, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, or any European Union Member State, or any political subdivision thereof, and, in each case, having one of the five highest ratings categories obtainable from S&P or "Baa" by Moody's;

(6) investment funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (5) of this definition; and

(7) indebtedness issued by Persons with a rating of at least "A" by S&P and "A2" by Moody's, in each case with maturities of 12 months or less from the date of acquisition.

"*Change of Control*" means any of the following events:

(a) any "Person" or "group" (as such terms are used in Sections 13(d)(3) and 14(d)(2) of the U.S. Exchange Act or any successor provision to either of the foregoing, including any group acting for the purpose of acquiring, holding, voting or disposing of securities within the meaning of rule 13d-5(b)(1) under the U.S. Exchange Act), other than an underwriter engaged in a firm commitment underwriting in connection with a public offering of any shares of Voting Stock of the Company, is or becomes the ultimate "beneficial owner" (as defined in Rule 13d-3 under the U.S. Exchange Act, except that a Person will be deemed to have "beneficial ownership" of all shares that any such Person has the right to acquire within 365 days of the date of determination, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 50% or more of the total voting power of all classes of the Voting Stock of the Company; or

(b) the sale, assignment, lease, conveyance, disposition or transfer, directly or indirectly, of all or substantially all the assets of the Company and its Subsidiaries, taken as a whole (other than a transfer of such assets as an entirety or virtually as an entirety to one or more Restricted Subsidiaries of the Company), occurs, or the Company amalgamates, consolidates or merges with or into any other Person or any other Person amalgamates, consolidates or merges with or into the Company, pursuant to a transaction in which the outstanding Voting Stock of the Company is reclassified into or exchanged for cash, securities or other property, other than any such transaction, where (i) the outstanding Voting Stock of the Company is reclassified into or exchanged for Voting Stock of the surviving corporation and (ii) the holders of the Voting Stock of the Company immediately prior to such transaction own, directly or indirectly, not less than a majority of the Voting Stock of the surviving corporation immediately after such transaction and in substantially the same proportion as before the transaction; or

(c) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors (together with any new directors whose election or appointment by such board or whose nomination for election by the shareholders of the Company was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors then in office; or

(d) the shareholders of the Company approve any plan of liquidation or dissolution of the Company.

"*Clearstream*" means Clearstream Banking, *société anonyme* as currently in effect or any successor clearing agency.

"*Commodity Agreement*" means, in respect of any Person, any commodity purchase contract, commodity futures or forward contract, commodities option or other similar agreement or arrangement designed to protect such Person against fluctuations in commodity prices, including, without limitation, in respect of pulp, natural gas, fuel and CO_2.

"*Consolidated Coverage Ratio*" means, as of any date of determination, the ratio of (i) the aggregate amount of EBITDA for the period of the most recently completed four consecutive fiscal quarters ending prior to the date of such determination for which internal consolidated financial statements of the Company are available to (ii) the aggregate Consolidated Interest Expense for such four fiscal quarters; *provided, however*, that:

(1) if the Company or any of its Restricted Subsidiaries has Incurred any Debt during such period that remains outstanding or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an Incurrence of Debt, or both, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect on a *pro forma* basis to such Debt as if such Debt had been Incurred on the first day of such period and the discharge of any other Debt repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Debt as if such discharge had occurred on the first day of such period;

(2) if during such period the Company or any of its Restricted Subsidiaries shall have made any Asset Disposition or disposed of any company, division, operating unit, segment, business, group of related assets or line of business ("*Disposal*") or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is such a Disposal, both EBITDA for such period shall be reduced by an amount equal to EBITDA (if positive) directly attributable to the assets which are the subject of such Disposal for such period, or increased by an amount equal to EBITDA (if negative) directly attributable thereto for such period and Consolidated Interest Expense for such period shall be reduced by an amount equal to Consolidated Interest Expense directly attributable to any Debt of the Company or any of its Restricted Subsidiaries repaid, repurchased, defeased or otherwise discharged with respect to the Company and the continuing Restricted Subsidiaries of the Company in connection with such Disposal for such period (or, if the Capital Stock of any of its Restricted Subsidiaries is sold, Consolidated Interest Expense for such period directly attributable to the Debt of such Restricted Subsidiary to the extent the Company and the continuing Restricted Subsidiaries of the Company are no longer liable for such Debt after such Disposal);

(3) if during such period the Company or any of its Restricted Subsidiaries (by merger or otherwise) shall have made an Investment in any of its Restricted Subsidiaries (or any Person which becomes a Restricted Subsidiary of the Company) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving *pro forma* effect thereto (including the Incurrence of any Debt) as if such Investment or acquisition occurred on the first day of such period; and

(4) if during such period any Person (that subsequently became a Restricted Subsidiary of the Company or was merged with or into the Company or any of its Restricted Subsidiaries during such period) shall have made any Disposal or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (2) or (3) if made by the Company or a Restricted Subsidiary of the Company during such period, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving *pro forma* effect thereto as if such Disposal or Investment or acquisition of assets occurred on the first day of such period.

For purposes of this definition, whenever *pro forma* effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Debt Incurred in connection therewith, the *pro forma* calculations will be as determined in good faith by a responsible financial or accounting officer of the Company and may include *pro forma* expenses and cost reductions and cost synergies that have occurred or are reasonably expected to occur within 12 months from the date of determination in the good faith judgment of a responsible financial or accounting officer of the Company, and if any Debt bears a floating rate of interest and is being given *pro forma* effect, the interest expense on such Debt shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Protection Agreement applicable to such Debt for a period equal to the remaining term of such Interest Rate Protection Agreement).

"*Consolidated Interest Expense*" means, for any period, the total interest expense of the Company and its consolidated Subsidiaries, (X) plus, to the extent not included in such interest expense, (i) interest expense attributable to capital leases, (ii) amortization of debt discount and debt issuance cost, (iii) capitalized interest, (iv) non-cash interest expense, (v) accrued interest, (vi) commissions, discounts, yields and other fees and charges (a) owed with respect to letters of credit and bankers' acceptance financing and (b) related to confirming, factoring, sale of future credit rights, receivables or securitization financings, (vii) interest actually paid by the Company or any such Subsidiary under any guarantee of Debt or other obligation of any other Person, (viii) net costs associated with Interest Rate Protection Agreements (including amortization of fees), (ix) the interest portion of any deferred obligation (other than any Trade Payables), (x) Preferred Stock dividends paid in respect of all Preferred Stock of Subsidiaries of the Company and Disqualified Stock of the Company held by Persons other than the Company or a Wholly Owned Subsidiary, and (xi) cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest or fees to any Person (other than the Company) in connection with Debt Incurred by such plan or trust and (Y) minus interest income; *provided, however,* that there shall be excluded therefrom (A) any non-cash interest expense recognized upon the amortization of previously unamortized debt issuance costs Incurred with respect to Debt being refinanced with the proceeds of the Notes, (B) any non-cash unrealized gains or losses arising from Hedging Obligations existing on the Issue Date and relating to Listed Shares, (C) any such interest expense of any Unrestricted Subsidiary to the extent the related Debt is not guaranteed or paid by the Company or any of its Restricted Subsidiaries, and (D) any expense relating to anticipated payments by customers.

"*Consolidated Net Debt*" means, with respect to any Person, (x) the sum of the aggregate outstanding Debt of that Person and its Restricted Subsidiaries as of the relevant date of calculation, less (y) the amount of Unrestricted Cash that would be stated on the balance sheet of such Person and its Restricted Subsidiaries as of such date, in each case determined in accordance with IFRS (other than cash and Cash Equivalents received upon the incurrence of Debt by the Company, as applicable, and not immediately or subsequently applied or used for any purpose not prohibited by the Indenture).

"*Consolidated Net Income*" means, for any period, the net income (loss) of the Company and its consolidated Subsidiaries; *provided*, *however*, that there shall be excluded therefrom (i) any net income (loss) of any Person if such Person is not a Restricted Subsidiary of the Company, except that (A) the Company's equity in the net income of any Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or any of its Restricted Subsidiaries as a dividend or other distribution (subject, in the case of a dividend or other distribution to a Restricted Subsidiary of the Company, to the limitations contained in clause (iii)) and (B) the Company's equity in a net loss of any such Person (other than an Unrestricted Subsidiary) for such period shall be included in determining such Consolidated Net Income, (ii) any net income (loss) of any Person acquired by the Company or a Subsidiary of the Company in a pooling of interests transaction for any period prior to the date of such acquisition, (iii) any net income (loss) of any Restricted Subsidiary of the Company, other than a Guarantor, if such Subsidiary is subject to any consensual restriction or encumbrance, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Company, except that (A) the Company's equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash that could have been distributed by such Restricted Subsidiary during such period to the Company or another of its Restricted Subsidiaries as a dividend or other distribution (subject, in the case of a dividend or other distribution to another of its Restricted Subsidiaries, to the limitation contained in this clause), and (B) the Company's equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income, (iv) any gain (loss) realized upon the sale or other disposition of any property, plant or equipment of the Company or its consolidated Subsidiaries, which is not sold or otherwise disposed of in the ordinary course of business and any gain (loss) realized upon the sale or other disposition of any Capital Stock of any Person, (v) any extraordinary, exceptional, unusual or nonrecurring gain, loss, charge or expense; or any charges, expenses or reserves in respect of any restructuring, redundancy or severance; or any expenses, charges, reserves, gains or other costs related to the Notes, as well as the tax effects thereof and all reasonable expenses Incurred in connection therewith, (vi) any goodwill or other intangible asset impairment charge or write-off and (vii) the cumulative effect of a change in accounting principles.

"*Credit Facility*" means one or more debt facilities (including the Revolving Credit Facility), overdraft facilities or commercial paper facilities with banks or institutional lenders providing for revolving credit loans, term loans, performance guarantees, Receivables financing (including through the sale of Receivables to such institutions or to special purpose entities formed to borrow from such institutions against such Receivables), letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether or not with the original administrative agent and lenders or another administrative agent or agents or other lenders and whether provided under the Revolving Credit Facility or one or more other credit or other agreements, financing agreements or otherwise) and, in each case, including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any letters of credit issued pursuant thereto and any guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term "Credit Facilities" shall include any agreement or instrument (i) changing the maturity of any Debt Incurred thereunder, (ii) adding Subsidiaries of the Company as additional borrowers, issuers or guarantors thereunder, (iii) increasing the amount of Debt Incurred thereunder or available to be borrowed thereunder or (iv) otherwise altering the terms and conditions thereof.

"*Currency Exchange Protection Agreement*" means, in respect of any Person, any foreign currency exchange contract, currency swap agreement, currency option or other similar agreement or arrangement designed to protect such Person against fluctuations in currency exchange rates.

"*Custodian*" means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

"*Debt*" means, with respect to any Person on any date of determination (without duplication):

(i) the principal of and premium (if any) in respect of indebtedness of such Person for borrowed money;

(ii) the principal of and premium (if any) in respect of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(iii) all Capitalized Lease Obligations of such Person;

(iv) all obligations of such Person to pay the deferred and unpaid purchase price of property or services (other than Trade Payables and other accrued liabilities arising in the ordinary course of business that are not overdue by 180 days or more or are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted);

(v) all obligations of such Person in respect of letters of credit, bank guarantees, banker's acceptances or other similar instruments or credit transactions (including reimbursement obligations with respect thereto), other than obligations with respect to letters of credit or bank guarantees securing obligations (other than obligations described in clauses (i) through (iv)) entered into in the ordinary course of business of such Person to the extent such letters of credit or bank guarantees are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the 30th Business Day following receipt by such Person of a demand for reimbursement following payment of any such letter of credit, in each case only to the extent that the underlying obligation in respect of which the instrument was issued would be treated as Debt;

(vi) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock (but excluding any accrued dividends);

(vii) all Debt of other Persons secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person; *provided, however,* that the amount of such Debt shall be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Debt of such other Person;

(viii) all Debt of other Persons to the extent guaranteed by such Person; and

(ix) net obligations of such Person in respect of Hedging Obligations (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time).

For purposes of this definition, the maximum fixed redemption, repayment or repurchase price of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price shall be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which Debt shall be required to be determined pursuant to the Indenture; *provided*, *however*, that if such Disqualified Stock is not then permitted to be redeemed, repaid or repurchased, the redemption, repayment or repurchase price shall be the book value of such Disqualified Stock as reflected in the most recently completed financial statements of such Person. The amount of Debt of any Person at any date will be the outstanding principal amount at such date of all unconditional obligations as described above.

Notwithstanding the foregoing, "Debt" shall not include (i) advances paid by customers in the ordinary course of business for services or products to be provided or delivered in the future; (ii) deferred taxes; (iii) post-closing payment adjustments to which a seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after such closing; and (iv) contingent obligations in the ordinary course of business. For the avoidance of doubt, if a change to IFRS occurs after the Issue Date and such change results in a re-characterization of a provision into "Debt," such re-characterization shall be disregarded for purposes of the Indenture and such item shall not be classified as "Debt" solely as a result of such reclassification.

"*Default*" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"*Disqualified Stock*" of a Person means Redeemable Stock of such Person as to which the maturity, mandatory redemption, conversion or exchange or redemption at the option of the holder thereof occurs, or may occur, on or prior to the first anniversary of the Stated Maturity of the Notes, provided, however, that only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date will be deemed to be Disqualified Stock; *provided*, *however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such person to purchase or redeem such Capital Stock upon the occurrence of a "change of control" occurring prior to the first anniversary of the Stated Maturity of the Notes shall not constitute Disqualified Stock if (1) the "change of control" provisions applicable to such Capital Stock are not more favorable to the holders of such Capital Stock than the terms applicable to the Notes and described under the caption "—Change of Control," and (2) any such requirement only becomes operative after compliance with such terms applicable to the Notes, including the purchase of any Notes tendered pursuant thereto.

"*EBITDA*" for any period means the sum of Consolidated Net Income, plus Consolidated Interest Expense plus the following to the extent deducted in calculating such Consolidated Net Income: (a) all income tax expense of the Company and its consolidated Restricted Subsidiaries, (b) depreciation expense of the Company and its consolidated Restricted Subsidiaries, (c) amortization expense of the Company and its consolidated Restricted Subsidiaries (excluding amortization expense attributable to a prepaid cash item that was paid in a prior period) and (d) all other non-cash charges of the Company and its consolidated Restricted Subsidiaries (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period), in each case for such period. Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depreciation and amortization and non-cash charges of, a Restricted Subsidiary of the Company shall be added to Consolidated Net Income to compute EBITDA only to the extent (and in the same proportion) that the net income of such Restricted Subsidiary was included in calculating Consolidated Net Income and only if a corresponding amount would be permitted at the date of determination to be dividended to the Company by such Restricted Subsidiary without prior approval (that has not been obtained), pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to such Restricted Subsidiary or its shareholders.

"*Equity Offering*" means any sale of Capital Stock (other than Disqualified Stock) of the Company.

"*Euroclear*" means Euroclear Bank SA/NV as currently in effect or any successor securities clearing agency.

"*European Government Obligations*" means direct obligations (or certificates representing an ownership interest in such obligations) of any country that is a European Union Member State (including any agency or instrumentality thereof) and which are not callable at the issuer's option.

"*European Union Member State*" means any country that is a member of the European Union as of the date of determination.

"*Fair Market Value*" means with respect to any property or asset, the price which could be negotiated in an arm's length free market transaction, for cash, between a willing seller and a willing buyer, neither of whom is under undue pressure or compulsion to complete the transaction.

"*FATCA*" means Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "*Code*"), as of the Issue Date (or any amended or successor version of such Sections that is substantively comparable and not materially more onerous to comply with), any U.S. Treasury Regulations or other official guidance promulgated thereunder, any agreements entered into pursuant to current Section 1471(b)(1) of the Code (or any amended or successor version described above) or any intergovernmental agreements entered into in connection therewith and any related laws or regulations implementing such intergovernmental agreement.

"*Free Float Percentage*" means a fraction expressed as a percentage, the numerator of which is the total number of Listed Shares less all Listed Shares held by the Company or any Affiliate of the Company, and the denominator of which is the total number of Listed Shares.

"*Grid Agent*" means the legal entity licensed to send invoices to, and collect payment from, the national electricity grid in Spain.

"*guarantee*" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Debt of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such Debt of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided*, *however*, that the term "guarantee" will not include endorsements for collection or deposit in the ordinary course of business. Each of the terms "guarantee," "guarantees" and "guaranteed" shall have a corresponding meaning.

"*Hedging Obligations*" of any Person means the obligations of such Person pursuant to any Interest Rate Protection Agreement, Currency Exchange Protection Agreement, Commodity Agreement or other similar agreement or arrangement.

"*Holder*" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the registrar pursuant to the provisions of the Indenture.

"*IFRS*" means International Financial Reporting Standards as in effect as of the Issue Date. Except as otherwise expressly provided in the Indenture, all ratios and calculations based on IFRS contained in the Indenture shall be computed in conformity with IFRS.

"*Incur*" means issue, assume, guarantee, incur or otherwise become liable for, *provided, however*, that any Debt or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be Incurred by such Subsidiary at the time it becomes or is merged into a Subsidiary. Each of the terms "Incurrence," "Incurs" and "Incurred" shall have a corresponding meaning.

"*Independent Appraiser*" means an investment banking firm of international standing or any third-party appraiser of international standing; *provided*, *however*, that such firm or appraiser is not an Affiliate of the Company.

"*Interest Rate Protection Agreement*" means, in respect of any Person, any interest rate swap agreement, interest rate option agreement, interest rate cap agreement, interest rate collar agreement, interest rate floor agreement or other similar agreement or arrangement designed to protect such Person against fluctuations in interest rates.

"*ISIN*" means International Securities Identification Numbering system, the unique identification number of securities.

"*Investment*" in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as Receivables) or other extensions of credit (including by way of guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Debt or other similar instruments issued by such Person. The amount of any investment in respect of any property or assets other than cash will be its Fair Market Value at the time of such Investment. For purposes of the definition of "Unrestricted Subsidiary," the definition of "Restricted Payment" and the covenant described under "—Certain Covenants—Limitation on Restricted Payments," (i) "Investment" shall include the portion (proportionate to the Company's equity interest in such Subsidiary) of the Fair Market Value of the net assets of any Subsidiary of the Company at the time that such Subsidiary is designated an Unrestricted Subsidiary; *provided*, *however*, that upon a re-designation of such Subsidiary as a Restricted Subsidiary of the Company, the Company shall be deemed to continue to have a permanent "Investment" in an Unrestricted Subsidiary equal to an amount (if positive) equal to (x) the Company's "Investment" in such Subsidiary at the time of such re-designation less (y) the portion (proportionate to the Company's equity interest in such Subsidiary) of the Fair Market Value of the net assets of such Subsidiary at the time of such re-designation; and (ii) any property transferred to or from an Unrestricted Subsidiary shall be valued at its Fair Market Value at the time of such transfer.

"*Investment Grade*" means a rating of BBB minus or higher by S&P or Baa3 or higher by Moody's or the equivalent of such ratings by S&P or Moody's or by any other Rating Agency selected by the Company as provided by the definition thereof.

"*Issue Date*" means October 30, 2015.

"*Joint Venture*" means any joint venture entity, whether a company, unincorporated firm, undertaking, association, joint venture or partnership that is not a Restricted Subsidiary of the Company in which the Company or any Subsidiary has an interest from time to time.

"*Leverage Ratio*" means, for any Person, as of any date of determination, the ratio of (x) Consolidated Net Debt at such date to (y) the aggregate amount of EBITDA for the period of the most recently completed four consecutive fiscal quarters ending prior to the date of such determination for which internal consolidated financial statements of that Person are available; *provided, however*, that, for the purposes of calculating EBITDA for such period, if, as of such date of determination:

(1) during such period such Person or any Restricted Subsidiary thereof will have disposed of any company, any business, or any group of assets constituting an operating unit of a business (any such disposition, a "*Sale*"), or if the transaction giving rise to the need to calculate the Leverage Ratio is such a Sale, EBITDA for such period will be reduced by an amount equal to the EBITDA (if positive) attributable to the assets which are the subject of such Sale for such period, or increased by an amount equal to the EBITDA (if negative) attributable thereto for such period;

(2) during such period such Person or any Restricted Subsidiary thereof (by merger or otherwise) will have made an Investment in any Person that thereby becomes a Restricted Subsidiary, or otherwise acquires any company, any business, or any group of assets constituting an operating unit of a business (any such Investment or acquisition, a "*Purchase*") including any such Purchase occurring in connection with a transaction causing a calculation to be made hereunder, EBITDA for such period will be calculated after giving *pro forma* effect thereto as if such Purchase occurred on the first day of such period; and

(3) during such period any other Person (that became a Restricted Subsidiary or was merged with or into the first Person or any Restricted Subsidiary thereof since the beginning of such period) will have made any Sale or any Purchase that would have required an adjustment pursuant to clause (1) or (2) above if made by the first Person or a Restricted Subsidiary thereof during such period, EBITDA for such period will be calculated after giving *pro forma* effect thereto as if such Sale or Purchase occurred on the first day of such period.

For purposes of this definition, (i) whenever *pro forma* effect is to be given to any transaction or calculation under this definition, the *pro forma* calculations will be as determined in good faith by a responsible financial or accounting officer of the relevant Person and may include *pro forma* expense and cost reductions and cost synergies that have occurred or are reasonably expected to occur within 12 months from the date of determination in the good faith judgment of the responsible financial or accounting officer of the relevant Person, (ii) in determining the amount of Debt outstanding on any date of determination, *pro forma* effect shall be given to any Incurrence, repayment, repurchase, defeasance or other acquisition, retirement or discharge of Debt on such date, and (iii) in determining Consolidated Net Debt, (x) no cash shall be included that is the proceeds of Debt in respect of which the *pro forma* calculation is to be made, and (y) any Hedging Obligation with a credit support annex of the Company or its Restricted Subsidiaries will not constitute Debt to the extent of the cash that the Company or its Restricted Subsidiaries has deposited for the purposes of collateralizing such Hedging Obligation with a credit support annex of the Company or its Restricted Subsidiaries and which cash deposited by the Company its Restricted Subsidiaries is not deemed cash and cash equivalents under IFRS.

"*Lien*" means any mortgage, pledge, security interest, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or adverse claim of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof) and includes any cash collateral arrangements.

"*Listed Shares*" means, in respect of each class of shares of the Capital Stock of the Company, the issued shares of such class of Capital Stock of the Company which are listed on an internationally recognized exchange or traded on an internationally recognized market.

"*Market Capitalization*" means an amount equal to (i) the total number of Listed Shares on the date of the declaration of the relevant dividend or repurchase, redemption or otherwise acquisition or retirement for value of Listed Shares multiplied by (ii) the arithmetic mean of the closing prices per Listed Share for the 60 consecutive trading days immediately preceding the date of declaration of such dividend or repurchase, redemption or otherwise acquisition or retirement for value of the Listed Shares.

"*Moody's*" means Moody's Investors Service, Inc. and its successors.

"*Net Available Cash*" from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise, but only as and when received) therefrom, in each case net of (i) all legal, title, recording, refinancing, consultancy, brokerage and banking fees and tax expenses, commissions and other fees and expenses Incurred, and all U.S. federal, state, provincial, foreign and local taxes required to be paid or accrued as a liability under IFRS as a consequence of such Asset Disposition, (ii) all payments made on any Debt which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law, be repaid out of the proceeds from such Asset Disposition, (iii) all distributions and other payments required to be made to minority interest holders in Subsidiaries or Joint Ventures as a result of such Asset Disposition and (iv) the deduction of appropriate amounts to be provided by the seller as a reserve, in accordance with IFRS, against any liabilities associated with the assets disposed of in such Asset Disposition and retained by the Company or any of its Restricted Subsidiaries after such Asset Disposition.

"*Net Cash Proceeds*" with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"*Non-Guarantor Leverage Ratio*" means the Leverage Ratio of the Restricted Subsidiaries of the Company excluding any Guarantors. Consolidated Net Debt of the Restricted Subsidiaries of the Company excluding any Guarantor will be determined on the basis of the balance sheet of the Company and its Restricted Subsidiaries as of such date on a consolidated basis in accordance with IFRS and without regard for any Debt of the Company or a Restricted Subsidiary owed to the Company or a Restricted Subsidiary. For the avoidance of doubt, to the extent any Restricted Subsidiary that is not a Guarantor is a joint obligor with respect to any such Debt, such Debt shall not be reduced by the amount of such Debt pursuant to this definition.

"*Offering Memorandum*" or "*Listing Particulars*" means the offering memorandum and/or listing particulars in relation to the Notes.

"*Officer's Certificate*" means a certificate signed by an officer or director of the Company.

"*Opinion of Counsel*" means a written opinion from legal counsel who is reasonably acceptable to the Trustee, which opinion may be subject to customary qualifications and assumptions.

"*Permitted Investment*" means an investment by the Company or any of its Restricted Subsidiaries in:

(i) the Company, any of its Restricted Subsidiaries or a Person which will, upon the making of such Investment, become a Restricted Subsidiary of the Company; *provided*, *however*, that the primary business of such Restricted Subsidiary is a Related Business;

(ii) another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company or any of its Restricted

Subsidiaries, *provided, however*, that the primary business of such Restricted Subsidiary is a Related Business;

(iii) (A) cash or Cash Equivalents or (B) deposits with registered banks or credit institutions;

(iv) Receivables owing to the Company or any of its Restricted Subsidiaries, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

(v) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(vi) loans or advances to employees and officers of the Company or such Restricted Subsidiary made in the ordinary course of business consistent with past practices of the Company or such Restricted Subsidiary, as the case may be, or as required by law and owing to the Company or any of its Restricted Subsidiaries or in satisfaction of judgments;

(vii) stock, obligations or securities received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any debtors of the Company or any of its Restricted Subsidiaries or received in settlement of Debt created in the ordinary course of business and owing to the Company or any of its Restricted Subsidiaries or in satisfaction of judgments;

(viii) non-cash consideration received in connection with an Asset Disposition consummated in compliance with "—Certain Covenants—Limitation on Sales of Assets and Restricted Subsidiary Stock";

(ix) guarantees and other contingent obligations not prohibited by the covenant described under "—Certain Covenants—Limitation on Debt";

(x) Investments in Unrestricted Subsidiaries or Joint Ventures not to exceed (A) the aggregate net after-tax amount returned in cash on or with respect to any Investments made in Unrestricted Subsidiaries and Joint Ventures whether through interest payments, principal payments, dividends or other distributions or payments on account of such Investment, (B) the net after-tax cash proceeds received by the Company or any Restricted Subsidiary from the disposition of all or any portion of such Investments (other than to a Restricted Subsidiary of the Company), and (C) upon re-designation of an Unrestricted Subsidiary designated as such after the Issue Date as a Restricted Subsidiary of the Company, the Fair Market Value of such Subsidiary; *provided*, *however*, that the net after-tax amount has not been included in Consolidated Net Income for the purpose of calculating clause (c)(i) in the covenant described under "—Certain Covenants—Limitation on Restricted Payments";

(xi) Investments existing on the Issue Date;

(xii) Investments described in clauses (B), (C) and (D) of the proviso under "—Certain Covenants—Transactions with Affiliates" above;

(xiii) Investments in Permitted Joint Venture Transactions in an aggregate principal amount at any time outstanding not in excess of €10 million in the aggregate;

(xiv) Investments in respect of amounts owing to the Company and its Restricted Subsidiaries from any Unrestricted Subsidiaries made in the ordinary course of business and consistent with past practice in relation to the receipt by the Grid Agent of funds generated by factoring estimated receivables associated with electricity produced by the Company and its Restricted Subsidiaries; provided that such amounts are reimbursed to the Company and its Restricted Subsidiaries within 120 days of the making of such Investment;

(xv) any Investment made in the ordinary course of business and on arms' length terms in or to (including any guarantee of any obligation of) suppliers of forestry services to the Company or any Restricted Subsidiary of the Company to support the acquisition by such suppliers of equipment or machinery used in connection with services provided to the Company or any such Restricted Subsidiary;

(xvi) (A) the contribution of the Biomass Boiler from the Company to Celulosa Energía, S.A.U. (or another Unrestricted Subsidiary of the Company) and (B) the contribution, transfer or conveyance of the shares of Celulosa Energía, S.A.U. to ENCE Energía, S.L.U., as described in these Listing Particulars;

(xvii) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, additional Investments which, when taken together with all other Investments made pursuant to this clause (xvii) and outstanding on the date such Investment is made, do not exceed €50 million; and

(xviii) the application of Net Available Cash derived from the sale of Assets Held for Sale to make Investments in Unrestricted Subsidiaries operating a Related Business.

"*Permitted Joint Venture Transactions*" means any Joint Venture transaction pursuant to which the Company or any of its Restricted Subsidiaries enters into, acquires or subscribes for any shares, stock, securities or other interest in or transfers any assets to any Joint Venture; *provided, however*, that (i) the primary business of such Joint Venture is a Related Business and (ii) such Joint Venture is a limited liability company or is owned, directly or indirectly, by the Company or such Restricted Subsidiary through a limited liability company which is itself a party to such Joint Venture.

"*Permitted Liens*" means, with respect to any Person or asset:

(1) any Lien in favor of the Notes and the Guarantees;

(2) Liens in favor of the Company or a Restricted Subsidiary on assets of any Restricted Subsidiary (other than Liens in favor of a Restricted Subsidiary that is not a Guarantor on the assets of any Guarantor);

(3) Liens existing on the Issue Date and any Liens incurred in connection with any Refinancing Debt, which has been secured by a Lien not prohibited under the Indenture; *provided*, that such Liens do not extend to or cover any property or assets of the Company or any of its Restricted Subsidiaries other than that pledged under the Liens securing the Debt being refinanced;

(4) pledges or deposits by such Person under workmen's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of borrowed money) or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits or cash or government bonds to secure surety, judgment or appeal bonds to which such Person is a party, or deposits as security for contested taxes or import duties or for the payment of rent, in each case Incurred in the ordinary course of business;

(5) Liens imposed by law, including carriers', warehousemen's and mechanics' Liens, in each case for sums not yet due or being contested in good faith by appropriate proceedings or other Liens arising out of judgments or awards against such Person with respect to which such Person will then be proceeding with an appeal or other proceedings for review and Liens arising solely by virtue of any statutory or common law provision relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution; *provided, however*, that, in the case of the Company, such deposit account is not a dedicated cash collateral account subject to restrictions against access by the Company in excess of those customarily applied to deposit accounts not intended by the Company or any Restricted Subsidiary to provide collateral to the relevant bank;

(6) Liens for taxes, assessments or other governmental charges or claims that are extinguished within 60 days' notice of their existence, that are not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings; *provided,* that in the case of the Company, appropriate reserves have been taken on the books of the Company;

(7) Liens in favor of issuers of surety bonds, performance bonds or standby letters of credit (not issued to support Debt, other than Debt permitted to be Incurred pursuant to clause (ix) of the covenant entitled "—Certain Covenants—Limitations on Debt"), entered into in the ordinary course of business;

(8) Liens securing Debt permitted to be Incurred pursuant to clause (xvii) of the covenant entitled "—Certain Covenants—Limitation on Debt";

(9) Liens in respect of factoring of Receivables arising in the ordinary course of business pursuant to customary arrangements, *provided*, that any Debt Incurred in relation thereto is permitted to be Incurred by clause (vi) of the second paragraph of the covenant described under "—Certain Covenants—Limitation on Debt";

(10) Liens over cash and Cash Equivalents securing Hedging Obligations with credit support annexes which cash and Cash Equivalents are deemed to be the property of such Person under the relevant ISDA documentation;

(11) Liens for the purpose of securing the payment (or the refinancing of the payment) of all or any part of any Debt relating to assets or property acquired or constructed directly or indirectly, *provided,* that (A) the aggregate principal amount of Debt secured by such Liens will not excee*d the cos*t of the assets or property so acquired or constructed and (B) such Liens will not encumber any other assets or property of the Company or any Restricted Subsidiary other than such assets or property and assets affixed or appurtenant thereto;

(12) Liens arising from precautionary Uniform Commercial Code financing statement filings, or comparable filings in other jurisdictions, regarding operating leases entered into by the Company or its Subsidiaries in the ordinary course of business;

(13) Liens on property, shares of Capital Stock or Debt of a Person existing at the time such Person is merged with or into or consolidated with or acquired by the Company or any Subsidiary of the Company; *provided,* that such Liens were in existence prior to the contemplation of such merger, consolidation or acquisition and do not extend to any assets other than those of the Person merged into, consolidated with or acquired by the Company or the Subsidiary (other than assets and property affixed or appurtenant thereto);

(14) Liens to secure the performance of statutory, performance bonds or other obligations of a like nature Incurred in the ordinary course of business;

(15) easements (including reciprocal easement agreements), rights-of-way, building, zoning and similar restrictions, utility agreements, covenants, reservations, restrictions, encroachments, charges and other similar encumbrances or title defects Incurred, or leases or sub-leases granted to others, in the ordinary course of business, that do not in the aggregate materially detract from the aggregate value of the properties of the Company and its Subsidiaries, taken as a whole, or in the aggregate materially interfere with or adversely affect in any material respect the ordinary course of the business of the Company and its Subsidiaries on the properties subject thereto, taken as a whole;

(16) Liens arising by operation of law (or by agreement to the same effect) in the ordinary course of business and not as a result of any default or omission on the part of the Company or any Restricted Subsidiary;

(17) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into by the Company or any Restricted Subsidiary in the ordinary course of business;

(18) Liens arising by reason of any judgment, decree or order of any court so long as such Lien is adequately bonded and any appropriate legal proceedings that may have been duly initiated for the review of such judgment, decree or order shall not have been finally terminated or the period within which such proceedings may be initiated shall not have expired;

(19) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(20) any interest or title of a lessor in the property subject to any lease other than a Capitalized Lease Obligation;

(21) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of banker's acceptances issues or credit for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(22) Liens granted to the Trustee (or any other trustee) for its compensation and indemnities pursuant to the Indenture, the Notes or any Pari Passu Intercreditor Agreement;

(23) Liens securing any Debt not to exceed of €30 million in an aggregate principal amount outstanding at any time; and

(24) any extension, renewal or replacement, in whole or in part, of any Lien described in the foregoing clauses; *provided,* that any such extension, renewal or replacement shall be no more restrictive in any material respect than the Lien so extended, renewed or replaced and shall not extend to any additional property or assets.

"*Person*" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"*Preferred Stock*," as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution or such Person, over shares of Capital Stock of any other class of such Person.

"*Non-Guarantor Leverage Ratio*" means the Leverage Ratio of the Restricted Subsidiaries of the Company excluding any Guarantors. Consolidated Net Debt of the Restricted Subsidiaries of the Company excluding any Guarantor will be determined on the basis of the balance sheet of the Company and its Restricted Subsidiaries as of such date on a consolidated basis in accordance with IFRS and without regard for any Debt of the Company or a Restricted Subsidiary owed to the Company or a Restricted Subsidiary. For the avoidance of doubt, to the extent any Restricted Subsidiary that is not a Guarantor is a joint obligor with respect to any such Debt, such Debt shall not be reduced by the amount of such Debt pursuant to this definition.

"*Public Equity Offering*" means, with respect to any Person, a *bona fide* underwritten public offering of the ordinary shares or common equity of such Person, either:

(1) pursuant to an offering on the main market of the Madrid, Barcelona, Valencia and Bilbao Exchanges (*Bolsas de Madrid, Barcelona, Valencia y Bilbao*) or on the main market of any other nationally recognized regulated stock exchange or listing authority in a European Union Member State; or

(2) pursuant to an effective registration statement under the U.S. Securities Act (other than a registration statement on Form S-8 or otherwise relating to Capital Stock issued or issuable under any employee benefit plan).

"*Rating Agency*" means S&P and Moody's or, if one or more of S&P and Moody's shall not make a rating on the Notes publicly available, a "nationally recognized statistical rating organization or organizations" (as defined in Section 3(a)(62) of the U.S. Exchange Act), as the case may be, then making a rating on the Notes publicly available selected by the Company which shall be substituted for S&P or Moody's, as the case may be.

"*Receivable*" means a right to receive payment arising from a sale or lease of goods or services by a Person pursuant to an arrangement with another Person pursuant to which such other Person is obligated to pay for goods or services under terms that permit the purchase of such goods and services on credit, as determined in accordance with IFRS.

"*Redeemable Stock*" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event (i) matures or is mandatorily redeemable for cash pursuant to a sinking fund obligation or otherwise, (ii) is convertible or exchangeable for Debt or Disqualified Stock (excluding Capital Stock that is convertible or exchangeable solely at the option of the Company or any of its Restricted Subsidiaries) or (iii) is or may become redeemable or repurchaseable for cash or in exchange for Debt at the option of the holder thereof, in whole or in part.

"*Redemption Price*" means the price to redeem a Note, expressed as a percentage of the principle amount set forth in "—Optional Redemption" or "—Optional Tax Redemption," as applicable.

"*Refinancing Debt*" means Debt Incurred to refund, refinance, replace, renew, repay or extend (including pursuant to any defeasance or discharge mechanism) (collectively, "refinances," "refinanced" and "refinancing" shall have a correlative meaning) any Debt existing on the Issue Date or Incurred in compliance with the Indenture (including Debt of the Company that refinances Debt of any of its Restricted Subsidiaries and Debt of any Restricted Subsidiary of the Company that refinances Debt of another Restricted Subsidiary of the Company) including Debt that refinances Refinancing Debt; *provided*, *however*, that (i) (x) if the Stated Maturity of the Debt being refinanced is earlier than or equal to the Stated Maturity of the Notes, the Refinancing Debt has a Stated Maturity no earlier than the Stated Maturity of the Debt being refinanced and (y) if the Stated Maturity of the Debt being refinanced is later than the Stated Maturity of the Notes, the Refinancing Debt has a Stated Maturity later than the Stated Maturity of the Notes, (ii) the Refinancing Debt has an Average Life at the time such Refinancing Debt is Incurred that is equal to or greater than the Average Life of the Debt being refinanced, (iii) such Refinancing Debt is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Debt being refinanced plus any premium payable thereon and any expenses or fees Incurred in connection therewith, (iv) if the Debt being refinanced was Incurred under clauses (ii), (iii) or (xvii) of the second paragraph of the covenant "—Limitations on Debt," than the Refinancing Debt may only be Incurred pursuant to the corresponding clause under which the Debt being refinanced was originally Incurred, and (v) if such Debt being refinanced is subordinated in right of payment in any respect to the Notes, such Refinancing Debt shall be subordinated in right of payments to the Notes, with terms no less favorable to the Holders of the Notes than those contained in the documentation governing the Debt being refinanced; *provided*, *further*, *however*, that Refinancing Debt shall not include (x) Debt of a Subsidiary of the Company that refinances Debt of the Company or (y) Debt of the Company or any of its Restricted Subsidiaries that refinances Debt of an Unrestricted Subsidiary.

"*Related Business*" means a business related to forestry management, the manufacturing and distribution of pulp, the generation and co-generation of energy from renewable sources.

"*Restricted Payment*" with respect to any Person means (i) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock) and dividends or distributions payable solely to such Person or any of its Restricted Subsidiaries, and other than *pro rata* dividends or other distributions made by a Subsidiary that is not a Wholly Owned Subsidiary to minority shareholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation)), (ii) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of such Person or any of its Restricted Subsidiaries held by any Person (other than such Person or any of its Restricted Subsidiaries), (iii) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated Obligations of the Company or any of its Restricted Subsidiaries (other than (A) the Company or any of its Restricted Subsidiaries or (B) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations made in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case, due within one year of the date of such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value), or (iv) the making of any Investment in any Person (other than a Permitted Investment).

"*Restricted Subsidiary*" means any direct or indirect Subsidiary of the Company, other than an Unrestricted Subsidiary.

"*Revolving Credit Facility*" means the revolving credit facility, dated on or about the Issue Date, including any ancillary agreements entered into in connection therewith, and any amendment, modification, renewal, extension, refunding, restatement, supplement, refinancing or other modification thereof from time to time.

"*S&P*" means Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc. and its successors.

"*Senior Debt*" means Debt of the Company or any Guarantor that is not subordinated in right of payment to the Notes or the Guarantee of such Guarantor, as the case may be.

"*Significant Restricted Subsidiary*" means:

(i) each of the Guarantors from time to time;

(ii) any Restricted Subsidiary of the Company (a) the pre-tax profits of which represent 10% or any greater percentage of the consolidated EBITDA of the Company and its Restricted Subsidiaries, or (b) the book value of the gross assets of which is 10% or more of the consolidated gross assets of the Company, determined in accordance with IFRS or (c) the aggregate sales of which to third parties in any fiscal year, calculated on a consolidated basis in accordance with IFRS (and excluding VAT or sales tax) have been or are budgeted to be at least 10% or more of the aggregate sales of the Company to third parties (calculated on the same basis), in each case for the most recently completed fiscal year after the Issue Date; *provided*, that in the case of a Restricted Subsidiary of the Company which itself has Subsidiaries, such calculation shall be made by using the consolidated pre-tax profits or gross assets or aggregate sales, as the case may be, of such Restricted Subsidiary and its Subsidiaries; and the calculation of consolidated pre-tax profits or gross assets or aggregate sales shall be made by reference to the most recently completed accounts of the Company or any such Restricted Subsidiary (or, as the case may be, a consolidation of the accounts of such Restricted Subsidiary and its Subsidiaries) provided to the Trustee in accordance with "—Certain Covenants—Reports to Holders"; and

(iii) any Restricted Subsidiary of the Company not otherwise constituting a Significant Restricted Subsidiary hereunder to which any Significant Restricted Subsidiary transfers (in any fiscal year) any fixed assets in any transaction or series of transactions (related or unrelated) with an aggregate book value or Fair Market Value in excess of €15 million (and the Subsidiary from which such assets were transferred shall be deemed to continue to be a Significant Restricted Subsidiary of the Company).

"*Stated Maturity*" means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency beyond the control of the Company unless such contingency has occurred).

"*Subordinated Obligation*" means any Debt (whether outstanding on the Issue Date or thereafter Incurred) which is subordinate or junior in right of payment to the Guarantees or the Notes pursuant to a written agreement.

"*Subsidiary*" of any specified Person means any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organized or acquired, (a) in the case of a corporation, of which more than 50% of the total voting power of the Voting Stock is held by such first-named Person or any of its Subsidiaries and such first-named Person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business entity, with respect to which such first-named Person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise, if in accordance with IFRS such entity is consolidated with the first-named Person for financial statement purposes.

"*Trade Payables*" means, with respect to any Person, any accounts payable or any indebtedness or monetary obligation to trade creditors (or any assignee thereof) created, assumed or guaranteed by such Person arising in the ordinary course of business of such Person in connection with the acquisition of goods or services.

"*Unrestricted Subsidiary*" means:

(1) as of the Issue Date, Celulosa Energía, S.A.U. and ENCE Energía, S.L.U. and its Subsidiaries; and

(2) each Subsidiary of the Company that the Company has designated pursuant to the covenant described under "—Restricted and Unrestricted Subsidiaries of the Company" as an Unrestricted Subsidiary and any Subsidiary of an Unrestricted Subsidiary.

"*Voting Stock*" of a corporation means all classes of Capital Stock of such corporation then outstanding and normally entitled to vote in the election of directors.

"*Wholly Owned Subsidiary*" means a Restricted Subsidiary of the Company, all the Capital Stock of which (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Company or any of its Restricted Subsidiaries) is owned by the Company or another Wholly Owned Subsidiary.

BOOK-ENTRY; DELIVERY AND FORM

General

Notes sold to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act were initially represented by a global note in registered form without interest coupons attached (the "*Rule 144A Global Note*"). Notes sold to non-U.S. persons outside the United States in reliance on Regulation S under the U.S. Securities Act were initially represented by a global note in registered form without interest coupons attached (the "*Regulation S Global Note*" and, together with the Rule 144A Global Note, the "*Global Notes*"). The Global Notes were deposited, on the Issue Date, with a common depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.

Ownership of beneficial interests in the Rule 144A Global Note (the "*Rule 144A Book-Entry Interests*") and ownership of beneficial interests in the Regulation S Global Note (the "*Regulation S Book-Entry Interests*" and, together with the Rule 144A Book-Entry Interests, the "*Book-Entry Interests*") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that hold interests through such participants. Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries. Except under the limited circumstances described below, Book-Entry Interests will not be issued in definitive form.

Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their participants. Except under the limited circumstances described below, the Notes will not be issued in definitive form. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of those securities in definitive form. The foregoing limitations may impair your ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of Notes for any purpose.

So long as the Notes are held in global form, Euroclear and/or Clearstream (or the nominee of the common depositary), as applicable, will be considered the sole holders of the Global Notes for all purposes under the Indenture. In addition, participants must rely on the procedures of Euroclear and Clearstream, and indirect participants must rely on the procedures of Euroclear and Clearstream and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders of Notes under the Indenture.

None of us, the Paying Agent, the Transfer Agent, the Registrar, or the Trustee, or any of their respective agents, will have any responsibility, or be liable, for any aspect of the records relating to the Book-Entry Interests.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised us that they will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described above) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents or waivers or the taking of any other action in respect of the Global Notes. However, if there is an Event of Default under the Notes, Euroclear and Clearstream at the request of the Holders of the Notes, reserve the right to exchange the Global Notes for definitive registered Notes in certificated form (the "*Definitive Registered Notes*"), and to distribute such Definitive Registered Notes to their participants.

Definitive Registered Notes

Under the terms of the Indenture, owners of the Book-Entry Interests will receive Definitive Registered Notes only:

(1) if Euroclear or Clearstream notifies us that it is unwilling or unable to continue to act as depositary and a successor depositary is not appointed by the Issuer within 120 days; or

(2) if the owner of a Book Entry Interest requests such exchange in writing delivered through Euroclear or Clearstream following an Event of Default under the Indenture.

In such an event, the Registrar will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of Euroclear or Clearstream (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend as provided in the relevant Indenture, unless that legend is not required by the Indenture or applicable law.

To the extent permitted by law, we, the Trustee, the Paying Agent, the Registrar, and any of their respective agents shall be entitled to treat the registered holder of any Global Note as the absolute owner thereof and no person will be liable for treating the registered holder as such. Ownership of the Global Notes will be evidenced through registration from time to time at the registered office of the Issuer, and such registration is a means of evidencing title to the Notes.

We will not impose any fees or other charges in respect of the Notes; however, owners of the Book-Entry Interests may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream.

We will not be required to register the transfer or exchange of Definitive Registered Notes for a period of 15 calendar days preceding (i) the record date for any payment of interest on the Notes, (ii) any date fixed for redemption of the Notes or (iii) the date fixed for selection of the Notes to be redeemed in part. Also, we are not required to register the transfer or exchange of any Notes selected for redemption or which the holder has tendered (and not withdrawn) for repurchase in connection with a change of control offer or asset sale offer. In the event of the transfer of any Definitive Registered Note, the Trustee may require a holder, amongst other things, to furnish appropriate endorsements and transfer documents as described in the relevant Indenture. We may require a holder to pay any transfer taxes and fees required by law and permitted by the respective Indenture and the Notes.

If Definitive Registered Notes are issued and a holder thereof claims that such a Definitive Registered Note has been lost, destroyed or wrongfully taken, or if such Definitive Registered Note is mutilated and is surrendered to the Registrar or at the officer of a transfer agent, we will issue and the Trustee will authenticate a replacement Definitive Registered Note if such Trustee's and our requirements are met, upon receipt of an authentication order from the Issuer. We or the Trustee may require a holder requesting replacement of a Definitive Registered Note to furnish an indemnity bond sufficient in the judgement of both to protect themselves, the Trustee or the Paying Agent appointed pursuant to the relevant Indenture from any loss which any of them may suffer if a Definitive Registered Note is replaced. We and/or the Trustee may charge for any expenses incurred in replacing a Definitive Registered Note.

In case any such mutilated, destroyed, lost or stolen Definitive Registered Note has become or is about to become due and payable, or is about to be redeemed or purchased by us pursuant to the provisions of the relevant Indenture, we, in our discretion, may, instead of issuing a new Definitive Registered Note, pay, redeem or purchase such Definitive Registered Note, as the case may be.

Definitive Registered Notes may be transferred and exchanged only after the transferor first delivers to the Trustee a written certification (in the form provided in the relevant Indenture) to the effect that such transfer will comply with the transfer restrictions applicable to such Notes.

Redemption of the Global Notes

In the event that any Global Note (or any portion thereof) is redeemed, Euroclear and/or Clearstream will redeem an equal amount of the Book-Entry Interests in such Global Note from the amount received by them in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear and Clearstream in connection with the redemption of such Global Note (or any portion thereof). We understand that, under the existing practices of Euroclear or Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit its participants' accounts on a proportionate basis (with adjustments to prevent fractions), by lot or on such other basis as they deem fair and appropriate in accordance with their respective operational procedures; *provided, however,* that no Book-Entry Interest of less than €100,000 principal amount may be redeemed in part.

Payments on Global Notes

We will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, interest and Additional Amounts, if any) to the Paying Agent. The Paying Agent will distribute such payments to Euroclear and/or Clearstream in accordance with directions from the common depositary in accordance with their customary procedures. We will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under "*Description of the Notes—Additional Amounts*." If any such deduction or withholding is required to be made, then, to the extent described under "*Description of the Notes—Additional Amounts*," we will pay additional amounts as may be necessary in order for the net amounts received by any holder of the Global Notes or owner of Book-Entry Interests after such deduction or withholding to equal the net amounts that such holder or owner would have otherwise received in respect of such Global Note or Book-Entry Interest, as the case may be, absent such withholding or deduction. We expect that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the Indenture, we, the Paying Agent, the Transfer Agent, the Registrar and the Trustee will treat the registered holders of the Global Notes (e.g. Euroclear or Clearstream or the nominee of the common depositary) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of us, the Paying Agent, the Transfer Agent, the Registrar, the Trustee or any of their respective agents, has or will have any responsibility or liability for:

- any aspect of the records of Euroclear or Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest or for maintaining, supervising or reviewing the records of Euroclear and Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest;
- any other matter relating to the actions and practices of Euroclear or Clearstream or any participant or indirect participant; or
- the records of the common depositary.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants.

Currency of Payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid to holders of interests in such Notes through Euroclear or Clearstream in euro.

Transfers

Transfers between participants in Euroclear or Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a holder of Notes requires physical delivery of Definitive Registered Notes for any reason, including to sell Notes to persons in states which require physical delivery of such securities or to pledge such securities, such holder of Notes must transfer its interests in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the procedures set out in the Indenture governing the Notes.

The Global Notes will bear a legend to the effect set out under "*Notice to Investors*." Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements discussed under "*Plan of Distribution*" and "*Notice to Investors*."

Transfers of Rule 144A Book-Entry Interests to persons wishing to take delivery of Rule 144A Book-Entry Interests will at all times be subject to such transfer restrictions

Rule 144A Book-Entry Interests may be transferred to a person who takes delivery in the form of a Regulation S Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the U.S. Securities Act or any other exemption (if available under the U.S. Securities Act).

Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of a Rule 144A Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A under the U.S. Securities Act in a transaction meeting the requirements of Rule 144A under the U.S. Securities Act or otherwise in accordance with the transfer restrictions described under "*Notice to Investors*" and in accordance with any applicable securities laws of any other jurisdiction.

In connection with transfers involving an exchange of a Regulation S Book-Entry Interest for a Rule 144A Book-Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in a Global Note only as set out in the Indenture and, if required, only if the transferor first delivers to the Trustee and the Registrar a written certificate (in the form provided in the Indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes. Please see "*Notice to Investors*."

Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Note and become a Book-Entry Interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

Information Concerning Euroclear and Clearstream

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and Clearstream. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of the settlement system are controlled by the settlement system and may be changed at any time. None of us, the Initial Purchasers, the Trustee, the Paying Agent, the Transfer Agent, the Registrar or any of their respective agents are responsible for those operations or procedures.

We understand as follows with respect to Euroclear and Clearstream: Euroclear and Clearstream hold securities for participating organisations. They facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes in the accounts of such participants Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear and/or Clearstream system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the Euroclear or Clearstream systems will receive distributions attributable to the Rule 144A Global Notes only through Euroclear or Clearstream participants.

Special Timing Considerations

You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Notes through Euroclear or Clearstream on days when those systems are open for business. In addition, because of time-zone differences, there may be complications with completing transactions involving Euroclear and/or Clearstream on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Notes, or to receive or make a payment or delivery of Notes, on a particular day, may find that the transactions will not be performed until the next business day in Brussels, if Euroclear is used, or in Luxembourg, if Clearstream is used.

Global Clearance and Settlement Under the Book-Entry System

The Notes represented by the Global Notes are expected to be listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market thereof. Transfers of interests in the Global Notes between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective system's rules and operating procedures.

Although Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes amongst participants in Euroclear or Clearstream, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of us, any Guarantor, the Trustee, the Paying Agent, or any of their respective agents, will have any responsibility for the performance by Euroclear or Clearstream or their participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Initial Settlement

Initial settlement for the Notes was made in euro. Book-Entry Interests owned through Euroclear or Clearstream accounts followed the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests were credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value of the settlement date.

Secondary Market Trading

The Book-Entry Interests will trade through participants of Euroclear or Clearstream and settle in same day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

PLAN OF DISTRIBUTION

We offered the Notes through the Initial Purchasers. Subject to the terms and conditions contained in the purchase agreement between us, the Guarantors and the Initial Purchasers dated October 23, 2015 (the "*Purchase Agreement*"), we have agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase from us the principal amount of Notes set out opposite its name below.

The obligations of the Initial Purchasers under the Purchase Agreement, including their agreement to purchase Notes from us, are several and not joint. The Purchase Agreement provides that the Initial Purchasers will purchase all of the Notes being sold pursuant to the Purchase Agreement if any of them are purchased.

The following table sets out the amount of Notes to be purchased by each Initial Purchaser in the Offering:

Initial Purchasers	Principal Amount of Notes
J.P. Morgan Securities plc	€ 75,000,000
Banco Santander, S.A.	€ 25,000,000
Banco Bilbao Vizcaya Argentaria, S.A.	€ 25,000,000
CaixaBank S.A.	€ 25,000,000
Citigroup Global Markets Limited	€ 25,000,000
Bankia, S.A.	€ 25,000,000
Banco de Sabadell S.A.	€ 25,000,000
Bankinter S.A.	€ 25,000,000
Total	**€250,000,000**

The Initial Purchasers initially propose to offer the Notes for resale at the offering price that appears on the cover page of these Listing Particulars. After the initial offering, the Initial Purchasers may change the offering price and any other selling terms without notice. The Initial Purchasers may offer Notes through certain of their affiliates. Sales in and outside the United States may be made through certain affiliates of the initial purchasers listed above or through U.S. registered broker dealers, as appropriate. Persons who purchase Notes from the Initial Purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set out on the cover page of these Listing Particulars.

The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of the Notes are subject to, amongst other conditions, the delivery of certain legal opinions by their counsel.

In the Purchase Agreement, we have agreed that:

- The obligations of the Initial Purchasers to pay for and accept delivery of the Notes are subject to, amongst other conditions, the delivery of certain opinions by their counsel.
- We will not for a period of 60 days following the date of the Purchase Agreement, without the prior written consent of the Initial Purchasers (such consent not to be unreasonably withheld or delayed), directly or indirectly, offer, sell, contract to sell, pledge, otherwise dispose of, enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) of any debt securities thereof by the Issuer or any of the Guarantors and having a tenor of more than one year (other than the Notes).
- We will indemnify the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, or contribute to payments that the Initial Purchasers may be required to make in respect of those liabilities.

The Notes have not been and will not be registered under the U.S. Securities Act or the securities laws of any other jurisdiction. In the Purchase Agreement, each Initial Purchaser has agreed that:

- The Notes have not been registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in transactions not subject to, the registration requirements of the U.S. Securities Act.

- During the initial distribution of the Notes, it will offer or sell Notes only to qualified institutional buyers in reliance on Rule 144A and outside the United States in reliance on Regulation S.
- In addition, until 40 days following the later of the commencement of this Offering and the closing date, an offer or sale of the Notes within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act unless the dealer makes the offer or sale in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act or in reliance on any other available exemption from registration under the U.S. Securities Act. During this 40-day period, neither Clearstream nor Euroclear will monitor compliance by dealers with Section 4(3) of the U.S. Securities Act.

In relation to each Relevant Member State, each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State it has not made and will not make an offer of Notes which are the subject of the offering contemplated by these Listing Particulars to the public in that Relevant Member State other than:

(i) to any legal entity which is a "qualified investor" as defined in the Prospectus Directive;

(ii) to fewer than 150, natural or legal persons (other than "qualified investors" as defined in the Prospectus Directive), as permitted under the Prospectus Directive; or

(iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this section, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. The expression *"Prospectus Directive"* means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive and includes any relevant implementing measure in the Relevant Member State and the expression *"2010 PD Amending Directive"* means Directive 2010/73/EU.

In the Purchase Agreement, each Initial Purchaser has represented and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to us or the Guarantors); and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

No action has been taken in any jurisdiction, including in the United States, the United Kingdom or Spain, by us or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of these Listing Particulars or any other material relating to us or the Notes in any jurisdiction where action for this purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither these Listing Particulars nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. These Listing Particulars do not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession these Listing Particulars come are advised to inform themselves about and to observe any restrictions relating to the Offering, the distribution of these Listing Particulars and resale of the Notes. Please see "*Notice to Investors*."

The Notes are a new issue of securities, and there is currently no established trading market for the Notes. In addition, the Notes are subject to certain restrictions on resale and transfer as described under "*Notice to Investors.*" We have applied, through our listing agent, to list the Notes on the Official List of the Luxembourg Stock Exchange and trade the Notes on the Euro MTF Market thereof.

The Initial Purchasers have advised us that they intend to make a market in the Notes, but they are not obliged to do so. The Initial Purchasers may discontinue any market-making in the Notes at any time in their sole discretion. In addition, any such market-making activity will be subject to the limits imposed by the U.S. Securities Act and the U.S. Exchange Act. Accordingly, we cannot assure you that a liquid trading market will develop for the Notes, that it will be liquid if it does develop, or that you will be able to sell your Notes at a particular time or that the prices that you receive when you sell will be favourable. Please see "*Risk Factors—Risks Related to the Notes and Our Structure—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.*"

You should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with purchases of securities.

In connection with this Offering, the Initial Purchasers, or persons acting on their behalf, may engage in overallotment, stabilising transactions and syndicate covering transactions and impose penalty bids. Overallotment involves sales in excess of the offering size, which creates a short position for the Initial Purchasers. Stabilising transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilising transactions and syndicate-covering transactions may have the effect of preventing or retarding a decline in the market price of the Notes or cause the price of the Notes to be higher than it would otherwise be in the absence of those transactions. If the Initial Purchasers engage in stabilising or syndicate covering transactions, they may discontinue them at any time.

Delivery of the Notes was made against payment therefor on October 30, 2015. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in three business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternative settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the Notes who wish to make such trades should consult their own advisers.

The Initial Purchasers or their respective affiliates from time to time have provided in the past, and may provide in the future, investment banking, hedging, financial advisory and commercial banking services to us and our affiliates in the ordinary course of business for which they have received or may receive customary fees and commissions. Certain affiliates of certain Initial Purchasers will be mandated lead arranger or lenders under the Revolving Credit Facility, as set out in further detail in "*Description of Other Indebtedness—Revolving Credit Facility*." In addition, Banco Santander, S.A. will be the facility agent under the Revolving Credit Facility. Certain Initial Purchasers or their affiliates are also lenders under bilateral loans and the Unrestricted Group's project finance facility. Please see "*Description of Other Indebtedness—Bilateral Loans*" and "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements*." In connection therewith, such entities will receive customary fees and commissions. In addition, certain Initial Purchasers or their affiliates acted as initial purchasers with respect to the offering of the Existing Notes in 2013, which will be satisfied and discharged as part of the Refinancing. Please see "*Use of Proceeds*." The Initial Purchasers or their affiliates may also receive allocations of the Notes.

NOTICE TO INVESTORS

General

The Notes and the Guarantees have not been and will not be registered under the U.S. Securities Act or any state securities laws and, therefore, the Notes may not be offered, sold or otherwise transferred within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, the Notes are only to be offered and sold to:

- QIBs in compliance with Rule 144A; and
- non-U.S. persons in offshore transactions outside the United in reliance upon Regulation S.

Terms used in this *"Notice to Investors"* that are defined in Rule 144A or Regulation S are used herein as defined therein.

Important Information About this Offering

If you purchase Notes, you will be deemed to have represented and agreed as follows:

(1) You understand and acknowledge that the Notes have not been registered under the U.S. Securities Act or any other applicable securities laws and that the Notes are being offered for resale in transactions not requiring registration under the U.S. Securities Act or any other securities laws, including sales pursuant to Rule 144A and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the U.S. Securities Act or any other applicable securities laws, pursuant to an exemption therefrom, or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set out in paragraph (4) below.

(2) You are not our "affiliate" (as defined in Rule 144 under the U.S. Securities Act), you are not acting on our behalf and you are either:

 (a) a QIB and are aware that any sale of the Notes to you will be made in reliance on Rule 144A, and such acquisition will be for your own account or for the account of another QIB; or

 (b) not a "*U.S. person*" or purchasing for the account or benefit of a U.S. person (other than a distributor), and you are purchasing notes in an offshore transaction in accordance with Regulation S.

(3) You acknowledge that none of the Issuer, any Guarantor, the Initial Purchasers, the Trustee or any other person has made any representation to you with respect to us or the offer or sale of any of the Notes, other than the information contained in these Listing Particulars, which Listing Particulars has been delivered to you and upon which you are relying in making your investment decision with respect to the Notes. You acknowledge that no person other than the Issuer makes any representation or warranty as to the accuracy or completeness of these Listing Particulars. You have had access to such financial and other information concerning us and the Notes, including an opportunity to ask questions of, and request information from, us and the Initial Purchasers.

(4) You are purchasing the Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the U.S. Securities Act, subject to any requirement of law that the disposition of your property or the property of such investor account or accounts be at all times within your or their control and subject to your or their ability to resell such Notes pursuant to Rule 144A, Regulation S or any other available exemption from registration available under the U.S. Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing the Notes, and each subsequent holder of the Notes by its acceptance thereof will agree, to offer, sell or otherwise transfer such Notes prior to (x) the date which is one year (in the case of Rule 144 Notes) or 40 days (in the case of Regulation S Notes) after the later of the date of the original issue of the Notes and the last date on which the Issuer or any of its affiliates was the owner of such Notes (or any predecessor thereto) or (y) such later date, if any, as may be required by applicable law (the "*Resale Restriction Termination Date*") only:

 (a) to us;

 (b) pursuant to a registration statement which has been declared effective under the U.S. Securities Act;

(c) for so long as the Notes are eligible for resale pursuant to Rule 144A, to a person you reasonably believe is a QIB that purchases for its own account or for the account of another QIB to whom you give notice that the transfer is being made in reliance on Rule 144A;

(d) pursuant to offshore transactions to non-U.S. persons occurring outside the United States within the meaning of Regulation S in reliance on Regulation S; or

(e) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act,

subject, in each of the foregoing cases, to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be within the seller's or account's control, and in compliance with any applicable state securities laws.

You acknowledge that the Issuer, the Trustee, the applicable registrar and the applicable Transfer Agent reserve the right prior to any offer, sale or other transfer of the Notes (i) pursuant to clause (d) or clause (e) above prior to the Resale Restriction Termination Date of the Notes to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to us, the Trustee, the applicable registrar and the applicable Transfer Agent, and (ii) in each of the foregoing cases, to require that a certificate of transfer in the form appearing on the reverse of the security is completed and delivered by the transferor to the Trustee. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date.

Each purchaser acknowledges that each Note will contain a legend substantially in the following form:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "*U.S. SECURITIES ACT*"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT ("*RULE 144A*") OR (B) IT IS ACQUIRING THIS SECURITY IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, NOT TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO (X) THE DATE THAT IS, [IN THE CASE OF RULE 144A NOTES: ONE YEAR] [IN THE CASE OF REGULATION S NOTES: 40 DAYS] AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY) AND (Y) SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE "*RESALE RESTRICTION TERMINATION DATE*") ONLY (A) TO THE ISSUER, THE GUARANTORS OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE U.S. SECURITIES ACT ("*RULE 144A*"), TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT, (E) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" WITHIN THE MEANING OF RULE 501(a)(1), (2), (3) OR (7) UNDER THE U.S. SECURITIES ACT THAT IS NOT A QUALIFIED INSTITUTIONAL BUYER AND THAT IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER INSTITUTIONAL ACCREDITED INVESTOR, IN EACH CASE IN A MINIMUM PRINCIPAL AMOUNT OF SECURITIES OR (F) PURSUANT TO ANOTHER AVAILABLE EXEMPTION

FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, IN EACH OF THE FOREGOING CASES, SUBJECT TO THE COMPANY'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D), (E) OR (F) TO REQUIRE (1) THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/ OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM AND (II) THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE. THE HOLDER AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY SIMILAR TO THE EFFECT OF THIS LEGEND. IN THE CASE OF REGULATION S NOTES: BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS NOT A U.S. PERSON NOR IS IT PURCHASING FOR THE ACCOUNT OF A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT.

IF YOU PURCHASE NOTES, YOU WILL ALSO BE DEEMED TO ACKNOWLEDGE THAT THE FORGOING RESTRICTIONS APPLY TO HOLDERS OF BENEFICIAL INTERESTS IN THESE NOTES AS WELL AS TO HOLDERS OF THESE NOTES.

(5) You acknowledge that the Registrar will not be required to accept for registration of transfer any Notes acquired by you, except upon presentation of evidence satisfactory to us and the registrar that the restrictions set out herein have been complied with.

(6) You acknowledge that:

   (a) the Issuer, the Initial Purchasers and others will rely upon the truth and accuracy of your acknowledgements, representations and agreements set out herein, and you agree that, if any of your acknowledgements, representations or agreements herein cease to be accurate and complete, you will notify us and the Initial Purchasers promptly in writing; and

   (b) if you are acquiring any Notes as fiduciary or agent for one or more investor accounts, you represent with respect to each such account that:

      (i) you have sole investment discretion; and

      (ii) you have full power to make the foregoing acknowledgements, representations and agreements.

(7) You agree that you will, and each subsequent holder is required to, give to each person to whom you transfer the Notes notice of any restrictions on the transfer of the Notes, if then applicable.

(8) If you are a purchaser in a sale that occurs outside the United States within the meaning of Regulation S, you acknowledge that until the expiration of the "distribution compliance period" (as defined below), you shall not make any offer or sale of the Notes to a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902 under the U.S. Securities Act. The *"distribution compliance period"* means the 40-day period following the Issue Date for the Notes.

(9) You acknowledge that until 40 days after the commencement of this Offering, any offer or sale of the Notes within the United States by a dealer (whether or not participating in this Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act.

(10) You understand that no action has been taken in any jurisdiction (including the United States) by the Issuer or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of these Listing Particulars or any other material relating to the Issuer or the Notes in any jurisdiction where action for that purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set out in this section of these Listing Particulars and/or in the front of these Listing Particulars under "*Notice to Certain European Investors*," "*Notice to New Hampshire Residents Only*" and "*Plan of Distribution*."

(11) Each purchaser and subsequent transferee of a Note will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire and hold the Notes constitutes assets of any employee benefit plan subject to Title I of ERISA, any plan, individual retirement account or other arrangement subject to Section 4975 of the Code (as defined herein) or provisions under any federal, state, local, non-U.S. or other laws or regulations that are

similar to such provisions of ERISA or the Code (collectively, "*Similar Law*"), or any entity whose underlying assets are considered to include "plan assets" of any such plan, account or (ii) the purchase and holding of the Notes will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation under any applicable Similar Law.

CERTAIN TAX CONSIDERATIONS

U.S. Federal Income Tax Considerations

The following discussion is a general summary of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of the Notes. This discussion is generally limited to U.S. holders (as defined below) who purchase the Notes in this Offering at their "issue price" (as defined below) and will hold the Notes as capital assets. It does not address the special situations that may apply to particular holders including, but not limited to, tax-exempt entities, holders subject to the U.S. federal alternative minimum tax or the Medicare tax on net investment income, U.S. expatriates, dealers in securities, traders in securities or commodities who elect to apply a mark-to-market method of accounting, financial institutions, insurance companies, regulated investment companies, partnerships or other pass-through entities, U.S. holders whose "functional currency" is not the U.S. dollar and persons who hold the Notes in connection with a "straddle," "hedging," "conversion" or other risk reduction transaction. This discussion does not address the tax considerations relevant to Holders of the Notes under any state, local or non-U.S. tax laws or any other tax laws other than the U.S. federal income tax laws.

The discussion below is based upon the Internal Revenue Code of 1986, as amended (the "*Code*"), Treasury regulations promulgated thereunder ("*Treasury Regulations*"), court decisions, revenue rulings and administrative pronouncements of the Internal Revenue Service (the "*IRS*") currently in force, all as at the date of this Offering, and all of which are subject to change or changes in interpretation. Prospective investors should particularly note that any such change or changes in interpretation could have retroactive effect so as to result in U.S. federal income tax consequences different from those discussed below.

As used herein, the term "*U.S. holder*" means a beneficial owner of Notes that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or any other entity taxable as a corporation for U.S. federal income tax purposes) created or organised in or under the laws of the United States or any state or political subdivision thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons control all of the substantial decisions of the trust or (ii) a valid election is in place to treat the trust as a U.S. person.

If a partnership (including for this purpose any entity or arrangement treated as a partnership for U.S. federal income tax purposes) is a holder of the Notes, the U.S. tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. A holder of the Notes that is a partnership and partners in such partnership should consult their own tax advisers regarding the U.S. federal income tax consequences of holding and disposing of the Notes.

The issue price of a Note is the first price at which a substantial amount of the Notes is sold to the public (not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) for money.

Prospective investors are urged to consult their own tax advisers with respect to the particular tax consequences to them of the purchase, ownership and disposition of the Notes, including the tax consequences under any state, local, foreign and other tax laws.

Payments of Stated Interest

Payments of stated interest, any Additional Amounts and any tax withheld from such payments on a Note will be taxable to a U.S. holder as ordinary interest income at the time it is received or accrued, depending on the U.S. holder's method of accounting for U.S. federal income tax purposes.

A U.S. holder who uses the cash method of accounting and who receives a payment of stated interest in euro (including a payment attributable to accrued but unpaid stated interest upon the sale, exchange, redemption, retirement or other disposition of a Note) will be required to include in income the U.S. dollar value of the euro payment received (determined based on the spot rate of exchange on the date the payment is received), regardless of whether the payment is in fact converted to U.S. dollars at that time. A cash basis U.S. holder will not realise foreign currency gain or loss on the receipt of stated interest income but may recognise foreign currency gain or loss attributable to the actual disposition of the euro received.

A U.S. holder who uses the accrual method of accounting will, unless the election described below is made, accrue euro-denominated stated interest income in euro and translate that amount into U.S. dollars based on the average spot rate of exchange in effect for the accrual period or, with respect to an accrual period that spans two taxable years, at the average spot rate of exchange for the partial period within the applicable taxable year. Alternatively, an accrual method U.S. holder may elect to translate stated interest income received in euro into U.S. dollars at the spot rate of exchange on the last day of the interest accrual period (or, in the case of a partial accrual period, the spot rate of exchange on the last day of such partial accrual period) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate of exchange on the date of receipt. A U.S. holder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS. A U.S. holder that uses the accrual method will recognise foreign currency gain or loss with respect to accrued euro-denominated stated interest income on the date the interest payment (or proceeds from a sale, exchange, redemption, retirement or other disposition attributable to accrued interest) is actually received. The amount of foreign currency gain or loss recognised will equal the difference between the U.S. dollar value of the euro payment received (determined based on the spot rate of exchange on the date the payment is received) in respect of the accrual period and the U.S. dollar value of stated interest income that has accrued during the accrual period (as determined above), regardless of whether the payment is in fact converted to U.S. dollars. Foreign currency gain or loss generally will be treated, for U.S. foreign tax credit purposes, as U.S. source ordinary income or loss, and generally will not be treated as an adjustment to interest income or expense.

Interest (including Additional Amounts) received by a U.S. holder generally will be treated as foreign source income and generally will be considered "passive category income" in computing the foreign tax credit allowable to U.S. holders under U.S. federal income tax laws. Any non-U.S. withholding tax paid by a U.S. holder at a rate applicable to such holder may be eligible for foreign tax credits (or deduction in lieu of such credits) for U.S. federal income tax purposes, subject to applicable limitations. If a refund of the tax withheld is available to the U.S. holder under an applicable income tax treaty or otherwise, the amount of tax withheld that is refundable will not be eligible for such credit against the U.S. holder's U.S. federal income tax liability (and will not be eligible for the deduction against the U.S. holder's federal taxable income). The rules relating to foreign tax credits and the timing thereof are complex. U.S. holders are urged to consult their own tax advisers regarding the application of the foreign tax credit rules to their investment.

Disposition of a Note

Upon the sale, exchange, redemption, retirement or other taxable disposition of a Note, a U.S. holder generally will recognise taxable gain or loss equal to the difference between the amount realised on such disposition (except to the extent any amount realised is attributable to accrued but unpaid stated interest, which is taxable as described under "*—Payments of Stated Interest*") and the U.S. holder's adjusted tax basis in the Note. A U.S. holder's adjusted tax basis generally will be the U.S. dollar value of the euro paid for the Note, determined at the spot rate of exchange on the date of purchase (or, in the case of a cash basis or electing accrual basis U.S. holder, the settlement date of the purchase, if the Note is traded on an established securities market). The amount realised on the sale, exchange, redemption, retirement or other disposition of a Note for an amount of foreign currency generally will be the U.S. dollar value of such foreign currency based on the spot exchange rate on the date the Note is disposed of; *provided, however,* that if the Note is traded on an established securities market, a cash basis taxpayer (and if it elects, an accrual basis taxpayer) will determine the U.S. dollar value of such foreign currency on the settlement date of the disposition. If an accrual method taxpayer makes the election described above, such election must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS. If a Note is not traded on an established securities market (or, if a Note is so traded, but a U.S. holder is an accrual basis taxpayer that has not made the settlement date election), a U.S. holder will recognise foreign currency gain or loss (which is generally taxable as U.S. source ordinary income or loss) to the extent that the U.S. dollar value of the euro received (based on the spot rate on the settlement date) differs from the U.S. dollar value of the amount realised.

Except as discussed below with respect to foreign currency gain or loss, any gain or loss realised by a U.S. holder on the disposition of a Note will generally be U.S. source capital gain or loss and will be treated as long-term capital gain or loss if the Note has been held for more than one year at the time of the disposition of the Note. For certain non-corporate holders (including individuals), any such long-term capital gain is currently subject to U.S. federal income tax at preferential rates. The deductibility of capital losses is subject to limitations.

Gain or loss realised upon the sale, exchange, retirement, redemption or other taxable disposition of a Note that is attributable to fluctuations in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. Gain or loss attributable to fluctuations in currency exchange rates generally will equal the difference between (i) the U.S. dollar value of your purchase price for the Note, determined on the date the Note is retired or disposed of, and (ii) the U.S. dollar value of your purchase price for the Note, determined on the date you acquired the Note (or, in each case, determined on the settlement date if the Notes are traded on an established securities market and the holder is either a cash basis or an electing accrual basis holder). The amount of exchange gain or loss, including with respect to payments attributable to accrued interest, will be limited to the amount of overall gain or loss realised on the disposition of the Note, and generally will be treated as U.S. source for U.S. foreign tax credit purposes. Payments received that are attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest described above.

Exchange of Foreign Currencies

A U.S. holder's tax basis in any euro received as interest on or on the disposition of a Note will be the U.S. dollar value of such euro at the spot rate of exchange in effect on the date of receipt of the euro. Any gain or loss recognised by a U.S. holder on a disposition of the euro will be ordinary income or loss and generally will be U.S. source income or loss for U.S. foreign tax credit purposes.

Tax Return Disclosure Requirements

A U.S. holder may be required to report a sale or other disposition of its Notes on IRS Form 8886 (Reportable Transaction Disclosure Statement) if it recognises exchange loss that exceeds US$50,000 in a single taxable year from a single transaction, if such U.S. holder is an individual or trust. Higher minimum amounts apply for other non-individual U.S. holders. U.S. holders are urged to consult their tax advisers in this regard.

Information with Respect to Foreign Financial Assets

Individuals and certain entities that own "specified foreign financial assets" with an aggregate value in excess of US$50,000 (and in some circumstances, such higher amount as specified in applicable Treasury Regulations) may be required to file an information report with respect to such assets with their U.S. federal income tax returns. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, as well as any of the following, unless they are held in accounts maintained by certain financial institutions: (i) stocks and securities issued by non-U.S. persons; (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties; and (iii) interests in foreign entities. The Notes may be subject to these rules. Persons required to file U.S. tax returns are urged to consult their tax advisers regarding the application of this legislation to their ownership of the Notes.

Backup Withholding and Information Reporting

Backup withholding and information reporting requirements may apply to certain payments to U.S. holders of interest on the Notes and to the proceeds of a sale, exchange, redemption, retirement or other disposition of a Note. Backup withholding (currently at a rate of 28%) may be required if the U.S. holder fails: (i) to furnish the U.S. holder's taxpayer identification number; (ii) to certify that such U.S. holder is not subject to backup withholding; or (iii) to otherwise comply with the applicable requirements of the backup withholding rules. Certain U.S. holders (including, amongst others, corporations) are not currently subject to the backup withholding and information reporting requirements. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a U.S. holder generally may be claimed as a credit against such U.S. holder's U.S. federal income tax liability and any excess may result in a refund, provided that the required information is timely furnished to the IRS.

Spanish Tax Considerations

The information provided below does not purport to be a complete analysis of the tax law and practice currently applicable in Spain and does not purport to address the tax consequences applicable to all categories of investors, some of which may be subject to special rules.

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the tax consequences, including those under the tax laws of the country of which they are resident, of purchasing, owning and disposing of Notes.

This tax section is based on Spanish law as in effect on the date of these Listing Particulars as well as on administrative interpretation thereof, and is subject to any change in such law that may take effect after such date.

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of these Listing Particulars:

(i) of general application, Additional Provision One of Law 10/2014 of June 16 on the regulation, supervision and solvency of credit institutions ("*Law 10/2014*"), as well as Royal Decree 1065/2007 of July 27, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes, as amended by Royal Decree 1145/2011, of July 29 ("*Royal Decree 1065/2007*");

(ii) for individuals resident for tax purposes in Spain who are subject to the Individual Income Tax ("*IIT*"), Law 35/2006 of November 28 on the IIT Law and on the partial amendment of the Corporate Income Tax Law, the Non-Resident Income Tax Law and the Net Wealth Tax Law, as amended ("*IIT Law*"), and Royal Decree 439/2007 of March 30, promulgating the IIT Regulations, along with Law 19/1991 of June 6, on the Net Wealth Tax and Law 29/1987 of December 18 on Inheritance and Gift Tax;

(iii) for legal entities resident for tax purposes in Spain which are subject to the Corporate Income Tax ("*CIT*"), Law 27/2014 of November 27, on Corporate Income Tax ("*CIT Law*"), and Royal Decree 1777/2004 of July 30 promulgating the CIT Regulations; and

(iv) for individuals and entities who are not resident for tax purposes in Spain which are subject to the Non-Resident Income Tax ("*NRIT*"), Royal Legislative Decree 5/2004 of March 5 promulgating the Consolidated Text of the NRIT Law, as amended ("*NRIT Law*"), and Royal Decree 1776/2004 of July 30 promulgating the NRIT Regulations, along with Law 19/1991 of June 6, on the Net Wealth Tax and Law 29/1987 of December 18 on Inheritance and Gift Tax.

Whatever the nature and residence of the noteholder, the acquisition and transfer of Notes will be exempt from indirect taxes in Spain, i.e. exempt from Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993 of September 24 and exempt from Value Added Tax, in accordance with Law 37/1992 of December 28 regulating such tax.

Individuals with Tax Residency in Spain

Individual Income Tax (Impuesto sobre la Renta de las Personas Físicas)

Both interest periodically received and income derived from the transfer, redemption or repayment of the Notes constitute a return on investment obtained from the transfer of a person's own capital to third parties in accordance with the provisions of Section 25.2 of the IIT Law, and must be included in the investor's IIT savings taxable base. In 2015, income included in the base is taxed at a flat rate of 19.5% on the first €6,000, 21.5% on the following €44,000 and 23.5% for any amount in excess of €50,000. In 2016, income included in the base will be taxed at a flat rate of 19% on the first €6,000, 21% on the following €44,000 and 23% for any amount in excess of €50,000.

No withholding on account of IIT will be imposed on interest as well as on income derived from the redemption or repayment of the Notes, by individual investors subject to IIT provided that 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 *"—Compliance with Certain Requirements in Connection with Income Payments*." However, income derived from the transfer of the Notes may be subject, under certain circumstances, to a withholding on account of IIT at the current rate of 19.5% until 2016 when it will change to 19%. In any event, the individual holder may credit the withholding against his or her final IIT liability for the relevant tax year.

Net Wealth Tax (Impuesto sobre el Patrimonio)

For tax year 2015, individuals resident in Spain for tax purposes are subject to Spanish Net Wealth Tax (Spanish Law 19/1991), which imposes a tax on property and rights in excess of €700,000 held on the last day of any calendar year. Spanish tax resident individuals whose net worth is above €700,000 and who hold Notes on the last day of any calendar year would therefore be subject to Spanish Net Wealth Tax for such year at marginal rates varying between 0.2% and 2.5% of the average market value of the Notes during the last quarter of such year. As from 2016 onwards, a general 100% tax relief applies (set out by article 61 of Law 36/2014 of December 26 approving the General State Budget for 2015).

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals who are resident in Spain for tax purposes who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to the Inheritance and Gift Tax in accordance with the applicable Spanish regional or state rules, up to a rate of 81.6% for 2015, depending on the application of various relevant factors.

Legal Entities with Tax Residency in Spain

Corporate Income Tax (Impuesto sobre Sociedades)

Both interest periodically received and income derived from the transfer, redemption or repayment of the Notes are subject to CIT at the general flat tax rate of 28% for fiscal years beginning in 2015, and the general flat rate of 25% for fiscal years beginning in 2016 and onwards) in accordance with CIT Law.

No withholding on account of CIT will be imposed on interest as well as on income derived from the redemption or repayment of the Notes, by Spanish CIT taxpayers provided that 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 "*—Compliance with Certain Requirements in Connection with Income Payments*."

With regard to income derived from the transfer of the Notes, in accordance with Section 59.s of the CIT regulations, there is no obligation to withhold on income obtained by Spanish CIT taxpayers (which, for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in Organisation for Economic Co-operation and Development (the "*OECD*") countries. We will make an application for the Notes to be listed on the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF Market thereof and, upon admission to trading on the Euro MTF Market, the Notes will fulfil the requirements set out in the legislation for exemption from withholding.

The Directorate General for Taxation (*Dirección General de Tributos*), on July 27, 2004, issued a ruling indicating that in the case of issues made by entities resident in Spain, as in the case of the Issuer, application of the exemption requires that, in addition to being traded on an organised market in an OECD country, the Notes be placed outside Spain in another OECD country. We believe that the issue of the Notes will fall within this exemption as the Notes are to be sold outside Spain and in the international capital markets. Consequently, no withholding on account of CIT should be made on income derived from the transfer of the Notes by Spanish CIT taxpayers that provide relevant information to qualify as such.

The above notwithstanding, amounts withheld, if any, may be credited by investors against their final CIT liability.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Legal entities resident in Spain for tax purposes which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax but must include the market value of the acquired Notes within their taxable income for CIT purposes.

Individuals and Legal Entities that are not Tax Resident in Spain

Non-Resident Income Tax (Impuesto sobre la Renta de no Residentes)

(i) *Investors who are non-resident in Spain for tax purposes acting through a permanent establishment in Spain*

If the Notes form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Notes are, generally, the same as those set out above for Spanish CIT taxpayers. Please see "*—Legal Entities with Tax Residency in Spain—Corporate Income Tax (Impuesto sobre Sociedades).*" Ownership of the Notes by investors who are not resident in Spain for tax purposes will not in itself create the existence of a permanent establishment in Spain.

(ii) *Investors who are non-resident in Spain for tax purposes not acting through a permanent establishment in Spain*

Both interest payments periodically received and income derived from the transfer, redemption or repayment of the Notes, obtained by individuals or entities who are not resident in Spain for tax purposes and do not act, with respect to the Notes, through a permanent establishment in Spain, are exempt from NRIT and therefore no withholding on account of NRIT will be levied on such income provided certain requirements are met.

In order to be eligible for the exemption from NRIT, certain requirements must be met (including that the Paying Agent provides the Issuer, in a timely manner, with a duly executed and completed Payment Statement), as laid down in Section 44 of Royal Decree 1065/2007. Please see "*—Compliance with Certain Requirements in Connection with Income Payments*." If the Paying Agent fails or for any reason is unable to deliver a duly executed and completed Payment Statement to the Issuer in a timely manner in respect of a payment of income under the Notes, the Issuer will withhold Spanish withholding tax at the then-applicable rate (currently 19.5%) on such payment of income on the Notes and the Issuer will not pay Additional Amounts with respect to any such withholding tax.

Holders of the Notes that are not resident in Spain for tax purposes and entitled to exemption from NRIT, but the payment to whom was not exempt from Spanish withholding tax due to the failure by the Paying Agent to deliver a duly executed and completed Payment Statement, will receive a refund of the amount withheld, with no need for action on their part, if the Paying Agent provides the Issuer with a duly executed and completed Payment Statement no later than the tenth calendar day of the month immediately following the relevant Interest Payment Dates. In addition, following the 20th calendar day of the month immediately following the relevant Interest Payment Dates, Holders of the Notes may apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures set out in Annex A hereto.

Holders of the Notes who have been subject to Spanish withholding tax on income derived from the repayment of principal at the Maturity Date or any earlier date of redemption of Notes issued below par with an original issue discount may obtain a refund of the amount withheld directly from the Spanish tax authorities. Holders of the Notes are advised to consult their own tax advisers regarding their eligibility to claim a refund from the Spanish tax authorities and the procedures to be followed in such circumstances. Please see "*Procedures for Direct Refund from the Spanish Tax Authorities*" set out in Annex A hereto.

Net Wealth Tax (Impuesto sobre el Patrimonio)

For tax year 2015 individuals who are non-resident in Spain for tax purposes are subject to Spanish Net Wealth Tax (Spanish Law 19/1991), which imposes a tax on property and rights in excess of €700,000 that are located in Spain, or can be exercised within the Spanish territory, on the last day of any calendar year.

However, to the extent that income derived from the Notes is exempt from NRIT, individual Holders of the Notes who are not resident in Spain for tax purposes and hold Notes on the last day of any calendar year will be exempt from Spanish Net Wealth Tax. Further, Holders of the Notes who benefit from the provisions of a convention for the avoidance of double taxation entered into by Spain with respect to wealth tax that provides for taxation only in the Holders of the Notes' country of residence will not be subject to Spanish Net Wealth Tax.

If the provisions of the foregoing paragraph do not apply individuals non-resident in Spain for tax purposes whose net worth related to property located, or rights that can be exercised, in Spain is above €700,000 and who hold Notes on the last day of any calendar year would therefore be subject to Spanish Net Wealth Tax for such year at marginal rates varying between 0.2% and 2.5% of the average market value of the Notes during the last quarter of such year. Individuals who are non-resident in Spain for tax purposes who are resident in an EU or European Economic Area member state may apply the rules approved by the autonomous region where the assets and rights with more value are situated. All such, EU/EEA prospective investors should consult their tax advisers.

Article 61 of Law 36/2014 of December 26 provides for a general 100% tax relief that will apply to legal entities that are non-resident in Spain for tax purposes. Starting in 2016, non-Spanish-resident legal entities will not be subject to Net Wealth Tax.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals not resident in Spain for tax purposes who acquire ownership or other rights over the Notes by inheritance, gift or legacy, will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and state rules, up to a rate of 81.6% for 2015, unless they are resident in a country for tax purposes with which Spain has entered into a convention for the avoidance of double taxation in relation to Inheritance and Gift Tax and are eligible to benefit from its provisions. In such a case, the provisions of the relevant convention for the avoidance of double taxation will apply.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to Inheritance and Gift Tax in accordance with the applicable Spanish regional and state legislation, to the extent that rights deriving from the Notes can be exercised within the Spanish territory. Generally, individuals who are non-resident in Spain for tax purposes are subject to Spanish Inheritance and Gift Tax according to the rules set out in the state Inheritance and Gift Tax law. However, if the deceased or the donee are resident in an EU or European Economic Area member state, the applicable rules will be those corresponding to the relevant autonomous regions according to their law. As such, prospective investors should consult their tax advisers.

Legal entities that are non-resident in Spain for tax purposes which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax. Such acquisitions will be subject to NRIT (as described above), without prejudice to the provisions of any applicable convention for the avoidance of double taxation entered into by Spain. In general, conventions for the avoidance of double taxation provide for the taxation of this type of income in the country of tax residence of the beneficiary.

Tax Rules for Notes not listed on a regulated market, a multilateral facility or an organised market in an OECD Country

Withholding on Account of IIT, NRIT and CIT

If the Notes are not listed on a regulated market, a multilateral facility or an organised market in an OECD country on any date on which income in respect of the Notes will be paid, payments of income to Holders of the Notes in respect of the Notes will be subject to Spanish withholding tax at the then-applicable rate (currently 19.5%) except in the case of Holders of the Notes which are: (A) residents of a EU Member State other than Spain and obtain such income either directly or through a permanent establishment located in another EU Member State, provided that such Holders of the Notes (i) do not obtain such income on the Notes through a permanent establishment in Spain and (ii) are not resident of, are not located in, nor obtain income through, a tax haven (as defined by Royal Decree 1080/1991 of July 5, as amended); or (B) residents for tax purposes in a country which has entered into a convention for the avoidance of double taxation with Spain which provides for a full exemption from Spanish tax or a reduced Spanish withholding tax rate with respect to income payable to any Holder of the Notes. Individuals and entities that may benefit from such exemptions or reduced tax rates should apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures set out in Annex A hereto.

Tax Havens

Pursuant to Royal Decree 1080/1991 of July 5, as amended, the following jurisdictions are considered to be tax havens at the date of these Listing Particulars:

Anguilla

Antigua and Barbuda, Islands of

Bermuda

British Virgin Islands

Cayman Islands

Channel Islands (Jersey and Guernsey)

Falkland Islands

Fiji Islands

Gibraltar

Grenada

Hashemite Kingdom of Jordan

Isle of Man

Kingdom of Bahrain

Macau

Marianas Islands

Mauritius

Montserrat

Principality of Liechtenstein

Principality of Monaco

Republic of Dominica

Republic of Lebanon

Republic of Liberia

Republic of Nauru

Republic of Seychelles

Republic of Vanuatu

Saint Lucia

Saint Vincent & the Grenadines

Solomon Islands

Sultanate of Brunei

Sultanate of Oman

The Cook Islands

Turks and Caicos Islands, and

United States Virgin Islands

Tax Rules for Payments Made by the Spanish Guarantors

Payments made by the Spanish Guarantors that are resident in Spain to beneficial owners will be subject to the same tax rules previously set out for payments made by the Issuer.

Compliance with Certain Requirements in Connection with Income Payments

As described under "*—Individuals with Tax Residency in Spain—Individual Income Tax (Impuesto sobre la Renta de las Personas Físicas)*," "*—Legal Entities with Tax Residency in Spain—Corporate Income Tax (Impuesto sobre Sociedades)*" and "*—Individuals and Legal Entities that are not Tax Resident in Spain*," provided the conditions set out in Law 10/2014 are met (including that the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange, are admitted to trading on the Euro MTF Market on the relevant Interest Payment Dates and that the Paying Agent provides the Issuer, in a timely manner, with a duly executed and completed Payment Statement), income paid in respect of the Notes for the benefit of investors who are non-resident in Spain for tax purposes, or for the benefit of Spanish CIT or IIT taxpayers, will not be subject to Spanish withholding tax.

In accordance with sub-section 5 of Section 44 of Royal Decree 1065/2007, a duly executed and completed Payment Statement must be submitted to the Issuer by the Paying Agent at the time of each relevant Interest Payment Date. In accordance with the form attached as Annex to Royal Decree 1065/2007, the Payment Statement shall include the following information:

(a) the identification of the Notes;

(b) the interest Payment Date;

(c) the total amount of income to be paid on the relevant Interest Payment Date; and

(d) the total amount of income corresponding to Notes held through each clearing system located outside Spain (such as Euroclear and Clearstream).

In light of the above, the Issuer and the Paying Agent have entered into an agreement whereby, amongst other things, 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 income payment under the Notes and set out certain procedures which aim to facilitate such process, along with a form of a Payment Statement to be used by the Paying Agent.

Prospective investors should note that neither the Issuer nor the underwriters accepts 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, neither the Issuer nor 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. Moreover, the Issuer will not pay any Additional Amounts with respect to any such withholding tax. Please see "*Risk Factors—Risks Related to the Notes and Our Structure—There are risks related to Spanish withholding tax, including in conjunction with the collection of certain documentation from the Paying Agent.*"

If the Paying Agent fails or for any reason is unable to deliver a duly executed and completed Payment Statement to the Issuer in a timely manner in respect of a payment of income under the Notes, such payment will be made net of Spanish withholding tax, currently at the rate of 19.5%. If this were to occur, affected Holders of the Notes 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 Interest Payment Date. In addition, following the 20th calendar day of the month immediately following the relevant Interest Payment Date, beneficial owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures set out in Annex A hereto.

The proposed Financial Transactions Tax (FTT)

On February 14, 2013, the European Commission published a proposal (the "*Commission's Proposal*") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "*participating Member States*").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) under certain circumstances. The issue of and subscription for Notes would, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (i) by transacting with a person established in a participating Member State or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by January 1, 2016. However, the Commission's Proposal remains subject to negotiation by the participating Member States and the scope of any such tax is uncertain. Additional Member States may also decide to participate.

Prospective investors are advised to seek their own professional advice in relation to the FTT.

European Union Directive on the Taxation of Savings Income

Under Council Directive 2003/48/EC on the taxation of savings income (the "*Directive*"), Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person within their jurisdiction to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

For a transitional period, Austria is required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments deducting tax at a rate of 35%. The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The Directive has been amended by the Council Directive 2014/48/EU which was adopted on March 24, 2014 and published on April 15, 2014 (the "*Amending Directive*"). Member States are required to apply these new requirements from January 1, 2017. The changes expand the range of payments covered by the Directive, by including, in particular, additional types of income payable on securities. The Directive will also apply a "look-through approach" to certain payments where an individual resident in a Member State is regarded as the beneficial owner of that payment for the purposes of the Directive. This approach will apply to payments made to or by, or secured for or by, persons, entities or legal arrangements (including trusts), where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside the European Union.

The European Commission has proposed that the Directive should be repealed generally with effect from January 1, 2016 or, in the case of Austria, from January 1, 2017 (subject to ongoing requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates), in order to avoid overlap with Council Directive 2011/16/EU on administrative cooperation in the field of taxation (as amended by Council Directive 2014/107/EU), pursuant to which Member States will be required to apply new measures on mandatory automatic exchange of information. The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer or the Guarantors, as the case may be, nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Investors who are in any doubt as to their position should consult their professional advisers.

U.S. Foreign Account Tax Compliance Withholding

The U.S. "Foreign Account Tax Compliance Act" ("*FATCA*") imposes a new reporting regime and, potentially, a 30% withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign pass-through payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. Whilst the Notes are held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding.

FATCA is particularly complex and its application is uncertain at this time. Prospective investors should consult their tax advisers on how these rules may apply to payments they may receive in connection with the Notes.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer and the Spanish Guarantors are incorporated under the laws of Spain, the Portuguese Guarantor is incorporated under the laws of Portugal, and all of the directors and executive officers of the Issuer (or certain other persons named in these Listing Particulars) and the Guarantors are non-residents of the United States. Further, a substantial portion of the assets of the Issuer and the Guarantors and a substantial portion of the assets of such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon those persons, the Issuer or the Guarantors, or to enforce against them judgments of U.S. courts predicated upon the civil liability provisions of U.S. federal or state securities laws.

Spain

Any judgment obtained against the Issuer or any of the Spanish Guarantors outside of Spain (and, in particular, in the United States), but other than in a country bound by the provisions of EU Regulation 1215/2012 of the European Parliament and of the Council of December 12, 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters, would be enforced in accordance with the Spanish Law of Civil Procedure 1/2000 of January 7, 2000 by the courts of Spain (unless such judgment contravenes principles of Spanish public policy) in the following two situations:

- according to the provisions of any applicable treaty, there being none currently in existence between Spain and the United States for these purposes; or
- in the absence of any such treaty, the judgment would be recognised and enforced in Spain if it satisfies all of the following requirements, in accordance with Spanish Law 29/2015 of July 30, 2015 on international cooperation in civil matters ("*Law 29/2015*"):
  - (i) the judgment is final;
  - (ii) due process has been observed in the foreign proceedings (in particular, where the judgment was given in default of appearance, this requirement will not be met if the defendant was not duly served with the document that instituted the proceedings or with an equivalent document in sufficient time to enable him or her to arrange for his or her defence);
  - (iii) the jurisdiction of the foreign court does not infringe on an exclusive jurisdiction of Spanish courts;
  - (iv) the jurisdiction of the foreign court is considered reasonable (the jurisdiction of the foreign court will be considered reasonable if in similar circumstances a Spanish court would also have jurisdiction according to Spanish rules);
  - (v) the judgment is not irreconcilable with a judgment given in Spain;
  - (vi) the judgment is not irreconcilable with an earlier judgment given in another State provided that the earlier judgment fulfils the conditions necessary for its recognition in Spain;
  - (vii) there are no prior proceedings between the same parties and in relation to the same issues pending in Spain; and
  - (viii) the judgment is not contrary to public policy (*orden público*).

Any party wishing to have a U.S. ruling enforced in Spain must file an application seeking declaration of enforceability of the U.S. resolution (*exequatur*) which must be filed with the relevant Spanish First Instance Court (*Juzgado de Primera Instancia*) or Commercial Court (*Juzgado de lo Mercantil*).

The enforcement of any judgments in Spain involves, *inter alia*, the following principal actions and costs: (i) documents in a language other than Spanish must be accompanied by a sworn translation into Spanish (translator's fees will be payable); (ii) certain professional fees required for the verification of the legal authority of a party litigating in Spain (if needed); (iii) certain court fees must be paid; and (iv) the procedural acts of a party litigating in Spain must be directed by an attorney-at-law and the party must be represented by a court agent (*procurador*). In addition, Spanish civil proceedings rules cannot be amended by agreement of the parties and such rules will therefore prevail notwithstanding any provision to the contrary in the relevant agreement.

Portugal

Any judgment obtained against the Issuer or any of the Guarantors outside of Portugal (and, in particular, in the United States), but other than in a country bound by the provisions of EU Regulation 1215/2012 of the European Parliament and of the Council of December 12, 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters, would be recognised and enforced by the Courts of Portugal in accordance with the Portuguese Code of Civil Procedure (approved by Law 41/2013 of June 26, 2013) in the following situations:

- according to the provisions of any applicable treaty, there being none currently in existence between Portugal and the United States for these purposes;
- in the absence of any such treaty, a foreign judgment would be enforced in Portugal if it satisfies all of the requirements set out in Articles 980 *et seq.* of the Portuguese Code of Civil Procedure, particularly if:
  - (i) there are no doubts regarding the authenticity or the reasoning of the foreign judgment;
  - (ii) the foreign judgment is final and enforceable (*res judicata*) in the jurisdiction where it has been rendered;
  - (iii) the foreign judgment has not been obtained by fraud and does not relate to a matter over which Portuguese courts have exclusive jurisdiction;
  - (iv) the foreign judgment does not refer to a matter that has been decided by a Portuguese court or that is being subject to a proceeding before a Portuguese court, except if the judgment of the foreign court prevents this jurisdiction;
  - (v) the defendant was duly notified by the foreign court in accordance with its own procedural laws and both parties had the opportunity to present and defend their cases (*princípio do contraditório*) with equal defence rights (*princípio da igualdade das partes*);
  - (vi) the recognition of the foreign judgment is not manifestly incompatible with Portuguese international public policy; and
  - (vii) the request of recognition of a foreign judgment may be challenged if the party against whom the judgment was rendered is a Portuguese citizen or legal person and the result of the judgment would be more favourable to the Portuguese party if the foreign court had applied Portuguese law (provided that Portuguese law would be applicable according to the Portuguese rules on conflict of laws).

Any party wishing to have a U.S. judgment recognised or enforced in Portugal must file an application seeking declaration of enforceability of the U.S. resolution (*exequatur*) which must be filed with the relevant Portuguese Court of Appeal (*Tribunal da Relação*).

Portuguese courts can enforce judgments in foreign currency. If the debtor does not have the required amount of foreign currency available, the debt may be converted into Portuguese currency (euro).

CERTAIN INSOLVENCY LAW AND ENFORCEABILITY CONSIDERATIONS

The validity and enforceability of the Guarantees will be subject to certain limitations on enforcement and may be limited under applicable law or subject to certain defences that may limit their validity and enforceability. The following is a summary description of certain limitations on the validity and enforceability of the Guarantees, and a summary of certain insolvency law considerations in the jurisdictions in which the Issuer and the Guarantors are organised. In the event that any one or more of the Issuer and the Guarantors experienced financial difficulties, it is not possible to know with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced or what the outcome of such proceedings would be. Applicable insolvency laws may affect the enforceability of the obligations of the Issuer and the Guarantors. The descriptions below are only a summary and do not purport to be complete or to discuss all of the limitations or considerations that may affect the validity and enforceability of the Guarantees. If additional Guarantees are required to be granted pursuant to the Indenture in the future, such Guarantees will also be subject to limitations on enforceability and validity, which may differ from those discussed below. Please see "*Risk Factors—Risks Related to the Notes and Our Structure—The Guarantees are significantly limited by applicable laws and are subject to certain limitations or defences.*"

European Union

European Union Insolvency Law

Pursuant to Council Regulation (EC) No. 1346/2000 on insolvency proceedings (the "*EU Insolvency Regulation*"), the court which shall have jurisdiction to open insolvency proceedings in relation to the Issuer or any Guarantor the centre of main interests of which is located in a Member State (except for Denmark) will be the court of the Member State where the entity concerned has its "centre of main interests" (as that term is used in Article 3(1) of the EU Insolvency Regulation). The determination of where the Issuer or any Guarantor has its "centre of main interests" would be a question of fact on which the courts of the different Member States may have differing and even conflicting views. It should also be noted that no final decisions have been taken in cases that have been brought before the European Court of Justice in relation to questions of interpretation or the effects of the EU Insolvency Regulation throughout the European Union. Further, "centre of main interests" is not a static concept and may change from time to time. Although under Article 3(1) of the EU Insolvency Regulation there is a rebuttable presumption that the Issuer or a Guarantor would have its "centre of main interests" in the Member State in which it has its registered office, Preamble 13 of the EU Insolvency Regulation states that the "centre of main interests" of a debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and "is therefore ascertainable by third parties." In that respect, factors such as the place in which the Issuer or a Guarantor holds board meetings and the place where the Issuer or a Guarantor conducts the majority of its business may all be relevant in the determination of the place where the Issuer or a Guarantor has its "centre of main interests."

If the "centre of main interests" of the Issuer or a Guarantor is and will remain located in the state in which it has its registered office, the main insolvency proceedings in respect of the Issuer or a Guarantor under the EU Insolvency Regulation would be commenced in such jurisdiction and accordingly a court in such jurisdiction would be entitled to commence the types of insolvency proceedings referred to in Annex A to the EU Insolvency Regulation. Insolvency proceedings opened in one Member State under the EU Insolvency Regulation are to be recognised in other Member States (other than Denmark), although secondary proceedings may be opened in another Member State. If the "centre of main interests" of a debtor is in one Member State (other than Denmark) under Article 3(2) of the EU Insolvency Regulation, the courts of another Member State (other than Denmark) may open "territorial proceedings" in the event that such debtor has an "establishment" in the territory of such other Member State. If a debtor does not have an establishment in any other Member State, no court of any other Member State shall have the ability to open territorial proceedings in respect of such debtor under the EU Insolvency Regulation.

In the event that any of the Issuer, the Guarantors of any of their respective subsidiaries experience financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced or the outcome of such proceedings. Applicable insolvency laws may affect the enforceability of the obligations of the Issuer and of the Guarantors.

Spain

Spanish Insolvency Law

The Spanish Insolvency Law (Law 22/2003), as amended, (the "*Spanish Insolvency Law*") regulates court insolvency proceedings. The insolvency proceedings, *concurso de acreedores*, are applicable to all persons or entities, and may lead either to the restructuring of the business financing in place through the implementation of an agreement between the creditors and the debtor (the "*CVA*") or to the liquidation of the debtor's assets.

Concept and petition of insolvency

The Issuer and the Spanish Guarantors, all of whom are organised under the laws of Spain, will guarantee certain obligations under the Notes. Under the current Spanish Insolvency Law, a debtor is considered insolvent when it cannot possibly comply with its due obligations on a regular basis-current insolvency (*insolvencia actual*)—or when it expects that it will shortly be unable to do so (*insolvencia inminente*). As a general rule, a debtor must file for insolvency within two months of the date when such petitioner becomes aware, or should have become aware, of its current insolvency (unless, as explained below, the company has made a pre-insolvency filing in accordance with Article 5.*bis* of the Spanish Insolvency Law, in which case the debtor will have three additional months' grace period to, *inter alia*, reach an agreement with its creditors and one more to file for insolvency). On the other hand, the debtor may file for insolvency when it expects that it will shortly be unable to pay its debts on a regular basis, although there is no obligation to do so. In addition, the declaration of insolvency may be requested by any creditor thereof (provided that it has not acquired the credit within the six months prior to the filing of the petition for insolvency, for *inter vivos* acts, on a singular basis and once the credit was mature) and certain interested third parties when the debtor is facing current insolvency.

Under Article 2.4 of the Spanish Insolvency Law, a creditor can file a petition for a debtor to be declared insolvent if it can prove that it has failed to attach any assets, or sufficient assets, to pay the amount owed. A creditor may also apply for a declaration of insolvency if, *inter alia*: (i) there is a generalised default on payments by the debtor; (ii) there is a seizure of assets affecting or comprising the generality of the debtor's assets; (iii) there is a misplacement, "fire sale" or sale or ruinous liquidation of the debtor's assets; or (iv) there is a generalised default on certain tax, social security and employment obligations during the applicable statutory period (three months).

Notwithstanding the foregoing, the general duty to file for insolvency within the referred two months does not apply if the debtor notifies the applicable court that it has initiated negotiations with its creditors to obtain support to reach a pre-packaged composition agreement (*propuesta de convenio anticipado*) or an out-of-court workout (a refinancing agreement) set out in Section 71 bis.1 or in the Fourth Additional Provision of the Spanish Insolvency Law (the "*5 bis*" communication).

Effectively, by means of the 5 bis' communication, on the top of those two months, the debtor gains an additional three month period to achieve an agreement with its creditors or to obtain accessions to an anticipated composition agreement and one further month to file for the declaration of insolvency. During such time period, creditors' petitions for mandatory insolvency will not be accepted and court or out-of-court enforcement actions, other than those arising from public law claims, are prohibited or suspended (as applicable). In addition, enforcement proceedings that have been brought by creditors holding financial liabilities (as defined in the Fourth Additional Provision of the Spanish Insolvency Law) shall be prohibited or suspended (as applicable) provided that it is evidenced that at least 51% of the creditors holding financial liabilities (by value) have supported the initiation of negotiations to enter into a refinancing agreement and have agreed to suspend or not initiate enforcement proceedings against the debtor whilst creditors holding financial liabilities continue to negotiate. Nevertheless, secured creditors shall be entitled to bring enforcement proceedings against the corresponding secured assets, although once proceedings have been initiated they shall be immediately suspended.

Effects of the insolvency on the debtor

If filed by the debtor, the insolvency is deemed "voluntary" (*concurso voluntario*) and, if filed by a third party, the insolvency is deemed "mandatory" (*concurso necesario*). In the case of voluntary insolvency, as a general rule, the debtor retains the management and full powers of disposal over its assets, although it is subject to the intervention (*intervención*) of the insolvency administrator (*administradores concursales*). In the case of mandatory insolvency, as a general rule, the debtor's management powers are suspended, and management's former power, including the power to dispose of assets, is conferred solely upon the insolvency administrators (*sustitución*). The time between the petition and the insolvency declaration by the court will depend upon a number of factors, including whether the filing has been made by the debtor or the creditor (and in turn whether the debtor has challenged the petition made by the creditor), whether all appropriate documentation has been submitted on a timely basis or is incomplete, and the workload of the court.

Hardening periods

There is no automatic claw-back by operation of law. Therefore, there are no prior transactions that automatically become void as a result of the initiation of insolvency proceedings but instead the insolvency administrator must expressly challenge those transactions. In addition, creditors who have applied to exercise any claw-back action (stating the specific action they aim to contest or revoke and their grounds), shall be entitled to exercise such action if the insolvency administrator does not do so within the two months following their request. Under the current Spanish Insolvency Law, upon declaration of insolvency, acts detrimental (*perjudiciales*) to the debtor's estate carried out during the two years prior to the date the insolvency is declared may be rescinded, regardless of fraudulent intention. However, in accordance with Article 71.7 of the Spanish Insolvency Law, transactions that took place earlier than two years before the insolvency declaration are subject to the general regime of avoidance set out in the Spanish Civil Code.

The Spanish Insolvency Law does not define the meaning of "patrimonial damage." Damage does not refer to the intention of the parties, but to the consequences of the transaction on the debtor's interests or on the equality of treatment amongst creditors. Article 71 of the Spanish Insolvency Law contains an irrefutable presumption that those acts where no consideration is received for a disposed asset and acts which result in the early repayment or settlements of obligations which would have become due after the declaration of insolvency (unless such obligations were secured by means of an *in rem* security) are detrimental. In addition, unless the debtor or another affected party (such as a creditor) can prove otherwise to the court's satisfaction, a disposal made in favour of a related person or entity (as defined in the Spanish Insolvency Law) as well as the creation of a security interest securing a pre-existing obligation or a new obligation that replaces an existing one, and those payments or other acts extinguishing obligations which would have become due after the declaration of insolvency and which are secured by means of an *in rem* security, are presumed to be detrimental. In the case of actions not covered by the presumptions above, the burden of proof is on the person bringing the action of rescission. Acts deriving from the debtor's ordinary course of business made at arm's length and some kinds of refinancing arrangements (*acuerdos de refinanciación*) meeting certain legal requirements set out in Article 71.*bis* or in Forth Additional Provision of the Spanish Insolvency Law, as well as the business, acts and payments made in the ordinary course of business and the security created in connection therewith, may not be rescinded.

Accordingly, any act of disposal with a "related person or entity," as defined in the Spanish Insolvency Law, is presumed to be detrimental unless proved otherwise. Also, the general principle of "No termination effect" is established such that all agreements remain effective at the time of the insolvency.

Request of joint insolvency

Creditors may apply for a joint insolvency declaration of two or more of its debtors if either (i) there is a confusion of assets amongst them, or (ii) they form part of the same group of companies. Therefore, the request for the joint insolvency of two or more legal entities may only be filed by a common creditor of the relevant companies and each of the affected companies must in fact be separately insolvent. Joint insolvency may also be requested by the companies themselves provided that they form part of the same group.

Any of the insolvent debtors, or the insolvency administrator, as the case may be, may apply for the procedural consolidation of insolvency proceedings already declared under certain circumstances (and, in particular, if the insolvent debtors form part of the same group of companies). In addition, creditors may apply for the procedural consolidation of the insolvency proceedings of two or more of its debtors already declared if either (i) there is a confusion of assets amongst them, or (ii) they form part of the same group of companies, provided that a petition has not been submitted by any of the insolvent debtors or by the insolvency administrator pursuant to Article 25 *bis* of the Spanish Insolvency Law.

Insolvency proceedings declared jointly or accumulated are processed in coordination, without consolidation of the estate of the insolvent debtors. As a result, and as a general rule, a "group insolvency" does not lead to a commingling of the debtors' assets and creditors of such group. This means that the creditors of one company of the group will not have recourse against other companies of the same group (except where cross-guarantees exist, in which case such a claim would be subordinated). The current system is basically a procedural one, aimed at making the insolvency proceedings as time and cost efficient as possible. However, exceptionally, and for the purpose of the drafting of the insolvency report, by the insolvency administrator only, assets and liabilities amongst the companies declared insolvent may be consolidated where there is a confusion of states and assets and liabilities belonging to each of the companies cannot be identified.

In any event, set-off is prohibited unless the requirements for the set-off were satisfied prior to the declaration of insolvency or the claim of the insolvent is governed by a law that permits set-off.

Ranking of credits

The current Spanish Insolvency Law also makes a distinction between general debts under insolvency proceedings and debts against the insolvency estate (*créditos contra la masa*). Debts against the insolvency estate, which include, amongst others, (i) certain amounts of the employee payroll, (ii) costs and expenses of the insolvency proceedings, (iii) certain amounts arising from services provided by the insolvent debtor under reciprocal contracts and outstanding obligations that remain in force after insolvency proceedings are declared and deriving from obligations to return and indemnify in cases of voluntary termination or breach by the insolvent debtor, (iv) those that derive from the exercise of a claw-back action within the insolvency proceedings of acts performed by the insolvent debtor and correspond to a refund of consideration received by it (except in cases of bad faith), (v) certain amounts arising from obligations created by law or from non-contractual liability of the insolvent debtor after the declaration of insolvency and until its conclusion, (vi) certain debts incurred by the debtor following the declaration of insolvency, (vii) in case of liquidation, the credit rights granted to the debtor under a CVA in accordance with Article 100.5 of the Spanish Insolvency Law, (viii) 100% of the new funds lent under a refinancing arrangement entered into in compliance with the requirements set out in Article 71.*bis* or the Fourth Additional Provision of the Spanish Insolvency Law, provided that such arrangement has been entered into after March 9, 2014 and (ix) 100% of the new funds lent by the debtor itself or by persons in a special relationship with the debtor in the context of a refinancing arrangement entered into in compliance with the requirements set out in Article 71.*bis* or the Fourth Additional Provision of the Spanish Insolvency Law, provided that such arrangement has been entered into after March 9, 2014 and provided further that such new funds do not result from a share capital increase. From October 2, 2016, only 50% of the new funds referred to in subsection (a)(viii) will be considered as claims against the insolvency estate, and funds referred to in subsection (a)(ix) will no longer be considered as claims against the insolvency estate, are not considered part of the debtor's general debt and are payable when due according to their own terms (and, therefore, are paid before other debts under insolvency proceedings).

Creditors are required to report their claims to the insolvency administrator within one month from the last official publication of the court order declaring the insolvency, providing original documentation to justify such claims. Based on the documentation provided by the creditors and documentation held by the debtor, the insolvency administrators draw up a list of acknowledged creditors and claims and classify them according to the categories established in the Spanish Insolvency Law:

- Creditors benefiting from special privileges, representing security on certain assets (essentially, *in rem* security). These privileges may entail separate proceedings, although subject to certain restrictions derived from a waiting period that may last up to one year from the date of declaration of the insolvency, unless the relevant charged asset is not necessary for the debtor's professional or business activity. The amount of debt benefiting from special privileges is limited to the collateral assets as valued according to certain criteria described in the Spanish Insolvency Law (i.e. the amount of the value of their security, provided that such security is listed in the creditors' list (in this regard, the value of a security shall be 90% of the reasonable value of the secured asset minus those claims that hold higher ranking security over such asset)). The remainder will have the ranking that would have corresponded to it if it had not been secured by an *in rem* security. In the event of liquidation, they are the first to collect payment against the assets on which they are secured. However, the insolvency administrator has the option to halt any enforcement of the securities and pay these claims under specific payment rules. Privileged creditors are not subject to the CVA unless they give their express support by voting in favour of the CVA or, in the event that they do not give such express support, if creditors holding security that represent at least 60% (or 75% depending on the conditions of the composition agreement) of the total value of secured claims of the same class vote in favour of such composition agreement. In the event of liquidation, they are the first to collect payment against the assets on which they are secured.

- Creditors benefiting from a general privilege, including, amongst others, specific labour claims and specific claims brought by public entities or authorities. Debts with public entities or authorities corresponding to tax debts and social security obligations are recognised as privileged for half (50%) of their amount and debts held by the creditor applying for the corresponding insolvency proceedings, to the extent such application has been approved, for up to half (50%) of the amount of such debt. From October 2, 2016, new funds under a refinancing arrangement entered into in compliance with the requirements set out in Article 71.*bis* of the Spanish Insolvency Law in the amount not admitted as a debt against the insolvency estate (*crédito contra la masa*) will also be credits with general privileges. The holders of general privileges are not to be affected by the CVA if they do not agree to the said CVA, unless creditors holding claims benefiting from general privileges which represent at least 60% (or 75% depending on the conditions of the composition agreement) of the total value of claims benefiting from general privileges of the same class vote in favour of such composition agreement. In the event of liquidation, they are the first collecting payment, in accordance with the ranking established under the Spanish Insolvency Law.

- Ordinary creditors (non-subordinated and non-privileged claims) will be paid after claims benefiting from general privileges have been completely paid and on a *pro rata* basis vis-à-vis each other and together with the amount not covered by the proceeds obtained from the foreclosure of assets guaranteeing the privileged credits. If the debtor achieves a composition agreement, the ordinary credits will be affected.

- Subordinated creditors (those subordinated to all ordinary creditors by virtue of an agreement or pursuant to law), include, amongst others, credits communicated late (outside the specific one-month period mentioned above); credits which are contractually subordinated *vis-à-vis* all other credits of the debtor; credits relating to surcharge and unpaid interest claims (including default interest) except for those credits secured with an *in rem* right up to the secured amount; fines; creditors which are "specially related parties" to the insolvent debtor; claims resulting from acts that were set aside where the creditor was declared in the judgment to have acted in bad faith; and certain credits deriving from contracts with reciprocal obligations if the creditor attempts to prevent the fulfilment of the contract to the detriment of the insolvency interests. Subordinated creditors are second-level creditors; they do not have the right to vote at the creditors' meeting (whereby the CVA is approved or rejected) and have very limited chances of collection, according to the ranking established by Spanish Insolvency Law.

  Notwithstanding the above, creditors who have directly or indirectly capitalised their credit rights pursuant to a refinancing arrangement entered into in compliance with the requirements set out in Article 71.*bis* or the Fourth Additional Provision of the Spanish Insolvency Law shall not be deemed to be in a special relationship with the debtor, in respect of credits against the debtor, as a result of the financing granted under such refinancing arrangement.

In the case of a legal entity, the following shall be deemed as "specially related parties": (i) shareholders with unlimited liability, (ii) any direct or indirect shareholders holding more than 5% (for companies that have issued securities listed on an official secondary market) or 10% (for companies that have not issued securities listed on an official secondary market) of the debtor's share capital by the time the credit right under dispute in the insolvency scenario arises, (iii) directors (including shadow directors), liquidators and those holding general powers of attorney from the insolvent company, as well as such individuals holding such positions within two years prior to the declaration of insolvency, and (iv) companies pertaining to the same group as the debtor and their common shareholders provided such shareholders meet the minimum shareholding requirements set out in (ii) above. In addition, it is established in the Spanish Insolvency Law the refutable presumption that the assignees of the above are also "specially related persons" if the assignment has occurred within two years prior to the declaration of insolvency.

Cram-down mechanism

In order to seek protection against clawback, refinancing agreements (out-of-court workouts) may be judicially sanctioned (*homologado*) by the commercial court that will be competent to conduct an eventual insolvency proceeding of the debtor, upon request by the debtor or by any creditor having entered into such refinancing agreements, if (i) they entail a significant enlargement of debtor's credit or a change in the financing structure by either granting a longer term or replacing previous claims with new ones;

(ii) they have been subscribed by creditors holding financial liabilities representing at least, 51% of the debtor's financial liabilities whether or not subject to financial supervision (that is to say, the Spanish Insolvency Law excludes public creditors, labour creditors and those of commercial transactions in order to calculate whether the required thresholds are met) at the date of the refinancing agreement; (iii) the debtor's auditor issues a certificate acknowledging that the required thresholds have been reached; and (iv) the agreement is formalised in a public instrument. Judicially sanctioned refinancing agreements may not be subject to a claw-back action.

In general terms, especially or generally privileged creditors are not subject to restructuring arrangements, except if they give their express support by voting in favour of such arrangement. However, the Spanish Insolvency Law provides for a cram-down mechanism under which the effects of a judicially sanctioned (*homologado*) refinancing agreement may be extended to non-participating or dissenting financial creditors if certain requirements are met.

The regime to extend the effects of cram-down judicially sanctioned refinancing agreements depends on, amongst others, the type of financial creditor (secured or unsecured), the value of the security interest (if applicable) and the majorities achieved in the execution of the refinancing agreement. In sum, the main categories of cram-down judicially sanctioned refinancing agreements are the following:

(i) if the judicially sanctioned refinancing agreement is executed by creditors representing at least 60% of the total financial liabilities of the debtor, such agreement will be immune to claw-back and the following effects will apply to unsecured claims and to the amounts of secured claims not covered by the security interest: a deferral of either principal, interest or any other owed amount for a period not exceeding five years or the conversion of debt into participation loans within the same term. Additionally, if the agreement is executed by financial creditors holding secured claims which represent at least 65% of the value of all secured claims of the debtor, these effects may also be extended to the amount of secured claims covered by the security interest; and

(ii) if the judicially sanctioned refinancing agreement is executed by creditors representing at least 75% of the total financial liabilities of the debtor, such agreement will be immune to claw-back and the following effects will extend to unsecured claims and to the amount of secured claims not covered by the security interest:

  (a) a deferral either of principal, interest or any other owed amount for a period of five or more years (but not more than ten years);

  (b) debt reductions (apparently without limitation);

  (c) the conversion of debt into participation loans of up to ten years, convertible obligations, subordinated loans, payment in kind facilities or in any other financial instrument with a ranking, maturity and features different to the original debt;

  (d) capitalisation of debt. Nevertheless, those creditors that have not supported such refinancing agreement (either because they did not sign the agreement or because they oppose it) may choose between (1) the debt for equity swap contemplated by the agreement or (2) a discharge of their claims equal to the nominal amount (including any share premium) of the shares or quota shares that would have corresponded to that creditor as a consequence of the relevant debt for equity swap; and

  (e) an assignment of assets or rights as assignment in kind for total or partial payment of the debt (*datio pro soluto*).

(iii) If the agreement is executed by creditors representing at least financial creditors holding secured claims which represent at least 80% of the value of all secured claims of the debtor, these effects may also be extended to the amount of secured claims covered by the security interest.

In addition to the above, if 75% of the claims subject to a pooling regime and relating to syndicated financing vote for the arrangement, it will be considered that all the claims in respect of that syndicated financing vote for it, unless the syndicated financing agreement establishes a lower majority, in which case that lower majority will be sufficient. In addition, a recent court resolution (rendered by a court of first instance) decided that dissenting creditors that should be considered "special privileged creditors" but who are not able to enforce their security on their own (because, for instance, their right to enforce is subject to the agreement of a majority of lenders which take part at a syndicated loan) cannot be considered "secured creditors" with regard to a restructuring arrangement and its effects.

Specially preferred creditors who are bound by the refinancing arrangement (because they supported it or because its effect were extended to it) may start or resume separate enforcement of their collateral upon declaration of a breach of the arrangement, in which case they will keep the amount obtained by enforcement to the extent of the original debt, and any excess will be added to the insolvency estate.

Applicable jurisdiction

The applicable jurisdiction to conduct an insolvency proceeding is the one in which the insolvent party has its "centre of main interests." This centre of main interests is deemed to be where the insolvent party conducts the administration of its interests on a regular basis and which may be recognised as such by third parties. Insolvency proceedings conducted by the court of the "centre of main interests" are considered "the principal insolvency proceedings" and have universal reach affecting all the assets of the insolvent party worldwide. If the "centre of main interests" is not in Spain, but the insolvent party has a permanent establishment in Spain, Spanish courts will only have jurisdiction over the assets located in Spain (the "*territorial insolvency proceedings*").

In the event Spanish courts have jurisdiction (upon a judicial consideration that the Issuer's "centre of main interests" is in Spain), Article 87.6 of the current Spanish Insolvency Law would apply to the Issuer. Article 87.6 provides that creditors holding a third-party guarantee will be recognised in the insolvency proceedings in their full amount without any limitation and without prejudice to the fact that if the guarantor is subrogated in the creditor's place, where the guarantee is enforced the claim of the guarantor will be classified in accordance with the ranking corresponding to the creditor or the guarantor, whichever is better for the interests of the insolvency proceedings.

In the event that any of the Spanish Guarantors becomes insolvent and is subject to the current Spanish Insolvency Law, its Guarantee will be treated as ordinary debt unless it is subordinated by application of any of the criteria indicated above. In addition, creditors may seek repayment directly from the insolvent entity's directors or attorneys-in-fact if a court determines that the bankruptcy resulted from their negligence (*concurso culpable*), if some legal requirements are met. Under the current Spanish Insolvency Law, the intercompany loans between the Spanish Guarantors and the Issuer would be treated as subordinated debt.

Moratorium

The current Spanish Insolvency Law imposes a moratorium on the enforcement of secured creditor's rights (*in rem* security) over assets or rights that are considered to be necessary for the continuance of the debtor's business in the event of insolvency. The moratorium would take effect following the declaration of insolvency until the earlier of (i) one year from the declaration of the insolvency if the insolvent company has not been placed in liquidation or (ii) the date the creditors reach an agreement that does not affect the exercise of the rights granted by the security interest.

Additional effects for the debtor and on contracts

Additionally, once the insolvency proceedings are declared open, singular, judicial or extrajudicial enforcements may not be initiated, nor may administrative or tax demands for payment to be collected coercively against the assets of the debtor be continued.

As a general rule, insolvency proceedings are not compatible with other enforcement proceedings. When compatible, in order to protect the interests of the debtor and creditors, the Spanish Insolvency Law extends the jurisdiction of the court dealing with insolvency proceedings, which is then legally authorised to handle any enforcement proceedings or interim measures affecting the debtor's assets (whether based upon civil, labour or administrative law).

The declaration of insolvency does not impair the existence of the contracts entered into by the debtor, which would remain in force and the obligations of the insolvent debtor will be fulfilled against the insolvent estate. Any contractual arrangements establishing the termination of a contract and/or entitling the relevant creditor to terminate it in the event of declaration insolvency of the debtor will be unenforceable. The court can nonetheless terminate any such contracts at the request of the insolvency administrators (provided that management's powers have been solely conferred upon the insolvency administrators), or the company itself (if its powers to manage and dispose of its business are only subject to the intervention of the insolvency administrators), when such termination is in the interest of the estate (rejection) (*resolución del contrato en interés del concurso*) or at the request of the non-insolvent party if there has been a breach of such contract. The termination of such contracts may result in the insolvent debtor having to return and indemnify damages to its counterpart against the insolvency estate (*con cargo a la masa*). On the other hand, the judge may decide to cure any breach of the insolvent debtor at its request or the insolvency administrators' request (assumption) (*mantenimiento del contrato en interés del concurso*), in which case the non-insolvent party shall be entitled to seek specific performance against the insolvency estate (pre-deductible claim from the estate). Additionally, the declaration of insolvency determines that interest accrual is suspended, except credit rights secured with an *in rem* right, in which case interest accrues up to the value of the security, and except for any wage credits in favour of employees, which will accrue the legal interest set out in the corresponding Law of the State Budget (*Ley de Presupuestos del Estado*).

The current Spanish Insolvency Law only came into effect in September 2004, and as such, there is only a limited history of its application by Spanish courts.

Limitation on validity and enforcement of guarantees granted by any Spanish subsidiary

Under Spanish law, claims may become time-barred (15 years being the general term established for obligations *in personam* under Article 1,964 of the Spanish Civil Code (*Código Civil*)) or may be or become subject to the defence of set-off or counterclaim.

The terms "enforceable," "enforceability," "valid," "legal," "binding" and "effective" (or any combination thereof) mean that all the obligations assumed by the relevant party under the relevant documents are of a type enforced by Spanish courts; the terms do not mean that these obligations will necessarily be enforced in all circumstances in accordance with their terms. In particular, enforcement before the courts will in any event be subject to:

- the nature of the remedies available in the courts; and
- the availability of defences such as (without limitation), set-off (unless validly waived), circumvention of law (*fraude de ley*), abuse in the exercise of rights (*abuso de derecho*), misrepresentation, force majeure, unforeseen circumstances, undue influence, duress, abatement and counterclaim.

The obligations under Guarantees granted by the Spanish Guarantors:

- shall not extend to any use of the proceeds of the Notes for the purpose of acquiring shares representing the share capital of such Spanish Guarantor or shares representing the share capital of its holding company, or refinancing a previous debt incurred for the acquisition of shares representing the share capital of such Spanish Guarantor or shares representing the share capital of its holding company; and
- shall be deemed not to be undertaken or incurred by the Spanish Guarantor to the extent that the same would constitute unlawful financial assistance within the meaning of Article 150 of the Spanish Companies Law, and, in that case, all provisions of such Guarantee shall be construed accordingly in the sense that, in no case can any Guarantee or security given by the Spanish Guarantor secure repayment of the above-mentioned funds.

Portugal

The terms "enforceable," "enforceability," "valid," "legal," "binding" and "effective" (or any combination thereof) mean that all the obligations assumed by the relevant party under the relevant documents are of a type enforced by Portuguese courts. However, this does not mean that these obligations will be enforced under all circumstances in accordance with their exact terms. In particular, enforcement before the Portuguese courts is subject to the following:

- a Portuguese court may refuse to give effect to any provision of the relevant documents on the grounds that it breaches Portuguese public order; and
- the Portuguese courts will not acknowledge a right if its exercise would result in an abuse of rights (*abuso de direito*), and will not enforce an obligation in the event of fraud;
- a Portuguese court may award damages where specific performance of an obligation is deemed impracticable;

- a Portuguese court may equitably reduce a penalty stipulated in a contract if it considers that the penalty is manifestly excessive under article 812 of the Portuguese Civil Code enacted by Law no. 41/2013, of June 26, as amended, or the obligations secured by the penalty clause have been partially complied with (in this case, the court may reduce the amount of the penalty); and
- the exercise of the rights arising from the relevant documents and their enforcement is limited by the applicable statute of limitations.

In general terms, under Portuguese law, any guarantee, pledge or mortgage must guarantee or secure another obligation to which it is ancillary, which must be clearly identified in the relevant guarantee or security agreement. The guarantee or security interest will be null if the secured obligations are declared null; in addition, the enforcement of guarantees may be limited since the guarantor may not be required to pay any amount in excess of the amount owed by the principal debtor or under conditions that are less favourable than those applying to the principal debtor.

The obligations under a Guarantee granted by the Portuguese Guarantor:

- shall not extend to any use of the proceeds of the Notes for the purpose of acquiring shares representing the share capital of such Portuguese Guarantor or shares representing the share capital of its holding company, or refinancing a previous debt incurred for the acquisition of shares representing the share capital of such Portuguese Guarantor or shares representing the share capital of its holding company;
- shall be deemed not to be undertaken or incurred by the Portuguese Guarantor to the extent that the same would constitute unlawful financial assistance within the meaning of Article 322 of the Portuguese Companies Code enacted by Decree-Law no. 262/86, of September 2, as amended (the "*Portuguese Companies Code*") and, in that case, all provisions of such Guarantee shall be construed accordingly in the sense that, in no case can any Guarantee or security given by the Portuguese Guarantor secure repayment of the above-mentioned funds; and
- shall be deemed not to be undertaken or incurred by the Portuguese Guarantor to the extent that the same would cause an infringement of article 6 number 3 of the Portuguese Companies Code governing capacity, corporate interest, the granting of guarantees and the granting of security.

The enforcement of the Guarantees may be delayed, restricted, subordinated, terminated or otherwise adversely affected in any insolvency proceedings conducted under Portuguese jurisdiction or subject to Portuguese insolvency law. The following factors, amongst others, may adversely affect rights of creditors in general and in insolvency proceedings in particular:

- *Assets.* Once a given person or legal entity has been declared insolvent (the "*Insolvent*"), the power to manage and dispose of their assets is immediately transferred to an insolvency administrator appointed by the relevant court of law. Creditors are no longer allowed to seize or attach any assets belonging to the Insolvent and must exert their rights and claims within the insolvency proceedings.
- *Effects on pending lawsuits.* The declaration of insolvency leads to a stay of all debt enforcement proceedings against the Insolvent and to the extinction of all lawsuits aiming at collecting sums or claiming performance of obligations from the Insolvent. Arbitration clauses are suspended. However, pending arbitrations will follow their course.
- *Unconditional claw-back.* Under the Portuguese Insolvency Code (approved by Decree-Law 53/2004 of March 18, 2004, as amended), the insolvency administrator may, without any further requirements, rescind, *inter alia*, the following acts: (i) personal guarantees granted by the Insolvent in the six months prior to the filing of the insolvency proceedings, provided that said guarantees relate to a business transaction of no real interest to the Insolvent; (ii) *in rem* securities granted by the Insolvent in the six months prior to the filing of the insolvency proceedings in order to secure the performance of pre-existing obligations or of new obligations which replace the pre-existing ones; (iii) *in rem* securities granted by the Insolvent in the 60 days prior to the filing of the insolvency proceedings, provided that the granting of said securities and the contraction of the secured obligation take place simultaneously; (iv) agreements executed in the year prior to the filing of the insolvency proceedings, in which the obligations undertaken by the Insolvent clearly exceed those undertaken by the counterparty; (v) payment or any other form of settlement of obligations which would only fall due after the filing of the insolvency proceedings, provided that said payment or settlement has taken place in the six months prior to the filing of the insolvency proceedings; (vi) payment or any other form of settlement of obligations not yet due, provided that said payment or settlement has taken place after the filing of

the insolvency proceedings; (vii) payment or any form of settlement of obligations in a way which is unusual and which the creditor is not entitled to claim, provided that said payment or settlement takes place in the six months prior to the filing of the insolvency proceedings.

- *Conditional claw-back.* In addition to the above, the insolvency administrator may also rescind any act or transaction (including agreements, securities and guarantees) entered into by the Insolvent during the two years prior to the filing of the insolvency proceedings, provided they are detrimental to creditors in general and the counterparty has acted in bad faith. Bad faith will be deemed to exist if the counterparty was aware that (i) the debtor was insolvent, (ii) insolvency was imminent and the act or transaction was detrimental or (iii) the insolvency proceedings had already been filed. Bad faith is presumed to exist in relation to any transaction entered into or benefiting a related entity in the two years before the filing of the insolvency proceedings irrespective of whether such relation existed or not on the date the transaction was entered upon.

- *Creditors' claims.* The claims and rights of creditors may abate in whole or in part due to insufficient funds and assets. Under the Portuguese Insolvency Code, higher ranking creditors will be paid prior to creditors of lower rankings, and creditors of the same ranking will be paid on a *pro rata* basis. In general terms, the ranking is the following:

  (i) claims over the insolvent estate (e.g. those arising from debts incurred during the insolvency proceedings);

  (ii) secured claims (e.g. those benefiting from some type of *in rem* security over one or more assets of the Insolvent. If the proceeds from the sale of the encumbered asset(s) are insufficient to pay off the secured claim, the remainder is treated as an unsecured claim);

  (iii) unsecured claims; and

  (iv) subordinated claims.

- *Insolvency plan.* The claims and rights of creditors may be restructured (e.g. rescheduled or cancelled, in part or in full) or otherwise adversely affected by an insolvency plan. An insolvency plan has to be approved in a general meeting of creditors, which must be attended by creditors holding at least one third of the voting rights. For the plan to be approved, it is necessary that (i) over two thirds of all votes cast are favourable and (ii) over half of the votes cast by non-subordinated claims are favourable. Once the plan has been approved by the creditors, it has to be ratified by the court. The court may deny ratification on procedural or substantial grounds, namely if it finds that the plan (i) violates the principle of equal treatment of creditors who are in a similar situation or (ii) leaves one or more creditors in a worse position than the one they would be in the absence of the plan. If the insolvency plan is ratified by the court, it will become binding to all creditors, including those who voted against it.

LEGAL MATTERS

Certain legal matters relating to the validity of the Notes will be passed upon for us by Shearman & Sterling (London) LLP in respect of U.S. Federal and New York state law, by Uría Menéndez Abogados, S.L.P. with respect to Spanish law and by Uría Menendez Proença de Carvalho with respect to Portuguese law. Certain legal matters relating to this Offering will be passed upon for the Initial Purchasers by Latham & Watkins (London) LLP with respect to U.S. Federal and New York state law and Latham & Watkins LLP with respect to Spanish law.

INDEPENDENT AUDITORS

The Consolidated Financial Statements of the Issuer and its consolidated subsidiaries as at and for the years ended December 31, 2012, December 31, 2013 and December 31, 2014 included in these Listing Particulars have been audited by PricewaterhouseCoopers Auditores, S.L., independent auditors as stated in their reports appearing herein.

PricewaterhouseCoopers Auditores, S.L. is registered in the professional association of independent auditors (*Registro Oficial de Auditores de Cuentas*) in Spain under number S0242 and has its registered address at Torre PwC, Paseo de la Castellana, 259 B, 28046 Madrid, Spain.

WHERE YOU CAN FIND MORE INFORMATION

We are not currently subject to the periodic reporting and other information requirements of the U.S. Exchange Act. However, pursuant to the Indenture, and so long as the Notes are outstanding, the Issuer will agree to furnish periodic information to Holders of the Notes. Please see "*Description of the Notes—Certain Covenants—Reports to Holders*."

Each purchaser of the Notes from the Initial Purchasers will be furnished with a copy of this offering memorandum/Listing Particulars and, to the extent provided to the Initial Purchasers by us for such purpose, any related amendments or supplements to these Listing Particulars. Each person receiving these Listing Particulars and any related amendments or supplements to these Listing Particulars acknowledges that:

(i) such person has been afforded an opportunity to request from us, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;

(ii) such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and

(iii) except as provided pursuant to (i) above, no person has been authorised to give any information or to make any representation concerning the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorised by us or the Initial Purchasers.

For so long as any of the Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, we will, during any period in which we are not subject to Section 13 or 15(d) under the U.S. Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) of the U.S. Exchange Act, make available to any holder or beneficial holder of a Note, or to any prospective purchaser of a Note designated by such holder or beneficial holder, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the U.S. Securities Act upon the written request of any such holder or beneficial owner.

All of the above documents will be available at the offices of the Listing Agent in Luxembourg.

For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market thereof and the rules of that exchange so require, copies of the Issuer's organisational documents, the Indenture and the Issuer's most recently published consolidated financial statements may be requested from the Issuer at Calle de Beatriz de Bobadilla, 14, Planta 4, 28040 Madrid, Spain. Please see "*Listing and General Information*."

LISTING AND GENERAL INFORMATION

Listing

The Issuer was initially incorporated in Spain in 1968 as a *sociedad anónima* under the name Empresa Nacional de Celulosa, S.A. It changed its name to Grupo Empresarial Ence, S.A. in 1999 and then to ENCE Energía y Celulosa, S.A. in April 2012. The Issuer is registered with the Commercial Registry of Madrid under Volume 27,825, Sheet 150, Section 8, Page M-31,131.

The Issuer's principal executive offices are located at Calle de Beatriz de Bobadilla, 14, Planta 4, 28040 Madrid, Spain.

On April 28, 2015, the General Shareholders' Meeting of the Issuer resolved to authorise the Board of Directors to issue debt securities in an amount of up to €250,000,000 for a period of up to five years from the date thereof. On October 20, 2015, the Board of Directors of the Issuer authorised all transactions relating to the issuance of the Notes. In addition, on October 20, 2015, the Guarantors authorised the issuance of their respective Guarantees.

Pursuant to Article 2 of its Articles of Association, the Issuer's purposes include the manufacture of cellulosic pastes and their derivatives, the sourcing of the materials necessary for such production and the use of the by-products resulting from this production process; the production, by any means, of electrical energy, the sourcing of materials necessary to the generation of electrical energy and the marketing, sale and supplying of such electrical energy; the cultivation, exploitation and use of forests and the provision of forestry work (including specialty work) and related services; and planning, promotion, development, construction, operation and/or maintenance activities necessary to any of the above purposes.

An application has been made for the Notes to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market thereof in accordance with the rules of that exchange.

For so long as the Notes are listed on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Official List of the Luxembourg Stock Exchange so require, copies of the following documents (together with English translations thereof, as applicable) may be inspected and obtained by holders at the specified office of the listing agent in Luxembourg during normal business hours on any weekday:

- the organisational documents of the Issuer;
- the organisational documents of each of the Guarantors;
- on at least an annual basis, our most recent audited consolidated financial information, and, on at least a quarterly basis, any interim financial information published by us;
- the Indenture (which includes the form of the Notes and the Guarantees).

We accept responsibility for the information contained in these Listing Particulars. To the best of our knowledge, the information contained in these Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of these Listing Particulars.

The Issuer will maintain a paying agent for the Notes in the City of London and a transfer agent in Luxembourg for as long as any of the Notes are listed on the Official List of the Luxembourg Stock Exchange. The paying agent in London is currently Deutsche Bank AG, London Branch and the transfer agent is currently Deutsche Bank Luxembourg S.A. The Issuer reserves the right to vary such appointment (and will make available any notices, including financial notices) in a newspaper having a general circulation in Luxembourg or on the website of the Official List of the Luxembourg Stock Exchange, at *www.bourse.lu*, or by any other means considered equivalent by the Luxembourg Stock Exchange. Application may also be made to the Euro MTF Market to have the Notes removed from listing on the Euro MTF Market, including if necessary to avoid any new withholding taxes in connection with the listing.

Except as disclosed herein, there has been no material adverse change in our consolidated financial position since June 30, 2015, and there has been no material adverse change in the financial position of the Issuer since its incorporation.

The Issuer accepts responsibility for the information contained in these Listing Particulars. The Issuer declares that, having taken all reasonable care to ensure that such is the case, to the best of its knowledge, the information contained in these Listing Particulars is in accordance with the facts and does not omit anything likely to affect its import. These Listing Particulars may only be used for the purposes for which they have been published.

Clearing Information

The Notes have been accepted for clearance and settlement through the facilities of Euroclear and Clearstream. The Notes sold pursuant to Regulation S and Rule 144A have been assigned Common Code numbers 111728011 and 111728020, respectively. The ISIN for the Notes sold pursuant to Regulation S is XS1117280112 and the ISIN for the Notes sold pursuant to Rule 144A is XS1117280203.

GLOSSARY OF SELECTED TERMS

The following terms used in these Listing Particulars 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 mineralisation process, which include coal, oil and gas (in accordance with European Technical Specification CEN/TS 14588).
"*BSKP*"	Bleached Softwood Kraft Pulp.
"*Coated P&W*"	various types of papers and paperboards, except newsprint, that have been coated on one or both sides with coating materials such as clay (beneficiated kaolin), calcium carbonate, barium sulphate, gypsum or zinc oxide, often supplemented with supercalendering, various pigments and/or other special substances in combination with adhesive(s) of some type. Also, paper and paperboard treated with a surface layer of varnish or lacquer. These products are coated to improve their surface characteristics: e.g. opacity, smoothness, colour, printing quality etc.
"cogeneration"	the generation of electricity and useful heat at the same time. Steam is produced in the recovery boilers where the lignin is burned and the chemical products recovered. The supply of high-temperature heat drives a steam turbine, with the resulting low-temperature waste heat then used for water evaporation and the drying of the pulp.
"*ECF*"	Elemental Chlorine Free.
"*EDTA*"	Ethylenediaminetetraacetic acid.
"*EPC*"	Engineering, procurement and construction.
"*Forestry depletion*"	the depreciation of biological assets (plantations) related to the harvesting of pulp plantations.
"*Kraft press*"	the process for the conversion of wood into almost pure cellulose fibres through the use of sodium sulphate, which breaks the bonds that link lignin to the cellulose.
"*NMHW*"	Northern Mixed Hardwood (Kraft) pulp.
"*Packaging*"	paper or paperboard mainly used for wrapping and packaging for bundling and shipping purposes.
"*Rotation cycle*"	the period necessary for a tree to grow and reach the age of rotation when harvest will generate the maximum revenue or economic yield. In our eucalyptus plantations in Spain, this is usually between twelve and 15 years.
"*SMHW*"	all Mixed Hardwood Kraft pulp produced in the United States.
"*Specialties*"	papers and paperboards not considered as one of the standards by the paper industry, but made with unique characteristics and properties suitable for specific purposes or in accordance with special order specifications.
"*TCF*"	Totally Chlorine Free.
"*Tissue*"	thin, low-weight, gauze-like types of paper made from virgin and/or reclaimed pulp, used to manufacture such items as sanitary products, wrapping material, protective packing paper, stock for waxing and twisting etc.
"*Uncoated P&W*"	types of paper and paperboard that have been manufactured without the use of coating materials.

ANNEX A
PROCEDURES FOR DIRECT REFUND FROM THE SPANISH TAX AUTHORITIES

(1) Holders of the Notes entitled to receive income payments in respect of the Notes free of any Spanish withholding taxes but in respect of whom income payments have been made net of Spanish withholding tax may apply directly to the Spanish tax authorities for any refund to which they may be entitled, following the 20th calendar day of the month immediately following the relevant payment date.

(2) Holders of the Notes may claim the amount withheld from the Spanish Treasury within the first four years following the last day on which the Issuer may pay any amount so withheld to the Spanish Treasury (which is generally the 20th calendar day of the month immediately following the relevant payment date), by filing with the Spanish tax authorities (i) the relevant Spanish tax form, (ii) proof of ownership and (iii) a certificate of residency issued by the tax authorities of the country of tax residence of such Holder of the Notes, amongst other documents.

INDEX TO FINANCIAL STATEMENTS

Summary Financial Information for Guarantors/Non-Guarantors as of and for the six months ended June 30, 2015

	Issuer	Combined Guarantors	Eliminations	Total Consolidated Issuer + Guarantors	Consolidated Non-Guarantors	Eliminations	Total Consolidated Group
				(€ in thousands) (unaudited)			
Total Assets	889,504	492,309	(257,729)	1,124,083	345,623	(317,779)	1,151,927
Total Liabilities	506,424	303,589	(252,280)	557,733	234,572	(184,652)	607,653
Total Shareholders' Equity	383,079	188,720	(5,447)	566,352	111,046	(133,124)	544,274
Total Liabilities + Total Shareholders' Equity	889,504	492,309	(257,727)	1,124,085	345,618	(317,776)	1,151,927
Operating Profit	(1,134)	33,302	1,310	33,478	13,492	(1,335)	45,635
Net Income	(2,003)	16,390	1,143	15,529	6,298	306	22,133

Ence Energía y Celulosa, S.A.
and subsidiaries

Condensed Consolidated Financial Statements for the six-month period ended 30 June 2015 prepared under the International Financial Reporting Standards adopted by the European Union and the corresponding Group Management Report

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails

Condensed consolidated financial statements for the six months ended 30 June 2015

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2015 AND 31 DECEMBER 2014

Thousands of euros	Note	30/06/2015(*)	31/12/2014
NON-CURRENT ASSETS:			
Intangible assets	10	10,293	13,698
Property, plant and equipment	11	637,799	643,996
Investment properties		—	—
Biological assets	12	87,573	90,247
Other financial assets		2,844	2,956
Deferred tax assets	20	79,197	81,588
		817,706	**832,485**
CURRENT ASSETS:			
Non-current assets held for sale	22	75,857	77,379
Inventories	15	34,052	37,919
Trade and other receivables	16	104,198	100,431
Receivable from public authorities	13 & 20	16,735	9,747
Income tax receivable from the tax authorities	13 & 20	335	11,934
Current financial assets:			
Derivatives	14	—	999
Other financial assets	13 & 19	8,542	8,513
Cash and cash equivalents	19	91,512	73,428
Other current assets		2,990	1,321
		334,221	**321,671**
TOTAL ASSETS		**1,151,927**	**1,154,156**
EQUITY:			
Share capital	18	225,245	225,245
Share premium	18	170,776	195,665
Parent company reserves	18	100,964	99,965
Parent company retained earnings (prior-period losses)	18	(109,117)	—
Reserves in fully-consolidated companies	18	88,275	123,282
Valuation adjustments	18	49,958	46,501
Profit for the period attributable to owners of the parent		22,133	(140,909)
Translation differences		(1,239)	(1,077)
Own shares—parent company shares	18	(2,721)	(5,744)
Equity attributable to owners of the parent		**544,274**	**542,928**
TOTAL EQUITY		**544,274**	**542,928**
NON-CURRENT LIABILITIES:			
Bonds and other marketable securities	19	218,450	242,089
Bank borrowings	19	108,327	97,960
Grants		10,601	11,032
Derivative financial instruments	14	6,825	8,103
Other financial liabilities	19	7,993	7,486
Deferred tax liabilities	20	21,368	21,948
Non-current provisions	21	8,811	11,147
		382,375	**399,765**
CURRENT LIABILITIES:			
Bank borrowings	19	16,156	16,404
Derivative financial instruments	14	3,718	7,373
Other financial liabilities	19	1,903	2,385
Trade and other payables	17	175,782	156,326
Income tax payable to the tax authorities	20	6,740	94
Other payables to public authorities	20	7,021	8,649
Other current liabilities		2	512
Current provisions	21	13,956	19,720
		225,278	**211,463**
TOTAL EQUITY AND LIABILITIES		**1,151,927**	**1,154,156**

(*) Unaudited figures

The accompanying notes 1 to 26 are an integral part of the condensed consolidated statement of financial position at 30 June 2015

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2015 AND 2014

		Six months ended	
Thousands of euros	**Note**	**30/06/2015(*)**	**30/06/2014(*)**
Continuing operations:			
Revenue	4	313,202	338,274
Gain (loss) on hedging transactions	14	(551)	(413)
Changes in inventory of finished goods and work in progress		(4,749)	(6,230)
Cost of sales	5	(129,671)	(193,958)
GROSS PROFIT		**178,231**	**137,673**
Own work capitalised	10 & 11	4,773	3,971
Other operating income		2,726	3,463
Government grants taken to income		1,274	2,735
Employee benefit expense	6	(30,055)	(33,230)
Depreciation and amortisation charges	10 & 11	(27,237)	(29,054)
Depletion of forest reserve	12	(4,599)	(7,804)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	10.11 & 12	196	(27,318)
Other operating expenses	7	(79,674)	(109,011)
OPERATING PROFIT/(LOSS)		**45,635**	**(58,575)**
Finance income		130	621
Change in fair value of financial instruments	14	942	(1,226)
Other finance costs	8	(16,488)	(13,517)
Exchange differences		706	396
NET FINANCE COST		**(14,710)**	**(13,726)**
PROFIT/(LOSS) BEFORE TAX		**30,925**	**(72,301)**
Income tax	20	(8,792)	23,709
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		**22,133**	**(48,592)**
PROFIT/(LOSS) FOR THE PERIOD	18	**22,133**	**(48,592)**
Earnings per share:			
Basic	18	**0.09**	**(0.19)**
Diluted	18	**0.09**	**(0.19)**

(*) Unaudited figures

The accompanying notes 1 to 26 are an integral part of the condensed consolidated income statement for the six months ended 30 June 2015

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2015 AND 2014

		Six months ended	
Thousands of euros	**Note**	**30/06/2015(*)**	**30/06/2014(*)**
CONSOLIDATED PROFIT/(LOSS) FOR THE PERIOD (I)	**18**	**22,133**	**(48,592)**
Income and expense recognised directly in equity:			
Cash flow hedges(**)		(1,526)	(4,626)
Translation differences(**)		(162)	4
Tax effect		458	1,387
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY (II)	**18**	**(1,230)**	**(3,235)**
Amounts transferred to the consolidated income statement			
—Cash flow hedges(**)		1,871	1,862
—Tax effect		(562)	(558)
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS (III)	**18**	**1,309**	**1,304**
TOTAL COMPREHENSIVE INCOME/(EXPENSE) (I+II+III)		**22,212**	**(50,523)**

(*) Unaudited figures

(**) Items that may be subsequently be reclassified to profit or loss

The accompanying notes 1 to 26 are an integral part of the condensed consolidated statement of comprehensive income for the six months ended 30 June 2015

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2015 AND 2014

2015 (thousands of euros)	Balance at 1/1/2015	Total recognised income/ (expense)	Appropriation of prior-year profit/(loss)	Dividends	Trading in own shares	Distribution of own shares	Balance at 30/06/2015(*)
Share capital	225,245	—	—	—	—	—	225,245
Share premium	195,665	—	—	(24,889)	—	—	170,776
Legal reserve	45,050	—	—	—	—	—	45,050
Other reserves/Parent company retained earnings (prior-period losses)	54,915	—	(109,118)	—	1,000	—	(53,203)
Reserves in fully-consolidated companies	123,282	651	(35,658)	—	—	—	88,275
Translation differences	(1,077)	(162)	—	—	—	—	(1,239)
Own shares	(5,744)	—	—	—	3,023	—	(2,721)
Valuation adjustments	46,501	(410)	3,867	—	—	—	49,958
Profit/(loss) for the period attributable to owners of the parent	(140,909)	22,133	140,909	—	—	—	22,133
	542,928	**22,212**	**—**	**(24,889)**	**4,023**	**—**	**544,274**

2014 (thousands of euros)	Balance at 1/1/2014	Total recognised income/ (expense)	Appropriation of prior-year profit/(loss)	Dividends	Trading in own shares	Distribution of own shares	Balance at 30/06/2014(*)
Share capital	225,245	—	—	—	—	—	225,245
Share premium	210,037	—	—	—	—	(14,372)	195,665
Legal reserve	45,050	—	—	—	—	—	45,050
Other parent company reserves	72,408	—	7,451	(19,575)	(38)	(5,640)	54,606
Reserves in fully-consolidated companies	126,422	—	(3,140)	—	—	—	123,282
Translation differences	(2,218)	4	—	—	—	—	(2,214)
Own shares	(19,762)	—	—	—	(1,952)	20,012	(1,702)
Valuation adjustments	48,807	(1,935)	—	—	—	—	46,872
Profit/(loss) for the period attributable to owners of the parent	4,311	(48,592)	(4,311)	—	—	—	(48,592)
	710,300	**(50,523)**	**—**	**(19,575)**	**(1,990)**	**—**	**638,211**

(*) Unaudited figures

The accompanying notes 1 to 26 are an integral part of the condensed consolidated statement of changes in equity for the six months ended 30 June 2015

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN CASH FLOW

FOR THE SIX MONTHS ENDED 30 JUNE 2015 AND 2014

	Six months ended	
Thousands of euros	**30/06/2015(*)**	**30/06/2014(*)**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated profit/(loss) for the period before tax	30,925	(72,301)
Adjustments for:		
Depreciation	26,613	28,791
Depletion of forest reserve	4,599	7,804
Amortisation	624	264
Changes in provisions, current asset impairment charges and other charges	8,959	16,873
Changes in impairment charges and gains/(losses) on disposals of non-current assets	(393)	27,132
Finance income	(130)	(621)
Finance costs	14,840	14,297
Accruals and deferred income	(1,793)	(570)
Government grants taken to income	(949)	(691)
	52,370	93,279
Changes in working capital:		
Trade and other receivables	(10,177)	10,599
Financial and other current assets	(29)	2,601
Trade payables, other payables and other liabilities	356	(15,989)
Inventories	1,671	(3,854)
	(8,179)	**(6,643)**
Other cash flows from operating activities:		
—Interest paid	(15,363)	(12,153)
—Interest received	130	620
—Income tax received (paid)	9,310	—
	(5,923)	**(11,533)**
Net cash generated from operating activities (I)	**69,193**	**2,802**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments:		
Property, plant and equipment and biological assets	(14,471)	(24,285)
Intangible assets	(1,783)	(2,153)
Other financial assets	112	239
	(16,142)	**(26,199)**
Disposals:		
Property, plant and equipment and biological assets	3,626	58
	3,626	**58**
Net cash used in investing activities (II)	**(12,516)**	**(26,141)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from and payments for equity instruments		
Buyback of own equity instruments	(250)	(2,145)
Disposal of own equity instruments	4,275	156
	4,025	**(1,989)**
Proceeds from and repayments of financial liabilities:		
Issuance/(cancellation) of bonds and other marketable securities	(25,000)	—
Increase/(decrease) in bank borrowings	10,597	4,257
Repayment of other borrowings and cancellation of derivatives	(3,339)	(1,342)
Grants received	—	844
	(17,742)	**3,759**
Dividends and payments on other equity instruments		
Dividends	(24,889)	—
	(24,889)	**—**
Translation differences	**13**	**(1)**
Other cash received from (used in) financing activities		
Fixed-term deposits	—	45,000
	—	**45,000**
Net cash from/(used in) financing activities (III)	**(38,593)**	**46,769**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)	**18,084**	**23,430**
Cash and cash equivalents, opening balance	73,428	103,391
Cash and cash equivalents, closing balance	91,512	126,822

(*) Unaudited figures

The accompanying notes 1 to 26 are an integral part of the condensed consolidated statement of changes in cash flow for the six months ended 30 June 2015

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails

Explanatory notes to the condensed consolidated financial statements for the six months ended 30 June 2015

Contents

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails

1. Introduction, basis of presentation of the condensed consolidated interim financial statements, accounting policies and other information

1.1. Foreword

Ence Energía y Celulosa, S.A. (hereinafter "ENCE", the "Company" or the "Parent") was incorporated in 1968. Its registered office is located at Calle Beatriz de Bobadilla, 14 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 has structured its activities around two business lines:

i) Pulp manufacturing:

Includes the production of bleached eucalyptus kraft pulp (BEKP) by means of elementary chlorine free (ECF) and totally chlorine free (TCF) bleaching sequences.

To carry out this activity, the Group had, until the third quarter of 2014, three factories in Spain (located in Asturias, Pontevedra and Huelva) with combined nominal capacity of approximately 1,350,000 tonnes per annum.

During the third quarter of 2014, the Group announced its decision to devote the industrial complex in Huelva to the generation of renewable energy and to discontinue the production of pulp (note 21); in tandem, management announced plans to reorganise the Group's corporate structure to align it with the new productive configuration. Since then, the Group has concentrated its pulp-making activities at its mills in Asturias and Pontevedra, which between them, following the capacity expansion carried out at the Navia plant in Asturias in the first half of 2015, have nominal capacity of 960,000 tonnes per annum.

The mills in Asturias and Pontevedra use the kraft process to produce pulp. This productive process includes the co-generation of electric power fuelled by the parts of timber that cannot be transformed in pulp, lignin/biomass. The Group's aggregate nominal installed electric power generation capacity (integrated within the Asturias and Pontevedra factories) is approximately 113 megawatts (MW), divided between three facilities.

In order to facilitate procurement of the timber supplies needed for the pulp manufacturing process, the Group manages 82,860 hectares of forested land in Spain and Portugal, 49,147 hectares of which it owns.

1. Introduction, basis of presentation of the condensed consolidated interim financial statements, accounting policies and other information (Continued)

ii) Generation of electric power from biomass:

In recent years, ENCE has developed several power generation facilities that are fuelled by forestry and agricultural biomass; these plants operate on a standalone basis, separately to the pulp business.

The 50-MW power generation plant in Huelva began operations in February 2013, while the 20-MW plant in Mérida started up in September 2014. In addition to these two plants, and as a result of the decision to discontinue pulp production at the industrial complex in Huelva, this business line now also includes a third generation plant, with capacity of 41 MW, which was formerly integrated into the pulp operations. Factoring in this third facility, power generation capacity at the stations independent of pulp operations stands at 111 MW.

All of the Company's shares are represented by book entries and are officially listed on the Spanish stock exchanges and traded on the continuous market (SIBE for its acronym in Spanish).

1.2. Basis of presentation of the condensed consolidated interim financial statements under the IFRS adopted by the European Union

The 2014 consolidated annual financial statements were 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 2014 and of its financial performance and cash flows for the year then ended.

The accompanying condensed consolidated interim financial statements were drawn up in keeping with IAS 34—Interim Financial Information and were authorised for issue by the Board of Directors of Ence Energía y Celulosa, S.A. on 21 July 2015.

In keeping with IAS 34, the interim financial information has been prepared solely for the purpose of providing an update with respect to the last complete set of annual consolidated financial statements authorised for issue and accordingly focuses on new activities, events and circumstances arising in the six-month period and does not duplicate the information previously reported in the 2014 consolidated annual financial statements. Accordingly, for full reader comprehension, the information included in these condensed consolidated interim financial statements should be read in conjunction with the Group's 2014 consolidated annual financial statements, which were ratified by the Company's shareholders at the Annual General Meeting held on 28 April 2015.

1.3. Accounting policies and basis of consolidation

In drawing up the accompanying condensed consolidated interim financial statements, ENCE has applied the same accounting policies and consolidation rules as were used to prepare the 2014 consolidated financial statements, as detailed in notes 3.5 and 4 thereof, except as outlined in section 2 below.

1. Introduction, basis of presentation of the condensed consolidated interim financial statements, accounting policies and other information (Continued)

1.4. Comparative information

The information provided in these condensed consolidated interim financial statements in respect of the first half of 2014 is presented solely and exclusively to allow the reader to compare the figures with those corresponding to the first half of 2015.

In this respect it is important to note that, as a result of regulatory changes introduced in the energy sector in Spain, in the third quarter of 2014, the Group definitively discontinued the production of pulp at its industrial complex in Huelva (note 21).

In addition, in the wake of discontinuation of pulp production in Huelva and with effect from 1 January 2015, the 41-MW biomass-fuelled power plant operated by the Group in Huelva has been removed from the "Pulp" operating segment and included under the "Energy—Independent electric power generation plants" segment. As a result, and with a view to facilitating the year-on-year comparison, the segment-specific disclosures corresponding to the first half of 2014 (presented in note 4—"Revenue" and note 9—"Operating segments") are presented including the company that owns this plant, Celulosa Energía, S.A., under the "Energy—Independent electric power generation plants" segment and therefore differ from the segment disclosures provided in the condensed consolidated interim financial statements for the six months ended 30 June 2014, which included the activities of this Group company within the "Pulp" segment.

1.5. 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. Consequently, the notes to the accompanying condensed consolidated financial statements for the six months ended 30 June 2015 do not include specific seasonality disclosures.

Note, however, that the production of pulp requires annual stoppages of between 10 and 15 days for maintenance purposes. The mills in Pontevedra and Asturias carried out these annual stoppages during the first half of 2015. In this respect, an asset has been recognised in the amount of €3,117 thousand corresponding to fixed costs accrued during the stoppages which, in keeping with the income and expense matching principle, will be recognised in the income statement during the second half of 2015.

1.6. Materiality

In determining the information to be disclosed in the explanatory notes for the various headings of the condensed consolidated interim financial statements, the Group assessed materiality in relation to the financial statements themselves, in accordance with IAS 34.

1.7. Changes in the Group's consolidation scope

There were no changes in Ence Energía y Celulosa, S.A.'s consolidation scope during the first half of 2015.

2. Accounting policies and measurement criteria

2.1. New and amended standards taking effect during the reporting period

The following new and amended standards took effect in 2015 and were applied in preparing the accompanying consolidated financial statements:

- IFRIC 21—Levies

  Interpretation providing guidance on when to recognise a liability for a levy imposed by a government. IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. Application of this interpretation has not had a significant impact on the accompanying condensed consolidated financial statements.

2.2. Standards and interpretations issued but not yet effective

At the date of authorising the accompanying consolidated interim 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	Contents	Effective for annual periods 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 2018
IFRS 15—Revenue from contracts with customers	Replaces prevailing IAS 18 and IAS 11 as well as the current interpretation of revenue	1 January 2017
Amendment to IAS 27—Equity method in separate financial statements	This amendment will reinstate the use of the equity method to measure investments in an investor's separate financial statements. Under Spanish regulations, this amendment will have a limited impact since the standards governing separate financial statements are those stipulated in the Spanish General Accounting Plan.	1 January 2016
Amendment to IAS 1—Disclosure Initiative	Multiple clarifications with respect to disclosure requirements (materiality, aggregation, note order, etc.)	1 January 2016
Amendment to IAS 19—Employee contribution to defined benefit plans	The impact of this amendment is expected to be limited. Subject to compliance with certain requirements, the amended wording will allow for the deduction of these contributions from service cost at the time they are paid in	1 February 2015

2. Accounting policies and measurement criteria (Continued)

Standard	Contents	Effective for annual periods on or after
Amendments to IAS 16 / IAS 38—Acceptable methods of depreciation and amortisation	These amendments clarify the fact that revenue-based depreciation methods are not permitted as they do not reflect the expected pattern of consumption of the future economic benefits embodied by an asset	1 January 2016
Amendments to IFRS 11—Accounting for acquisitions of interests in joint operations	As amended, IFRS 11 requires the use of the acquisition method prescribed in IFRS 3—Business combinations when joint operations are businesses	1 January 2016
Amendments to IAS 16 and IAS 41—Bearer plants	As amended, bearer plants will have to be carried at cost instead of fair value	1 January 2016
Amendments to IFRS 10 and IAS 28—Sales or contributions of assets between an investor and its associate/joint venture	The gain or loss resulting from the sale or contribution of assets that constitute a business is recognised in full; that resulting from the sale or contribution of assets that do not constitute a business is recognised partially	1 January 2016

The Group is in the process of analysing what impact these new and amended standards could have on its consolidated interim financial statements if adopted. None of these new or amended standards has been early applied.

3. Critical accounting estimates and judgements

Preparation of the condensed consolidated interim financial statements for the six months ended 30 June 2015 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. The accounting policies that incorporate management assumptions and estimates that are material in respect of the accompanying condensed consolidated financial statements are:

- The asset impairment charges associated with the discontinuation of pulp production at the Huelva plant (note 21)
- The impact of changes in the Spanish energy sector regulatory framework (note 21)
- Calculation of income tax and the recoverable amount of deferred tax assets
- The assumptions used to calculate certain obligations to employees
- The fair value of certain assets, principally financial instruments
- The recoverable amount of certain assets, mainly biological assets
- The useful lives of property, plant and equipment and intangible assets
- Calculation of the provisions recognised to cover liabilities arising under lawsuits in progress and bad debt

3. Critical accounting estimates and judgements (Continued)

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 experts, forecasts and other circumstances and expectations prevailing at the reporting date.

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 condensed consolidated interim financial statements for issue, these estimates are not expected to change significantly.

The Directors believe that as of 30 June 2015 there is no new information that significantly changes the estimated impairment provisions recognised against the Group's various industrial and biological assets, as detailed in notes 4.2, 7, 8 and 9 of the consolidated financial statements for the year ended 31 December 2014.

Although these estimates were made on the basis of the best information available at each reporting date regarding the facts analysed, events occurring after the date of authorising these financial disclosures for issue could make it necessary to revise these estimates (upwards or downwards) in the future. 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.

4. Revenue

The breakdown of Group revenue by business in the first halves of 2015 and 2014 is as follows:

	1H15			1H14		
Thousands of euros	**Pulp business**	**Energy business**	**Total**	**Pulp business**	**Energy business**	**Total**
Business metrics:						
Pulp sales volume (tonnes)	431,767	—	431,767	601,767	—	601,767
Energy sales volume (MWh)	329,225	275,771	604,996	411,792	264,337	676,129
Revenue						
Revenue from pulp sales	228,416	—	228,416	263,560	—	263,560
Revenue from energy sales(*)	32,877	43,210	76,087	28,608	36,099	64,707
Revenue from sales of timber and forestry services	8,293	406	8,699	9,963	44	10,007
	269,586	**43,616**	**313,202**	**302,131**	**36,143**	**338,274**

(*) In order to facilitate the year-on-year comparison, in the figures corresponding to 1H14, the "ENERGY business" includes €15,406 thousand of revenue associated with Celulosa Energía, S.A., the Group company that owns the 41-MW Huelva facility.

The drop in revenue in the Pulp operating segment is related to the closure of the Huelva pulp mill during the third quarter of 2014.

Virtually all of the revenue from energy sales is generated in Spain.

4. Revenue (Continued)

4.1. Geographic revenue split

The breakdown of revenue from pulp sales by geographic market is as follows:

% of revenue	1H15	1H14
Germany	23.7	20.0
Italy	21.2	17.5
Spain	17.5	15.5
Austria	9.9	5.8
France	6.3	9.7
United Kingdom	4.9	3.2
Netherlands	4.7	2.8
Poland	4.6	3.6
Slovenia	3.6	3.2
Greece	2.6	3.3
Turkey	—	7.5
Other	1.0	7.9
	100.0	**100.0**

4.2. Energy sector regulation

This section attempts to summarise the most noteworthy highlights of prevailing energy sector regulations in Spain, as applicable to the business activities of the ENCE Group:

Law 24/2013 (26 November 2013), the Electricity Sector Act, replacing Law 54/1997 (27 November).

This piece of legislation introduces the governing principle of ensuring the economic and financial sustainability of the electricity system, limiting the so-called tariff deficit; it abandons the former distinction between the 'ordinary', or conventional, and 'special', or renewable, regimes, introducing a single set of regulations, without prejudice to unique considerations potentially requiring regulation; and it establishes a remuneration regime applicable to electricity generated from renewable sources, co-generation and waste based on the pool prices fetched by these facilities in the market, topped up by specific regulated remuneration designed to enable these technologies to compete with the other generation technologies on an even footing.

The new remuneration premiums will be incremental to the remuneration obtained by selling electricity in the market and will be made up of an amount per unit of installed capacity covering, as warranted, investment costs that cannot be recouped in the market and an operations supplement covering the difference between operating costs and market prices, as required.

The principle underpinning this remuneration regime is that of a 'reasonable return on investment', defined as the yield on 10-year Spanish sovereign bonds plus a spread, initially set at 300 basis points; it will be calculated on the basis of a standard facility, over the course of its regulated useful life and assuming operation by an efficient and well-managed undertaking, all of which factoring in: 1) standard revenue from the sale of electricity at market or pool prices; 2) standard operating costs; and 3) standard upfront investment metrics.

The new regime establishes regulatory periods of six years and stub periods of three years. Every three years there is scope for changing the remuneration parameters to reflect pool price forecasts, factoring in any deviations arising during the stub period in question. Every six years the authorities can change the standard facility parameters other than the amount of initial investment and the facilities' regulatory useful lives, which will remain unchanged throughout. The regime also envisages changing the interest rate used for remuneration purposes every six years, albeit only prospectively.

4. Revenue (Continued)

The standard investment supplements for new facilities will be determined by means of a competitive tender process.

This new remuneration regime applies retroactively from July 2013, the date on which Royal Decree-Law 9/2013 took effect.

The new regulations also stipulate that any tariff deficit arising in the Spanish electricity system must be funded proportionately by the various parties that collect remuneration based on the revenue collected by the power distributors or by the system operator. This funding may not exceed 2% of initially estimated revenue for the year in question or 5% of actual estimated revenue for the year.

Law 15/2012 (27 December 2012) on fiscal measures for energy system sustainability

This piece of legislation introduces, with effect from 1 January 2013, several tax modifications that affect the Group's business, specifically creating a levy on the value of electric energy sold, which affects the entire energy sector, equivalent to 7% of revenue from generation activities. This legislation has 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.

Royal Decrees

On 27 January 2012, the Spanish Cabinet passed Royal Decree-Law 1/2012, which had the effect of temporarily suspending the procedure for pre-qualifying new renewable capacity for remuneration premiums, 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 the time this legislation came into effect.

Royal Decree-Law 2/2013 of 1 February 2013, on urgent electricity system and financial sector measures, mandated 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 could only be remunerated at the regulated tariff going forward.

Royal Decree 413/2014 (6 June 2014) was published on 10 June, regulating the production of electric power by means of renewable sources, co-generation and waste, establishing the methodology underpinning the specific remuneration regime applicable to facilities that fail to cover their costs by enough of a margin to enable them to compete with the rest of the generation technologies in the market on an even footing, thereby generating a reasonable return based on benchmark facilities for each affected class of technology. This decree also stipulates the publication of an enacting order by the Spanish Ministry for Industry, Energy and Tourism to specify the methodology for classifying standard facilities by technology, installed capacity, age or using any other segmentation criteria deemed necessary for the purpose of applying the new remuneration regime. Against this backdrop, Ministerial Order IET/1045/2014 (16 June 2014) was published on 20 June, enacting the standard facility remuneration parameters applicable to certain electricity-producing facilities that use co-generation, renewable energy sources or waste applicable for the first regulatory stub period which ends on 31 December 2016 and defining the 'standard facility' categories which encompass every single generation facility in existence in Spain.

5. Cost of sales

Consumption of raw materials and other consumables in the first six months of 2015 and 2014 breaks down as follows:

Thousands of euros	1H15	1H14
Purchases	116,497	179,428
Change in raw materials, goods held for resale and other inventories	(3,222)	(8,834)
Other external expenses	16,396	23,364
	129,671	**193,958**

This heading mainly includes the timber, chemical products, fuel and other variable costs incurred in the pulp production process. The year-on-year reduction is related to the discontinuation of pulp production in Huelva, among other factors.

The land under ENCE's management includes 2,598 hectares located in Portugal that the Group sold in 2013, having entered into an agreement with the buyer covering the purchase by ENCE, at market prices, of the timber produced from the land sold for a term of 20 years, estimated at 20,000 cubic metres per annum.

6. Employee benefit expense

The breakdown of the employee benefit expense incurred in the first six months of 2015 and 2014 is provided below:

Thousands of euros	1H15	1H15
Wages and salaries	20,017	24,960
Social security	5,341	6,834
Pension contributions and other social benefits	1,168	1,707
	26,526	**33,501**
Termination benefits	374	(523)
Long-term remuneration plans	3,155	252
	30,055	**33,230**

The year-on-year reduction is related to the discontinuation of pulp production in Huelva, among other factors.

6.1. Headcount figures

The breakdown of the Group's headcount at 30 June 2015 and 2014 is as follows:

	30/06/2015			30/06/2014		
Job category	Men	Women	Total	Men	Women	Total
Executives	6	1	7	7	1	8
Individual job contracts	197	55	252	214	64	278
Collective bargaining agreement	396	58	454	558	80	638
Temporary workers	93	29	122	69	28	97
	692	**143**	**835**	**848**	**173**	**1,021**

Forty-eight people work exclusively for the energy business.

The Board of Directors comprises 13 members, 12 of whom men, at 30 June 2015.

6. Employee benefit expense (Continued)

6.2. 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 amended 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, the bonus plan currently in effect. The plan was cash-settled.

The purpose of the bonus plan was to encourage delivery of the targets set by the Board of Directors for 2010-2012. The maximum number of shares deliverable under the plan was 3,850,000 (representing 1.53% of share capital).

This plan matured on 30 June 2015 and gave rise to the accrual of an expense in the first half of 2015 of €1,935 thousand euros. The amount pending settlement with the plan's beneficiaries at 30 June 2015 was €224 thousand (note 21).

6.3. 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 54 people were beneficiaries of this plan at 30 June 2015.

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 in the Company's theoretical value relative to the year-end 2012 figure 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 expense accrued in the first half of 2015 in this respect was €1,220 thousand (1H14: €65 thousand), and the liability accrued as of 30 June 2015 amounted to €1,879 thousand euros (note 21).

7. Other operating expenses

The breakdown of this heading of the condensed consolidated income statement for the six months ended 30 June 2015 and 2014:

Thousands of euros	1H15	1H14
External services	65,936	83,893
Use of emission allowances (note 21)	1,057	3,044
Taxes other than income tax and other management charges	1,549	1,401
Electricity generation levy	5,350	4,984
Change in trade and other provisions	1,277	3,259
Impact of regulatory changes on energy business	—	7,399
Impact of the closure of the Huelva mill	1,399	5,031
Other non-recurring charges	3,106	—
	79,674	**109.011**

For the most part, these costs are incurred by the Pulp operating segment. The year-on-year reduction is related to the discontinuation of pulp production in Huelva, among other factors.

7.1. External services

The breakdown of "External services" in the interim reporting periods is as follows:

Thousands of euros	1H15	1H14
Transport, freight and business expenses	18,281	28,127
Utilities	18,000	21,414
Repairs and upkeep	9,792	11,414
Rent and fees	2,449	3,905
Insurance premiums	2,308	2,729
Independent professional services	3,003	3,620
Banking and similar services	733	860
Advertising, publicity and public relations	385	374
Research and development expenses	5	198
Other services	10,980	11,252
	65,936	**83,893**

8. Finance costs

The breakdown of this condensed consolidated income statement heading in the reporting periods:

Thousands of euros	1H15	1H14
High-yield bond	9,677	9,064
Project finance facilities	1,937	2,009
Credit, factoring and reverse factoring lines	746	779
Fees recognised in profit and loss	2,619	2,165
Settlement of the project finance interest-rate swap (note 14)	1,578	1,449
Settlement of the equity swap	(15)	109
Capitalised borrowing costs (note 11)	(58)	(2,039)
Other	4	(19)
	16,488	**13,517**

8. Finance costs (Continued)

On 4 June 2015, the Company bought back 10% of the bonds it had issued in 2013 (note 19). The cost of cancelling these bonds ahead of maturity was €750 thousand, which is equivalent to 3% of the face value repurchased; this balance has been included under 'High-yield bond' in the table above. In addition, 10% of the bond arrangement fee—or €625 thousand—was charged in the consolidated income statement in the first half of 2015.

9. Operating segments

The Group has defined the following two reporting segments for which it has full and independent financial information that is reviewed regularly by senior management in order to evaluate their performance:

Pulp Business

This business line encompasses the following reportable segments:

- Pulp. This segment includes the pulp production activity carried out at the productive facilities located in Pontevedra and Asturias and the power co-generation and generation activities related to the production of pulp and integrated therein, making use of the parts of timber that cannot be transformed in pulp, essentially lignin and biomass.
- Forest Management This operating segment essentially includes the forest crops and forest areas that are later used as raw materials in the pulp production process or sold to third parties.
- Forest Services & Other. This segment includes residual business activities carried out by the Group, including forest services provided to third parties, etc.

Energy Business—Independent electric power generation plants.

This business line/segment includes the plants that generate electric power using forestry and agricultural biomass; they are developed and operated separately and independently from the pulp business. This segment currently encompasses the 50-MW Huelva, 41-MW Huelva and 20-MW Mérida biomass generation plants.

In the wake of discontinuation of pulp production in Huelva and with effect from 1 January 2015, the 41-MW biomass-fuelled power plant operated by the Group in Huelva has been removed from the "Pulp" operating segment and included under the "Energy—Independent electric power generation plants" segment. As a result, and with a view to facilitating the year-on-year comparison, the segment disclosures corresponding to the first half of 2014 have been restated herein to include the company which owns this plant, Celulosa Energía, S.A., under the "Energy—Independent electric power generation plants" segment.

9. Operating segments (Continued)

9.1. Operating segment reporting

The table below details the earnings performance by operating segment in the first six months of 2015 and 2014:

1H15 Income statement	Thousands of euros: PULP business: Pulp(**)	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp	ENERGY business & segment(**)	Adjustments & Eliminations	Total
Revenue:								
Third-party revenue	266,688	2,298	600	—	269,586	43,616	—	313,202
Inter-segment revenue	420	6,296	—	(6,210)	506	365	(871)	—
Total revenue	**267,108**	**8,594**	**600**	**(6,210)**	**270,092**	**43,981**	**(871)**	**313,202**
Earnings:								
EBITDA(*)	**55,961**	**3,835**	**(59)**	**—**	**59,737**	**18,827**	**(1,289)**	**77,275**
Operating profit/(loss)	**33,140**	**(218)**	**(112)**	**—**	**32,810**	**13,862**	**(1,037)**	**45,635**
Finance income	7,326	58	—	(4,193)	3,191	2,316	(5,377)	130
Finance costs	(14,021)	(4,170)	(30)	4,193	(14,028)	(6,895)	5,377	(15,546)
Exchange differences	573	—	142	—	715	(9)	—	706
Tax	(7,285)	776	24	—	(6,485)	(2,597)	290	(8,792)
Profit / (loss) for the period	**19,733**	**(3,554)**	**24**	**—**	**16,203**	**6,677**	**(747)**	**22,133**

(*) This metric is not disclosed in the consolidated income statement; it is calculated as earnings before depreciation and amortisation charges, depletion of forest reserve charges, impairment charges and gains/losses on non-current assets.

(**) For the reader's information, the changes in the names of the business segments with respect to the 2014 consolidated financial statements are hereby noted: the current Pulp segment used be called "Energy & Pulp", while the current Energy segment used to be called "Biomass Energy Products".

1H14 Income statement	Thousands of euros: PULP business: Pulp(**)	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp	ENERGY Business & Segment(**)	Adjustments & Eliminations	Total
Revenue:								
Third-party revenue	292,124	9,056	951	—	302,131	36,143	—	338,274
Inter-segment revenue	685	38,586	55	(37,908)	1,418	4,206	(5,624)	—
Total revenue	**292,809**	**47,642**	**1,006**	**(37,908)**	**303,549**	**40,349**	**(5,624)**	**338,274**
Earnings:								
EBITDA(*)	**3,339**	**8,545**	**(867)**	**—**	**11,017**	**(3,363)**	**(2,053)**	**5,601**
Operating profit/(loss)	**(22,436)**	**2,095**	**(927)**	**—**	**(21,268)**	**(37,509)**	**202**	**(58,575)**
Finance income	8,555	(273)	—	(5,492)	2,790	1,582	(3,751)	621
Finance costs	(13,913)	(4,279)	(350)	5,492	(13,050)	(5,444)	3,751	(14,743)
Exchange differences	536	(131)	(8)	—	397	(1)	—	396
Tax	9,846	1,130	382	—	11,358	12,511	(160)	23,709
Profit / (loss) for the period	**(17,412)**	**(1,458)**	**(903)**	**—**	**(19,773)**	**(28,861)**	**42**	**(48,592)**

(*) This metric is not disclosed in the consolidated income statement; it is calculated as earnings before depreciation and amortisation charges, depletion of forest reserve charges, impairment charges and gains/losses on non-current assets.

(**) For the reader's information, the changes in the names of the business segments with respect to the 2014 consolidated financial statements are hereby noted: the current Pulp segment used be called "Energy & Pulp", while the current Energy segment used to be called "Biomass Energy Products".

9. Operating segments (Continued)

9.2. 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						
1H15	Pontevedra factory	Navia factory	Corporate	Other[(a)]	Subtotal	Eliminations	Total
Business metrics:							
Pulp output (ADt)	194,417	225,235	—	—	419,652	—	419,653
Pulp sales volume (ADt)	197,681	234,086	—	—	431,767	—	431,767
Energy sales volume (MWh)	97,448	231,777	—	275,771	604,996	—	604,996
Continuing operations:							
Revenue	113,543	184,769	—	80,498	378,810	(65,608)	313,202
Gross profit	60,745	78,836	(355)	39,170	178,396	(165)	178,231
Employee benefit expense	(9,538)	(9,618)	(7,918)	(2,981)	(30,055)	—	(30,055)
Other operating expenses	(18,620)	(23,680)	(5,005)	(23,761)	(71,066)	165	(70,901)
Overhead passed on	(6,533)	(5,445)	13,992	(2,014)	—	—	—
EBITDA	**26,054**	**40,093**	**714**	**10,414**	**77,275**	**—**	**77,275**
Depreciation & amortisation	(8,010)	(12,215)	(714)	(6,299)	(27,238)	—	(27,238)
Depletion of forestry reserve	—	—	—	(4,599)	(4,599)	—	(4,599)
Impairment of and gains/losses on non-current assets	(320)	29	—	488	197	—	197
OPERATING PROFIT/(LOSS)	**17,724**	**27,907**	**—**	**4**	**45,635**	**—**	**45,635**

(a) Includes the forestry and energy crop activities, the 50-MW Huelva, 41-MW Huelva and 20-MW Mérida plants, companies that are virtually inactive and the Group's subsidiaries in Uruguay.

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, in proportion to output in terms of tonnage, would have the effect of increasing expenditure at the Pontevedra and Navia plants by €6,010 thousand and €6,963 thousand, respectively.

The allocation to the productive facilities of these finance costs would result in operating profits at the Pontevedra and Navia plants of €11,714 thousand and €20,944 thousand, respectively.

10. Intangible assets

The reconciliation of the opening and closing carrying amounts of the various components of intangible assets and accumulated amortisation for the first half of 2015 is as follows:

Thousands of euros	Balance at 01/01/2015	Additions/ charges	Derecognitions/ decreases	Transfers	Balance at 30/06/2015
Computer software	10,300	1,782	—	4,249	16,331
Emission allowances	5,784	650	(5,131)	—	1,303
Prepayments	4,422	2	—	(4,249)	175
Other intangible assets(*)	14,432	—	—	—	14,432
Total cost	**34,938**	**2,434**	**(5,131)**	**—**	**32,241**
Computer software	(7,381)	(563)	—	(84)	(8,028)
Other intangible assets(*)	(10,259)	(61)	—	—	(10,320)
Total amortisation	**(17,640)**	**(624)**	**—**	**(84)**	**(18,348)**
Other intangible assets	(3,600)	—	—	—	(3,600)
Total impairment	**(3,600)**	**—**	**—**	**—**	**(3,600)**
Total	**13,698**				**10,293**

(*) Mainly includes development expenses

10.1. Computer software

The Group has executed a plan to migrate its IT systems over to an SAP platform that has been serving as the management information tool supporting business processes since early 2015. The capital expenditure incurred to date in this respect amounts to €7.9 million.

10.2. Emission allowances

The reconciliation of the opening and closing Group-owned carbon allowance balances for the six months ended 30 June 2015 is provided in the next table:

	Number of allowances	Thousands of euros
Opening balance	376,241	5,784
Allocations	92,998	650
Delivered(*)	(346,634)	(5,131)
Closing balance	**122,605**	**1,303**

(*) Corresponds to the allowances used in 1H14

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. Under the Plan, the Group received allowances equivalent to 92,998 tonnes of carbon emissions, valued at €650 thousand, in the first half of 2015.

"Non-current provisions" on the liability side of the consolidated interim statement of financial position includes €1,008 thousand in this respect at 30 June 2015, corresponding to the liability derived from the consumption of 82,068 tonnes of carbon in the first half of 2015 (note 21).

10. Intangible assets (Continued)

The Group has contractually committed to the forward purchase of allowances covering a total of 601,000 tonnes: 401,000 tonnes at a price of €15.69/tonne exercisable in December 2015 and 200,000 tonnes at €15.79/tonne exercisable in December 2016. The aim is to cover the Group's future consumption of emission allowances.

10.3. Intangible asset impairment

As a result of regulatory changes in the energy sector in Spain (note 21), in 2013, the Group wrote its investments in techniques, experiences and know-how for use in boosting the productivity of energy crops and in-vitro reproduction of eucalyptus crops down for impairment, recognising a charge in the amount of 2,853 thousand euros. In addition, the rights to operate certain quarries in Huelva were fully written down for impairment in 2014, recognising a charge of €746 thousand.

11. Property, plant and equipment

The reconciliation of the opening and closing carrying amounts of the various components of this heading of the condensed consolidated statement of financial position for the first half of 2015 is as follows:

Thousands of euros	Balance at 01/01/2015	Additions/ charges	Derecognitions/ decreases	Transfers (note 22)	Balance at 30/06/2015
Forest land	83,549	—	—	—	83,549
Other land	8,101	21	(21)	—	8,101
Buildings	94,982	274	(1,063)	338	94,531
Plant and machinery	1,014,333	3,495	(11)	4,103	1,021,920
Other items of PP&E	18,709	1,130	(4)	929	20,764
Prepayments and PP&E in progress	13,667	14,619	—	(4,522)	23,764
Cost	**1,233,341**	**19,539**	**(1,099)**	**848**	**1,252,629**
Buildings	(56,333)	(1,280)	490	(20)	(57,143)
Plant and machinery	(465,416)	(24,416)	1	(38,717)	(528,548)
Other items of PP&E	(49,222)	(917)	28	38,446	(11,665)
Depreciation	**(570,971)**	**(26,613)**	**519**	**(291)**	**(597,356)**
Land and buildings	(2,588)	—	603	—	(1,985)
Plant and machinery	(14,206)	213	84	—	(13,909)
Other items of PP&E	(1,580)	—	—	—	(1,580)
Impairment	**(18,374)**	**213**	**687**	**—**	**(17,474)**
Total	**643,996**				**637,799**

11. Property, plant and equipment (Continued)

11.1. Additions

The Group invested at all its facilities with a view to making its pulp production processes more efficient, boosting power generation and making them more environmentally friendly. This capital expenditure breaks down as follows by facility:

	Thousands of euros	
	1H15	1H14
Navia (Asturias)	12,069	16,193
Huelva	—	5,464
Pontevedra	4,151	11,911
41-MW Huelva plant	3,100	—
20-MW Mérida plant	—	11,521
Other	219	288
	19,539	**45,377**

In 2015, the Group carried out investments at its industrial complex in Navia (Asturias) and the 41-MW Huelva plant with a view to increasing the mill's capacity by 20,000 ADt, enhancing efficiency and reducing production costs. At the Pontevedra facility, capital expenditure was earmarked mainly to improving its environmental performance as well to replacement investments.

11.2. 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 without any set expiry date.

Subsequently, the Coastal Act of 1988 (Law 22/1988 of 28 July) stipulated that the holder of concessions granted prior to effectiveness of this 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. This 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.

Under the scope of Law 2/2013, of 29 May 2013, on coastal protection and sustainability and amending the Coastal Act, and the General Coast Regulations enacted by means of Royal Decree 876/2014 (10 October 2014), ENCE has taken the initial steps to have the concession extended for a maximum term provided under law, starting from the date of the extension application, which is 8 November 2013 (note 21).

The carrying amount of the assets located on this concession land was €60,838 thousand at 30 June 2015 (€66,071 thousand at 31 December 2014). The Company is depreciating these assets under an accelerated depreciation schedule to 2018.

11.3. 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 €19,317 thousand, amounts to €57,364 thousand and is included in "Valuation adjustments" in equity. That fair value benchmark has been used as deemed cost in subsequent years.

11. Property, plant and equipment (Continued)

11.4. Provision for impairment

As a result of regulatory changes in the energy sector in Spain (note 21), in 2013 and 2014, the Group wrote its investments in irrigation equipment installed in estates in which energy crops are grown and capitalised costs incurred to develop new biomass-fuelled power generation facilities down for impairment. The impairment charges in this respect, recognised in prior years, stood at €10,314 thousand at 30 June 2015.

In addition, as a result of the discontinuation of pulp production in Huelva, the industrial facilities and nurseries in this complex were also written down for impairment; the charges recognised in profit and loss in this respect amounted to €54,000 thousand (notes 21 & 22).

11.5. Insurance cover

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 the reporting date is sufficient.

12. Biological assets

"Biological assets" include the Group's forest cover, which breaks down as follows at 30 June 2015 and 31 December 2014:

Thousands of euros	30/06/2015	31/12/2014
Forest cover earmarked for pulp	82,877	85,234
Forest cover earmarked for energy crops	4,279	4,618
Non-forest cover	417	395
TOTAL	**87,573**	**90,247**

The movement in this heading during the first half of 2015:

	Thousands of euros				
	Balance at year-end 2014	Additions/ (charges)	Disposals	Transfers (note 21)	Balance at 30/06/2015
Earmarked for pulp & other uses:					
Forest cover	150,929	1,762	—	—	152,691
Depletion of forest reserve	(34,219)	(3,908)	—	(1,453)	(39,580)
Provision for impairment	(31,081)	(189)	—	1,453	(29,817)
	85,629	**(2,335)**	**—**	**—**	**83,294**
Earmarked for energy crops:					
Forest cover	47,463	2,701	(6,411)	—	43,753
Depletion of forest reserve	(864)	(691)	6,763	(21,470)	(16,262)
Provision for impairment	(41,981)	—	—	18,769	(23,212)
	4,618	**2,010**	**352**	**(2,701)**	**4,279**
	90,247				**87,573**

In the first half of 2015, the Group planted 22 hectares of land and carried out forest preservation and protection work on 855 hectares.

12. Biological assets (Continued)

12.1. Additions to forest cover

In the first half of 2015, Group capital expenditure on forest plantation and crop maintenance amounted to €1,762 thousand (€4,894 thousand in 1H14).

The investments in energy crops correspond to the dismantling costs incurred at leased estates prior to termination of the lease agreements. These investments have been fully written down for impairment.

The Group capitalised borrowing costs of €58 thousand in the first half of 2015. This income is presented in the consolidated income statement as a reduction in "Other finance costs".

12.2. Provision for impairment

At 30 June 2015, the Group has recognized impairment provisions on its biological assets, recognised in profit and loss in prior years, in the amount of €53,029 thousand. Of this sum, €4,008 thousand is related to the discontinuation of pulp production in Huelva and €19,204 thousand was caused by the impairment of energy crops due to the change in applicable remuneration under the new regulatory framework (note 21).

In parallel, the decision to cease pulp production in Huelva has required identifying an alternative use for the Group's forestry assets in southern Spain; this timber will now be sold to third parties, an alternative that could imply additional costs (mainly transportation), or used as biomass for power generation purposes, an option that gives these assets a low net realisable value. This development has given rise to impairment provisions on these assets which stood at €16,242 thousand at 30 June 2015 (note 21). In addition, an impairment loss of €8,956 thousand has been recognised against forest assets in northern Spain.

13. Financial instruments by nature and category

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 30/06/2015
Derivative financial instruments	—	—	—	—	—
Financial accounts receivable	—	—	—	8,542	8,542
Trade and other receivables	120,933	—	—	—	120,933
Cash and cash equivalents	91,512	—	—	—	91,512
Total financial assets	**212,445**	**—**	**—**	**8,542**	**220,987**
Non-recourse borrowings	102,366	—	—	—	102,366
Recourse borrowings	240,567	—	—	—	240,567
Derivative financial instruments	—	257	10,286	—	10,543
Trade and other payables	189,543	—	—	—	189,543
Other financial liabilities	9,896	—	—	—	9,896
Total financial liabilities	**542,372**	**257**	**10,286**	**—**	**552,915**

13. Financial instruments by nature and category (Continued)

Thousands of euros	Loans and receivables / payables	Trading derivatives	Hedging derivatives	Held-to-maturity investments	Total at 31/12/2014
Available-for-sale financial assets	—	—	—	—	—
Derivative financial instruments	—	—	999	—	999
Financial accounts receivable	—	—	—	8,513	8,513
Trade and other receivables	110,178	—	—	—	110,178
Cash and cash equivalents	73,428	—	—	—	73,428
Total financial assets	**183,606**	**—**	**999**	**8,513**	**193,118**
Non-recourse borrowings	106,446	—	—	—	106,446
Recourse borrowings	250,007	—	—	—	250,007
Derivative financial instruments	—	4,280	11,196	—	15,476
Trade and other payables	165,069	—	—	—	165,069
Other financial liabilities	9,871	—	—	—	9,871
Total financial liabilities	**531,393**	**4,280**	**11,196**	**—**	**546,869**

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.

14. Derivative financial instruments

In keeping with the risk management policy outlined in note 6 of the Group's 2014 consolidated annual financial statements, the Group arranges derivative contracts, mainly 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 tunnel-structure Asian options, swaps and futures contracts to hedge changes in exchange rates and the prices of pulp and certain energy products.

The breakdown of this condensed consolidated statement of financial position heading at 30 June 2015 and 31 December 2014, which corresponds with the fair value of the derivatives at the reporting dates, is provided in the next table:

	Current assets		Non-current liabilities		Current liabilities	
Thousands of euros	**30/06/2015**	**31/12/2014**	**30/06/2015**	**31/12/2014**	**30/06/2015**	**31/12/2014**
Cash flow hedges:						
Energy sale hedges	—	999	—	—	363	—
IRS—50-MW project finance	—	—	4,847	5,677	2,260	2,280
IRS—20-MW project finance	—	—	1,978	2,426	838	813
Currency hedges	—	—	—	—	257	—
		999	6,825	8,103	3,718	3,093
Trading derivatives:						
Equity swap	—	—	—	—	—	4,280
Total	**—**	**999**	**6,825**	**8,103**	**3,718**	**7,373**

14. Derivative financial instruments (Continued)

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).

A fair value loss of €2,128 thousand on derivatives designated as hedging instruments was reclassified to profit and loss in the first half of 2015 (a loss of €2,860 thousand in 1H14).

14.1. Currency hedges

In order to hedge the risks to which the Group is exposed as a result of fluctuations in the dollar-euro exchange rate, during the first half of 2015, ENCE arranged a tunnel option strategy (Asian options) over US dollars (this means using the average exchange rate for a given period instead of the rate on a specific date as the benchmark).

The breakdown of these options at 30 June 2015 is as follows:

Underlying	Last exercise date	Call option strike price	Put option strike price	Notional amount (USD)
EUR-USD	May-16	1.0350	1.1375	16,500
EUR-USD	May-16	1.0835	1.1650	16,500
EUR-USD	May-16	1.0875	1.1700	16,500
EUR-USD	May-16	1.0765	1.1575	16,500
EUR-USD	June-16	1.0650	1.1575	18,000

These instruments presented a negative fair value at 30 June 2015 of €257 thousand; this loss is recognised in "Current liabilities—derivatives" in the consolidated statement of financial position with a balancing entry under "Change in fair value of financial instruments" in the accompanying condensed interim income statement. Their fair value is derived entirely from the time value of money.

14.2. Energy sale hedges

The Group is exposed to fluctuations in the prices of certain energy products that are used in its productive processes and can have a significant impact on its production costs. This risk is partially hedged by commodity swaps.

The Group has written commodity swaps covering the price at which it sells its power output to the national electricity system (OMEL). The breakdown of the hedges outstanding at 30 June 2015:

Maturity	Amount (MWh)	Price range in euros
2H15	298,080	48.85/52.15
1H16	43,680	47

These instruments presented a negative fair value at 30 June 2015 of €363 thousand (a positive fair value of €999 thousand at 31 December 2014); this gain is recognised in "Current liabilities—derivatives" in the consolidated statement of financial position with a balancing entry, net of the corresponding tax effect, in "Equity—Valuation adjustments".

A fair value loss of €294 thousand on energy sale hedges was reclassified to profit and loss in the first half of 2015 (1H14: a loss of €413 thousand).

14. Derivative financial instruments (Continued)

14.3. Interest rate swaps

The Group actively manages its exposure to interest rate risk derived from borrowings taken out at floating rates.

The interest rate derivatives arranged by the Group and outstanding at the reporting date are shown below:

30 June 2015

Thousands of euros	Fair value	Notional principal amounts at reporting date: 2015	2016	2017	2018	2019	2020	2021
IRS—50-MW project finance facility	7,107	66,965	60,750	54,043	47,074	40,109	—	—
IRS—20-MW project finance facility	2,816	43,472	40,508	37,456	34,301	31,023	27,688	24,248

31 December 2014

Thousands of euros	Fair value	Notional principal amounts at reporting date: 2015	2016	2017	2018	2019	2020	2021
IRS—50-MW project finance facility	7,957	66,965	60,750	54,043	47,074	40,109	—	—
IRS—20-MW project finance facility	3,239	43,472	40,508	37,456	34,301	31,023	27,688	24,248

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 effective accounting hedges.

A fair value loss of €1,578 thousand on interest rate swaps was reclassified to profit and loss in the first half of 2015 (1H14: a fair value loss of €1,449 thousand) (note 8).

14.4. Equity swap

The equity swap arranged by ENCE to service its "Special Bonus Plan for Executives for 2007-2011" expired during the first half of 2015. The Group recognised a gain of €942 thousand in the consolidated income statement in this respect in the first half of 2015 (1H14: a loss of €1,326 thousand).

15. Inventories

The breakdown of the Group's inventories at 30 June 2015 and 31 December 2014 is as follows:

Thousands of euros	30/06/2015	31/12/2014
Timber	22,946	19,965
Other raw materials	1,986	2,389
Spare parts	20,698	21,649
Finished goods	6,069	10,641
Prepayments to suppliers	1,034	2,186
Impairment(*)	(18,681)	(18,911)
	34,052	**37,919**

(*) Related primarily to slow-moving parts.

There are no restrictions on title to inventories.

15. Inventories (Continued)

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 the reporting date is adequate.

16. Trade and other receivables

The breakdown at 30 June 2015 and 31 December 2014 of "Trade and other receivables" in the condensed consolidated statement of financial position is as follows:

Thousands of euros	30/06/2015	31/12/2014
Trade receivables, pulp sales	61,525	58,788
Trade receivables, energy sales	37,524	37,357
Trade receivables, other sales	3,502	5,614
Sundry receivables and receivable from employees	4,594	937
Provision for impairment	(2,947)	(2,265)
	104,198	**100,431**

The regulatory changes introduced in the Spanish energy sector have included, among other measures, the obligation on the part of all parties receiving remuneration from the system operator to finance the electricity tariff deficit. The Group's share of the financing of this deficit pending collection at 30 June 2015 amounts to €9,601 thousand.

The "Sundry receivables and receivable from employees" balance mainly includes sums pending collection from the insurance company in connection with damages affecting the power generation turbine at the Pontevedra complex at the end of 2013. This payment is expected to be collected during the third quarter of 2015.

The average credit period on pulp sales ranges between 50 and 60 days. The fair value of pulp receivables does not differ significantly from their carrying amount.

The Group has drawn down €31,988 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 €85,000 thousand at 30 June 2015 (€30,530 thousand and €83,000 thousand, respectively, at 31 December 2014). 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.

17. Trade and other payables

The breakdown at 30 June 2015 and 31 December 2014 of "Trade and other payables" in the condensed consolidated statement of financial position is as follows:

Thousands of euros	30/06/2015	31/12/2014
Trade payables	150,166	139,559
Payable to fixed asset suppliers	22,177	8,916
Employee benefits payable	3,439	7,851
	175,782	**156,326**

The average payment term awarded on the purchase of goods and services ranges between 60 and 75 days.

The Group has drawn down €70,956 thousand under non-recourse reverse factoring agreements with an aggregate limit of €114,000 thousand at 30 June 2015 (€64,625 thousand and €113,000 thousand, respectively, at 31 December 2014).

18. Equity

18.1. Share capital

The share capital of Ence Energía y Celulosa, S.A. at 30 June 2015 was represented by 250,272,500 fully subscribed and paid bearer shares, each with a par value of €0.90.

The chart below depicts the Company's shareholder structure at 30 June 2015 and 31 December 2014:

Shareholder	% 30/06/2015	% 31/12/2014
Retos Operativos XXI, S.L.	26.5	26.5
Alcor Holding, S.A.	5.9	6.2
La Fuente Salada, S.L.	5.4	5.4
Asúa Inversiones, S.L.	5.2	5.2
Amber Capital UK LLP	4.4	4.4
Norges Bank Investment Management	3.3	3.6
Treasury shares	0.6	1.2
Free float	48.7	47.5
Total	**100.0**	**100.0**

The Company's shares are represented by book entries and are officially listed on the Spanish stock exchanges and traded on the continuous market. All of its shares confer equal voting and dividend rights.

18.2. Dividends

At the Annual General Meeting held on 28 April 2015, the shareholders of Ence Energía y Celulosa, S.A. ratified the motion to pay a dividend against the share premium account in the amount of €0.10 per Ence Energía y Celulosa, S.A. share. The dividend, which totalled €24,889 thousand, was paid out on 8 May 2015.

The earnings per share calculations (which coincide with diluted earnings per share) for the six-month period ended 30 June 2015 are shown below:

Earnings per share (€)	Six months ended 30/06/2015
Consolidated profit/(loss) for the period attributable to owners of the parent	22,133,000
Ordinary shares outstanding at 31/12/2014	250,272,500
Ordinary shares outstanding at 30/06/2015	250,272,500
Weighted average ordinary shares	250,272,500
Basic earnings per share (€)	**0.09**
Diluted earnings per share (€)	**0.09**

18.3. Parent Company shares

The reconciliation of "Own shares—parent company shares" at the beginning and end the six-month period ended 30 June 2015 is as follows:

	No. of shares	Thousands euros
Opening balance	2,920,663	5,744
Purchases	119,000	250
Sales	(1,661,200)	(3,273)
Closing balance	**1,378,463**	**2,721**

18. Equity (Continued)

The own shares held by the Parent are held for market trading purposes.

19. Borrowings and cash and cash equivalents

The breakdown of the Group's borrowings at 30 June 2015 is as follows:

	30/06/2015		
	Current	**Non-current**	**Total**
High-yield bond	—	225,000	225,000
Loans and credit facilities	400	15,100	15,500
50-MW project finance facility	6,974	68,165	75,139
20-MW project finance facility	2,015	27,542	29,557
Arrangement fees(*)	(495)	(9,030)	(9,525)
Accrued interest payable and other	7,262	—	7,262
	16,156	**326,777**	**342,933**

(*) High-yield bond: €6,550 thousand; 50-MW project finance facility: €1,709 thousand; 20-MW project finance facility: €1,266 thousand.

The breakdown of bank borrowings at 30 June 2015 and 31 December 2014 corresponding to loans, credit facilities and discounting facilities, classified by their respective maturities, is as follows:

30 June 2015 (thousands of euros)	Limit	Drawn down	Due in 2015	2016	2017	2018	Beyond
High-yield bond	225000	225,000	—	—	—	—	225,000
Revolving credit facility	90,000	—	—	—	—	—	—
50-MW project finance facility	101,309	75,139	3,330	7,288	7,762	7,878	48,881
20-MW project finance facility	60,692	29,557	977	2,077	2,075	2,205	22,223
Other loans	15,500	15,500	200	300	—	—	15,000
Interest and other	—	7,262	7,262	—	—	—	—
Arrangement fees	—	(9,525)	(495)	(1,935)	(1,991)	(1,721)	(3,383)
	492,501	342,933	11,274	7,730	7,846	8,362	307,721

30 June 2014 (thousands of euros)	Limit	Drawn down	Due in 2015	2016	2017	2018	Beyond
High-yield bond	250,000	250,000	—	—	—	—	250,000
Revolving credit facility	90,000	—	—	—	—	—	—
50-MW project finance facility	101,309	78,469	6,660	7,288	7,762	7,878	48,881
20-MW project finance facility	60,692	30,533	1,953	2,077	2,075	2,205	22,223
Other loans	700	700	400	300	—	—	—
Interest and other	—	7,886	7,886	—	—	—	—
Arrangement fees	—	(11,135)	(495)	(2,090)	(2,132)	(2,181)	(4,237)
	502,701	356,453	16,404	7,575	7,705	7,902	316,867

19.1. ENCE bond issue

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 amended. The issue was carried out under New York state law and the bonds are traded on the Luxembourg Euro MTF exchange.

On 4 June 2015, the Company bought back 10% of the 2013 bond issue.

19. Borrowings and cash and cash equivalents (Continued)

The bonds fall due 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. The current issuer and issue credit ratings assigned by Standard&Poors and Moody's are BB−/BB− and Ba3/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 at a rate benchmarked to Euribor and matures in 2018. It was fully drawn down at the reporting date. This agreement is governed by English and Welsh legislation.

19.2. Project finance facilities

50-MW Huelva plant

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 11). The loan was initially granted for €101,309 thousand, of which €85,256 thousand has been drawn down to date. Loan repayments began on 22 June 2013 and the facility is scheduled for full repayment by 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 how many years have elapsed since it was granted. The fee for structuring this loan was €3,483 thousand.

20-MW Mérida plant

On 1 August 2012, the Group and a syndicate of three banks entered into a project finance loan agreement to fund the construction of a biomass-fuelled power generation plant (note 11). The loan was initially granted for €60,692 thousand, of which €29,500 thousand has been drawn down to date. Loan repayments began on 15 December 2014 and the facility is scheduled for full repayment by 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 fee for structuring this loan was €1,656 thousand.

The disclosures regarding the guarantees extended and obligations and other restrictions assumed in the context of these project finance facilities are provided in note 19 of the 2014 consolidated financial statements.

Refinancing process

The regulatory changes affecting the energy business have affected the ability of the projects' holding companies to meet certain of the obligations covenanted under their financing agreements (note 21).

At present, the Group is in talks with the banks that provided the 50-MW Huelva and 20-MW Mérida project finance facilities with a view to adapting the size of the facilities to the above-mentioned regulatory changes, particularly the new supply structure.

19. Borrowings and cash and cash equivalents (Continued)

The proposed new facility would be structured as a single senior loan that would cover the two power generation plants, the distinguishing characteristics of which include: 1) a guarantee regime that only affects the Energy business such that the loan is non-recourse to the parent, Ence Energía y Celulosa, and the rest of the Pulp business; and 2) a biomass supply system adapted for the new regulatory environment and based on biomass secured in the marketplace.

The goal is to conclude the negotiation process in the third quarter of 2015 and to secure funding of at least that already drawn down as well as longer repayment terms than those contemplated in the current loan agreements.

19.3. Other loans

On 23 April 2015, ENCE arranged a €15 million loan repayable in a single bullet payment on 24 March 2019. This loan accrues interest at Euribor + 2.1% and is secured by several of the Group companies engaged in the pulp business. The loan was taken out to fund some of the investments to be carried out at the Asturias complex in connection with planned capacity additions (note 11).

19.4. 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.

The breakdown by maturity at 30 June 3015 and 31 December 2014 is as follows:

Thousands of euros	2015	2014
2015	1,482	1,858
2016	1,543	1,280
2017	1,279	1,279
2018	1,288	1,288
2019 and beyond	5,210	5,210
Unwind of discount	(906)	(1,044)
	9,896	**9,871**

19.5. 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 0.34% in the first half of 2015 (1.07% in 1H14).

The 30 June 2015 statement of financial position includes €9,568 thousand of cash denominated in US dollars (year-end 2014: €2,667 thousand).

19.6. Other financial assets

This heading mainly includes deposits set up to guarantee obligations assumed in writing certain derivative financial instruments (note 14), as well as under the agreements entered into for the future purchase of emission allowances (note 10).

20. Tax matters

The balances receivable from and payable to the tax authorities at 30 June 3015 and 31 December 2014 are shown below:

	Thousands of euros			
	30 June 2015		31 December 2014	
	Balances receivable	Balances payable	Balances receivable	Balances payable
Non-current:				
Deferred tax assets	79,197	—	81,588	—
Deferred tax liabilities	—	21,368	—	21,948
Total	**79,197**	**21,368**	**81,588**	**21,948**
Current:				
Income tax receivable and VAT payable	13,855	1,712	8,492	1,942
Current tax on profits for the year	2,852	6,740	303	94
Tax in respect of prior years	—	—	11,631	—
Electricity levy	—	2,466	876	3,039
Sundry taxes receivable from/payable to tax authorities	363	2,843	379	3,668
Total	**17,070**	**13,761**	**21,681**	**8,743**

Current tax expense was calculated using the prevailing tax rate of 28%.

20.1. Deferred tax assets

The reconciliation of the opening and closing balances of "Deferred tax assets" for the six months ended 30 June 2015 is shown below:

	Thousands of euros			
	Taxable income & tax credits(*)	Hedging instruments	Other deferred tax assets	Total
Opening balance	53,780	2,938	24,870	81,588
Estimated 2015 income tax	(2,176)	—	—	(2,176)
Change in fair value of hedging instruments	—	(59)	—	(59)
Other	—	—	(156)	(156)
	51,604	**2,879**	**24,714**	**79,197**

(*) Utilisation of tax losses is limited to 25% of taxable income in 2016

The deferred tax assets have been recognised in the condensed consolidated statement of financial position based on the judgement, using 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.

As provided in Spanish legislation, unused tax losses generated during a given year can be offset against taxable income generated by the consolidated Tax Group No. 149/02 in successive years, as they do not prescribe.

20. Tax matters (Continued)

20.2. 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 (note 21) and from any review of the returns still open to inspection, if any, will not have a material impact on the accompanying condensed consolidated financial statements.

21. Provisions, impairment charges, guarantees and contingent liabilities

21.1. Provisions and impairment charges

The reconciliation of the opening and closing balances of current and non-current provisions for the six months ended 30 June 2015 is as follows:

	Thousands of euros				
	Balance at 01/01/2015	**Additions/ (charges)**	**Derecognitions or decreases**	**Transfers (note 12)**	**Balance at 30/06/2015**
Non-current:					
Employee commitments (notes 6)	712	3,155	(1,765)	—	2,102
Emission allowances (note 10)	5,081	1,008	(5,081)	—	1,008
Discontinuation of pulp production in Huelva	3,917	—	—	—	3,917
Other	1,437	408	(61)	—	1,783
	11,147	**4,571**	**(6,907)**		**8,811**
Current					
Costs of unwinding energy crop and other lease agreements	9,898	—	(41)	(2,701)	7,156
Discontinuation of pulp production in Huelva	9,822	400	(3,422)	—	6,800
	19,720	**400**	**(3,463)**	**(2,701)**	**13,956**

Changes in the regulatory framework governing the Spanish energy sector

In 2013 and 2014, the Spanish government passed a series of laws and regulations which have had the effect of modifying the remuneration and tax regime applicable to the generation of energy from renewable sources, including generation and co-generation facilities fuelled by biomass.

The new regulations had the following significant impacts on the carrying amounts of the Group's assets and liabilities:

1. Impairment of energy crops and other related assets

   In prior years, the ENCE Group had invested significantly in energy crops as part of its growth strategy for its biomass power generation business under the regime afforded by Royal Decree-Law 661/2007 (25 May 2007), which enacted the regime applicable to renewable energy or the so-called 'special' regime.

   The regulatory changes introduced in the Spanish energy sector between 2013 and 2014 were legislated without any consideration whatsoever for compensating developers for these heavy investments, triggering the need to write down the investments in energy crops and other assets for impairment.

21. Provisions, impairment charges, guarantees and contingent liabilities (Continued)

The following table itemises the impact on profit and loss of the impairment provisions recognised against the Group's various assets, as well as the outstanding related obligations as of 30 June 2015:

	Income statement impact			Outstanding
Thousands of euros	**2013**	**2014**	**Total**	**obligation**
Energy crop plantations (note 12)	12,219	22,370	34,589	19,204
Irrigation facilities (note 11)	4,475	4,049	8,524	8,204
Termination of lease agreements	5,228	10,401	15,629	7,156
Energy crop R&D (note 10)	2,853	—	2,853	2,853
Energy project development costs (note 11)	2,110	—	2,110	2,110
	26,885	**36,820**	**63,705**	**39,527**

2. Settlement of remuneration earned on energy sold in 2013 and 2014

Spain's energy sector reforms were rounded out on 20 June 2014 with the publication of Ministerial Order IET/1045/2014 (16 June 2014) enacting the standard facility remuneration parameters applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste, with retroactive effect to 14 July 2013, the date on which Royal Decree-Law 9/2013 took effect.

In 2013 and the first half of 2014, the regulator settled energy remuneration applying the terms of the outgoing regime, namely Royal Decree 661/2007, which meant that the retroactive application of the new regime entailed the reimbursement to the regulator in 2014 of €10,809 thousand of accrued settlements (€13,150 thousand in 2013).

3. Project finance facilities arranged to fund the power generation developments

The regulatory changes introduced in the energy sector have affected cash flow generation at the 50-MW Huelva and 20-MW Mérida projects as well as the ability of the holding companies to meet some of the obligations covenanted in the related financing agreements.

The lenders' estimates of 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, prompted them to propose reducing the amount of project financing available for the 20-MW Mérida and 50-MW Huelva projects by €20 million and €29 million, respectively. These estimates were made during the first half of 2013 and therefore do not factor in Royal Decree 413/2014, of 6 June 2014, regulating the production of electric power by means of renewable sources, co-generation and waste, which took effect on 11 June 2014, or Ministerial Order IET/1045/2014, of 16 June 2014, approving the remuneration parameters for standard facilities applicable to certain facilities that generate power by means of renewable sources of energy, co-generation and waste, published on 20 June 2014.

At present, the Group is in talks with the banks that provided the 50-MW Huelva and 20-MW Mérida project finance facilities with a view to adapting the size of the facilities to the above-mentioned regulatory changes (note 19).

On 30 December 2014, the banks that provided these facilities expressly manifested that it is not their intention to seek early repayment of the loans extended or to declare the loans due as a result of the breach, forced by the regulatory changes in the Spanish energy sector, of certain covenants in the loan agreements related to the energy crop business. This waiver is valid until 31 December 2015.

21. Provisions, impairment charges, guarantees and contingent liabilities (Continued)

In addition, the new Spanish regulatory framework implies the application of the same regime to energy crops as forestry and agricultural biomass for remuneration purposes and establishes a cap on the amount of output eligible for remuneration premiums of 80%-90% of the plants' nominal annual capacity.

Discontinuation of pulp production in Huelva

The lack of competitiveness of the industrial complex in Huelva caused by the impact of the regulatory reforms undertaken in the Spanish energy sector, drastically reducing premiums for the co-generation of power using lignin to well below the levels received by our European peers, coupled with the structural scarcity of eucalyptus wood in the vicinity of the complex, forced ENCE to announce, on 4 September 2014, its decision to specialise in clean energy generation at the Huelva complex and to cease the production of pulp.

The following table itemises the impact on profit and loss of the corresponding impairment provisions recognised against the Group's various assets, as well as the outstanding related obligations as of 30 June 2015:

Thousands of euros	Income statement impact 2014	Income statement impact 2015	Outstanding obligations
Asset impairment:			
Industrial facilities (note 11)	44,744	—	54,000
Forest plantations (note 12)	20,949	—	20,250
Spare parts	6,027	—	6,206
Quarry mining rights (note 10)	746	—	746
Contractually-assumed obligations	16,498	400	10,717
Employee benefits expense	20,395	—	314
	109,359	**400**	**92,233**

21.2. Guarantees

At 30 June 2015, several financial institutions had extended the various Group companies guarantees for an aggregate amount of approximately €48,580 thousand, of which €26,638 thousand is accounted for by guarantees of a financial nature.

The Board of Directors does not expect the amounts guaranteed or the guarantees extended to result in material liabilities for the Group.

21.3. Contingent liabilities

Note 18 to the Group's 2014 consolidated annual financial statements provides disclosures in respect of the Group's contingent liabilities at year-end. The material changes in contingent liability related issues occurring during the first half of 2015 are detailed below:

Public-domain concession—Pontevedra factory

Under the scope of Law 2/2013, of 29 May 2013, on coastal protection and sustainability and amending the Coastal Act, and the General Coast Regulations enacted by means of Royal Decree 876/2014 (10 October 2014), ENCE has taken the initial steps to have the concession extended for the maximum term provided under law, starting from the date of the extension application, which is 8 November 2013.

21. Provisions, impairment charges, guarantees and contingent liabilities (Continued)

The processing of this application has been suspended by legal injunction until the administrative case regarding the expiry of this concession, initiated by the Ministry of Agriculture, Food and the Environment in executing the Supreme Court sentence of 11 July 2014, has been resolved.

Sentences handed down by the National High Court (Chamber for Contentious Administrative Proceedings) on 19 May 2011 and 19 April 2013 ordered the state to initiate proceedings to investigate the expiry of the Pontevedra concession on the grounds alleged by an environmental association. The first of these sentences was upheld by the Supreme Court on 11 July 2014.

Carrying out this sentence, the Ministry for Agriculture, Food and the Environment has initiated the case as required and heard three rounds of pleas by ENCE arguing the lack of legal grounds for declaring the concession expired. The case is currently pending ruling by the Ministry for Agriculture, Food and the Environment; however, it has already issued a proposed ruling stating that the concession has not expired except in respect of the land earmarked to the Placeres wastewater treatment plant and the underwater discharge pipeline and the land reserved for sports facilities, albeit making maintenance of the said land incumbent upon the treatment plant and discharge pipeline operator.

22. 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 their carrying amount and fair value less costs to sell.

The breakdown of "Non-current assets held for sale" at 30 June 2015 and 31 December 2014 is as follows:

Thousands of euros	30/06/2015	31/12/2014
NON-CURRENT ASSETS		
Huelva industrial complex	**34,053**	**34,632**
Forest land and cover	**37,879**	**38,822**
Forest land	34,034	33,955
Forest cover	3,845	4,867
Investment and other properties	**3,925**	**3,925**
TOTAL	**75,857**	**77,379**

The decision to cease pulp production at the Huelva industrial complex has meant that some of its industrial assets are no longer used for productive purposes (note 21) and are now classified as 'available-for-sale'. These assets' recoverable amount has been estimated at €34,053 thousand, which implied the need to recognise impairment losses on these assets in prior years totalling €54,000.

The Group is in the process of carrying out the orderly sale of its irrigation-entitled forest land in southern Spain that used to be earmarked for energy crop development. This land encompasses approximately 2,000 hectares of irrigation-entitled land, alongside 1,000 hectares of adjacent land that does not carry irrigation entitlements. The carrying amount of the land and corresponding forest cover is €34,034 thousand and €3,845 thousand, respectively. Its realisable value, estimated on the basis of firm offers for part of this land and forest cover, is in the range of €40-€60 million.

22. Non-current assets held for sale (Continued)

During the first half of 2015, the Group closed the sale of 64 hectares of irrigated land for €1,952 thousand and 49 hectares of non-irrigated land for €146 thousand. In addition, it has entered into deposit agreements for the sale of 393 hectares of irrigated land for €11.9 million and of 124 hectares of non-irrigated land for €0.5 million. These sales are expected to go through during the second half of 2015, once the land segregation records have been duly processed.

Elsewhere, the Group has taken several measures to sell properties located in Pontevedra that are not used in its core business activities. The carrying amount of these assets is €3,925 thousand, in line with their estimated net realisable value.

23. Related-party disclosures

The Company performed the following transactions with related parties in the first six months of 2015 and 2014:

Related party	Item	Thousands of euros 1H15	Thousands of euros 1H14
Agroluan, S.L.	Services received	50	121
Grupo Foresta	Biomass	606	18

These transactions were arranged on an arm's length basis.

24. Director and key management personnel pay and other benefits

Note 30 to the Group's 2014 consolidated annual financial statements details the agreements in force regarding the remuneration and other benefits provided to the members of the Company's Board of Directors and its senior management team.

The table below summarises the most significant items of remuneration and benefits accrued during the six months ended 30 June 2015:

	Thousands of euros
Members of the Board of Directors:	
Type of remuneration—	
Fixed remuneration	314
Meeting attendance fees	240
Other expenses	4
	558
Executives:	
Total remuneration received by executives	**1,481**
	2,039

In addition, the key management personnel received €741 thousand under their long-term bonus plan.

24. Director and key management personnel pay and other benefits (Continued)

The list of key management personnel as of 30 June 2015 is as follows:

Name	Position
Ignacio de Colmenares y Brunet	Chief Executive Officer
Jaime Argüelles Álvarez	Pulp and Energy Operations Officer
Javier Arregui Abendivar	Forestry Officer
Alvaro Eza Bernaola	Procurements Officer
María José Zueras Saludas	Corporate Resources Officer
Alfredo Avello de la Peña	Chief Financial Officer
Luis Carlos Martínez Martín	Communication and Institutional Relations Officer

The Parent has no pension or alternative insurance related obligations to its directors. However, the Chief Executive Officer, by virtue of his service agreement, shares in certain company profits, which are included in the corresponding pension contributions and payments.

25. Environmental disclosures

The Ence Energía y Celulosa Group has two pulp mills in Spain, one in Navia and the other in Pontevedra, and two biomass-fuelled renewable power generation stations, one in Huelva and one in Mérida, all of which hold the corresponding integrated environmental permit for the pursuit of their respective industrial activities.

As part of the total quality management (TQM) model, processes are carried out in keeping with management excellence, articulated around three cornerstones:

1) Managing improvement
2) Managing processes
3) Managing everyday activities

This management model is based on a continuous improvement approach with a focus on maximising efficiency and competitiveness by addressing matters related to quality, health and safety, environmental protection and pollution prevention as one. Against this backdrop, the Group has established 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
- Reduction of noise levels

In addition, the biomass renewable power generation station in Huelva and the pulp mills in Navia and Pontevedra are in the process of implementing an integrated management system that complies with the following standards:

- UNE-EN-ISO 9001 (quality management)
- UNE-EN-ISO 14001 (environmental management)
- OHSAS 18001 (workplace health and safety management)

25. Environmental disclosures (Continued)

This integrated system is certified by an accredited organism that carries out the corresponding audits. 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.

Furthermore, the biomass renewable power generation station in Huelva and the pulp mills in Navia and Pontevedra participate in the Community eco-management and audit scheme (EMAS) governed by Regulation (EC) No. 1221/2009. Validation of the environmental statement enables continued participation by all three facilities 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.

At ENCE, environmental management seeks to go beyond compliance with prevailing legislative requirements applicable to pulp production. The goal is to be a sector benchmark in terms of environmental performance. The related legislative requirements are laid down in the corresponding integrated environmental permit which defines the environmental criteria for operating an industrial facility.

The goal is to prevent, or at least minimise, and control the impact of business operations on air, water and soil 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 (BAT), as well as surveillance plans in respect of all significant environmental parameters.

Under the scope of the TQM model, the Group is developing the operating standards needed to optimally control and manage 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 achievements are the result of the commitment of all the people working at ENCE and the investment effort undertaken in recent years, underpinned by implementation of the best available techniques (BAT) and best environmental practices (BEP) defined in the sector BREF (Best Available Techniques in the Pulp and Paper Industry 2014) recently approved by the European Parliament's ENVI Committee.

Huelva Operations Centre

The activity carried out at the Huelva Operations Centre since it was commissioned on 24 October 2014 consists of the production of electric power from forestry biomass by means of two biomass furnaces, with nominal capacity of 41 MWe and 50 MWe, known as HU-40 and HU-50, respectively.

As for the environmental impact of this facility's wastewater, the main readings tracking the quality of the effluents discharged, such as total organic carbon (TOC) and suspended solids, fell substantially year-on-year during the first half of 2015 due to the discontinuation of pulp production on 9 October 2014.

In terms of waste generation and management, the sand and ash generated by the biomass furnaces are managed with a view to their recovery, specifically for use in the manufacture of aggregates and for soil treatment purposes. All of the ash generated at both plants and the sand generated at HU-50 were recovered in the first half of 2015. The sand produced at HU-40, which is currently going to landfill, will also be recovered from the third quarter of this year on.

25. Environmental disclosures (Continued)

Navia Operations Centre

The progress made on implementation of the TQM has led to a change in the focus of the operational control strategies pursued by the teams operating the productive facilities. The initial results of this change in strategic focus include a 10.5% year-on-year reduction in the use of chemical products during the pulp delignification and bleaching processes in the first half of 2015.

During the first half of 2015, the Navia Operations Centre focused its efforts on delivering a substantial improvement in process control by redesigning and redefining operations to focus on the reduction of operating costs. This streamlining process is designed to deliver excellence in terms of operational control, initially tackling the processes that are critical to the productive process with a view to subsequently taking on other areas over the course of 2015.

The operational improvements are going to be accompanied by facility upgrades, specifically execution of plans to enhance the facility's productive and environmental performance by means of application of best available techniques to mission-critical processes.

The objectives pursued by this project, which is expected to take one year to complete, are the following:

- Maximisation of the facility's utilisation and production, increasing pulp production capacity by 8%.
- Improvement of the facility's environmental footprint, reducing NOx emissions at the recovery furnace by 12-15%, minimising consumption of chlorine dioxide during the bleaching process and implementing specific measures to reduce overall noise pollution.
- Enhancement of the complex's energy performance, reducing its electricity consumption by 7.5% per tonne of pulp produced.

Steady progress was made on execution of this project during the first half of 2015, thanks to the following modifications made to the facility:

- Improvements to the recovery furnace by means of implementation of a tertiary air system, improvements to the black liquor injection system and the treatment of odorous gases.
- Improvements in the digester system thanks to structural changes to the continuous digester's design in order to facilitate liquor circulation and boost its performance.
- Improvements at the bleaching phase thanks to the installation of a new EOP tower to make the lignin extraction reaction process more efficient.
- Improvements to the drying process by means of substantial changes to the filtering and press drying processes that will increase the facility's productive capacity and improve its energy performance.

In terms of emissions, odorous gas emissions from stationary emission sources have fallen significantly, specifically by 95% year-on-year.

As part of the ongoing effort to continue to reduce odour in the facility's surroundings, action is being taken to reduce emissions from diffuse sources in order to increase that ability to capture and treat emissions from these sources in order to reach the in-house target of 'zero odours'.

Wastewater discharges continued to improve during the first half of 2015, reaching levels that fall within the benchmark readings stipulated in the pulp and paper sector BREF published on 30 September 2014.

Environmental capital expenditure at the Navia factory totalled €2,381 thousand in the first half of 2015.

25. Environmental disclosures (Continued)

All of the Group's facilities present noise readings that are below the benchmark integrated environmental permit levels. During the second quarter, an acoustics study was carried out at the Navia Operations Centre to identify the sources of noise emissions. Action was taken during the annual stoppage undertaken in June at the four priority sources so identified (digester, roller, building and blower pipes in the treatment plant) in order to reduce the impact. In addition, further action is planned for the remainder of the year in order to reduce sound emissions at other sources.

Pontevedra Operations Centre

The Pontevedra Operations Centre, as with the Navia factory, has set in motion a series of initiatives targeted at the redesign and reconfiguration of the facility's operations with the overriding goal of achieving excellence in terms of operational control, initially tackling critical processes, with a view to subsequently taking on other areas over the course of 2015.

Work continued on the project designed to fully eliminate the facility's odour impact. As a result, in the first half of 2015, the number of daily minutes with odorous episodes declined by 69% year-on-year.

In addition, in an effort to continue to bring down the odorous impact with a view to ultimately delivering the 'zero odour' target, a number of initiatives were undertaken during the March maintenance stoppage, such as the installation of an automatic cleaning system for the black liquor burners in the recovery furnace and of a fuel tank in the gas furnace.

Progress was made in parallel on initiatives under the plan for increasing the complex's environmental reliability which focuses on preventing fallout from potential emissions into the atmosphere from the recovery furnace in the event of incidents; in this respect, 94% of all planned actions, entailing total investment of €884 thousand, had been completed by the end of June.

As for greenhouse gas (GHG) emissions, the 2014 emissions report was validated in January in keeping with emissions legislation applicable from 2013 to 2020.

The first-half wastewater discharge readings confirm the Pontevedra Operation Centre's position as a sector benchmark in this respect. For example, chemical oxygen demand is 76% below the threshold recommended in the pulp and paper BREF paper published last September. Meanwhile, it outperforms the BREF recommendations on suspended solids by 60%.

These figures mean that the Pontevedra factory is already compliant with the BREF benchmarks that will be mandatory from 2018.

Like the Navia factory, the Pontevedra facility also renewed its Nordic Swan seal. This official Scandinavian ecolabel was created in 1989 by the Nordic Council of Ministers representing Sweden, Denmark, Finland, Iceland and Norway, with the aim of making a positive contribution to sustainable consumption. The goal of this ecolabel is to help consumers, particularly the citizens of the above-mentioned countries, take purchasing decisions that respect environmental sustainability, although the prestige earned has made this certificate one of the most important in the world.

Lastly, true to its environmental pledge, the Pontevedra Operations Centre publishes daily environmental performance indicators on its website, www.encepontevedra.com, showing levels for the last 30 days; the reported figures are adapted for ready comparison with the parameters defined in the integrated environmental permit and the benchmark indicators used in the EU's pulp and paper sector BREF report.

25. Environmental disclosures (Continued)

Mérida Operations Centre

The regional government of Extremadura's Environmental Department granted the 20-MW Mérida biomass power plant's definitive commissioning certificate on 4 February 2015. That date marked the start of the Mérida biomass plant's business operations, to which end gas emissions and wastewater discharge figures are furnished to the regional government on an ongoing basis.

This facility's first programmed stoppage since it began to operate commercially was carried out in April, during which all the tasks required to keep the plant's equipment in proper shape were performed.

The facility's gas emissions are significantly below the levels established in its integrated environmental permit. The second-quarter results corroborate the reliable nature of this plant's operations.

Similarly, the wastewater discharges were adequate considering conductivity and nitrate levels, which are seasonally-high in the first half, of the water drawn directly from the Guadiana River.

Action has been taken to modify the biomass transportation systems with the aim of preventing the potential release of dust into the air due to the relatively drier nature of this material.

As for management of the waste generated in the furnace, such as slag and ash, these are being recovered for agricultural purposes. However, work is underway on a project being financed by the European Union for the recovery of industry-generated ash.

Elsewhere, the regional government has approved a plant reforestation plan which is slated for execution during the last quarter of this year.

A top-tier external consultant carried out an acoustics study at the Mérida Operations Centre with a view to identifying the main sources of noise emissions at this facility. Having so identified these sources, corrective measures have been established to guarantee compliance with regulatory noise thresholds.

Lastly, the bird and wildlife report has been compiled for presentation to the authorities.

Forestry

ENCE is the largest private forest owner-manager in Spain as well as the main buyer of timber. Its forest sustainability policy, articulated around the three major lines of initiative outlined below, has made it a standard-bearer in the sector:

- **Environmental responsibility:** ENCE follows and promotes management criteria inspired by excellence across its owned tracts of forest and third-party forests, taking its cues from the sustainable forest management frameworks (PEFC and FSC). Indeed, its goal is to achieve dual forest certification for all its operations, whether owned by it or by third parties.
- **Management efficiency:** ENCE's forestry business has a series of environmental impacts on account of the consumption of water, electricity and gas-oil. ENCE aims to use these resources to the highest standards of efficiency. In parallel, it develops and promotes best management practices (forestry and genetic management and techniques) in order to maximise the yield from the land under its management.
- **Community commitment:** ENCE carries out its forestry activities in rural areas and it engages proactively with these rural communities in an attempt to share its broad know-how with a view to facilitating the professional development and efficient management of these forests. Assistance with zoning, pest control, plant matters and forest certification are some of the cornerstones of this policy of engagement.

25. Environmental disclosures (Continued)

ENCE's forestry business is regulated by an integrated forest management system which provides the framework for compliance with the ISO quality and environmental management standards and the sustainable forestry and chain of custody standards, PEFC and FSC. Forestry-related initiatives are guided by the Sustainability Principles approved by ENCE's senior management.

During the first half of 2015, ENCE extended its record of developing forestry policies underpinned by sustainability criteria in both its forest management activities and as part of its timber supply arrangements (purchase of standing timber and wood); these are complemented by policies designed to encourage certification, membership of sector associations and the award of premiums for timber produced under benchmark international sustainability standards.

Broadly speaking, forestry management has been shaped by growing market flexibility with respect to demand for certified timber, with supplies of PEFC-certified timber increasing; this has reinforced the Company's strategic focus on dual certification. Due diligence is the other key trend.

On the certification front, significant work has gone in to getting the entire network of certification groups, which cover virtually 100% of private timber production, doubly certified. This project, championed by ENCE, culminated on 30 June, thanks to which all groups and owners have useful and competitive tools for certifying timber at source under both sustainability seals.

As for the chain of custody, progress has similarly been made in the direction of dual certification, an essential requirement in the case of timber furnished by suppliers. ENCE has worked with certifying groups and entities and reached competitive deals in terms of timing and prices so that all suppliers can avail of dual certification, should this be required, by the month of July.

Another milestone in the forestry area worthy of mention is the drafting of the bill known as the Forestry Act (approved by the Spanish senate as of the date of issuance of this report), which defines the penalty regime and National Timber Legality Committee structure against the backdrop of the European Timber Regulation addressing the due diligence requirement. ENCE has worked with all of the regions that will inspect its activities (namely Galicia, Asturias, Cantabria, Extremadura and Andalusia), coordinating the development and clarification of terms and concepts and external training programmes with their experts and officials. These inspections will take place during the second half of this year. At present, Galicia is only working with companies registered in RESFOR, the regional government's registry of forest companies; in the other regions, pending enactment of local legislation, the benchmark is provided by ENCE's due diligence system, as allowed under the European Timber Regulation.

On the corporate certification front, the renewal audit for ENCE's FSC certificate at the Group level was conducted during the second quarter of the year. The audit did not reveal any major deviations, increased the scope of the audit to the region of Cantabria and brought the total land area certified to 38,815 hectares. By the time it next renews its certificate (in 2020), the Company aims to have all of the forest land under its management FSC-certified. Chain of custody PEFC, ISO 9001, ISO 14001 and GFS PEFC audits are scheduled to take place during the third quarter.

The main development in the forest management business during the second quarter of 2015 was the FSC certification renewal audit, marking the end of a five-year cycle. ENCE's forest certification system (the Group system) is by now well proven and tested and continues to evolve satisfactorily, with barely any incidents.

The amount of forest land that is FSC-certified in the wake of the last audit stands at 38,393 hectares, which is equivalent to 55% of total potentially-certifiable land. Meanwhile, the PEFC-certified land mass (which audit is scheduled for July) totals 57,077 hectares, which represents 82% of total potentially-certifiable land.

25. Environmental disclosures (Continued)

ENCE has embarked on a new line of initiative in parallel to that developed in the third-party market, encouraging dual certification: 38,323 hectares or 55% of total potentially-certifiable land, boasts the dual seal. ENCE's goal is to have 100% of its forest tracts doubly-certified within three years' time.

Of the 63,000 hectares under management, almost 6,000 are zoned as forest land with high conservation value and 12,230 are located in protected nature reserves. The environmental heritage of the Group's forest land is enriched by the identification of 14 species of protected flora found in 55 forests (out of the 228 in which detailed floral studies have been carried out). As many as 35 so-called Habitats of Community Interest have been identified in the forests managed by ENCE.

The following community-related initiatives are worth highlighting:

- Progress on the project for classifying eucalyptus biomass in conjunction with the regional government of Andalusia
- Development of the land zoning taskforce together with the regional government of Andalusia and owner and producer associations
- Continuation of the flora classification work underway across the forests managed by ENCE
- Continued provision of support for external certification groups, focusing the effort on the promotion of single property ownership and dual certification
- Support for land owners with development of a plan to fight the eucalyptus leaf beetle in northern Spain; and
- Membership of the FSC's Management Board in Spain with the express goal of simplifying certification requirements for small land owners

From a productive standpoint, the timber added (in cubic metres) in the second quarter of the year and the closing balance are shown below:

	Accumulated		1Q15		2Q15	
Total timber received	1,340,121.56	100%	635,429.34	100%	704,692.22	100%
Total certified timber	1,038,879.72	78%	439,632.33	69%	599,247.39	85%
Total FSC-certified	681,554.99	51%	288,788.05	45%	392,766.94	56%
Total PEFC-certified	357,324.73	27%	150,844.28	24%	206,480.45	29%

The key lines of initiative planned for the second half of the year:

- Continued promotion of dual certification and single property ownership
- Plan for the development of the *Eucalyptus globulus species*
- Plan to fight the Gonipterus, or eucalyptus snout beetle
- Development of the new FSC forest certification standard in Spain
- Implementation of ENCE's new chain of custody system, including double certification credit, direct accreditation and reinforcement of the due diligence system.
- Support for suppliers in carrying out the first government due diligence inspections.

26. Events after the reporting date

On 15 July 2015, ENCE arranged a €15 million loan repayable in a single bullet payment on 30 June 2020. This loan will be used to finance the expansion of capacity at the mill in Asturias. It accrues interest at a fixed rate of 2.1% and is guaranteed by several Group companies engaged in the pulp business.

26. Events after the reporting date (Continued)

In July 2015, the Group arranged tunnel-structure options over US dollars to hedge future income benchmarked to that currency in a notional amount of USD90 million; the exercise prices for the options purchased range between $/€1.0445 and 1.0690 and for the options sold, between $/€1.115 and 1.096.

In a meeting held on 21 July 2015, the Board of Directors agreed to add to the agenda for the Board meeting scheduled for 30 September 2015 a motion for the distribution of an interim dividend from 2015 earnings in the amount of €0.044 per share.

Group management report
for the six-month period ended 30 June 2015

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 Pulp and Energy Operations Officer, the Forestry Officer, the Procurements Officer, the Chief Finance & Corporate Development Officer, the Human Capital Officer, the Communication and Institutional Relations Officer and the General Secretary. These officers 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 has articulated its activities around two core businesses: pulp production and the generation of power from renewable sources.

<u>Pulp Business</u>

The pulp business encompasses the production of eucalyptus pulp (short fibre), the generation of electricity in connection with the pulp production process (co-generation and generation fuelled by lignin and biomass) and the forestry business.

ENCE is Europe's largest producer of BHKP pulp from eucalyptus timber. It currently has annual production capacity of 0.96 million tonnes between its mills in Navia and Pontevedra. Eighty per cent (by sales volume) of its eucalyptus pulp was exported to Europe (the European market accounted for 98% of sales volume factoring in Spain), the world's largest pulp market and a net importer. Integrated within the pulp business, with installed capacity of 113 MW, ENCE co-generates and generates renewable energy from timber waste that is not used in the pulp manufacturing process, i.e., the lignin and forest waste that cannot be used as inputs.

In the forestry sector, the timber and biomass supply management model is underpinned by continually-improving forest management techniques, the diversification of sources of supply towards small land 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 of our wood supplies. In addition, the Group has been gradually selling its forested land, retaining management of those located in the vicinity of its pulp plants.

The management strategy is focused on the development of a competitive pulp business, tapping the opportunity for cash flow generation and protecting the Company's financial situation from cyclical volatility, while pursuing active growth in biomass power generation.

The pulp business is primarily focused on reducing costs in order to guarantee the competitiveness of its plants. The total quality management programme, which is designed to boost operating efficiency, balance maintenance capital expenditure requirements at the Group's facilities and drive significant improvements in productivity levels and capacity utilisation rates, was introduced in 2011. In 2014-2015, the Group also rolled out a €47m capex programme designed to lower cash costs at the Pontevedra and Navia plants by making them more competitive. In addition, in 2015, the Company engaged the services of specialist consultants in order to ensure delivery of the production efficiencies embedded in the investments made.

Energy Business

The other core business, which is independent of the pulp production process, is the renewable energy business, fuelled by forestry and agricultural biomass. It encompasses standalone generation plants that are independent of the pulp business, with aggregate installed capacity of 110 MW in the wake of start-up of the newest generation plant in Mérida, a 20-MW facility. This new power plant, along with the other two in Huelva, a 50-MW facility commissioned in 2013 and a 40-MW facility, now independent but initially part of the Huelva pulp production complex, comprise the Group's second core line of business.

The revenue derived from the generation of power has been increasing in recent years to account for close to 14% of total revenue in the first half of 2015, injecting stability and long-term visibility into the Group's ability to generate cash. This strategy began with the construction of independent biomass power generation stations plants in Huelva and Mérida; the construction and financial risks associated with these projects were reduced by means of turnkey arrangements and project finance facilities with terms of over 10 years.

The two businesses, the production of pulp and generation of electricity, leverage ENCE's solid positioning in the Spanish forestry market, which guarantees the supply of timber and biomass, primarily from third-party sources, essential to long-term business sustainability.

Without considering the expansion programmes, annual maintenance capex has averaged around €40m between 2007 and 2013. In the wake of the Huelva closure, the ongoing capex requirement will drop to under €30m due to the reduction in industrial and forestry assets. The Group's finance policy can be described as conservative, characterised by a commitment to maintaining a low leverage ratio and adequate liquidity levels, a strategy deemed consistent with the cyclicality intrinsic to the pulp business and designed to ensure the Company's long-term financial sustainability. This policy is articulated around a maximum tolerated leverage ratio—measured in terms of net debt to recurring mid-cycle EBITDA—of 2.5x.

Business performance and financial results

Business environment and outlook

The economic trends witnessed in 2014 continued throughout the first half of 2015, with the developed markets revealing ongoing consolidation of GDP recovery, offsetting the gradual slowdown in emerging markets. The IMF is forecasting global growth of 3.3% in 2015, just shy of the 2014 reading of 3.4%. Growth across the developed economies is expected to gather momentum, increasing from 1.8% to 2.1%, thanks to more robust growth across the eurozone (1.5% vs. 0.8% in 2014). This brighter outlook is offset by the anticipated slowdown in emerging economies, where growth is expected to ease from 4.6% to 4.2%, with Brazil (−1.5% vs. +0.1% in 2014) and Russia (−3.4% vs. +0.6%) standing out, hurt by the correction in commodity and oil prices.

The biggest source of uncertainty in Europe relates to the negotiations with the Greek government.

On the plus side, the eurozone economy should continue to benefit from euro depreciation against the dollar (particularly the main exporting nations such as Germany), the correction in oil prices and the quantitative easing policies rolled out by the ECB (which announced the buyback of €60 billion of assets in January 2015 and have stepped up liquidity facilities such as the LTRO and TLTRO programmes).

This environment is propitious to further euro depreciation against the US dollar, a trend that would have a very positive impact on sales and margins in the pulp business as pulp sales prices are referenced to the dollar.

Against this backdrop, the Spanish economy is expected to register growth of 3.1% vs. 1.4% in 2014, outperforming the European average. This growth is the result of the reforms implemented in recent years which have made Spanish companies more competitive, delivering the attendant growth in exports, the recapitalisation of the banks and ultra-low benchmark interest rates, which are helping to get credit flowing back into the economy.

Pulp prices extended the rally initiated last September. Demand strength, particularly in Asia, low inventory levels and the price gap that had opened up relative to long fibre prices, paved the way for successive price increases to $800/t. Although the Guaiba mill (Brazil) commissioned its 1.3 million tonne capacity expansion during the second quarter, the impact on supply is expected to be limited due to growth in global demand and the new facility's inevitable learning curve, as well as the capacity taken off-stream in the wake of closure of the Huelva plant; it is believed that the resulting market tightness could result in additional price increases.

Business overview and financial results

After a difficult 2014, in which government-led energy sector reforms triggered the decision to discontinue pulp production in Huelva, the first half of 2015 has yielded excellent results from the plan implemented to regain competitiveness, buoyed by the strength of both pulp prices and the dollar. Group revenue narrowed by 7% year-on-year to €313.2m, due to lower sales volumes; however, the EBIT margin stood at 14% compared to a substantial loss at this level in 1H14.

PULP business

Revenue from pulp sales amounted to €270m, down 11% year-on-year, due to lower volumes. Revenue from fibre sales fell 13% to €228.4m due to a drop in sales volume (tonnage) of 28% in the wake of closure of the Huelva mill in October 2014. The volume contraction was largely offset by growth of 20% in net pulp sales prices in euro terms. Although average prices inched just 1% higher year-on-year, the dollar appreciated 18% against the euro. The impact of currency appreciation trickled down to prices and margins, as ENCE's costs are incurred in euros whereas pulp prices are set in dollars. In addition, production costs declined by 12% as a result of investments made to boost efficiency and the general cost-cutting effort ongoing for the past 12 months. Revenue from electricity sales related to the pulp production process fell 26% to €36.2m, again attributable to the drop in volumes in the wake of the Huelva closure (−39%), partially offset by an 11% increase in prices thanks to higher pool prices. In the forestry business, revenue declined by 13% to €8.7m, shaped by lower sales of timber to third parties.

ENERGY business

The standalone energy business—articulated around the three biomass generation plants—registered sales growth of 84% to 276 GWh, thanks to a bigger year-on-year contribution by the 20-MW Merida facility which started up in April 2014 and the inclusion of the 41-MW Huelva plant as a standalone facility in the wake of discontinuation of pulp and co-generation activities at that industrial complex. Moreover, prices firmed by 3% to €145/MWh against the backdrop of higher pool prices.

EBIT was €45.6m, compared to a loss at the operating profit level of €58.6m in 1H14. The sharp recovery in earnings in 2015 was underpinned by higher prices coupled with lower costs. The year-on-year comparison is additionally boosted by the impact of the regulatory changes on revenue recognition (which changes triggered the closure of the Huelva mill).

Capital expenditure amounted to €26.4m, with just 7% earmarked to investment in biological assets for reforestation and improvement to forest assets earmarked for pulp production, having paralysed investment in energy crops and taken the decision to discontinue pulp production in Huelva. Industrial capital expenditure totalled €19.5m.

Group equity stood at €544.3m at 30 June 2015, which is equivalent to 47% of total assets.

The Company continues to deploy its cost-cutting and efficiency upgrade plan which is enabling it to fully offset the impact of the regulatory changes passed in 2014. This plan covers 2014, 2015 and 2016 and contemplates investment of €123m; it is expected to drive EBITDA to €77m in 2016.

The current situation, coupled with the outlook for the pulp market, position ENCE as a group with strong cash generation wherewithal.

In the research and development arena, the Group continued to make progress on its programmes for improving the genetic make-up and performance of the eucalyptus for pulp production purposes, for innovating and enhancing pulp-making processes and products, for the mechanical transformation of timber and new product engineering, these assets being capitalised as intangible assets and duly itemised in the notes to the consolidated annual financial statements.

Environmental protection

The required environmental disclosures are provided in note 25 of the condensed consolidated interim financial statements for the six months ended 30 June 2015.

Key risks and sources of uncertainty

The risk factors to which the ENCE Group is exposed are identified and described in note 6 to the 2014 consolidated annual financial statements of Ence Energía y Celulosa, S.A. and its subsidiaries.

Events after the reporting date

No events have occurred between the reporting date and the date of authorising these condensed consolidated financial statements for issue that have not been disclosed therein.

Corporate governance

All of the documentation relating to the annual corporate governance report (in keeping with the Spanish Transparency Act, Ministerial Order ECO/3722/2003 of 26 December 2003) and the other information which listed companies are required to disclose have been duly uploaded onto the corporate website, www.ence.es.

Purchase-sale of own shares

The disclosures regarding the acquisition and sale of own shares in 2015 are provided in note 18.3 to the accompanying condensed consolidated interim financial statements.

Other disclosures

Share price performance

The share price gained a noteworthy 48% in 1H15, outperforming the Spanish and European stock markets by 43% and 39%, respectively.

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15
Average daily volume (shares)	808,674	878,515	829,628	790,434	1,382,498	1,094,473
Ence Performance	(23%)	(13%)	(3%)	17%	60%	(7%)
Ibex 35 performance	4%	6%	(1%)	(5%)	12%	(7%)
Eurostoxx performance	2%	1%	(0%)	(2%)	18%	(8%)

Note: Ence's share price performance has been adjusted for the €0.08 per share dividend paid on 11 July 2014 and the €0.10 per share dividend paid on 8 May 2015; it has not been adjusted for the in-kind dividend paid on 21 July 2014, which had the effect of increasing the total shareholder return by 3%.

Ence's shares are part of the IBEX Medium Cap, the IBEX Top Dividendo and FTSE4Good Ibex indices.

In addition to having its shares publicly traded, in January 2013, the Company issued €250m of 7.25% bonds due 2020.

At the June close, the bonds were trading at close to 107% of par. 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.

The ENCE Group's current credit ratings are provided in the table below:

Corporate Rating	Current Rating	Outlook	Last review	Issue Rating	Current Rating	Last review
Moody's	Ba3	Negativa	21/11/2014	Moody's	B1	21/11/2014
Standard & Poor's . .	BB-	Negativa	20/11/2014	Standard & Poor's . .	BB-	20/11/2014

The consolidated interim financial statements and interim management report for the six months ended 30 June 2015, prepared under the IFRS adopted by the European Union, were authorised for issue by the Directors of the Parent on 21 July 2015 and span 52 sheets of ordinary paper (the financial statements on pages 1 to 5 and the accompanying explanatory notes on pages 6 to 52), while the management report spans 6 sheets (numbered from 1 to 6), all of which stamped by the Board's Secretary and this last sheet signed by all of the Parent's Directors.

In addition, for the purposes of article 11.1 of Spanish Royal Decree 1362/2007, of 19 October 2007, in relation to the interim financial report of Ence Energía y Celulosa, S.A. and its subsidiaries in respect of the first six months of 2015, which disclosures include the pertinent condensed consolidated financial information, the undersigning Directors make the following statement of responsibility: "to the best of their knowledge, the aforementioned condensed financial statements for the six months ended 30 June 2015, which have been prepared in keeping with applicable accounting standards, provide a fair view of the equity, financial position and performance of the Company and its consolidated entities taken as a whole and the aforementioned interim management report includes a fair analysis of the required disclosures".

Juan Luis Arregui Ciarsolo	Ignacio de Colmenares y Brunet
Javier Echenique Landiribar	José Carlos del Álamo Jiménez
José Guillermo Zubia Guinea	Gustavo Matías Clavero
Pascual Fernández Martínez	Pedro Barato Triguero
Mendibea 2002, S.L., represented by José Ignacio Comenge Sánchez-Real	Fernando Abril-Martorell Hernández
RETOS OPERATIVOS XXI, S.A., represented by Oscar Arregui Abendivar	Isabel Tocino Biscarolasaga
Víctor Urrutia Vallejo	

ENCE Energía y Celulosa, S.A.
and subsidiaries

Consolidated financial statements for 2014 prepared under the International Financial Reporting Standards adopted by the European Union, the Group Management Report and the Audit Report

Consolidated financial statements for 2014

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

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the shareholders of ENCE Energía y Celulosa, S.A.:

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of ENCE Energía y Celulosa, S.A. and its subsidiaries (the "Group" hereinafter), which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

The parent company's directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of ENCE Energía y Celulosa, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company's directors' preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.com/es

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

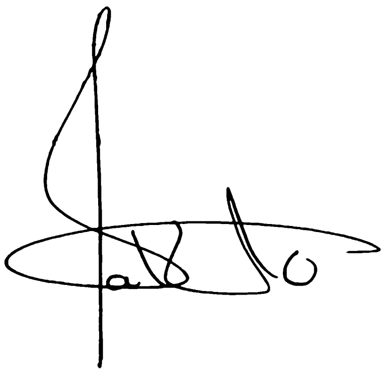
Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of ENCE Energía y Celulosa, S.A. and its subsidiaries as at December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' Report for 2014 contains the explanations which the parent company's directors consider appropriate regarding ENCE Energía y Celulosa, S.A. and its subsidiaries' situation, the development of their 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 directors' Report is in agreement with that of the consolidated annual accounts for 2014. Our work as auditors is limited to checking the directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from ENCE Energía y Celulosa, S.A. and its subsidiaries' accounting records.

PricewaterhouseCoopers Auditores, S.L.



Mar Gallardo

26 February 2015

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2014 AND 2013

Thousands of euros	Note	Year-end 2014	Year-end 2013
NON-CURRENT ASSETS:			
Intangible assets	7	13,698	19,057
Property, plant and equipment	8	643,996	776,246
Investment property	4.3	—	1,967
Biological assets	9	90,247	154,145
Other financial assets	19	2,956	2,918
Deferred tax assets	21	81,588	35,557
		832,485	**989,890**
CURRENT ASSETS:			
Non-current assets held for sale	28	77,379	—
Inventories	13	37,919	70,989
Trade and other receivables	14	100,431	114,364
Receivable from public authorities	21	9,747	18,592
Income tax receivable from the tax authorities	21	11,934	8,204
Current financial assets:			
Derivatives	12	999	—
Other financial assets	19	8,513	55,876
Cash and cash equivalents	19	73,428	103,391
Other current assets		1,321	953
		321,671	**372,369**
TOTAL ASSETS		**1,154,156**	**1,362,259**
EQUITY:			
Share capital	16	225,245	225,245
Share premium	16	195,665	210,037
Parent company reserves	16	99,965	117,458
Reserves in fully-consolidated companies	16	123,282	126,422
Valuation adjustments	16	46,501	48,807
Profit for the year		(140,909)	4,311
Translation differences	4.20	(1,077)	(2,218)
Own shares—parent company shares	16	(5,744)	(19,762)
Equity attributable to owners of the parent		**542,928**	**710,300**
TOTAL EQUITY		**542,928**	**710,300**
NON-CURRENT LIABILITIES:			
Bonds and other marketable securities	19	242,089	240,679
Bank borrowings	19	97,960	98,258
Grants	17	11,032	15,209
Derivative financial instruments	12	8,103	7,393
Other financial liabilities	20	7,486	8,546
Deferred tax liabilities	21	21,948	27,633
Non-current provisions	18	11,147	18,505
		399,765	**416,223**
CURRENT LIABILITIES:			
Bank borrowings	19	16,404	12,925
Derivative financial instruments	12	7,373	4,534
Other financial liabilities	20	2,385	1,962
Trade and other payables	15	156,326	197,179
Income tax payable to the tax authorities	21	94	39
Other payables to public authorities	21	8,649	11,318
Other current liabilities		512	699
Current provisions	18	19,720	7,080
		211,463	**235,736**
TOTAL EQUITY AND LIABILITIES		**1,154,156**	**1,362,259**

The accompanying notes 1 to 31 are an integral part of the consolidated statement of financial position at 31 December 2014

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT

FOR YEAR-ENDS 2014 AND 2013

Thousands of euros	Note	Year ended 31 Dec 2014	Year ended 31 Dec 2013
Continuing operations:			
Revenue	22	687,546	853,136
Gain (loss) on hedging transactions	12	39	12,102
Changes in inventory of finished goods and work in progress		(10,145)	2,117
Cost of sales	23	(379,447)	(427,836)
GROSS PROFIT		**297,993**	**439,519**
Own work capitalised	8 & 9	6,193	14,757
Other income		6,448	7,543
Government grants taken to income	17	5,686	6,320
Employee benefits expense	24	(87,035)	(80,459)
Depreciation and amortisation charges	4.3, 7 & 8	(59,479)	(63,133)
Depletion of forest reserve	9	(9,656)	(15,205)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	5, 7, 8, 9 & 18	(101,175)	(37,516)
Other operating expenses	25	(227,599)	(240,008)
OPERATING PROFIT/(LOSS)		**(168,624)**	**31,818**
Finance income		1,066	2,039
Change in fair value of financial instruments	12	(1,326)	1,830
Other finance costs	26	(28,032)	(30,762)
Exchange differences		1,612	641
NET FINANCE COST		**(26,680)**	**(26,252)**
PROFIT/(LOSS) BEFORE TAX		**(195,304)**	**5,566**
Income tax	21.3	54,395	(1,255)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**(140,909)**	**4,311**
PROFIT/(LOSS) FOR THE YEAR	27	**(140,909)**	**4,311**
Earnings per share:			
Basic	16	**(0.56)**	**0.02**
Diluted	16	**(0.56)**	**0.02**

Accompanying notes 1 to 31 are an integral part of the consolidated 2014 income statement

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR YEAR-ENDS 2014 AND 2013

Thousands of euros	Note	Year ended 31 Dec 2014	Year ended 31 Dec 2013
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR (I)	**16**	**(140,909)**	**4,311**
Income and expense recognised directly in equity:			
—Cash flow hedges(*)		(5,425)	3,340
—Translation differences(*)		1,141	(207)
—Tax effect		1,118	(1,001)
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY (II)	**16**	**(3,166)**	**2,132**
Amounts transferred to the consolidated income statement			
—Cash flow hedges(*)		2,860	(8,271)
—Tax effect		(859)	2,479
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS (III)	**16**	**2,001**	**(5,792)**
TOTAL COMPREHENSIVE INCOME/(EXPENSE) (I+II+III)		**(142,074)**	**651**

(*) Items that may be subsequently be reclassified to profit or loss

Accompanying notes 1 to 31 are an integral part of the consolidated 2014 statement of comprehensive income

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR YEAR-ENDS 2014 AND 2013

2014 (thousands of euros)	Balance at 1/1/2014	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 31/12/2014
Share capital	225,245	—	—	—	—	—	—	225,245
Share premium	210,037	—	—	—	—	—	(14,372)	195,665
Legal reserve	45,050	—	—	—	—	—	—	45,050
Other parent company reserves	72,408	—	—	7,451	(19,376)	(48)	(5,521)	54,915
Reserves in fully-consolidated companies	126,422	—	—	(3,140)	—	—	—	123,282
Translation differences	(2,218)	1,141	—	—	—	—	—	(1,077)
Own shares	(19,762)	—	—	—	—	(5,875)	19,893	(5,744)
Valuation adjustments	48,807	(2,306)	—	—	—	—	—	46,501
Consolidated profit (loss) for the period	4,311	(140,909)	—	(4,311)	—	—	—	(140,909)
	710,300	**(142,074)**	**—**	**—**	**(19,376)**	**(5,923)**	**—**	**542,928**

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
Consolidated profit (loss) for the period	43,031	4,311	—	(43,031)	—	—	—	4,311
	724,724	**651**	**—**	**—**	**(16,154)**	**1,079**	**(0)**	**710,300**

Accompanying notes 1 to 31 are an integral part of the consolidated 2014 statement of changes in equity

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR YEAR-ENDS 2014 AND 2013

Thousands of euros	Year ended 31 Dec 2014	Year ended 31 Dec 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated profit/(loss) for the year before tax	(195,304)	5,566
Adjustments for:		
Depreciation	58,866	61,696
Depletion of forest reserve	9,656	15,205
Amortisation	613	1,437
Changes in provisions and other deferred expense (net)	32,840	21,962
Impairment of and gains/(losses) on disposals intangible assets and PP&E	101,175	35,890
Finance income	(1,066)	(2,039)
Finance costs	29,502	28,699
Government grants taken to income	(1,300)	(1,290)
	230,286	**161,560**
Changes in working capital:		
Trade and other receivables	13,904	29,791
Financial and other current assets	2,363	(2,939)
Trade payables, other payables and other liabilities	(41,929)	4,657
Inventories	24,451	10,359
	(1,211)	**41,868**
Other cash flows from operating activities:		
—Interest paid	(25,207)	(18,048)
—Interest received	1,065	2,038
—Income tax received (paid)	(166)	(17,120)
	(24,308)	**(33,130)**
Net cash generated from operating activities (I)	**9,463**	**175,864**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments:		
Property, plant and equipment and biological assets	(55,718)	(112,844)
Intangible assets	(4,113)	(893)
Other financial assets	(16)	1,347
	(59,847)	**(112,390)**
Disposals:		
Property, plant and equipment and biological assets	58	64,397
	58	**64,397**
Net cash used in investing activities (II)	**(59,789)**	**(47,993)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from and payments for equity instruments		
Buyback of own equity instruments	(6,073)	(26,505)
Disposal of own equity instruments	156	27,506
	(5,917)	**1,001**
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	1,127	(232,101)
Repayment of other borrowings and cancellation of derivatives	(1,338)	(11,965)
Grants received	860	115
	649	**(4,497)**
Dividends and payments on other equity instruments		
Dividends	(19,376)	(16,155)
	(19,376)	**(16,155)**
Translation differences	7	(34)
Other cash received from (used in) financing activities		
Fixed-term deposits	45,000	(45,000)
	45,000	**(45,000)**
Net cash from / (used in) financing activities (III)	**20,363**	**(64,685)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)	**(29,963)**	**63,186**
Cash and cash equivalents at beginning of year	103,391	40,205
Cash and cash equivalents at end of year	73,428	103,391

Accompanying notes 1 to 31 are an integral part of the consolidated 2014 statement of cash flows

Notes to the 2014 consolidated financial statements

Contents

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 Calle Beatriz de Bobadilla, 14 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 has structured its activities around two business lines:

i) Pulp manufacturing:

The main activity is the production of bleached eucalyptus kraft pulp (BEKP) by means of elementary chlorine free (ECF) and totally chlorine free (TCF) bleaching sequences from eucalyptus wood.

To carry out this activity, the Group had, until the third quarter of 2014, three factories in Spain (located in Asturias, Pontevedra and Huelva) with combined nominal capacity of approximately 1,350,000 tonnes per annum.

During the third quarter of 2014, following publication in Spain of Royal Decree 413/2014 (6 June 2014) and Ministerial Order IET/1045/2014 (16 June 2014), enacting the remuneration parameters applicable to certain classes of electricity-producing facilities fuelled from renewable energy, co-generation and waste, with retroactive effect to 12 July 2013, the date on which Royal Decree-Law 9/2013 adopting urgent measures in the electricity system took effect, the Group announced its decision to focus the industrial complex in Huelva on the generation of power from renewable sources and to discontinue pulp production at this facility; in tandem, management announced plans to reorganise the Group's corporate structure to align it with the new productive configuration. Since then, the Group has concentrated its pulp-making activities at its factories in Asturias and Pontevedra, which between them have nominal capacity of 940,000 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 and co-generate electric power. The Group's aggregate nominal installed operative power generation capacity (integrated within the Asturias and Pontevedra factories) is approximately 113 megawatts (MW), divided between three facilities.

ii) Generation of electric power from biomass:

In addition, the Group has been developing power generation projects which are fuelled using forestry and agricultural biomass. The 50-MW power generation plant in Huelva began operations in February 2013, while the 20-MW plant in Mérida started up in September 2014. In addition to these two plants, and as a result of the decision to discontinue pulp production at the industrial complex in Huelva, this business line now also includes a third generation plant, with capacity of 40 MW, which was formerly

1. Group information (Continued)

integrated into the pulp operations. Factoring in this third facility, power generation capacity at the stations independent of pulp operations stands at 110 MW.

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 83,163 hectares of forested land in Spain and Portugal, 49,071 hectares of which it owns.

The land under management includes 2,598 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 term of 20 years.

All of the Company's shares are represented by book entries and are officially listed on the Spanish stock exchanges 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 2014 consolidated financial statements:

2. Group companies (Continued)

2014

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)]	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	3,756	23,111	5,134
Celulosas de Asturias, S.A.U.[(a)]	Armental s/n Navia (Asturias)	Generation and sale of pulp and electric energy	37,863	92,440	13,610
Silvasur Agroforestal, S.A.U.[(a)]	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	39,666	(11,631)	(19,871)
Ibersilva, S.A.U.[(a)]	Ctra A-5000 Km. 7.5 (Huelva)	Forestry services	280	(5)	(399)
Norte Forestal, S.A.U.[(a)]	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	2,464	19,754	(1,996)
Ence Investigación y Desarrollo, S.A.U.[(a)]	Pontecaldelas (Pontevedra)	Research into and development of new materials, products and processes	1,208	(1,804)	(1,984)
Iberflorestal, S.A.U.[(a)]	Lisbon (Portugal)	Purchase-sale of wood	55	995	(735)
Las Pléyades, S.A. (SAFI)[(b)(c)]	Montevideo (Uruguay)	Export of wood	2	2,640	(152)
Maderas Aserradas del Litoral, S.A.[(b)(c)]	Montevideo (Uruguay)	Dormant	6,419	(7,289)	4
Sierras Calmas, S.A.[(b)(c)]	Montevideo (Uruguay)	Forest management	1,393	3,560	236
Ence Energía, S.L.U[(a)]	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	7,506	9,150	(19,055)
Ence Energía Huelva, S.L.U.[(a)]	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	6,757	40,353	(15,901)
Ence Energía Extremadura, S.L.U.[(a)]	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	3,179	27,563	(11,498)

(a) Financial statements audited by PwC

(b) Equivalent amounts in euros translated at closing exchange rate

(c) Dormant

2. Group companies (Continued)

2013

			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)]	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)]	Beatriz de Bobadilla, 14 (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)	Dormant	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 year-end 2013 in respect of which PwC has conducted a limited review

(c) Equivalent amounts in euros translated at closing exchange rate

2. Group companies (Continued)

In addition, the Group comprises the following dormant companies that are wholly-owned by the Parent: 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 2014 consolidated annual financial statements were 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 2014 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 2014, 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 2013 were approved at the Annual General Meeting held by the Parent on 30 June 2014.

The Group's functional currency is the euro and the consolidated financial statements are accordingly presented in euros.

3.2 ***New and amended standards taking effect during the reporting period***

The following new and amended standards took effect in 2014 and were applied in preparing the accompanying consolidated financial statements, albeit without having a material impact thereon:

- IFRS 10—Consolidated financial statements

  IFRS 10 replaces the sections of IAS 27 relating to consolidation requirements and the SIC 12 interpretation and modifies the definition of control which now pivots around three prerequisites for the existence of control: power over the investee, exposure or the right to variable returns from involvement with the investee and the ability to affect those returns through the power held over the investee.

- IFRS 11—Joint arrangements

  IFRS 11 changes the approach to analysing joint agreements and defines two single types of joint agreement: joint operations and joint ventures.

- IFRS 12—Disclosures of interests in other entities

  This new standard is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in other entities, whether subsidiaries, joint arrangements, associates or unconsolidated 'structured entities'.

3. Basis of preparation and consolidation (Continued)

- IAS 27—Consolidated and separate financial statements

  This standard has been revised so that in the wake of issuance of IFRS 10 it now only addresses an entity's separate financial statement requirements.

- IAS 28—Investments in associates and joint ventures

  Parallel revision in conjunction with the issuance of IFRS 11—Joint arrangements.

- Amendment of IAS 32, Financial instruments: Presentation—Offsetting financial assets and financial liabilities

  These amendments introduce a series of additional clarifications regarding the requirements for offsetting financial assets and liabilities for financial position statement purposes and are introduced in paragraph 42 of the amended IAS 32.

- Amendments to IAS 36—Recoverable amount disclosures for non-financial assets

  The amended standard restricts the requirement to disclose the recoverable amounts of an asset or cash generating unit to periods in which the reporter either recognises an impairment loss or reverses an existing impairment provision, i.e., it eliminates the former disclosure requirement in periods in which no impairment charges were recognised or reversed.

- Amendments to IAS 39—Novation of derivatives and continuation of hedge accounting

  These amendments determine the instances and criteria determining when a derivative novation does not require the discontinuation of hedge accounting.

- IFRIC 21—Levies

  This interpretation stipulates that levies be recognised when the obligation arises.

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

3. Basis of preparation and consolidation (Continued)

(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	Contents	Effective for annual periods 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 2018
IFRS 15—Revenue from contracts with customers	Replaces prevailing IAS 18 and IAS 11 as well as the current interpretation of revenue	1 January 2017
Amendments to IAS 19—Employee contribution to defined benefit plans	Subject to compliance with certain requirements, the amended wording will allow for the deduction of these contributions from service cost at the time they are paid in	1 July 2014
Amendments to IAS 16 / IAS 38—Acceptable methods of depreciation and amortisation	These amendments clarify the fact that revenue-based depreciation methods are not permitted as they do not reflect the expected pattern of consumption of the future economic benefits embodied by an asset	1 January 2016
Amendments to IFRS 11—Accounting for acquisitions of interests in joint operations	As amended, IFRS 11 requires the use of the acquisition method prescribed in 'IFRS 3—Business combinations' when joint operations are businesses	1 January 2016
Amendments to IAS 16 and IAS 41—Bearer plants	As amended, bearer plants will have to be carried at cost instead of fair value	1 January 2016
Amendments to IFRS 10 and IAS 28—Sales or contributions of assets between an investor and its associate/joint venture	The gain or loss resulting from the sale or contribution of assets that constitute a business is recognised in full; that resulting from the sale or contribution of assets that do not constitute a business is recognised partially	1 January 2016

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. Basis of preparation and consolidation (Continued)

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.

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

2014

In 2014 Celulosa de Asturias, S.A.U. absorbed its dormant subsidiary, Electricidad de Navia, S.L.U.

2013

In 2013 Norfor Maderas, S.A.U. merged into its sole shareholder, Norte Forestal, S.A.U.

3.6 *Comparative information*

The information provided in these financial statements in respect of 2013 is presented to enable a reader comparison with the equivalent 2014 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 2014.

3. Basis of preparation and consolidation (Continued)

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 profit or loss 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 2014 or the 2013 financial statements other than that indicated in note 8.7.

4. Accounting policies

The main accounting policies 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—

Emission allowances acquired are recognised as an intangible asset and are initially measured at their acquisition cost.

Emission allowances received free of charge under the emission allowance trading scheme in effect for 2013-2020 are recognised within intangible assets at their market value at the start of the year for which they are allocated (deemed cost), recognising deferred income in the form of a grant in the same amount as the balancing entry. As the corresponding tonnes of carbon are consumed, the deferred income is reclassified to income statement.

4. Accounting policies (Continued)

Emission allowances are not amortised as their carrying amount matches their residual value, so that their amortisation base is effectively zero. Emission allowances are, however, tested for impairment (note 4.2). The market value of emission allowances is calculated with reference to the price of the benchmark contract provided by the European Climate Exchange (ECX).

An expenditure is recognised under "Other operating expenses" in the income statement for emissions made during the year by means of a provision whose amount is calculated as a function of the tonnes of carbon emitted valued at: (i) their carrying amount in respect of allowances held at year-end; and (ii) the year-end trading price in respect of allowances not held at year-end.

When emission allowances are delivered to the authorities for the tonnage of carbon emitted, both the intangible asset and the corresponding provision are derecognised, with no impact on income statement.

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 income statement. In addition, certain facilities require periodic inspections. In this respect, the parts requiring replacement at regular intervals that meet the criteria for recognition are recognised specifically and depreciated during the time remaining until the next repair inspection.

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, which is external costs plus internal costs incurred in their development, mainly labour and other operating costs.

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 machinery	8 - 25
Fixtures, fittings, tools and equipment	5 - 12
Other items of PP&E	5 - 10

Land is recognised separately from the buildings or facilities that may reside on it and is deemed to have an indefinite useful life; accordingly it is not depreciated.

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.

4. Accounting policies (Continued)

Similarly, investments in plant and equipment located on land owned by third parties may include the initially estimated costs of dismantling such assets and rehabilitating the asset sites, to the extent that the Group has incurred obligations in this respect subject to specific terms and conditions. Any such costs are recognised and measured in keeping with the rules for measuring provisions (note 4.12). Any subsequent changes in estimated dismantling costs as a result of changes in estimated cash flows and/or the discount rate applied increase or decreases the carrying amount of the corresponding asset in the year in which they arise, unless the correction in the liability exceeds such carrying amount, in which case the surplus is recognised as a gain in the income statement.

In light of the terms and conditions under which the concession for the use of the land on which the Pontevedra factory is located was granted and the length of the term for which the concession is expected to apply, management's estimates point to scantly material costs in this respect.

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 enough cash on a standalone basis as to provide the lenders with sufficient reassurance as to the repayment of their loans.

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 and 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 non-current assets

The Group reviews the carrying amounts of its property and equipment, biological assets, investment properties and intangible assets for indications of impairment every year.

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.

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 macroeconomic variables, 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 and biological assets, 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 1% and 2% and is in no instance higher than estimated

4. Accounting policies (Continued)

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. And for biological assets, projected cash flows encompass a productive cycle of up to 40 years and, again, 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 analyses are 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% and 8.5%; in the power generation segment a discount rate equivalent to the yield on 10-year Spanish government bonds plus 300 basis points is used as the after-tax rate.

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 "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the income statement. After an impairment loss has been recognised, depreciation charges are calculated prospectively on the basis of the reduced carrying amount of the impaired asset.

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 "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the income statement.

4.3 *Investment property*

"Investment property" in the accompanying 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. These assets are not used in the Group's business operations or for administrative purposes.

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 recognised within the eponymous heading of the statement of financial position (note 8).

The Group has been valuing its biological assets at their historical cost (cost less accumulated depreciation less any accumulated impairment losses) in light of the difficulty in identifying active markets for these species in Spain. However, it has been able to test the validity of these values as a reliable proxy for fair value by means of discounted cash flow analysis, for example; the results of this exercise do not differ materially from the amounts recognised in the accompanying consolidated financial statements.

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. In addition, because these assets take more than one year to ready

4. Accounting policies (Continued)

for use, borrowing costs accrued until the time the trees are felled are capitalised. 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 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 forest cover 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 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 2014 or 2013.

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; interest accrued is recognised in the income statement using the corresponding effective interest rate.

The Group recognises impairment losses in the income statement when it believes there is a risk of non-payment on the basis of the age of the debts. This risk is evidenced primarily when the counterparty declares bankruptcy, the Group has taken legal action to seek payment or the counterparty is in arrears by more than six months.

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 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.

4. Accounting policies (Continued)

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.

Trade and other current accounts payable are financial liabilities that do not explicitly accrue interest. They are carried at their face value insofar as the effect of not discounting them is not material.

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, fuel-oil, gas and electricity, whether bought or sold. 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.

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. The fair value of the various derivative financial instruments is calculating in keeping with the criteria outlined in note 4.7—Fair value estimation.

Gains and losses resulting from fair value changes are recognised in the 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 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 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,

4. Accounting policies (Continued)

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.

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 profit or loss.

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 recognised 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 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 (note 12) are as follows:

- 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.

4. Accounting policies (Continued)

- Commodity (electricity futures market—OMIP) 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.

In keeping with IFRS 13, since 1 January 2013, it has been necessary to include own credit risk when measuring financial liabilities at fair value, which in the case of the Group are exclusively derivatives. Application of this standard has had the effect of decreasing the value of the liability balance of interest-rate hedges by €1,217 thousand at 31 December 2014 (by €478 thousand at year-end 2013).

The fair value of the various derivative financial instruments is obtained using level 1 inputs in the case of electricity price commodity contracts, as these are referenced to quoted prices, and level 2 inputs according to the fair value hierarchy stipulated in IFRS 13 in all other instances, 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 2014.

4.8 ***Inventories***

Inventories of raw materials, finished products and work in progress are measured at acquisition or production cost. 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.

The Group recognises impairment losses on its inventories in its income statement when their net realisable value falls below their carrying amount. 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. These estimates also factor in the age of the inventories and turnover ratios. Inventory impairment charges are reversed whenever the originating circumstances dissipate.

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 income statement or in equity in the 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.

4. Accounting policies (Continued)

The deferred tax assets and liabilities recognised are reassessed at each reporting 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 analyses 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 in exchange for the goods delivered and services rendered in the ordinary course of the Group's activities, less discounts and amounts received but due to third parties, such as value added tax.

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. Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the reporting date, whenever the outcome of the transaction can be estimated reliably. Interest income recognised using the effective interest method, by reference to the principal outstanding and the applicable effective interest rate. Dividend income from equity investments is recognised when the shareholder's right to receive payment is established.

Expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets.

An expense is recognised immediately when an expenditure produces no future economic benefits or when future economic benefits do not qualify for recognition as an asset.

4.12 ***Provisions and contingencies***

Provisions are recognised in the accompanying 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 provisions for 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 2014, 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 additional loss beyond the amounts provided at year-end.

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.

4. Accounting policies (Continued)

The Group has recognised a provision in this respect of €2,116 thousand under "Trade and other payables—Payable to employees" in the statement of financial position at 31 December 2014; this provision covers obligations assumed under the employee-approved redundancy programme related to the discontinuation of pulp production at the industrial complex in Huelva (notes 5.1 and 24). The provision recorded under this heading at year-end 2013 in the amount of €1,724 thousand covered a voluntary redundancy scheme in force at all three pulp factories.

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 income statement in the year incurred regardless of when the monetary/financial outflow occurs.

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 and has the following characteristics: 1) it provides retirement benefits as well as permanent disability or accidental death cover; and 2) ENCE commits to make a monthly contribution to external pension plans at certain percentages of its active employees' wages.

   Certain Group executives are beneficiaries of an executive pension plan that complements the standard plan; the executive plan covers beneficiaries' retirement, permanent disability or accidental death. The Group makes defined contributions based on a percentage of plan holder salaries. The plan takes the form of collective insurance cover for pension obligations. These policies are held with an insurance provider. The executive (or his/her beneficiaries) becomes entitled to receive the plan benefits in the event of retirement, death or total permanent disability, and under certain other circumstances defined in the plan rules.

   The cost of these plans, recognised under "Employee benefits expense" in the income statement, was €1,998 thousand in 2014 (2013: €1,960 thousand).

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. This commitment was externalised in 2014, entailing the payment of a single premium of €1,182 thousand.

4. Accounting policies (Continued)

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 purpose of the bonus plan is to encourage delivery of the targets set by the Board of Directors in 2010, 2011 and 2012. The maximum number of shares deliverable under the plan is 3,850,000 (representing 1.53% of share capital).

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 bonus 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.

These 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. Using this valuation method, a gain of €572 thousand was accrued in this connection in 2014 (a loss of €465 thousand in 2013). The liability accrued at year-end stood at €53 thousand (€625 thousand at year-end 2013) (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 52 people were beneficiaries of this Plan at year-end 2014.

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.

4. Accounting policies (Continued)

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 in full. Using these valuation methods, the expense accrued in this respect in 2014 was €70 thousand (€589 thousand in 2013), while the liability recognised at year-end stood at €659 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 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 statement of financial position and is reclassified to the income statement as the assets financed by the loan are depreciated in the income statement.

4.18 ***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 the equity and borrowings of the Group.

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 financial statements are presented in euros, 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.

4. Accounting policies (Continued)

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 other Group companies and denominated in a currency other than the euro 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 its carrying amount is to be recovered principally through a sale transaction insofar as a sale is considered highly probable and the asset is available for immediate sale in its present condition.

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.

Management tests that their carrying amount does not exceed their fair value less costs to sell every year. If this occurs, any required impairment losses are recognised in "Net gain/(loss) on assets classified as non-current assets held for sale" in the income statement.

Non-current assets held for sale are presented in the accompanying 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".

In addition, the Group classifies any component (cash-generating units or groups of cash-generating units) that either represents a separate major line of business or geographical area of operations, has been sold or otherwise disposed of or qualifies for classification as held for sale.

The after-tax results of discontinued operations are presented in a single line item in the 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).

4. Accounting policies (Continued)

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 2014 and 2013.

5. Critical accounting estimates and judgements

The preparation of the 2014 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. The accounting policies and transactions that incorporate management assumptions and estimates that are material in respect of the accompanying consolidated financial statements are:

- The asset impairment charges associated with the discontinuation of pulp production at the Huelva plant
- The impact of changes in the Spanish energy sector regulatory framework
- Calculation of income tax and the recoverable amount of deferred tax assets (note 21)
- 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)

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 2014 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 the discontinuation of pulp production at the Huelva plant***

The lack of competitiveness of the industrial complex in Huelva caused by the impact of the regulatory reforms undertaken in the Spanish energy sector, drastically reducing premiums for the co-generation of power using lignin to well below the levels received by our European peers, as well as technical obsolescence and the structural scarcity of eucalyptus wood in the vicinity of the complex, forced ENCE to announce, on 4 September 2014, its decision to specialise in clean energy generation at the Huelva

5. Critical accounting estimates and judgements (Continued)

complex and to cease the production of pulp. The factory's workers approved the related transformation plan on 20 October 2014.

The decision to cease production has triggered the need to recognise certain asset impairment charges: specifically €746 thousand against intangible assets related to the rights to operate certain quarries (note 7); €44,744 thousand against industrial equipment (note 8.6); €20,949 thousand against biological assets located in Huelva (note 9.3); and €6,027 thousand against spare parts held in inventory (note 13). In addition, the Group has recognised €16,498 thousand euros of provisions to cover estimated costs under contractual obligations (note 18). Elsewhere, the estimated cost of the negotiated layoffs, which include Huelva factory workers and corporate staff, has been provisioned at €20,395 thousand (note 24).

5.2 ***Impact of changes in the Spanish energy sector regulatory framework***

Since 1 January 2013, the Spanish government has passed a series of laws and regulations which have had the effect of modifying the remuneration and tax regime applicable to the generation of energy from renewable sources, including generation and co-generation facilities fuelled by biomass. Section 22 details the highlights of these legislative developments.

Application of this reform initiative was rounded out on 20 June 2014 with the publication of Ministerial Order IET/1045/2014 (16 June 2014) enacting the standard facility remuneration parameters applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste, with retroactive effect to 14 July 2013, the date on which Royal Decree-Law 9/2013 took effect.

In the interim, the regulator had been settling payment for energy sales under the outgoing regime, Royal Decree 661/2007 (25 May 2007), so that the retroactive application of this regime implies the requirement to return settlements accrued in 2014 of €10,809 thousand and settlements accrued in 2013 of €13,150 thousand; €7,080 thousand of this balance was recognised as a deduction from revenue from energy sales in the Group's 2013 financial statements so that the remainder in respect of 2013 and the balance accrued in 2014 has been deducted from the revenue from energy sales recognised in 2014 (notes 18 and 22).

In addition, the new Spanish regulatory framework implies the application of the same regime to energy crops as forestry and agricultural biomass for remuneration purposes and establishes a cap on the amount of output eligible for remuneration premiums of 80%-90% of the plants' nominal annual capacity.

The ENCE Group had invested significantly in energy crops as part of its growth strategy for its biomass power generation business under the regime afforded by Royal Decree-Law 661/2007 (25 May 2007), which enacted the regime applicable to renewable energy or the so-called 'special' regime. The regulatory changes introduced in the Spanish energy sector between 2013 and 2014 have been made without any consideration whatsoever for compensating developers for these heavy investments, triggering the need to write down the investments in energy crops and other assets for impairment by €63,705 thousand (notes 7, 8, 9 and 18); of this balance, a charge of €26,885 thousand was recognised in 2013, and the remaining €36,820 thousand has been recognised in the accompanying 2014 financial statements.

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.

6. Risk factors (Continued)

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 means of inventory management, 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 €9 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 (notes 5.1 and 22).

A 5% change in the tariffs that determine the revenue generated by the energy business would have an impact on Group revenue of approximately 1.2%.

Environmental regulations

Environmental regulations in the European Union have focused in recent years on tightening restrictions on wastewater discharges, greenhouse gas emissions, etc. Future changes in environmental regulations could result in higher expenditure to comply with new requirements.

Concession agreement in Pontevedra

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. However,

6. Risk factors (Continued)

effectiveness of Spanish Law 2/2013 (29 May 2013) provides for the extension of this concession insofar as certain conditions are met (notes 8.4 and 18.3).

The assets located on land held under concession are currently depreciated over the shorter of their remaining useful life and the term of the concession agreement. An increase in the concession term would accordingly reduce the depreciation charge forecast for 2014 by approximately €8.5 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 returns 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).

If the dollar were to appreciate against the euro by 5%, the Group's revenue before hedges would increase 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", the derivatives written and the balances on deposit with financial institutions, shown in "Current 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;

6. Risk factors (Continued)

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 recurring 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. Funding needs for the most significant cash requirements, such as forecast capital expenditure, debt repayments and working capital requirements, as warranted, are identified sufficiently in advance.

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.

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 Group's corporate debt carries fixed rates, thereby minimising 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 2014 and 2013 is as follows:

2014 (thousands of euros)	Balance at 01/01/2014	Additions/ charges	Derecognitions/ decreases	Transfers (note 8)	Balance at 31/12/2014
Computer software	14,623	1,972	(7,142)	847	10,300
Emission allowances	13,886	649	(8,751)	—	5,784
Prepayments	3,472	2,048	—	(1,098)	4,422
Other intangible assets(*)	13,976	43	—	413	14,432
Total cost	**45,957**	**4,712**	**(15.893)**	**162**	**34,938**
Computer software	(14,010)	(391)	7,142	(122)	(7,381)
Other intangible assets(*)	(10,037)	(222)	—	—	(10,259)
Total amortisation	**(24,047)**	**(613)**	**7,142**	**(122)**	**(17,640)**
Other intangible assets	(2,853)	(747)	—	—	(3,600)
Total impairment	**(2,853)**	**(747)**	**—**	**—**	**(3,600)**
Total	**19,057**				**13,698**

(*) Mainly includes development expenses

2013 (thousands of euros)	Balance at 01/01/2013	Additions/ charges	Derecognitions/ 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

7.1 *Computer software*

The ENCE Group is executing 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 in this respect amounts to €6,198 thousand (year-end 2013: €3,472 thousand) out of a total estimated investment of €9 million.

7. Intangible assets (Continued)

7.2 *Emission allowances*

The reconciliation of the opening and year-end Group-owned carbon allowance balances for 2014 and 2013 is provided in the next table:

	2014		2013	
	Number of allowances	Thousands of euros	Number of allowances	Thousands of euros
Opening balance	**732,244**	**13,886**	1,071,804	16,021
Allocations (note 17)	137,473	649	152,130	944
Delivered(*)	(493,476)	(8,751)	(491,690)	(3,079)
Closing balance	**376,241**	**5,784**	**732,244**	**13,886**

(*) 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. Under the Plan, the Group received allowances equivalent to 137,473 tonnes of carbon emissions, valued at €649 thousand, in 2014.

"Non-current provisions" on the liability side of the consolidated statement of financial position includes €5,081 thousand in this respect at 31 December 2014 (€8,715 thousand at year-end 2013) corresponding to the liability derived from the consumption of 343,097 tonnes of carbon in 2014 (491,924 tonnes in 2013) (note 18).

The Group has contractually committed to the forward purchase of allowances covering a total of 601,000 tonnes: 401,000 tonnes at a price of €15.69/tonne exercisable in December 2015 and 200,000 tonnes at €15.79/tonne exercisable in December 2016. The aim is to cover the Group's future consumption of emission allowances.

As a result of the decision to cease pulp production at the Huelva factory (note 5.1), which includes the stoppage of a 50-MW gas co-generation plant, the Group's heaviest consumer of carbon allowances, it is estimated that part of the allowance purchases committed to, approximately 288 thousand allowances, will not be consumed under the current 2013-2020 Plan, to which end these allowances have been valued at market value; this has entailed the recognition of a €2,423 thousand euro provision within "Non-current provisions" on the accompanying consolidated statement of financial position (note 18).

7.3 *Other intangible assets*

In 2012 the Group acquired certain companies related to the ENCE Group by common shareholders, 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 implied a fixed payment of approximately €3.5 million and an additional deferred payment of €3 million contingent upon delivery of a series of conditions, which have not been and are not expected to be met. These assets were written down in 2013 by means of the recognition of an impairment charge of €2,853 thousand (note 5.2).

This agreement also granted the buyer a call option over certain power generation projects under development by the sellers in the event the moratorium imposed by Royal Decree-Law 1/2012 is lifted.

In addition, the carrying amount of the rights to operate certain quarries in Huelva, previously carried at €746 thousand, were written down in full in 2014 (note 5.1).

7. Intangible assets (Continued)

7.4 *Fully amortised assets*

At 31 December 2014 there were fully-amortised intangible assets still in use with an original cost of €13,273 thousand (year-end 2013: €16,735 thousand), mainly development expenses and computer software.

8. Property, plant and equipment

The reconciliation of the carrying amounts of the various components of property, plant and equipment and accumulated depreciation in 2014 and 2013 is as follows:

2014

Thousands of euros	Balance at 01/01/2014	Additions/ charges	Derecognitions/ decreases	Transfer to available for sale (note 28)	Transfers	Balance at 31/12/2014
Forest land	117,434	70	—	(34,367)	412	83,549
Other land	8,600	126	—	—	(625)	8,101
Buildings	139,012	20	(3,725)	(6,175)	(34,150)	94,982
Plant and machinery	1,208,226	13,693	(59,968)	(288,601)	140,983	1,014,333
Other assets	37,676	1,105	(7,094)	(14,081)	1,103	18,709
Prepayments and PP&E in progress	90,392	30,363	(5)	—	(107,083)	13,667
Cost	**1,601,340**	**45,377**	**(70,792)**	**(343,224)**	**640**	**1,233,341**
Buildings	(84,950)	(4,673)	3,708	2,228	27,354	(56,333)
Plant and machinery	(694,637)	(51,787)	58,894	212,283	9,831	(465,416)
Other assets	(22,339)	(2,296)	7,076	6,104	(37,767)	(49,222)
Depreciation	**(801,926)**	**(58,756)**	**69,678**	**220,615**	**(582)**	**(570,971)**
Land and buildings	(2,005)	(603)	—	—	20	(2,588)
Plant and machinery	(18,434)	(49,954)	3,399	51,952	(1,169)	(14,206)
Other assets	(2,729)	—	—	—	1,149	(1,580)
Impairment	**(23,168)**	**(50,557)**	**3,399**	**51,952**	**—**	**(18,374)**
Total	**776,246**					**643,996**

8. Property, plant and equipment (Continued)

2013

Thousands of euros	Balance at 01/01/2013	Additions/ charges	Derecognitions/ 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 assets	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 assets	(19,821)	(3,522)	998	6	(22,339)
Depreciation	**(745,008)**	**(61,605)**	**4,687**	**—**	**(801,926)**
Land and buildings	(2,005)	—	—	—	(2,005)
Plant and machinery	(3,864)	(15,476)	906	—	(18,434)
Other assets	(183)	(2,546)	—	—	(2,729)
Impairment	**(6,052)**	**(18,022)**	**906**	**—**	**(23,168)**
Total	**774,179**				**776,246**

8.1 ***Additions***

The Group invested at all its facilities with a view to making its pulp production processes more efficient, boosting power generation and making them more environmentally friendly. This capital expenditure breaks down as follows by facility:

	Thousands of euros 2014	2013
Navia	16,193	14,062
Huelva(*)	5,464	19,241
Huelva—50-MW plant	102	4,028
Pontevedra	11,911	9,473
Mérida—20-MW plant	11,521	44,669
Other	186	44
	45,377	**91.517**

(*) Capital expenditure in 2014 mainly includes the materialisation of investment commitments assumed in 2013 and the investments made in the first half of 2014.

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.

The Group began to operate a 20-megawatt renewable energy power plant fuelled by biomass in Mérida on 15 September 2014. Total investment in this project, net of the income deriving from power generated during the testing phase, was €76.7 million in the power plant, which was financed in part by a syndicate of banks under a project finance loan (note 19).

8. Property, plant and equipment (Continued)

The Group capitalised borrowing costs incurred in 2014 in the amount of €1,504 thousand derived mainly from the debt taken on to finance the projects (€2,460 thousand in 2013). These capitalised borrowing costs are presented in the consolidated income statement as a reduction in "Other finance costs".

In addition, the Group has contractually committed to capital expenditure at its factories at year-end, most of which will be incurred in 2015, of €7,672 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 was recognised in "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the 2013 consolidated income statement. This transaction also encompassed 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	2014	2013
Buildings	66,146	42,587
Machinery	227,922	410,442
Tools	945	682
Furniture and fittings	1,988	3,266
Other	1,525	49,303
	298,526	**506,280**

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. Subsequently, the Coastal Act of 1988 (Law 22/1988 of 28 July) stipulated that the holder of concessions granted prior to effectiveness of this 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. This 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.

Subsequently, Law 2/2013, of 29 May 2013, on coastal protection and sustainability and amending the Coastal Act, and the General Coast Regulations enacted by means of Royal Decree 876/2014 (10 October 2014) have established the scope for extending concessions for the use of public-domain coastal land granted under the former regulation, therefore applying to ENCE's concession in Pontevedra, for up to 50 years from when the extension request is filed, insofar as the concession is used to perform an economic activity that is not related to the hospitality business.

The processing of this application has been suspended by legal injunction until the administrative case regarding the expiry of this concession, initiated by the Ministry of Agriculture, Food and the Environment in carrying out the Supreme Court sentence of 11 July 2014, has been resolved (note 18).

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

8. Property, plant and equipment (Continued)

amounts were considered deemed cost. The gain on the revaluation, net of the corresponding deferred tax liability of €19,317 thousand (€23,184 thousand at 31 December 2013), amounts to €58,015 thousand at year-end (€54,149 thousand at 31 December 2013) and is included in "Valuation adjustments" in equity. That fair value benchmark has been used as deemed cost in subsequent years.

8.6 *Impairment*

The decision to cease pulp production at the Huelva industrial complex has meant that some of its industrial assets are no longer used for productive purposes. As a result, an internationally renowned expert was engaged to help the Group appraise the various affected assets; as a result of this exercise, their recoverable amount has been estimated at €34,632 thousand, implying the recognition of an impairment loss of €44,744 thousand (note 5.1).

In addition, management has recognised impairment losses of €4,049 thousand against items of property, plant and equipment, specifically investments in irrigation equipment installed in estates in which energy crops are grown (€4,475 thousand in 2013). Elsewhere, the Group had recognised impairment losses of €2,110 thousand against capitalised costs incurred to develop new biomass-fuelled power generation facilities in 2013 (notes 5.2 and 18).

8.7 *Insurance cover 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 31 December 2014 is sufficient.

The Group has re-estimated the useful life of its power generation plants fuelled with biomass in the wake of the regulatory changes introduced as a result of the reforms to the energy sector regulatory framework in Spain (notes 5.2 and 22), increasing it from 14 to 25 years. This change in estimate has had the effect of decreasing depreciation charges in 2014 by approximately €5 million.

The Group does not have material assets located outside of Spain.

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	31/12/2014	31/12/2013
Cover earmarked for pulp	85,234	116,381
Cover earmarked for energy crops	4,618	37,248
Cover earmarked for other uses	395	516
	90,247	**154,145**

9. Biological assets (Continued)

The movement in this heading 2014 and 2013:

	Thousands of euros					
2014	**Balance at 01/01/2014**	**Additions/ (charges)**	**Disposals**	**Transfers**	**Transfer to available for sale (note 28)**	**Balance at 31/12/2014**
Earmarked for pulp & other uses:						
Forest cover	151,927	5,086	(2,076)	(2,075)	(1,933)	150,929
Depletion of forest reserve	(32,221)	(7,354)	1,749	3,407	200	(34,219)
Provision for impairment	(2,809)	(28,272)	—	—	—	(31,081)
	116,897	**(30,540)**	**(327)**	**1,332**	**(1,733)**	**85,629**
Earmarked for energy crops:						
Forest cover	55,972	5,464	(12,738)	2,075	(3,310)	47,463
Depletion of forest reserve	(6,505)	(2,302)	11,175	(3,407)	175	(864)
Provision for impairment	(12,219)	(31,055)	1,293	—	—	(41,981)
	37,248	**(27,893)**	**(270)**	**(1,332)**	**(3,135)**	**4,618**
	154,145					**90,247**

	Thousands of euros				
2013	**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)
Provision for 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)
Provision for impairment	—	(12,219)	—	—	(12,219)
	44,622	**(8,429)**	**1,055**	**—**	**37,248**
	170,958				**154,145**

In 2014 the Group planted 93.5 hectares of land (2013: 580 hectares) and carried out forest preservation and protection work encompassing 6,632.7 hectares (2013: 33,578 hectares).

9. Biological assets (Continued)

9.1 *Breakdown of forest cover*

An analysis of the Group's forest cover at year-end 2014 and 2013 is provided below:

	Spain & Portugal			
	Pulp		Energy crops	
2014 Age (years)	Productive hectares	Carrying amount in € '000	Productive hectares	Carrying amount in € '000
> 17	1712	1,328	816	—
14 - 16	2,429	5,692	1,084	200
11 - 13	4,660	15,419	32	78
8 - 10	12,174	41,637	1,852	6,941
4 - 7	16,080	40,375	3,233	10,215
0 - 3	13,358	11,864	9,713	29,165
Impairment of biological assets	—	(31,081)	—	(41,981)
Deferred expenses	—	395	—	—
	50,413	**85,629**	**16,730**	**4,618**

(*) 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.

	Spain & Portugal			
	Pulp		Energy crops	
2013 Age (years)	Productive hectares	Carrying amount in € '000	Productive hectares	Carrying amount in € '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.

9.2 *Additions to forest cover*

In 2014 the Group capitalised forest plantation, preservation and silviculture services received in the amount of €9,913 thousand (€16,407 thousand in 2013).

The Group capitalised €1,716 thousand of borrowing costs in forest cover in 2014 (€2,020 thousand in 2013); this addition is accounted for in the consolidated income statement as a reduction in "Other finance costs".

9.3 *Impairment*

In 2014 the Group recognised impairment losses on its biological assets of €59,327 thousand. Of this sum, €27,860 thousand was caused by the impairment of energy crops due to the change in applicable remuneration under the new regulatory framework.

9. Biological assets (Continued)

These energy crops were being developed to cater to the supply needs of biomass-fuelled power generation facilities. By affording energy crops the same status as forestry and agricultural waste for remuneration purposes (notes 5.2 and 18), these crops are no longer profitable, which is why the Group has decided to exit this business activity in an orderly fashion.

In parallel, the decision to cease pulp production in Huelva has required identifying an alternative use for the Group's forestry assets in southern Spain; this timber will now be sold to third parties, an alternative that could imply additional costs (mainly transportation), or used as biomass for power generation purposes, an option that gives these assets a low net realisable value. These assets have been tested for impairment using the methodology and assumptions outlined in note 4.2, assuming for each section of forest the most profitable option for the Group; this exercise yielded a net realisable value that was €20,949 thousand below the carrying amount of these assets. In addition, an impairment loss of €8,956 thousand has been recognised against forest assets in northern Spain.

10. Leases

At year-end 2014, 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	31/12/2014	31/12/2013
Less than one year	2,280	4,356
Between one and five years	6,709	14,849
Later than five years	11,886	24,892
	20,875	**44,097**

There are also lease agreements at certain estates on which energy crops have been developed under which committed expenditure amounts to €18,124 thousand. The Group is working on the termination of these agreements and expects to have concluded the related negotiations in 2016 (note 18).

At year-end 2014, the Group was leasing 22,414 hectares of forest assets earmarked for the production of biological assets (27,071 hectares at year-end 2013). 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:

2014 Thousands of euros	Loans and receivables / payables	Trading derivatives	Hedging derivatives	Held-to-maturity investments	Total at 31/12/2014
Available-for-sale financial assets	—	—	—	—	—
Derivative financial instruments	—	—	999	—	999
Financial accounts receivable	—	—	—	8,513	8,513
Trade and other receivables	110,178	—	—	—	110,178
Cash and cash equivalents	73,428	—	—	—	73,428
Total financial assets	**183,606**	**—**	**999**	**8,513**	**193,118**
Non-recourse borrowings	106,446	—	—	—	106,446
Recourse borrowings	250,007	—	—	—	250,007
Derivative financial instruments	—	4,280	11,196	—	15,476
Trade and other payables	165,069	—	—	—	165,069
Other financial liabilities	9,871	—	—	—	9,871
Total financial liabilities	**531,393**	**4,280**	**11,196**	**—**	**546,869**

2013 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**

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 analyses the arrangement of financial instruments to hedge the risks deriving from fluctuations in interest rates, exchange rates, pulp and energy 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.

12. Derivative financial instruments (Continued)

The Group classifies its derivatives into three categories:

1. Cash flow hedges: those designed to hedge variability in cash flows such as interest payments, payments and collections in foreign currency, etc.
2. 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 2014 and 2013 (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	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Cash flow hedges:						
Energy sale hedges	999	—	—	—	—	—
IRS—50-MW project finance facility	—	—	5,677	4,705	2,280	2,276
IRS—20-MW project finance facility	—	—	2,426	37	813	613
	999	—	8,103	4,742	3,093	2,889
Trading derivatives:						
Equity swap	—	—	—	2,651	4,280	1,645
Total	**999**	**—**	**8,103**	**7,393**	**7,373**	**4,534**

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).

A fair value loss of €2,860 thousand on derivatives designated as hedging instruments was reclassified to profit or loss in 2014 (a gain of €8,271 thousand in 2013).

12.1 ***Energy sale hedges:***

The Group is exposed to fluctuations in the prices of certain energy products that are used in its productive processes and can have a significant impact on its production costs. This risk is partially hedged by commodity swaps.

In 2014, the Group arranged commodity swaps to cover the sale of its power output to the national electricity system, the main characteristics of which are shown below:

Maturity	**Amount (MWh)**	**Price range in euros**
1H14	61,920	35.60 - 44.70
2H14	160,560	49.48 - 50.92
1H15	276,480	43.38 - 47.18
2H15	194,400	48.85 - 51.59

These instruments presented a positive fair value of €999 thousand at year-end 2014; this gain is 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".

A fair value gain of €39 thousand on energy sale hedges was reclassified to profit or loss in 2014 (note 16.8).

Based on the contractual terms of the instruments outstanding at 31 December 2014, a 10% increase in electricity sales prices would translate into a loss of €2,252 thousand in the 2015 consolidated income statement. In contrast, a 10% drop in electricity sales prices would result in a gain of the same magnitude in 2015.

12. Derivative financial instruments (Continued)

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 2014 and 2013 are shown below:

31 December 2014

		Notional principal amounts at year-end:						
Thousands of euros	**Fair value**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
IRS—50-MW project finance facility	7,957	66,965	60,750	54,043	47,074	40,109	—	—
IRS—20-MW project finance facility	3,239	43,472	40,508	37,456	34,301	31,023	27,688	24,248

31 December 2013

		Notional principal amounts at year-end:							
Thousands of euros	**Fair value**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
IRS—50-MW project finance facility	6,981	72,403	66,965	60,750	54,043	47,074	40,109	—	—
IRS—20-MW project finance facility	650	41,853	43,472	40,508	37,456	34,301	31,023	27,688	24,248

The table below provides the maturity analysis for the Group's interest rate derivatives at 31 December 2014. It is prepared 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	2,087	5,917	—
IRS—20-MW project finance facility	712	2,319	240

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 2014 the Group reclassified a net loss of €2,898 thousand to profit and loss in connection with changes in the fair value of its interest-rate cash flow hedges (2013: a net loss of €3,830 thousand) (note 16).

Based on the contractual terms of the instruments outstanding at 31 December 2014, a 10% increase in the Euribor forward interest rate curve would translate into a gain of €18 thousand in the 2015 consolidated income statement. In contrast, a 10% decline in the Euribor interest rate curve would result in a loss of the same magnitude in 2015.

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.

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.

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 on 28 June 2012 to adapt it to the "Long-term Bonus Plan of ENCE, Energía y Celulosa, S.A. for 2010-15". (note 4.16) This amendment, which affected a nominal amount of

12. Derivative financial instruments (Continued)

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 €4,280 thousand at 31 December 2014 (a negative €4,296 thousand at year-end 2013). 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 loss of €1,326 thousand in the consolidated income statement in respect of the change in the fair value of this instrument in 2014 (2013: a gain of €2,809 thousand).

In January 2015 Bankia sold the remaining shares under the equity swap contact in the market at an average price of approximately €2.30 per share, thereby yielding an estimated settlement value for the equity swap in March 2015 of €3,240 thousand.

13. Inventories

The breakdown of the Group's inventories at 31 December 2014 and 2013 is as follows:

Thousands of euros	31/12/2014	31/12/2013
Wood	19,965	38,536
Other raw materials	2,389	2,665
Spare parts	21,649	20,425
Construction in progress	—	552
Work in progress	—	441
Finished goods	10,641	20,345
Prepayments to suppliers	2,186	1,445
Impairment(*)	(18,911)	(13,420)
	37,919	**70,989**

There are no restrictions on title to 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 inventory impairment charges are related to slow-moving inventories and finished products at the Group's factory in Huelva where production cost is higher than forecast net realisable value. The change in "Inventories—impairment" in 2014 includes a provision of €6,027 thousand to cover the estimated impairment in the value of the spare parts inventoried at the Huelva industrial complex.

The Group has contractually agreed with suppliers to acquire 3,268 thousand tonnes of forest waste for power generation.

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	31/12/2014	31/12/2013
Trade receivables:		
Pulp	58,788	88,219
Energy	37,357	17,613
Other items	5,614	8,417
Other receivables	893	3,202
Receivable from employees	44	79
Provision for impairment of trade receivables	(2,265)	(3,166)
	100,431	**114,364**

14. Trade and other receivables (Continued)

The regulatory changes introduced in the Spanish energy sector have included, among other measures, the obligation on the part of all parties receiving remuneration from the system operator to finance the electricity tariff deficit. The Group's share of financing of this deficit pending collection at 31 December 2014 amounts to €15,744 thousand.

"Trade receivables" in the table above includes €1,352 thousand past due but not impaired and not covered by credit insurance policies (note 6) at 31 December 2014 (€2,433 thousand at year-end 2013). 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 statement of financial position includes €5,395 thousand of accounts receivable denominated in US dollars (year-end 2013: €19,564 thousand).

The Group has drawn down €38,035 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 €58,000 thousand at 31 December 2014 (€30,530 thousand and €83,000 thousand, respectively, at 31 December 2013). 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	31/12/2014	31/12/2013
Trade payables	139,559	179,578
Payable to fixed asset suppliers	8,916	8,466
Employee benefits payable	7,851	9,135
	156,326	**197,179**

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 €49,621 thousand under non-recourse reverse factoring agreements with several banks with an aggregate limit of €107,000 thousand at year-end 2014 (€63,860 thousand and €114,000 thousand, respectively, at 31 December 2013).

The year-end statement of financial position includes €277 thousand of accounts payable denominated in US dollars (year-end 2013: €4,867 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 2014 and 2013

15. Trade and other payables (Continued)

and the amounts outstanding at year-end (excluding intra-group transactions and payments to fixed asset suppliers):

	2014		2013	
	Thousands of euros	%	Thousands of euros	%
Within the legally-mandated maximum term	600,383	88%	438,160	87%
Other	79,825	12%	77,271	13%
Total payments during the year	680,208	100%	515,431	100%
Weighted average term of past due payments (days)	124.6	—	95.18	—
Trade payables past due by more than the legally-mandated maximum term at the close	25,585	—	10,127	—

16. Equity

16.1 *Share capital*

The share capital of ENCE Energía y Celulosa, S.A. at 31 December 2014 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 2014 and 2013 was as follows:

Percentage interest	31/12/2014	31/12/2013
Retos Operativos XXI, S.L.	26.5	25.6
Alcor Holding, S.A.	6.2	19.8
Liberbank, S.A.	—	6.3
La Fuente Salada, S.L.	5.4	5.0
Asúa Inversiones, S.L.	5.2	5.0
Amber Capital UK LLP	4.4	—
Norges Bank Investment Management	3.6	—
Treasury shares	1.2	2.9
Free float	47.5	35.4
Total	**100.0**	**100.0**

The Company's shares are represented by book entries and are officially listed on the Spanish stock exchanges 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. Equity (Continued)

16.4 *Reserves in fully-consolidated companies*

The next table breaks down "Equity—Reserves in fully-consolidated companies" by company at 31 December 2014 and 2013:

Thousands of euros	31/12/2014	31/12/2013
Celulosas de Asturias, S.A.U.	100,827	67,786
Celulosa Energía, S.A.U.	33,062	34,104
Norte Forestal, S.A.U.	15,317	16,751
Silvasur Agroforestal, S.A.U.	5,903	9,975
Iberflorestal, S.A.U.	262	2,377
Ibersilva, S.A.U.	(18,085)	(17,391)
Eucalipto de Pontevedra, S.A.U.	(3,952)	(2,039)
Electricidad de Navia Asturias, S.L.U.	2,795	2,793
Maderas Aserradas del Litoral, S.A.	(5,400)	(5,291)
Zona Franca M'Bopicuá, S.A.	2,883	2,894
Las Pléyades, S.A. (SAFI)	2,047	1,969
Sierras Calmas, S.A.	5,424	5,037
ENCE Energia, S.L.U.	(20,791)	(1,340)
ENCE Energía Huelva, S.L.U.	(5,662)	(2,198)
Consolidation and other adjustments	8,652	10,995
	123,282	**126,422**

The balance of reserves in consolidated companies that is restricted at year-end stood at €12,992 thousand (year-end 2013: €15,079 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 €7,452 thousand dividend from 2013 profit at the Annual General Meeting of 30 June 2014 (corresponding to a gross payment of €0.03 per ENCE Energía y Celulosa, S.A. share carrying dividend rights outstanding as of the payment date) as well as a cash dividend of €11,924 thousand with a charge against unrestricted reserves (corresponding to a gross payment of €0.05 per ENCE Energía y Celulosa, S.A. share carrying dividend rights). This dividend was paid on 11 July 2014.

Complementing the cash dividend, at that same Annual General Meeting of ENCE Energía y Celulosa, S.A., the shareholders also approved the payment of a in-kind dividend equivalent to 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 32 outstanding, so that the Company delivered 7,557,391 own shares with a market value at the resolution date of €14,372 thousand and an average acquisition cost of €19,893 thousand.

16. Equity (Continued)

16.6 *Earnings per share*

The earnings per share calculations (which coincide with diluted earnings per share) are shown below:

Earnings per share	2014	2013
Group profit/(loss) attributable to owners of the parent (€ 000)	(140,909)	4,311
Ordinary shares outstanding at 1 January	250,272,500	250,272,500
Ordinary shares outstanding at 31 December	250,272,500	250,272,500
Weighted average ordinary shares	250,272,500	250,272,500
Basic earnings per share (euros)	**(0.56)**	**0.02**
Diluted earnings per share (euros)	**(0.56)**	**0.02**

16.7 *Parent Company shares*

The reconciliation of "Own shares—parent company shares" at the beginning and end of 2014 and 2013 is as follows:

	2014		2013	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	7,250,507	19,762	18,743,383	37,213
Purchases	3,297,886	6,063	10,389,476	26,509
In-kind dividend payment	(7,557,391)	(19,893)	(9,192,292)	(18,481)
Sales	(70,339)	(188)	(12,690,060)	(25,479)
Closing balance	**2,920,663**	**5,744**	**7,250,507**	**19,762**

The own shares held by the Company at 31 December 2014 represent 1.2% of its share capital (2.9% at year-end 2013) and are carried at €2,629 thousand (€6,526 thousand at 31 December 2013). These shares were acquired at an average price of €1.97 per share. The own shares held by the Parent are held for market trading purposes. Against this backdrop, 1,500,000 treasury shares were sold in January 2015.

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) in the amount of €54,149 thousand. The latter reserve is freely distributable.

16. Equity (Continued)

The breakdown of the changes in the fair value of the hedging derivatives in 2014 and 2013 is shown below:

	2014			2013		
Thousands of euros	**Fair value**	**Tax effect**	**Adjustment in equity**	**Fair value**	**Tax effect**	**Adjustment in equity**
Interest rate swap—						
Recourse borrowings:						
Opening balance	—	—	—	(1,075)	(323)	(752)
Reclassified to profit/loss	—	—	—	1,075	323	752
Closing balance	—	—	—	—	—	—
Interest rate swap—50 MW project finance facility:						
Opening balance	(6,981)	(2,094)	(4,887)	(10,499)	(3,150)	(7,349)
Reclassified to profit/loss	2,334	700	1,634	2,409	723	1,686
Other changes in value	(3,310)	(993)	(2,317)	1,109	333	776
Tax adjustment	—	(398)	(398)	—	—	—
Closing balance	(7,957)	(2,785)	(5,968)	(6,981)	(2,094)	(4,887)
Interest rate swap—20 MW project finance facility:						
Opening balance	(651)	(196)	(455)	(1,848)	(555)	(1,293)
Reclassified to profit/loss	564	169	395	346	104	242
Other changes in value	(3,153)	(946)	(2,207)	851	255	596
Tax adjustment	—	(162)	(162)	—	—	—
Closing balance	(3,240)	(1,135)	(2,429)	(651)	(196)	(455)
Foreign exchange hedges:						
Opening balance	—	—	—	10,721	3,217	7,504
Reclassified to profit/ loss	—	—	—	(12,102)	(3,630)	(8,472)
Other changes in value	—	—	—	1,381	413	968
Closing balance	—	—	—	—	—	—
Energy sale hedges:						
Reclassified to profit/ loss	(39)	(12)	(27)	—	—	—
Other changes in value	1,038	311	727	—	—	—
Tax adjustment	—	50	50	—	—	—
Closing balance	999	349	750	—	—	—
	(10,198)	**(3,570)**	**(7,648)**	**(7,632)**	**(2,292)**	**(5,340)**

17. Grants

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2014 and 2013 is as follows:

Thousands of euros	Subsidised loans (note 20)	Grants relating to assets	Emission allowances (note 7)	Total
Balance at 01/01/2013	**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**
Additions, new grants(*)	—	860	—	860
Emission allowances allocated for 2014	—	—	649	649
Reclassified to profit or loss	(326)	(927)	(4,433)	(5,686)
Balance at 31/12/2014	**1,043**	**9,989**	**—**	**11,032**

(*) 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 which 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 2014 and 2013:

	Thousands of euros				
2014	Balance at 01/01/2014	Additions/ (charges)	Derecognitions or decreases	Transfers	Balance at 31/12/2014
Non-current:					
Costs of unwinding lease agreements over land for energy and other crops (note 5.2)	7,125	10,401	(3,002)	(14,524)	—
Employee commitments (notes 4.16)	2,175	—	(1,463)		712
Emission allowances (note 7)	8,715	5,117	(8,751)	—	5,081
Discontinuation of pulp production in Huelva (notes 5.1 & 7)	—	3,917	—	—	3,917
Other	490	1,047	(100)		1,437
	18,505	**20,482**	**(13,316)**	**(14,524)**	**11,147**
Current:					
Costs of unwinding lease agreements over land for energy and other crops (note 5.2)	—	—	(4,626)	14,524	9,898
Discontinuation of pulp production in Huelva (note 5.1)	—	12,581	(2,759)	—	9,822
Revenue provision under RD 9/2013 (note 22)	7,080	16,879	—	(23,959)	—
	7,080	**29,460**	**(8,885)**	**(9,435)**	**19,720**

	Thousands of euros			
2013	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)	—
Costs of unwinding lease agreements over land for energy and other crops (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**

"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).

As indicated in note 5.2, in June 2014 the Spanish government completed its energy sector reforms, the remuneration changes introduced taking retroactive effect to 14 July 2013. In the interim period, the regulator had been settling payment for energy sales under the outgoing regime, Royal Decree 661/2007 (25 May), so that the retroactive application of the new regime has entailed, among other things, the need to return settlements received: €7,080 thousand recognised in the 2013 financial statements and

18. Provisions, guarantees and contingent liabilities (Continued)

€16,879 thousand recognised in the 2014 financial statements (of which €6,070 thousand corresponds to 2013 accruals). The amount pending repayment at 31 December 2014 is €8,368 thousand; this balance has been recognised as a deduction from "Trade and other receivables" in the accompanying statement of financial position.

In addition, the above regulatory changes have the effect of applying the same treatment to energy crops as to forestry and agricultural waste for remuneration purposes, despite the latter's lower value-added and cost, triggering the need to write down most of the value assigned to the energy crops developed to cater to the supply needs of biomass-fuelled power generation facilities (note 9) and shaping management's decision to make an orderly exit from this business activity. Management has estimated that the cost the Group will incur to unwind the lease agreements and compensation agreements with forest suppliers as a result of the abandonment of the estates on which the energy crops were grown, including those itemised in note 27, recognised with a charge against profit and loss in 2014 and yet to be incurred at year-end, amount to €4,911 thousand. In addition, management has written down the value of the irrigation equipment installed to water the energy crops in the process of being abandoned (note 8).

Elsewhere, the Group has recognised provisions of €16,498 thousand (note 5.1) to cover the contractual obligations assumed following the decision to cease pulp production at the Huelva industrial complex.

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, and reversed the provision associated with the "Galicia Sanitation Agreement" as the related obligation had prescribed.

18.2 ***Guarantees extended to third parties***

At 31 December 2014, several financial institutions had extended the various Group companies guarantees, mainly performance bonds related to business operations, for an aggregate amount of approximately €45,418 thousand, of which €28,968 thousand is accounted for by guarantees of a financial nature (€45,508 thousand at 31 December 2013).

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 assets and liabilities***

At year-end 2014, the Group is party 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:

Changes in the Spanish energy sector regulatory framework

On 14 and 31 July 2014, several Group companies exercised their right to seek damages from the Spanish state, specifically seeking an award of €52,069 thousand for damages caused by the retroactive application of the new regulatory regime applicable to the generation of power using biomass obtained from energy crops. The claim has been presented as an open-ended claim and the award sought will be increased to reflect the costs the ENCE Group will incur in dismantling energy crop estates and unwinding leases at the estates on which the energy crops are being grown.

In addition, on 30 July 2014 a challenge was lodged before appeal court three of the Supreme Court against Royal Decree 413/2014 (6 June 2014), regulating the production of electric power by means of renewable sources, co-generation and waste, and Ministerial Order IET/1045/2014 (16 June 2014), enacting the standard facility remuneration parameters applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste.

By means of the appropriate Supreme Court channel, the Spanish Ministry of Industry has been petitioned to complete the case paperwork so that ENCE can formerly present a lawsuit seeking acknowledgement within the new regulatory regime of the real cost of lignin, the fuel used in the Group's existing

18. Provisions, guarantees and contingent liabilities (Continued)

co-generation plants integrated within its pulp operations and, by extension, an update of the remuneration parameters in order to reflect these real costs. Management estimates that lignin costs per MWh produced are €40-€60 higher than the cost contemplated in the current regulations, which translates into an impact at the Pontevedra and Navia industrial complexes in the range of €20,000 - €30,000 thousand in annual revenue terms.

Tax contingencies

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 assessments 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) have been signed under protest; of this balance, just €3,616 thousand would result in an outflow of cash.

Pontevedra public-domain concession

Sentences handed down by the National High Court (Chamber for Contentious Administrative Proceedings) on 19 May 2011 and 19 April 2013 ordered the state to initiate proceedings to investigate the expiry of the Pontevedra concession on the grounds alleged by an environmental association. The first of these sentences was upheld by the Supreme Court on 11 July 2014.

Note that all of these rulings order the state to initiate concession expiration hearings but do not pre-judge the existence of otherwise of the grounds for expiry pleaded by the plaintiff.

Carrying out this sentence, the Ministry for Agriculture, Food and the Environment has initiated the case as required and heard two rounds of pleas by ENCE demonstrating the lack of legal grounds for declaring the concession expired.

19. Borrowings and cash and cash equivalents

The breakdown of the Group's borrowings at 31 December 2014 and 2013 is as follows:

	2014		2013	
	Current	Non-current	Current	Non-current
High-yield bond	—	250,000	—	250,000
Loans and credit facilities	400	300	400	700
50-MW project finance facility	6,660	71,809	5,544	78,469
20-MW project finance facility	1,953	28,580	188	22,312
Arrangement fees(*)	(495)	(10,640)	(503)	(12,544)
Accrued interest payable and other	7,886	—	7,296	—
	16,404	**340,049**	**12,925**	**338,937**

(*) High-yield bond of €7,911 thousand at 31 December 2014 (€9,321 thousand at year-end 2013); 50-MW project finance facility: €1,876 thousand at 31 December 2014 (€2,220 thousand at year-end 2013); 20-MW project finance facility: €1,348 thousand at 31 December 2014 (€1,506 thousand at year-end 2013).

19. Borrowings and cash and cash equivalents (Continued)

The breakdown of borrowings at 31 December 2014 and 2013 corresponding to loans, credit facilities and discounting facilities, classified by their respective maturities, is as follows:

Year-end 2014 (thousands of euros)	Limit	Drawn down	Due in 2015	2016	2017	2018	Beyond
High-yield bond	250,000	250,000	—	—	—	—	250,000
Revolving credit facility	90,000	—	—	—	—	—	—
50-MW project finance facility	101,309	78,469	6,660	7,288	7,762	7,878	48,881
20-MW project finance facility	60,692	30,533	1,953	2,077	2,075	2,205	22,223
Other loans	700	700	400	300	—	—	—
Accrued interest payable and other	—	7,886	7,886	—	—	—	—
Arrangement fees	—	(11,135)	(495)	(2,090)	(2,132)	(2,181)	(4,237)
	502,701	356,453	16,404	7,575	7,705	7,902	316,867

Year-end 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

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 amended. The issue was carried out under New York state law and the bonds are traded on the Luxembourg Euro MTF exchange.

The bonds fall due 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. The current issuer and issue credit ratings assigned by Standard&Poors and Moody's are BB−/BB− and Ba3/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 at a rate benchmarked to Euribor and matures in 2018. It was fully drawn down at 31 December 2014. This agreement is governed by English and Welsh legislation.

19. Borrowings and cash and cash equivalents (Continued)

19.2 ***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. Loan repayments began on 22 June 2013 and the facility is scheduled for full repayment by 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, including 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 contractor.

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).

19.3 ***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 €30,790 thousand has been drawn down to date. Loan repayments began on 15 December 2014 and the facility is scheduled for full repayment by 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 contractor.

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 generated annually 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.

19. Borrowings and cash and cash equivalents (Continued)

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).

19.4 ***Regulatory changes in the energy sector***

Recent regulatory changes in the energy business could have an adverse effect on the amounts of the project finance facilities arranged to fund the 50-MW Huelva and 20-MW Mérida facilities because these amounts are calculated on the basis of estimated cash flows once the facilities are in operation and also as a result of the existence of certain obligations assumed under the financing agreements, including the obligations made with respect to the availability of specific energy crops; these obligations need to be modified as part of the talks underway with the banks in order to adapt them for the recently enacted tariff framework.

The lenders' estimates of 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, prompted them to propose reducing the amount of project financing available for the Mérida 20-MW and Huelva 50-MW projects by €20 million and €29 million, respectively. These estimates was made during the first half of 2013 and therefore do not factor in Royal Decree 413/2014, of 6 June 2014, regulating the production of electric power by means of renewable sources, co-generation and waste, which took effect on 11 June 2014, or Ministerial Order IET/1045/2014, of 16 June 2014, approving the remuneration parameters for standard facilities applicable to certain facilities that generate power by means of renewable sources of energy, co-generation and waste, published on 20 June 2014.

At present, the Group is in talks with the banks that provided the Huleva 50-MW and Mérida 50-MW project finance facilities with a view to adapting the size of the facilities to the above-mentioned regulatory changes. It is estimated that the amounts and maturities of these facilities recognised in the accompanying consolidated financial statements will remain unchanged as a result of the aforementioned negotiations, in light of the fact that the amounts drawn down to date are substantially lower than the amounts granted, among other considerations.

On 30 December 2014, the banks that provided these facilities expressly manifested that it is not their intention to seek early repayment of the loans extended or to declare the loans due as a result of the breach, forced by the regulatory changes in the Spanish energy sector, of certain covenants in the loan agreements related to the energy crop business. This waiver is valid until 31 December 2015.

19.5 ***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 1.07% in 2014 (1.57% in 2013). A portion of this cash—€15,651 thousand—may only be used to service debt under the Huelva and Mérida project finance facilities.

The year-end 2014 statement of financial position includes €2,667 thousand of cash denominated in US dollars (year-end 2013: €31,164 thousand).

19.6 ***Other financial assets***

This heading mainly includes 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). €45,000 thousand of fixed-term deposits matured in April 2014 (average rate earned: 2.39%).

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 2014 and 2013 is as follows:

Thousands of euros	2014	2013
2014	0	1,962
2015	1,858	1,501
2016	1,280	1,243
2017	1,279	1,204
2018	1,288	1,204
2019 and beyond	5,210	4,763
Unwinding of discount (note 17)	(1,043)	(1,369)
	9,871	**10,508**

21. Tax matters

The balances receivable from and payable to the tax authorities at year-end 2014 and 2013 are shown below:

	Thousands of euros			
	31 December 2014		31 December 2013	
	Taxes receivable	Taxes payable	Taxes receivable	Taxes payable
Non-current:				
Deferred tax assets	81,588	—	35,557	—
Deferred tax liabilities	—	21,948	—	27,663
Total	**81,588**	**21,948**	**35,557**	**27,663**
Current:				
Income tax receivable and VAT payable	8,492	1,942	17,506	2,548
Current tax on profits for the year	303	94	8,204	39
Tax in respect of prior years(*)	11,631	—	—	—
Electricity tax (note 22)	876	3,039	496	3,912
Sundry taxes receivable from and payable to the tax authorities	379	3,668	590	4,858
Total	**21,681**	**8,743**	**26,796**	**11,357**

(*) Collected from the tax authorities in February 2015

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.U.
- Norte Forestal, S.A.U.
- ENCE Investigación y Desarrollo, S.A.U.
- Ibersilva, S.A.U.
- ENCE Energía, S.L.U. and subsidiaries

21. Tax matters (Continued)

The statutory income tax rate is 30%.

Group companies resident in Uruguay and Portugal 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 company Iberflorestal, S.A., meanwhile, pays income tax under the general Portuguese corporate income tax regime at a statutory rate of 23%.

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. The new applicable tax legislation includes Law 14/2013, of 27 September 2013, in support of entrepreneurs and their international expansion, and 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).

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.

Elsewhere, on 28 November 2014, Law 27/2014 (27 November 2014) was published in the Spanish Official State Journal; this piece of legislation will take effect from 1 January 2015 and apply, generally, to tax years beginning on or after that date.

This new set of tax regulations, which imply an overhaul of the tax system in Spain on account of the scale and magnitude of the changes, includes the following amendments, among others: the general statutory rate will decrease to 28% in 2015 and to 25% in 2016; the caps on the ability to utilise tax losses have been set at 25% of taxable income in 2015, 60% in 2016 and 70% from 2017; introduction of a new tax break, the capitalisation reserve, which will have the effect of reducing taxable income by up to 10% if certain requirements are met; elimination of the ability to deduct impairment losses on property, plant and equipment and intangible assets for tax purposes; elimination of the internal double taxation deduction, which is being replaced by an exemption mechanism which also applies to the sale of investments; introduction of an enhanced tax treatment for related-party transactions; and increased limits on the ability to deduct interest expense.

21. Tax matters (Continued)

21.2 *Reconciliation of accounting profit/(loss) to taxable income/(tax loss)*

The reconciliation of accounting profit/(loss) to taxable income/(tax loss) in 2014 and 2013 is provided below:

Thousands of euros	2014	2013
Accounting profit (profit/loss before tax)[(*)]	(195,304)	5,566
Permanent differences:		
Arising in profit or loss	(1,397)	811
Arising in equity	(71)	—
Temporary differences:		
Arising during the year	67,182	37,170
Arising in prior years	(8,113)	(3,336)
Arising from reclassifications from equity		(344)
Consolidation adjustments	(817)	(526)
Utilisation of tax losses	(929)	(10,493)
Taxable income / (tax loss)	**(139,449)**	**28,848**

(*) Generated entirely from continuing operations

The permanent differences arising in profit or loss correspond to expenses accrued for accounting purposes that cannot be deducted for tax purposes.

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 tax income/(tax expense) in 2014 and 2013 is provided below:

Thousands of euros	2014	2013
Accounting profit (profit/loss before tax)	(195,304)	5,566
Permanent differences arising in profit or loss	(1,397)	811
Elimination of the accounting profit of non-resident companies	—	2,647
Consolidation adjustments and eliminations	—	(1,045)
Taxable income / (tax loss)	**(196,701)**	**7,979**
Tax payable / (receivable) before adjustments	**(59,022)**	**2,394**
Deductions and adjustments in respect of prior years	(5,779)	(1,032)
Impact of the change in tax rate	10,406	—
Tax effect of non-resident companies	—	(107)
Tax expense /(income)	**(54,395)**	**1,255**

The breakdown of tax expense / (income) in 2014 and 2013:

Thousands of euros	2014	2013
Current tax and other movements	(47,080)	11,350
Deferred tax	(17,721)	(10,095)
Impact of the change in tax rate	10,406	—
Tax expense /(income)	**(54,395)**	**1,255**

21. Tax matters (Continued)

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 2014 and 2013 is as follows:

Deferred tax assets

2014	Balance at 01/01/2014	Increases	Decreases	Transfers/ restatements	Change in tax rate	Balance at 31/12/2014
	Thousands of euros					
Deferred tax assets recognised in profit or loss:						
Non-current asset depreciation	5,729	5,288	(111)	—	(1,818)	9,088
Non-current asset impairment	2,268	9,499	(77)	(1,094)	(1,766)	8,830
Provisions	3,897	2,338	(1,981)	(340)	(652)	3,262
Employee commitments	1,330	102	(445)	10	(166)	831
Current-asset impairment	580	2,118	—	(579)	(353)	1,766
Non-resident companies	347	128	335	338	—	1,148
Consolidation adjustments	(47)	—	(6)	(2)	—	(55)
Unused tax losses	19,161	40,546	(1,137)	585	(9,198)	49,957
Unused tax credits	—	—	—	4,588	(765)	3,823
	33,265	**60,019**	**(3,422)**	**3,506**	**(14,718)**	**78,650**
Deferred tax assets recognised in equity:						
Hedging instruments (notes 12 and 16)	2,292	507	—	452	(313)	2,938
Total	**35,557**	**60,526**	**(3,422)**	**3,958**	**(15,031)**	**81,588**

2013	Balance at 01/01/2013	Increases	Decreases	Balance at 31/12/2013
	Thousands of euros			
Deferred tax assets recognised in profit or loss:				
Fixed-asset depreciation	231	5,612	(114)	5,729
Non-current 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 assets recognised in equity:				
Hedging instruments (notes 12 and 16)	4,025	—	(1,733)	2,292
Total	**30,580**	**11,450**	**(6,469)**	**35,557**

Management has recognised deferred tax assets in the statement of financial position as it believes it is probable that they will be realised. In making this judgement, management factored in the outlook for the Group's earnings, based on internal projections which are updated to reflect the most recent business trends at the Group, as well as the tax rate expected to apply at the time of their realisation, to this end

21. Tax matters (Continued)

factoring in the corporate tax rate changes introduced by Law 27/2014 (27 November 2014), which is currently estimated at 28% in 2015 and 25% from 2016.

As provided in Spanish legislation, unused tax losses generated during a given year can be offset against taxable income generated by the consolidated Tax Group No. 149/02 in successive years, as they do not prescribe.

Deferred tax liabilities

	Thousands of euros					
2014	Balance at 01/01/2014	Increases	Decreases	Transfers/ restatements	Change in tax rate	Balance at 31/12/2014
Deferred tax liabilities recognised in profit or loss:						
Accelerated depreciation	2,658	—	(226)	—	(405)	2,027
Other	1,780	797	(2,687)	357	(42)	205
	4,438	**797**	**(2,913)**	**357**	**(447)**	**2,232**
Deferred tax liabilities recognised in equity:						
Revaluation of forest land (note 16)(*)	23,184	—	—	—	(3,865)	19,319
Hedging instruments (notes 12 and 16)	—	467	—	—	(78)	389
Consolidation and other adjustments	11	—	(6)	5	(2)	8
	23,195	**467**	**(6)**	**5**	**(3,945)**	**19,716**
Total	**27,633**	**1,264**	**(2,919)**	**362**	**(4,392)**	**21,948**

(*) The adjustment for the change in tax rate is recognised in profit and loss

	Thousands of euros			
2013	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**

21.5 *Unrecognised deferred tax assets*

The Group did not recognise certain deferred tax assets in 2014 and 2013, mainly corresponding to tax losses generated in Uruguay, in the amount of €4 million, as these companies' business volumes are currently at low levels.

21. Tax matters (Continued)

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 2014 and 2013 is as follows:

Thousands of euros	2014	2013
Revenue from pulp sales	501,997	611,400
Revenue from energy sales	171,851	233,739
Revenue from sales of wood and forestry services	19,768	7,997
Impact on revenue of retroactive application of regulatory changes (note 18)	(6,070)	—
	687,546	**853,136**

In 2014 the Group sold 1,137,146 tonnes of pulp and 1,494,319 megawatt-hours of electric energy (1,270,095 tonnes of pulp and 1,895,540 MWh in 2013).

22.1 *Geographic revenue split*

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	2014	2013
Germany	23.2	19.4
Italy	16.4	20.2
Spain	15.6	14.9
France	9.8	11.4
Austria	6.0	5.6
Turkey	4.5	4.2
Poland	3.7	4.2
Netherlands	3.2	2.7
Slovenia	3.2	3.0
Greece	3.2	2.9
UK	3.1	2.7
Other	8.1	8.8
	100	**100**

A single customer accounts for 10.5% of the Group's revenue from pulp sales.

22.2 *Foreign currency transactions*

In 2014 the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €126,447 thousand (2013: €180,503 thousand).

22. Revenue (Continued)

22.3 ***Energy sector regulation***

This section attempts to summarise the most noteworthy highlights of prevailing energy sector regulations in Spain, as applicable to the business activities of the ENCE Group:

Law 24/2013 (26 November 2013), the Electricity Sector Act, replacing Law 54/1997 (27 November 2007).

This piece of legislation introduces the governing principle of ensuring the economic and financial sustainability of the electricity system, limiting the so-called tariff deficit; it abandons the former distinction between the 'ordinary', or conventional, and 'special', or renewable, regimes, introducing a single set of regulations, without prejudice to unique considerations potentially requiring regulation; and it establishes a remuneration regime applicable to electricity generated from renewable sources, co-generation and waste based on the pool prices fetched by these facilities in the market, topped up by specific regulated remuneration designed to enable these technologies to compete with the other generation technologies on an even footing.

The new remuneration premiums will be incremental to the remuneration obtained by selling electricity in the market and will be made up of an amount per unit of installed capacity covering, as warranted, investment costs that cannot be recouped in the market and an operations supplement covering the difference between operating costs and market prices, as required.

The principle underpinning this remuneration regime is that of a 'reasonable return on investment', defined as the yield on 10-year Spanish sovereign bonds plus a spread, initially set at 300 basis points; it will be calculated on the basis of a standard facility, over the course of its regulated useful life and assuming operation by an efficient and well-managed undertaking, all of which factoring in: 1) standard revenue from the sale of electricity at market or pool prices; 2) standard operating costs; and 3) standard upfront investment metrics.

The new regime establishes regulatory periods of six years and stub periods of three years. Every three years there is scope for changing the remuneration parameters related to pool price forecasts, factoring in any deviations arising during the stub period in question. Every six years the authorities can change the standard facility parameters other than the amount of initial investment and the facilities' regulatory useful lives, which will remain unchanged throughout. The regime also envisages changing the interest rate for remuneration purposes every six years, albeit only prospectively.

The standard investment supplements for new facilities will be determined by means of a competitive tender process.

This new remuneration regime applies retroactively from July 2013, the date on which Royal Decree-Law 9/2013 took effect.

The new regulations also stipulate that any tariff deficit arising in the Spanish electricity system must be funded proportionately by the various parties that collect remuneration based on the revenue collected by the power distributors or by the system operator. This funding may not exceed 2% of initially estimated revenue for the year in question or 5% of actual estimated revenue for the year.

Law 15/2012 (27 December 2012) on fiscal measures for energy system sustainability

This piece of legislation introduces, with effect from 1 January 2013, several tax modifications that affect the Group's business, specifically creating a levy on the value of electric energy sold, which affects the entire energy sector, equivalent to 7% of revenue from generation activities. This legislation has 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.

Royal Decrees

On 27 January 2012, the Spanish Cabinet passed Royal Decree-Law 1/2012 which had the effect of temporarily suspending the procedure for pre-qualifying new renewable capacity for remuneration

22. Revenue (Continued)

premiums 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.

Royal Decree-Law 2/2013 of 1 February 2013, on urgent electricity system and financial sector measures, mandated 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 could only be remunerated at the regulated tariff going forward.

Royal Decree 413/2014 (6 June 2014) was published on 10 June, regulating the production of electric power by means of renewable sources, co-generation and waste, establishing the methodology underpinning the specific remuneration regime applicable to facilities that fail to cover their costs by enough of a margin to enable them to compete with the rest of the generation technologies in the market on an even footing, thereby generating a reasonable return based on benchmark facilities for each affected class of technology. This decree also stipulates the publication of an enacting order by the Spanish Ministry for Industry, Energy and Tourism to specify the methodology for classifying standard facilities by technology, installed capacity, age or using any other segmentation criteria deemed necessary for the purpose of applying the new remuneration regime. Against this backdrop, Ministerial Order IET/1045/2014 (16 June 2014) was published on 20 June, enacting the the standard facility remuneration parameters applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste applicable for the first regulatory stub period which ends on 31 December 2016 and defining the 'standard facility' categories which encompass every single generation facility in existence in Spain.

23. Cost of sales

Consumption of raw materials and other consumables in 2014 and 2013 breaks down as follows:

Thousands of euros	2014	2013
Purchases	319,559	372,663
Change in raw materials, goods held for resale and other inventories	15,769	3,207
Other external expenses	44,119	51,966
	379,447	**427,836**

This heading mainly includes the cost of the wood, chemical products, fuels and other variable costs incurred in the pulp production process.

24. Employee benefits expense

The breakdown of the employee benefits expense incurred in 2014 and 2013 is provided below:

Thousands of euros	2014	2013
Wages and salaries	51,103	57,135
Social security	13,377	13,620
Pension contributions and other social benefits	3,242	3,281
	67,722	**74,036**
Termination benefits (note 5.1)	19,815	5,369
Long-term remuneration plans	(502)	1,054
	87,035	**80,459**

The process of restructuring the industrial complex in Huelva initiated during the third quarter of the year and the transformation of this facility into a renewable energy power-generation unit, due to the decision

24. Employee benefits expense (Continued)

to discontinue pulp production, as agreed with the workers' representatives on 19 October 2014, has implied workforce restructuring at the Huelva operating centre and at the office facilities in both Huelva and Madrid. This process has entailed collective redundancy measures which have reduced the workforce by 226, of which 168 left the company in 2015 with the remainder due to leave its employment over the course of 2015. The estimated cost of the related termination benefits is €20,395 thousand.

The average headcount in 2014 and 2013:

	Average headcount during the year					
	2014			2013		
Job category	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Executives	7	1	8	7	1	8
Individual job contracts	211	63	274	217	61	278
Collective bargaining agreement	541	76	617	570	85	655
Temporary workers	74	28	102	84	23	107
	833	**168**	**1,001**	**878**	**170**	**1,048**

The number of employees with a disability stood at 12 at year-end 2014 (15 at year-end 2013).

The breakdown of the year-end headcount by job category and gender:

	Year-end headcount					
	2014			2013		
Job category	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Executives	6	1	7	7	1	8
Individual job contracts	192	55	247	210	61	271
Collective bargaining agreement	439	63	502	561	85	646
Temporary workers	55	27	82	61	24	85
	692	**146**	**838**	**839**	**171**	**1,010**

The Board of Directors was made up of 13 directors at 31 December 2014, 12 of whom men (12 members at year-end 2013, 11 of whom men).

25. Other operating expenses

The breakdown of this consolidated income statement heading in 2014 and 2013 was as follows:

Thousands of euros	**2014**	**2013**
External services	169,885	187,614
Use of emission allowances (note 18)	5,117	8,715
Taxes other than income tax and other management charges	3,819	4,624
Electricity generation levy (note 22)	12,091	16,274
Change in impairment provisions for inventories and bad debt	3,463	5,783
Impact of regulatory changes on energy business	8,921	5,228
Impact of the closure of the Huelva factory (note 18)	18,246	—
Other non-recurring charges(*)	6,057	11,770
Total	**227.599**	**240,008**

(*) Mainly includes €3,231 in respect of timber inventory restatements (€6,543 thousand in 2013).

25. Other operating expenses (Continued)

The breakdown of "External services" in the consolidated income statement in 2014 and 2013:

Thousands of euros	2014	2013
Transport, freight and business expenses	52,123	57,862
Utilities	48,672	58,963
Repairs and upkeep	24,913	21,460
Rent and fees	6,171	7,599
Insurance premiums	5,176	5,347
Independent professional services	7,644	8,977
Banking and similar services	1,715	2,241
Advertising, publicity and public relations	740	1,129
Research and development costs[(*)]	253	514
Other services	22,478	23,522
Total	**169,885**	**187,614**

25.1 *Audit fees*

The fees paid for account auditing and other services to the Group's auditor and entities related to the latter in 2014 and 2013 are shown in the next table:

	Thousands of euros	
	2014	2013
Audit services	135	157
Other services	77	196

26. Finance costs

The breakdown of this consolidated income statement heading in 2014 and 2013 was as follows:

Thousands of euros	2014	2013
Bonds	18,126	16,615
Syndicated loan	—	656
Project finance facilities	4,095	3,949
Credit, factoring and reverse factoring lines	1,627	2,924
Financing arrangement fees recognised in profit or loss	4,200	6,192
Capitalised borrowing costs (notes 8 and 9)	(3,220)	(4,480)
Other (note 9)	(21)	1,897
	24,807	27,753
Derivatives:		
Settlement of the project finance interest-rate swap	3,028	2,755
Settlement of interest under the equity swap	197	254
	3,225	3,009
	28,032	**30,762**

27. Related-party transactions

The Company entered into the following transactions with related parties in 2014 and 2013:

Related party	Nature of the transaction	Thousands of euros 2014	2013
Liberbank, S.A.	Interest and banking fees and commissions	—	19
Agroluan, S.L.	Services received	182	212
Grupo Foresta	Biomass	1,000	526
Grupo Foresta	Interest receivable	(22)	—

These transactions were arranged on an arm's length basis.

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 their carrying amount and fair value less costs to sell.

The breakdown of "Non-current assets held for sale" at 31 December 2014 is as follows:

	Thousands of euros
NON-CURRENT ASSETS	
Property, plant and equipment	**70,657**
Cost	343,224
Depreciation	(220,615)
Provision for impairment	(51,952)
Biological assets	**4,867**
Forest cover	5,243
Depletion of forest reserve	(376)
Investment property	**1,855**
TOTAL ASSETS	**77,379**

The Group has begun the process of selling the industrial assets located in Huelva which have fallen idle as a result of the decision to cease pulp production at this facility (note 5.1). The estimated realisable value of these assets totals €34,632 thousand (note 8.6).

In addition, the Group is exiting the forest management business in southern Spain in an orderly fashion; these assets are related to energy crops, with watering entitlements, encompassing approximately 2,000 hectares of irrigated land and an addition 1,000 hectares of adjacent non-irrigated land. The carrying amount of the land and corresponding forest cover is €33,955 thousand and €4,867 thousand, respectively. Its realisable value, estimated on the basis of firm offers for part of this land, is in the range of €40-€60 million.

Elsewhere, the Group has taken several measures to sell properties located in Pontevedra that are not used in its core business activities. The carrying amount of these assets is €3,925 thousand, in line with their estimated net realisable value.

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 via use of the parts of the wood that cannot be transformed into pulp, essentially lignin and biomass, as fuel.

  The power co-generation and 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, the Group is developing power generation projects fuelled by biomass. The main assets included in this operating segment are the power generation facilities and the energy crops.

- 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 2014 and 2013, based on the management information reviewed regularly by senior management:

	Thousands of euros						
2014 Income statement	**Pulp & Energy**	**Biomass Energy Projects**	**Pulp Forest Assets**	**Forest Services & Other**	**Subtotal**	**Elimination of inter-segment transactions**	**Total**
Revenue:							
From third parties	615,376	52,402	18,309	1,459	687,546	—	687,546
Inter-segment revenue	1,878	5,620	57,313	56	64,867	(64,867)	—
Total revenue	**617,254**	**58,022**	**75,622**	**1,516**	**752,413**	**(64,867)**	**687,546**
Earnings:							
Other operating income and expense	(671,928)	(44,645)	(96,652)	(2,875)	(816,100)	65,887	(750,213)
EBITDA	**(54,674)**	**13,377**	**(21,030)**	**(1,360)**	**(63,687)**	**1,020**	**(62,667)**
Depreciation and depletion of forest reserves for the year	(52,188)	(8,704)	(8,608)	(117)	(69,617)	480	(69,137)
Impairment triggered by energy sector reform	—	(36,820)	—	—	(36,820)		(36,820)
Operating profit/(loss)	**(106,862)**	**(32,147)**	**(29,638)**	**(1,477)**	**(170,124)**	**1,500**	**(168,624)**
Finance income	23,393	379	(117)	44	23,699	(22,634)	1,065
Finance costs	(30,981)	(12,092)	(8,677)	(242)	(51,992)	22,634	(29,358)
Exchange differences	1,954	—	(459)	117	1,612	—	1,612
Tax	29,562	10,940	13,988	(905)	53,585	811	54,396
Profit / (loss) for the year	**(82,934)**	**(32,920)**	**(24,903)**	**(2,463)**	**(143,220)**	**2,311**	**(140,909)**
Additions to non-current assets(*)	37,734	17,170	5,086	—	59,990	—	59,990
Accumulated depreciation and depletion of forest reserves	(563,772)	(18,870)	(56,776)	(1,360)	(640,778)	17,084	(623,694)
Provision and impairment charges	(3,931)	(53,185)	(25,237)	(3,385)	(85,738)	(9,298)	(95,036)

(*) Does not include emission allowances

29. Operating segments (Continued)

2014 Statement of financial position	Pulp & Energy	Biomass Energy Projects	Pulp Forest Assets	Forest Services & Other	Subtotal	Elimination of inter-segment transactions	Total[(a)]
	Thousands of euros						
Assets							
Non-current	702,657	196,481	174,061	107	1,073,306	(322,409)	750,897
Current	272,489	37,768	57,697	4,011	371,965	(50,293)	321,671
Total assets[(a)]	**975,146**	**234,249**	**231,758**	**4,118**	**1,445,271**	**(372,702)**	**1,072,568**
Liabilities:							
Non-current	280,425	250,508	123,383	5,113	659,429	(281,612)	377,817
Current	218,476	29,876	8,917	3,791	261,060	(49,597)	211,463
Total liabilities[(a)]	**498,901**	**280,384**	**132,300**	**8,904**	**920,489**	**(331,209)**	**589,280**

(a) Does not include either equity or deferred tax assets/liabilities

2013 Income statement	Pulp & Energy	Biomass Energy Projects	Pulp Forest Assets	Forest Services & Other	Subtotal	Elimination of inter-segment transactions	Total
	Thousands of euros						
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 for 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

29. Operating segments (Continued)

	Thousands of euros						
2013 Statement of financial position	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 either equity or deferred tax assets/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							
2014	Pontevedra factory	Huelva factory[(a)]	Navia factory	Corporate[(c)]	Other[(b)]	Subtotal	Eliminations	Total
Business metrics:								
Pulp output (ADt)	405,887	235,216	474,708	—	—	1,115,811	—	1,115,811
Energy output (MWh)	210,514	423,168	524,482	—	461,327	1,619,491	—	1,619,491
Continuing operations:								
Revenue	203,005	157,567	366,989	19	138,251	865,831	(178,286)	687,545
Gain (loss) on hedging transactions	—	6	24	—	10	40	—	40
Changes in inventory of finished goods and work in progress	(3,457)	(4,967)	(1,722)	—	(528)	(10,674)	528	(10,146)
Cost of sales	(119,463)	(116,089)	(238,010)	—	(82,264)	(555,826)	176,379	(379,447)
Gross profit	**80,085**	**36,517**	**127,281**	**19**	**55,469**	**299,371**	**(1,379)**	**297,992**
Employee benefit expense	(19,164)	(36,590)	(18,880)	(10,046)	(2,355)	(87,035)	—	(87,035)
Depreciation/ amortisation charge	(15,527)	(10,990)	(24,052)	(936)	(8,013)	(59,518)	40	(59,478)
Depletion of forestry reserve	—	—	—	—	(10,530)	(10,530)	875	(9,655)
Impairment of and gains/ (losses) on disposals intangible assets and PP&E	(238)	(40,741)	(829)	(955)	(60,018)	(102,781)	1,604	(101,177)
Other operating expenses	(47,259)	(65,107)	(60,610)	(4,609)	(26,068)	(203,653)	(5,618)	(209,271)
Fixed costs passed on	(4,550)	(2,944)	(5,707)	13,201	—	—	—	—
Operating profit/(loss)	**(6,653)**	**(119,855)**	**17,203**	**(3,326)**	**(51,515)**	**(164,146)**	**(4,478)**	**(168,624)**

(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 and the 20-MW Mérida plants, companies that are virtually inactive (Ibersilva, S.A.) and the Group's subsidiaries in Uruguay.

(c) 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, in proportion to output in

29. Operating segments (Continued)

terms of tonnage, would have the effect of increasing expenditure at the Pontevedra, Huelva and Navia plants by €7,114 thousand, €4,123 thousand and €8,321 thousand, respectively.

The allocation to the productive facilities of these finance costs would result in operating losses at the Pontevedra and Huelva plants of €13,767 thousand and €123,978 thousand, respectively, and an operating profit at the Navia plant of €8,882 thousand.

	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.

30. Director and key management personnel pay and other benefits

The table below sets out the amounts recognised by the Parent in 2014 and 2013 in respect of remuneration accrued by its directors for discharging the duties intrinsic to their membership of the Board of Directors:

		Thousands of euros		
2014—Director	**Class of director**	**Fixed remuneration**	**Per diems & other**	**Total**
Juan Luis Arregui Ciarsolo(*)	Proprietary	129	87	216
Retos Operativos XXI, S.L.	Proprietary	39	37	76
José Manuel Serra Peris	Independent	17	45	62
Pedro Barato Triguero	Independent	39	33	72
Fernando Abril-Martorell Hernández	External	39	67	106
José Guillermo Zubía Guinea	Independent	39	67	106
José Carlos de Álamo Jiménez	Independent	39	33	72
Pascual Fernández Martínez	Proprietary	39	45	84
Isabel Tocino Biscarolasaga	Independent	39	29	68
Javier Echenique Landiribar	Proprietary	39	53	92
Gustavo Matías Clavero	Independent	39	41	80
Víctor de Urrutia Vallejo	Proprietary	25	19	44
Mendibea 2002, S.L.	Proprietary	25	18	43
		547	**574**	**1,121**

		Thousands of euros		
2013—Director	**Class of director**	**Fixed remuneration**	**Per diems & 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**

In addition, in 2014 the Parent recognised €2,396 thousand in respect of all items of remuneration accrued by the members of its Executive Committee, including that paid for chief executive duties carried out by Ignacio de Colmenares y Brunet under a service provision agreement (2013: €2,905 thousand). The members that stepped down from the Executive Committee received €1,205 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. in 2013 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 composition of the Board of Directors of ENCE Energía y Celulosa, S.A. changed as follows in 2014: Victor Urrutia Vallejo and Mendibea 2002, S.L., the latter represented physically by José Ignacio Comenge

30. Director and key management personnel pay and other benefits (Continued)

Sánchez-Real, joined the board as proprietary directors, while José Manuel Serra Peris stepped down. Meanwhile, Juan Luis Arregui Ciarsolo ceased to perform executive duties in 2014.

The list of key management personnel in 2014 is as follows:

Name	Position
Ignacio de Colmenares y Brunet	Chief Executive Officer
Jaime Argüelles Álvarez	Pulp and Energy Operations Officer
Javier Arregui Abendivar	Forestry Officer
Alvaro Eza Bernaola	Procurements Officer
María José Zueras Saludas(*)	Corporate Resources Officer
Alfredo Avello de la Peña(**)	Chief Finance Officer
Luis Carlos Martínez Martín	Communication and Institutional Relations Officer

(*) Assumed the General Secretary duties formerly performed by Guillermo Medina Ors on 25 November 2014

(**) Assumed this position on 25 November 2014, replacing Diego Maus Lizariturry

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.

Note that, as per the notifications provided in this respect by the members of the Board of Directors, no direct or indirect conflicts of interest arose during the reporting period on the part of the directors or their related parties vis-a-vis the interests of the Company, as defined in article 229 of Spain's Corporate Enterprises Act.

31. Environmental disclosures

ENCE Energía y Celulosa 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. Production of pulp ceased at the Huelva factory on 9 October 2014. The factory was restarted on 24 October, transformed into a power-generating facility using biomass.

As part of the Total Quality Management model, processes are carried out in keeping with management excellence, articulated around three cornerstones:

- Managing improvement
- Managing processes
- Managing everyday activities

This management model is based on a continuous improvement approach with a focus on maximising efficiency and competitiveness by addressing matters related to quality, health and safety, environmental protection and pollution prevention as one. Against this backdrop, the Group has established 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
- Reducing noise levels

31. Environmental disclosures (Continued)

In addition, an integrated management system is being implemented at the factory level in compliance with the following standards:

- UNE-EN-ISO 9001 (quality management)
- UNE-EN-ISO 14001 (environmental management)
- OHSAS 18001 (workplace health and safety management)

This integrated system is certified by an accredited organism that audits it 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 also 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.

At ENCE, environmental management policy is based on compliance with prevailing legislation establishing the requirements which all pulp production related activities must comply with. These requirements include the corresponding integrated environmental permit which defines the environmental criteria for operating an industrial facility. The goal is to prevent, or at least minimise, and control the impact of business operations on 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 as well as surveillance plans in respect of all significant environmental parameters.

Under the scope of the TQM model, the Group is developing the operating standards needed to optimally control and manage 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 achievements 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 available techniques (BAT) and best environmental practices (BEP) defined in the sector BREF (Best Available Techniques in the Pulp and Paper Industry 2014) recently approved by the European Parliament's ENVI Committee.

Huelva Operations Centre

The Huelva factory was marked by the definitive discontinuation of pulp production on 9 October 2014, on which date the facility was stopped. Subsequently, on 24 October, the facility was re-opened, albeit only re-starting the biomass-fuelled 40-MW and 50-MW power generation plants.

However, until October 2014, as part of the commitment to reducing odour pollution, the effort to reduce this form of contamination was ongoing and resulted in an 84% year-on-year reduction in the first three quarters of the year. In fact, in 9M14 this factory only emitted one-third of the odour pollution targeted for all of 2014.

In 2014, ENCE took over management of the 50-MW power generation plant fuelled from biomass at the Huelva factory. The purpose of this plant, which is the largest biomass project in Europe, is to harness the energy potential of biomass in order to reduce the consumption of fossil fuels.

As for the quality of wastewater, the main readings tracking the quality of the effluents discharged, such as total organic carbon (TOC) and suspended solids, fell with respect to 2013 levels.

In terms of waste generation and management, the treatment of sand and ash from the biomass furnace as sub-products or secondary raw materials for another process has reincorporated their management into

31. Environmental disclosures (Continued)

the cement activity. As a result, all of the sand generated and 25% of the ash produced in the biomass furnace's precipitator have been reused.

Total environmental capital expenditure at the Huelva factory amounted to €5 thousand in 2014.

Navia Operations Centre

Process control was enhanced at the Navia factory in 2014, underpinned by operational fine-tuning brought about by the continuous improvements implied by advanced implementation of the TQM model and investment in key equipment for the pulp processing process, such as a new wash press. The improvements made at this stage of the process, which in 2013 had proved a bottleneck, have enabled the facility to tackle new and more efficient operating standards at this juncture, which is now 5% more efficient, as well as generating lower volumes of organic matter in wastewater.

In terms of the environmental impact, 2014 was marked by a substantial improvement in the quality of the plant's wastewater thanks to consolidation and fine-tuning of operations at the new biological treatment facility which delivered a 67% reduction in wastewater chemical oxygen demand readings, an 81% reduction in biochemical oxygen demand readings and a 50% reduction in organochlorine compounds.

This further improvement in the quality of the plant's wastewater reinforces the factory's environmental record and performance, qualifying it for the European Community eco-management and audit scheme (EMAS) and underpinning the prestigious Nordic Swan green seal for its pulp, guaranteeing that this ENCE factory complies with stringent environmental protection criteria.

The Navia factory continued to make progress on its odour impact elimination project. Odour, measured in terms of the number of minutes in channelled sources, has been slashed by 96% since the project started in 2011.

As part of the programme for implementing the best available odorous gas treatment technology, the Group invested in a new facility for concentrating these gases so that they can be newly transformed into fuel, apt for 100%-safe combustion, for the recovery furnace; this has had the added benefit of reducing the alternative fuel requirement, specifically the need to inject lignin, at this combustion point by 36%.

In addition, the plant's operations benefitted from the recent switch in lime kiln fuel from from fuel-oil to natural gas. This project translated into operational and environmental improvements, such as a reduction of 84% in direct SO_2 emissions and of 18% in particle 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.

Environmental capital expenditure at the Navia factory totalled €858 thousand in 2014.

Pontevedra Operations Centre

The Pontevedra factory similarly continued to make progress on its odour impact elimination project. Odour at this plant, measured in terms of the number of minutes in channelled sources, has been slashed by 97% since the project started in 2010.

An olfactometry study was performed to assess the level of odour at this factory and the progress made since the last study in 2012. The results of this study, which was compiled by Labaqua, an ENAC-accredited provider, were validated by Professor Manuel Bao of Santiago University. The study concludes that the odour emission rate has fallen by 61% since the 2012 study was performed.

Management of the visual impact of the Pontevedra Operations Centre remains a top priority, to which end the Group continues to execute the project for the elimination of steam plumes. The fog from the Flakt dryer and the F2 pulp dryer has been eliminated, as has the fog emanating from the water in the vacuum pumps. The fog generated by purging at the CR and CBIO condensers, which used to come out of the top of both furnaces, and the plumes from the mixing tank have also been eliminated.

31. Environmental disclosures (Continued)

Enhanced energy efficiency is another of this facility's priority targets. Management therefore took advantage of the annual stoppage to implement a number of initiatives, including the installation of frequency inverters in the primary air supply and in the induced drafts of the biomass furnace as well as high-performance agitators and variators in the washing, oxygen and bleaching section. This effort has decreased consumption by 4% on average.

Wastewater discharges, meanwhile, fell year-on-year. For example, chemical oxygen demand fell to a record low reading of 4.47 kg/tAD, well below the low end of the benchmark range (7kg/tAD) proposed in the recently published pulp and paper sector Best Available Techniques References (BREF). These results reaffirm the Pontevedra factory as a European benchmark in terms of the quality of its effluents.

Elsewhere, an environmental reliability plan was deployed in 2014, under which the Group has committed to invest €2.1 million; the plan is designed to prevent air emissions from the recovery furnace in the event of incidents.

In total the Group committed to environmental capital expenditure of €4.5 million, including the above-mentioned plan, over the course of 2014.

Lastly, like the Navia factory, the Pontevedra facility also obtained the Nordic Swan seal. This official Scandinavian ecolabel was created in 1989 by the Nordic Council of Ministers representing Sweden, Denmark, Finland, Iceland and Norway, with the aim of making a positive contribution to sustainable consumption. The goal of this ecolabel is to help consumers take purchasing decisions that respect environmental sustainability, particularly by the citizens of the above-mentioned countries, although the prestige earned has made this certificate one of the most important in the world.

Environmental capital expenditure at the Pontevedra factory totalled €1,164 thousand in 2014.

Forestry

ENCE maintained its position as benchmark player in the forestry sector in 2014 through its holding companies and its forest supply management activities, which are framed by stringent sustainability criteria.

This approach, which is fully integrated into the Group's operations, has materialised in a specific policy articulated around the priority goals of ensuring forest asset longevity, minimising impacts, preserving structural and specific diversity, fostering multiple uses for goods and services, stimulating ongoing innovation, extending forestry in rural areas out of principle, actively engaging with stakeholders and promoting forest certification. These principles have shaped overall activities in relation to productive forests as well as the conservation and preservation areas and, albeit in a different way, underpin and endorse the universe of activities focused on the non-owned forest segment.

Another milestone in the Group's forestry policy was the approval, following a public consultation process, of its Best Environmental Practices Manual, which, together with the procedural files, aims to instil sustainability principles in hands-on fieldwork.

Consolidation of these policies has permitted, framed by responsible management and sustainability criteria, the production of close to 150,000 m^3 of timber, coupled with total investment of close to €2.5 million in owned forest assets, including the generation of almost €1 million in rents and royalties and €837,000 of forestry care work to guarantee longevity and sustained yields. These figures consolidate ENCE's forestry management effort as a source of rental income, intangible environmental benefits and, on the timber production front, as most of it boasts dual certification, an effective contributor to the Group's strategy of making pulp that caters 100% to market needs and demands.

From a technical standpoint, the key milestones in 2014 were:

- Development of an end-to-end management model designed to make full use of the tree (wood and residual biomass)
- Adaptation to state energy regulations and the decision to discontinue the energy crop business line

31. Environmental disclosures (Continued)

- Start of drafting the paperwork for the orderly abandonment of forest tracts in Huelva
- Performance of the second LiDAR flight for forest inventory purposes in southern Spain
- Re-cataloguing of forest land in southern Spain to orient its production towards supplying the Huelva plant with biomass

On the purely environmental front, it is worth highlighting investments of up to €350,000 in fire and pest control efforts, as well as ongoing biodiversity awareness initiatives. To this end, meetings were held with external experts (including the University of Huelva) in order to continue the process of inventorying and classifying forest land with high conservation value. Note in this respect that of the 83,163 hectares managed by the company, a total of 17,637 hectares correspond to protected land subject to specific monitoring activities designed to safeguard its natural heritage and prevent unwanted impacts, thereby guaranteeing its sustainability.

ENCE remains the benchmark in terms of forest certification in Spain and Portugal. The acreage certified as sustainably forested increased in 2014 to 57,864 hectares under the PEFC seal and 35,591 hectares under the FSC seal, implying growth of almost 9,000 hectares. ENCE's objective is to have all of its forest assets double-certified within four years. Beyond the scope of its owned assets, in 2014 ENCE advanced on its work to foster FSC certification by facilitating full development of the certificated timber market and providing access for small and large land owners to this market at very competitive costs. The challenge lying ahead in the years to come will be to consolidate the dual-certification culture for which ENCE's assets serve as the exemplary benchmark.

In 2014 the last outstanding GFS (Spanish sustainable forestry seal) certificates were integrated so that there is now a single timber traceability certificate for the entire productive process, from forest to pulp sales, for both PEFC- and FSC-certified forests. All certificates in the forestry business relating to sustainability, quality and environmental protection are now fully integrated.

A large part of the Group's efforts in the forestry arena were focused on forest expansion work. ENCE's commitment to the sector translates into the sharing of its know-how in the areas of forest research, plant production, forest cover management, pest control and forest certification.

In addition to the substantial economic activity deriving from the purchase of standing timber and wood supplies (representing 95% of the total of just over three million cubic metres of supply in Spain), it is worth highlighting the efforts made to invigorate the sector, which translate into training talks, pest control facilitation agreements, seminars and round table events with interested parties, encouragement of forestry cataloguing efforts and the development of forest certification. On this front it is worth highlighting milestones such as the association with Aspapel to fight the eucalyptus snout beetle in Cantabria; the "Forum for the Sustainability of the Eucalyptus Tree in Andalusia" conference; the taskforces set up with different governments to promote the cataloguing rules adapted for the reality of the eucalyptus; extension of the policy of supporting and stimulating forest certification, with 14,000 hectares of eucalyptus plantations other than those managed by the company certified by year-end 2014, moving the entire sector towards the highest management standards recognised in the marketplace. The thrust of the external activity in 2014 was largely concentrated on the biomass front, supplying the power plants with over 860,000 tonnes for almost €40 million.

Similarly extending and furthering its traceability policy, ENCE continued to implement and develop its due diligence system and to provide support for small and medium sized sector businesses. Training sessions were also provided to ENCE staff, while the Group also collaborated with sector training initiatives, even organising working sessions with external companies to facilitate the adoption of legal requirements such as the need to register with the regional government of Galicia's registry of forest companies.

All of these initiatives, beyond the mere purchase of timber, help to strengthen the eucalyptus sector and reinforce its articulating structures and competitiveness.

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 2014

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, external 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 all of the powers that can be delegated) 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 Pulp and Energy Operations Officer, the Forestry Officer, the Procurements Officer, the Chief Finance Officer, the Corporate Resources Officer and the Communication and Institutional Relations Officer. These officers 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 has articulated its activities around two core businesses: pulp production and the generation of power from renewable sources.

ENCE is Europe's largest producer of BHKP pulp from eucalyptus trees. It currently has annual production capacity of 0.94 million tonnes between its factories in Navia and Pontevedra. In 2014, a year in which the Huelva plant operated for part of the year, pulp production totalled 1,115,000 tonnes, down 12% from 2013 (1,270,000), shaped by the decision taken on 19 October to cease pulp production and power co-generation activities in Huelva. This strategic decision was triggered by the heavy losses generated at this facility in the wake of the sharp cuts in co-generation premiums recently imposed by the Spanish government.

78% (by sales volume) of its eucalyptus pulp was exported to Europe (the European market accounted for 94% of sales volume factoring in Spain), the world's largest pulp market and a net importer. ENCE commands 16% of the European market in terms of eucalyptus pulp sales.

Integrated within the pulp business, with installed capacity of 113 MW, ENCE co-generates and generates renewable energy from timber waste that is not used in the pulp manufacturing process, i.e., the lignin and forest waste that cannot be used as inputs.

ENCE also has a significant power generation business, which is independent of the pulp manufacturing process; this activity consists of the generation of power from renewable sources consisting of forest and agricultural biomass. Installed capacity in this business unit stands at 110 MW in the wake of the commissioning of the newest plant in Mérida (capacity: 20 MW). This second core business line comprises this new plant and the two plants in Huelva, one of 50 MW which was commissioned in 2013, and another of 40 MW, currently independent but formerly part of the Huelva pulp manufacturing operations.

The two businesses, the production of pulp and generation of electricity, leverage our solid positioning in the Spanish forestry market, which guarantees the supply of timber and biomass, primarily from third party sources, essential to the long-term sustainability of our business.

Our management strategy is focused on the development of a competitive pulp business, tapping the opportunity for cash flow generation and protecting the company's financial situation from cyclical volatility, while pursuing active growth in biomass power generation.

In 2011 we presented our total quality management programme, which is designed to boost operating efficiency, balance maintenance capital expenditure requirements at our facilities and drive significant improvements in productivity levels and capacity utilisation rates. This programme has delivered significant cost reductions at the company in recent years. In 2014 the Group also rolled out a €17m capex programme designed to lower cash costs at the Pontevedra and Navi plants by making them more competitive.

The revenue derived from the generation of power has been steadily increasing in recent years to account for close to 24% of total revenue in 2014, enabling us to enhance our cost competitiveness in the pulp manufacturing business and inject stability and long-term visibility into our ability to generate cash. This strategy has been reinforced by the construction of independent biomass power generation stations plants in Huelva and Mérida; the construction and financial risks associated with these projects were reduced by means of turnkey arrangements and project finance facilities with terms of over 10 years. However, the successive regulatory changes introduced since 2012 with a view to reducing the regulated costs of the renewable regime (and, by extension, the tariff deficit) have largely eliminated the positive margin contributed by these plants to the pulp factories' costs, prompting the Group to paralyse diversification into this class of assets in Spain.

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 towards small land 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 of our wood supplies. In addition, the Group has been gradually selling its owned forest assets, retaining management of those located in the vicinity of its pulp plants.

Without considering the expansion programmes, maintenance capex has been steady at close to €40m per annum between 2007 and 2013. In the wake of the Huelva closure, the ongoing capex requirement will drop to under €30m due to the reduction in industrial and forestry assets. The Group's finance policy can be described as conservative, characterised by a commitment to maintaining a low leverage ratio and adequate liquidity levels, a strategy deemed consistent with the cyclicality intrinsic to the pulp business and designed to ensure the company's long-term financial sustainability. This policy is articulated around a maximum tolerated leverage ratio—measured in terms of net debt to recurring mid-cycle EBITDA—of 2.5x.

Business performance and financial results

Business environment and outlook

The economic recovery initiated in 2013 extended throughout 2014. The global economy grew by 3.3%, in line with the 2013 performance, albeit evidencing a different pattern by region. The improvement came in the developed world thanks to more robust growth in the US (+1.8% vs. +1.3% in 2013) and recovery in the eurozone, which shook off recession (+0.8% vs. −0.5% in 2013). This improvement was offset by the slowdown in emerging economies. This slowdown was softer in the case of China (+7.4% vs. +7.8% in 2013) and more pronounced in Brazil, where growth stagnated (+0.1% vs. +2.5% in 2013). The outlook for 2015 is for higher global growth (+3.5%), extending the regional pattern observed last year, with the developed economies expected to register growth of 2.4% and growth in the emerging economies slowing to 4.3%. On the bright side, the US economy is expected to grow by 3.6%, enabling the Fed to start to roll back its stimulus measures. On the down side: Russia (GDP: −3%e), whose exposure to oil will cause the economy to take a hit in the wake of the correction in oil prices towards the $50/bbl mark during the last quarter of 2014.

On the flip side of the coin, growth in the eurozone is expected to increase to 1.2% thanks to this same phenomenon (dependence on oil imports) as well as implementation of growth-friendly measures by the ECB, having announced a €60 trillion asset buyback plan in January 2015. This measure comes on the heels of other liquidity facilities deployed in the eurozone (LTRO, TLTRO) and is consistent with the low-inflation environment.

Against this backdrop, the Spanish economy is expected to register GDP growth in excess of 2%, outperforming the European average. The reforms implemented in recent years have made Spain's economy more competitive, boosted exports and improved the public finances, all of which has drawn the attention of foreign investors. Meanwhile, the recapitalisation efforts by Spain's banks coupled with ultra-low market rates are alleviating the credit crunch. It is worth noting that Spain was one of just a few economies (alongside the US) to see its forecasts revised upwards by the IMF in its last quarterly review.

On the currency front, the euro depreciated significantly against the dollar last year, in keeping with the relative shifts in US and eurozone central bank policy and strong economic readings stateside. By year-end the exchange rate had weakened by 11% to $1.22/€. The outlook is for further depreciation, with current forecasts pointing to a year-end exchange 2015 rate of $1.15/€.

Against this backdrop, pulp prices have started to rally once again, having bottomed out at $724/tonne in September. The prospect of higher supply in the wake of the start-up of the Maranhao project in Brazil (Suzano's 1.3 million tonne plant began to operate in December 2013) and the Montes del Plata project in Uruguay (this 1.5 million tonne joint venture owned by Stora Enso and Arauco was finally commissioned in June after multiple setbacks) exerted downward pressure on prices, which continued to drop from year-end 2013 levels of $780/t in the initial months of last year. The expectation that prices would fall as these plants ramped up production prompted a slump in demand which did not begin to revert until the middle of the year. By region, demand firmed by 0.2% in the US and contracted by 0.5% in Europe, while Chinese demand rose by 3.4%, albeit below the trendline of recent years (PPPC). The drop in inventories, coupled with a recovery in demand, limited anticipated growth in supply 2015 and the announced closure of ENCE's plant in Huelva combined to drive prices higher in the last quarter to end the year at close to $750/t.

Lastly, the electricity business was penalised by application of Royal Decree 413/2014 of 6 June 2014 which establishes the regulatory framework for power generated by means of renewable sources, cogeneration and waste, and Ministerial Order IET/1045/2014 of 16 July 2014, which establishes the remuneration parameters for these technologies, both with retroactive effect to 14 July 2013. The new regulatory framework as it applies to the company's energy generation business changes in three key respects: (i) it eliminates the former specific tariff for energy crops which will now be remunerated in the same way as forest and agricultural waste; (ii) it introduces a cap on the number of hours to which a renewable generation plant is entitled to premium remuneration, equivalent to nominal annual availability of 6,500 hours; and (iii) it reduces the premiums paid for the generation of electricity from biomass and gas, specifically the premium corresponding to co-generation using black liquor, a by-product of the pulp production process. The recurring impact of the regulatory changes passed in 2013 and 2014 is estimated at €59m, including the taxes levied on electricity sales, the cost of consuming fossil fuels and the elimination of the efficiency and reactive energy supplements.

Business overview and financial results

2014 was another challenging year for the ENCE Group in terms of earnings as a result of the intense uncertainty created by the continual delays in approving the new regulatory framework for renewable energy sources and co-generation, with retroactive effect from July 2013. The first draft of the regulatory framework was published in February 2014, evidencing the fact that in an environment of low pool prices such as that witnessed between January and April 2014, the addition of the proposed premiums to the pool prices would not allow the less efficient facilities to cover operating costs. The new framework was ultimately approved in the middle of June.

Group revenue decreased by 19% from 2013 levels to €678.5m. Revenue from pulp sales amounted to €502.0m, down 18% year-on-year, driven by lower volumes and prices. Sales volumes (in tonnes) fell by 10% as a result of greater plant instability, stoppages to enable investments designed to boost cost efficiency and on account of strikes and the discontinuation of production in Huelva. The net sales price in euros decreased by 8%, driven mainly by a 6% drop in dollar prices.

Revenue from electricity sales fell 27% as a result of lower sales volumes and the reduction in prices in the wake of passage of the new regulatory regime. Sales volumes in this segment (GWh) totalled 1,494 GWh in 2014, down 20% year-on-year. The low pool prices prevailing until May and the discontinuation of business activities in Huelva had the effect of reducing output at the natural gas co-generation and biomass generation facilities by 51% and 12%, respectively. The impact on power generation was partially offset by the start-up of production in Merida in April 2014. Revenue per MWh declined by 7% as a result of lower generation premiums and the drop in pool prices compared to the feed-in-tariff prevailing in 1H13. Noteworthy factors driving the reduction in premiums include the loss of remuneration top-up entitlements, reduced premiums for output from co-generation, the categorisation of energy crops as forest waste for remuneration purposes and the cap on the number of operating hours entitled to remuneration premiums.

In the forestry business, revenue doubled to €20m, driven by growth in sales of timber to third parties.

The loss at the EBIT level was €168.6m, compared to an operating profit of €31.8m in 2013. In addition to the drop in revenue from pulp and energy sales, profitability was affected by the impairment charges recognised on assets associated with the energy crop plantations in the wake of the regulatory changes and the provisions recognised in connection with the decision to discontinue pulp production in Huelva (after-tax impact of over €80m).

Capital expenditure amounted to €60m, with just 18% earmarked to investment in biological assets for reforestation and improvement to forest assets earmarked for pulp production, having paralysed investment in energy crops and taken the decision to discontinue pulp production in Huelva. Industrial capex totalled €45.4m, €11.5m of which went to construction of the 20-MW Merida plant, while €28.1m was earmarked to investment in efficiency improvements at the factories in northern Spain.

Group equity stood at €543.0m at 31 December 2014 (vs. €710.3m at year-end 2013), equivalent to 47% of total assets. The decline in equity is mainly attributable to the asset impairment charges generated by the decision to cease pulp production in Huelva.

The Company has rolled out a cost-cutting and efficiency upgrade plan which is enabling it to fully offset the impact of the regulatory changes. This plan covers 2014, 2015 and 2016 and contemplates investment of €123m; it is expected to drive EBITDA to €77m in 2016.

In the research and development arena, the Group continued to make progress on its programmes for improving the genetic make-up and performance of the eucalyptus for pulp production purposes, for innovating and enhancing pulp-making processes and products, for the mechanical transformation of timber and new product engineering, these assets being recognised within consolidated 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.

Human resources

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 induction 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.

The ENCE Talent Programme, a work placement initiative, was rolled out in 2014. Under this programme, which is part of the organisation's community commitment, the Company has pledged to generate job and career development opportunities for 45 youths in phase one of its implementation.

Workplace climate/motivation

Management believes 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 was conducted for the last time 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.).

A number of initiatives were rolled out in 2014 with a view to enhancing employee performance and motivation; these include the *Skills Development Programme*, *Working Breakfasts with Management* and the *Annual Merit Awards* which reward employees for outstanding commitment to ENCE's values.

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
- Systematic evaluation of safety-related risks and behaviours as the first step in preventing accidents
- 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 2014 ENCE developed a safety-awareness programme for all users of power saws that do work for the Company. The programme 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-certified 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 the organisation's 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.

Aggregate training hours totalled 20,856 in 2014, which translates into an average of 20.84 training hours per employee, up 65% from 2013.

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, at year-end 2014, over 17% 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.

Management-employee relations

The following collective bargaining agreements were negotiated and executed in 2014: the collective bargaining agreement at the Pontevedra work centre (effective: 2014 - 2016); the collective bargaining agreement at the office centre in Pontevedra (2014 - 2016); the collective bargaining agreement at the Madrid head office (2014 - 2016); and the Asturias pulp workers collective bargaining agreement (2014 - 2017).

In the last quarter of 2014, ENCE Energía y Celulosa, SA was obliged initiate a restructuring process in conjunction with the discontinuation of pulp operations in Huelva, as well as the re-sizing of its head offices (in Huelva and Madrid), to bring resources at all of these facilities in line with the volume of work and activities performed by the organisation, the current market paradigm and the outlook for the future.

This process entailed the initiation of a restructuring programme encompassing collective redundancy measures, substantial changes to working conditions, geographic mobility initiatives and the temporary suspension of employment contracts.

The legal grounds dictating the need to take these measures were economic, productive, organisational and technical in nature, as expounded to the workers' representatives throughout the negotiation and consultancy period, which began on 19 September 2014. The unions were duly provided with all the documentation substantiating the situation and the measures planned by the Company (including expert reports). The process concluded on 19 October 2014 with an agreement with the workers' legal representatives; this agreement was subsequently ratified by the workers' assemblies at the various affected work centres.

Liquidity

Net cash flows from operating activities totalled €10m in 2014, compared to €176m in 2013, impacted by lower pulp prices, lower electricity sales and the losses generated in Huelva until its pulp operations were shut down as a result of the co-generation premium cuts. The comparison is also affected by the significant reduction in the working capital requirement in 2013 (cash inflow), compared to working capital stability in 2014. The 2014 figures are also adversely affected by a €6m correction to revenue in respect of 2013 sales in the wake of retroactive application of the new tariffs (increase in trade and other payables in 2014), the gradual repayment of premiums collected until June 2014 under the former remuneration regime and application of a coefficient by the energy regulator in 2014 under which it is settling remuneration in proportion to the difference between electricity system receipts and payments.

	2014	2013	△%
	(figures in €M)		
Consolidated profit/(loss) for the period before tax	**(85.9)**	**5.6**	**n.s.**
Depreciation and amortisation charge	67.9	78.3	(13%)
Finance income/costs	28.4	26.7	7%
Increase/decrease other deferred income/costs	24.6	56.6	(57%)
Adjustments of profit for the year	**120.9**	**161.6**	**(25%)**
Trade and other receivables	13.9	29.8	(53%)
Current financial and other assets	2.4	(2.9)	n.s.
Trade and other payables	(41.9)	4.7	n.s.
Inventories	24.5	10.4	136%
Changes in working capital	**(1.2)**	**41.9**	**n.s.**
Interest paid/received	(24.1)	(16.0)	51%
Income tax recovered (paid)	(0.2)	(17.1)	(99%)
Other cash flows from operating activities	**(24.3)**	**(33.1)**	**(27%)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**9.5**	**175.9**	**(95%)**

Cash flows used in investing activities amounted to €60m in 2014, compared to €48m in 2013 (having collected the proceeds from the sale of its assets in Uruguay in March of that year). Capital expenditure was 47% lower year-on-year in 2014 due to the reduced level of investment in biomass projects, more than offsetting the €17m invested in efficiency measures during the maintenance stoppages carried out at the Navia and Pontevedra facilities.

	2014	2013	△%
	(figures in €M)		
Property, plant and equipment	(55.7)	(112.8)	(51%)
Intangible assets	(4.1)	(0.9)	361%
Other financial assets	(0.0)	1.3	n.s.
Investments	**(59.8)**	**(112.4)**	**(47%)**
Disposals	**0.1**	**64.4**	**(100%)**
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(59.8)**	**(48.0)**	**25%**

Cash inflows from financing activities amounted to €20m in 2014, compared to an outflow of €65m in 2013, reflecting the maturity of a €45m investment in 12-month deposits in 2Q13 using the proceeds from the

Uruguay disposal. 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.

	2014	2013	△%
	(figures in €M)		
Proceeds from and payments for equity instruments	**(5.9)**	**1.0**	**n.s.**
Bonds and other marketable securities (net)	—	239.5	(100%)
Increase/(decrease) in bank borrowings (net)	1.1	(232.1)	n.s.
Other financial liabilities	(0.5)	(11.9)	(96%)
Proceeds from and repayments of financial liabilities	**0.6**	**(4.5)**	**n.s.**
Dividends and payments on other equity instruments	**(19.4)**	**(16.2)**	**20%**
Translation differences	**0.0**	**(0.0)**	**n.s.**
Fixed-term deposit	45.0	(45.0)	n.s.
Other cash received from (used in) financing activities	**45.0**	**(45.0)**	**n.s.**
NET CASH FLOWS FROM FINANCING ACTIVITIES	**20.4**	**(64.7)**	**n.s.**

In all, the Group's cash balance narrowed by €30m to €73m in 2014; this figure rises to €82m factoring in short-term financial investments.

	2014	2013	△%
	(figures in €M)		
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(30.0)**	**63.2**	**n.s.**

Key risks and sources of uncertainty

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.

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 risk management system is designed to identify, assess, prioritise, address and monitor situations that pose a threat to the Company's activities and objectives. 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
- Compliance

The risks addressed by the 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 financial entities 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 and long term while reducing related earnings volatility.

Exposure to interest rate variability has been reduced by referencing the most important loan agreements to fixed rates of interest. For the rest of its investments/floating-rate financing, the Group either arranges hedges in the derivative markets or hedges open positions upfront when the financing is arranged at the behest of the banks.

d) TRADE CREDIT RISK, PULP BUSINESS

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 2015, 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 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 recurring 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 repaid the corporate debt originally due in 2014 ahead of maturity. 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 a globally recognised brand in parallel. 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 attempts to maximise its products' added-value by using certified timber. However, it is difficult to find wood that is certified in accordance with the Forest Stewardship Council (FSC) standard.

The strategy adopted 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 2014 the Group continued to invest to make its facilities more environmentally-friendly.

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 species under new contracts with forest owners.

The risk-mitigation strategy adopted in this respect is to remain in continual contact with the various levels of government and maintain 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 factor in Pontevedra is built on an area of land used subject to a government concession arrangement granted under article 66 of Spain's 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 and the term of the concession agreement. An increase in the concession term would accordingly reduce the depreciation charge forecast for 2014 by approximately €8.5 million.

Objective: Guaranteeing 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 an action 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. It is expected that the new BREF requirements will be more stringent in terms of production and emissions in light of the type of process, geographic location and local environmental conditions, triggering the need for new investments and control systems.

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.

Objective: Tax Risk Control

The Audit Committee monitors the Company's tax-related risks with a view to assisting the Board with its task of determining tax risk management and control policy.

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 on two main lines of initiative in 2014: (i) eking out continual improvements in the pulp production process; and (ii) optimising the energy harnessed from forest 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 2014 included, in the forestry arena, the "Study of the productive potential of Eucalyptus hybrids using ferti-irrigation, water rationalisation methods and sap analysis". 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"; 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; "Analysis of pitch issues at pulp production plants"; and "Controlling the effects of odour perception at kraft pulp production plants".

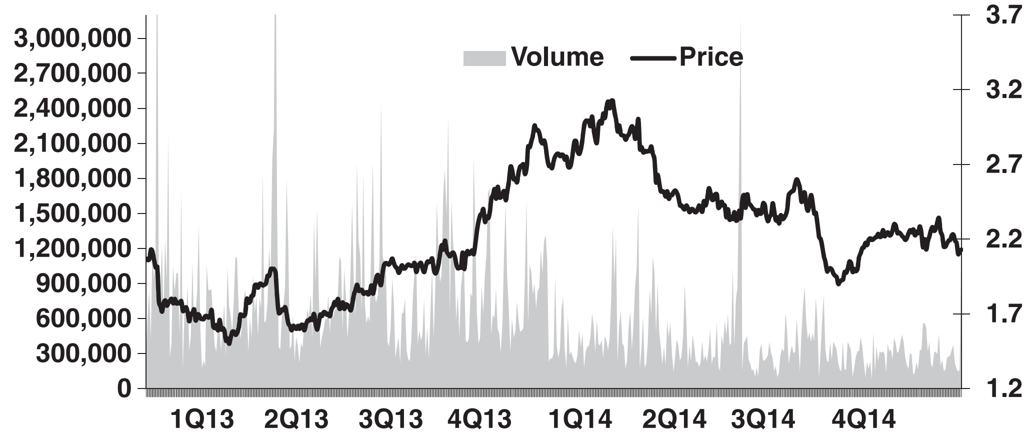
Purchase-sale of own shares

The disclosures regarding the acquisition and sale of own shares in 2014 are provided in note 16.7 to the accompanying condensed consolidated financial statements.

Other information

Share price information

ENCE's share price corrected by −24% in 2014, underperforming the Spanish and European stock markets by −28% and −25%, respectively.



Source: Thomson Reuters

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Average daily volume (shares) .	283,963	347,171	446,481	508,964	808,674	878,515	829,628	790,434
Ence performance	0%	11%	9%	6%	(23%)	(13%)	(3%)	17%
Ibex 35 performance	(3%)	(2%)	18%	8%	4%	6%	(1%)	(5%)
Eurostoxx performance	(0%)	(1%)	11%	7%	2%	1%	(0%)	(2%)

Note: ENCE's share price performance has been adjusted for the €0.07 per-share dividend paid on 3 April 2013 and the €0.08 per share dividend paid on 11 July 2014; it has not been adjusted for the in-kind dividend paid on 11 April 2013, which had the effect of increasing the total shareholder return by 3%.

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 January 2013 the Company issued €250m of 7.25% bonds due 2020.

Corporate Rating	Current Rating	Outlook	Last review	Issue Rating	Current Rating	Last Review
Moody's	Ba3	Negative	21/11/2014	Moody's	B1	21/11/2014
Standard & Poor's . .	BB-	Negative	20/11/2014	Standard & Poor's . .	BB-	20/11/2014

At year-end, the bonds were trading at close to 105% of par. 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).

The consolidated financial statements and management report of ENCE Energía y Celulosa, S.A. and its subsidiaries for 2014, prepared under the IFRS adopted by the European Union, were authorised for issue by the Board of Directors of the Parent on 26 February 2014. The consolidated financial statements and accompanying notes span 90 sheets of ordinary paper (the financial statements numbered from 1 to 5 and the accompanying explanatory notes numbered from 6 to 90), while the management report spans 20 sheets (numbered from 1 to 20). All of the above-listed sheets have been signed by the Board's Secretary and this last sheet has been signed by all the Parent's Directors.

In addition, for the purposes of article 8.1.b of Spanish Royal Decree 1362/2007, of 19 October 2007, in relation to the annual financial disclosures by ENCE Energía y Celulosa, S.A. and its subsidiaries in respect of 2014, which disclosures include the pertinent consolidated financial information, the undersigning Company directors make the following statement of responsibility: "to the best of their knowledge, the 2014 financial statements, which have been prepared in keeping with applicable accounting standards, provide a fair view of the equity, financial position and performance of the Company and its consolidated entities taken as a whole and the management report includes a fair analysis of the required disclosures".

Juan Luis Arregui Ciarsolo

Ignacio de Colmenares y Brunet

Javier Echenique Landiribar

José Carlos del Álamo Jiménez

José Guillermo Zubia Guinea

Gustavo Matías Clavero

Pascual Fernández Martínez

Pedro Barato Triguero

Mendibea 2002, S.L., represented by José Ignacio Comenge Sánchez-Real

Fernando Abril-Martorell Hernández

RETOS OPERATIVOS XXI, S.A., represented by Oscar Arregui Abendivar

Isabel Tocino Biscarolasaga

Víctor Urrutia Vallejo

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

Consolidated financial statements for 2013

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.

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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

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**

(*) Items that may be subsequently be reclassified to profit or loss

Accompanying notes 1 to 32 are an integral part of the consolidated 2013 statement of comprehensive income

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

Contents

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

2. Group companies (Continued)

2012

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]	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

2. Group companies (Continued)

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 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.

3. Basis of preparation and consolidation (Continued)

- 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

3. Basis of preparation and consolidation (Continued)

(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.

3. Basis of preparation and consolidation (Continued)

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. Basis of preparation and consolidation (Continued)

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 profit or loss 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.

4. Measurement rules (Continued)

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 machinery	8 - 20
Fixtures, fittings, tools and equipment	11
Other items of PP&E	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.

4. Measurement rules (Continued)

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

4. Measurement rules (Continued)

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.

4. Measurement rules (Continued)

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.

4. Measurement rules (Continued)

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

4. Measurement rules (Continued)

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 profit or loss.

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 income statement 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.

4. Measurement rules (Continued)

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 analyses 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. Measurement rules (Continued)

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.

4. Measurement rules (Continued)

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.

4. Measurement rules (Continued)

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 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 (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

4. Measurement rules (Continued)

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.

4. Measurement rules (Continued)

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).

5. Accounting estimates and judgements (Continued)

- 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 Cabinet 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.

5. Accounting estimates and judgements (Continued)

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 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, 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).

5. Accounting estimates and judgements (Continued)

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%.

6. Risk factors (Continued)

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.

6. Risk factors (Continued)

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.

6. Risk factors (Continued)

- 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 in this respect amounts to €3,472 thousand out of total estimated investment of €9 million.

7. Intangible assets (Continued)

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 generation 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. Property, plant and equipment (Continued)

8.1 *Additions*

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. Property, plant and equipment (Continued)

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

8. Property, plant and equipment (Continued)

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**

9. Biological assets (Continued)

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. Biological assets (Continued)

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. Biological assets (Continued)

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.

12. Derivative financial instruments (Continued)

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. Derivative financial instruments (Continued)

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

Thousands of euros	Fair value	Notional principal amounts at year-end 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 profit and loss 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. Derivative financial instruments (Continued)

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.

13. Inventories (Continued)

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

15. Trade and other payables (Continued)

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. Equity (Continued)

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. Equity (Continued)

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

16. Equity (Continued)

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

17. Grants (Continued)

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**

18. Provisions, guarantees and contingent liabilities (Continued)

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

19. Borrowings and cash and cash equivalents (Continued)

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

19. Borrowings and cash and cash equivalents (Continued)

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.

19. Borrowings and cash and cash equivalents (Continued)

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, core 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

21. Tax matters (Continued)

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. Tax matters (Continued)

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**

21. Tax matters (Continued)

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**

21. Tax matters (Continued)

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).

22. Revenue (Continued)

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**

23. Cost of sales (Continued)

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	Thousands of euros 2013	2012
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.

28. Non-current assets held for sale (Continued)

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. Operating segments (Continued)

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

	Thousands of euros						
Income statement	**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

	Thousands of euros						
Statement of financial position	**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

29. Operating segments (Continued)

2012

Income statement	Pulp & Energy	Biomass Energy Projects	Pulp Forest Assets	Forest Services & Other	Subtotal	Elimination of inter-segment transactions	Total
	Thousands of euros						
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	Pulp & Energy	Biomass Energy Projects	Pulp Forest Assets	Forest Services & Other	Subtotal	Elimination of inter-segment transactions	Total[(a)]
	Thousands of euros						
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. Operating segments (Continued)

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.

29. Operating segments (Continued)

2012	Pontevedra factory	Huelva factory[a]	Navia factory	Corporate[c]	Other[b]	Subtotal	Eliminations	Total
	Thousands of euros							
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.

30. Director and key management personnel pay and other benefits (Continued)

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

31. Related-party transactions (Continued)

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

32. Environmental disclosures (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

32. Environmental disclosures (Continued)

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.

32. Environmental disclosures (Continued)

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

32. Environmental disclosures (Continued)

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 loss on the 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 31 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.

	2013	2012	△%
	(figures in €M)		
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 OPERATING 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 (a year in which 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.

	2013	2012	△%
	(figures in €M)		
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 (€65m) 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.

	2013	2012	△%
	(figures in €M)		
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.

	2013	2012	△%
	(figures in €M)		
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.

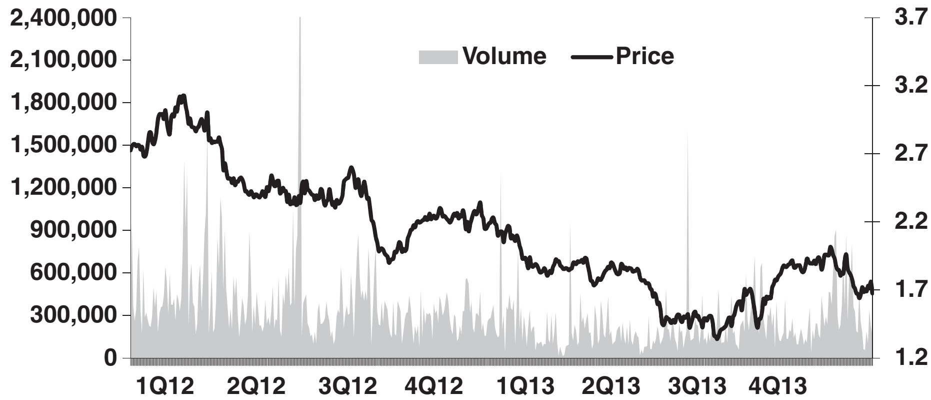
Purchase-sale of own shares

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	Issue Rating	Current Rating	Outlook	Last Review
Moody's	Ba3	Stable	21/10/2014	Moody's	B1	Stable	21/10/2014
Standard & Poor's	BB-	Stable	12/07/2013	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).

The consolidated financial statements and management report of ENCE Energía y Celulosa, S.A. and its subsidiaries for 2013, prepared under the IFRS adopted by the European Union, were authorised for issue by the Board of Directors of the Parent on 27 March 2014. The consolidated financial statements and accompanying notes span 90 sheets of ordinary paper (the financial statements numbered from 1 to 5 and the accompanying explanatory notes numbered from 1 to 85), while the management report spans 19 sheets (numbered from 1 to 19). All of the above-listed sheets have been signed by the Board's Secretary and this last sheet has been signed by all the Parent's Directors.

In addition, for the purposes of article 8.1.b of Spanish Royal Decree 1362/2007, of 19 October 2007, in relation to the annual financial disclosures by Ence Energía y Celulosa, S.A. and its subsidiaries in respect of 2013, which disclosures include the pertinent consolidated financial information, the undersigning Company directors make the following statement of responsibility: "to the best of their knowledge, the 2013 financial statements, which have been prepared in keeping with applicable accounting standards, provide a fair view of the equity, financial position and performance of the Company and its consolidated entities taken as a whole and the management report includes a fair analysis of the required disclosures".

Juan Luis Arregui Ciarsolo	Ignacio de Colmenares y Brunet
Javier Echenique Landiribar	José Carlos del Álamo Jiménez
José Guillermo Zubia Guinea	Gustavo Matías Clavero
Pascual Fernández Martínez	Pedro Barato Triguero
José Manuel Serra Peris	Fernando Abril-Martorell Hernández
RETOS OPERATIVOS XXI, S.A., represented by Oscar Arregui Abendivar	Isabel Tocino Biscarolasaga

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 Financial Statements for 2012 prepared in accordance with the International Financial Reporting Standards adopted by the European Union and consolidated Directors' Report, together with the Independent Auditor's Report

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

AUDITOR'S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

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 2012, 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 2012 present fairly, in all material respects, the consolidated financial position of ENCE Energía y Celulosa, S.A. and its subsidiaries at 31 December 2012 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.

The accompanying consolidated Directors' Report for 2012 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 2012. 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

19 February 2013

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

GRUPO EMPRESARIAL ENCE, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AT 31 DECEMBER 2012 AND 2011

Thousands of Euros	Note	2012	2011
NON-CURRENT ASSETS:			
Intangible assets	6	21,556	8,127
Property, plant and equipment	7	774,179	770,142
Investment property	4.c	2,078	2,190
Biological assets	8	170,958	180,586
Other financial assets	16	4,144	4,065
Deferred tax assets	18	30,580	42,653
		1,003,495	**1,007,763**
CURRENT ASSETS:			
Non-current assets classified as held for sale	20	59,345	16,544
Inventories	11	87,575	112,462
Trade and other receivables	12	138,580	122,789
Receivable from Public Authorities	18	29,657	13,005
Current financial assets—			
Derivatives	10	10,721	867
Other financial assets	16	7,575	22,824
Cash and cash equivalents	16	40,205	71,629
Other current assets		896	911
		374,554	**361,031**
TOTAL ASSETS		**1,378,049**	**1,368,794**
EQUITY:	13		
Share capital		225,245	232,212
Share premium		230,221	254,328
Parent Company reserves		99,916	106,630
Reserves in fully consolidated companies		112,543	102,454
Valuation adjustments		52,992	33,155
Profit for the year attributed to the Parent Company		43,031	41,192
Translation differences		(2,011)	(591)
Treasury shares		(37,213)	(49,217)
Equity attributable to shareholders of the Parent Company		**724,724**	**720,163**
TOTAL EQUITY		**724,724**	**720,163**
NON-CURRENT LIABILITIES			
Provisions	15	13,258	23,185
Financial debt	16	309,632	274,186
Grants	14	20,076	20,244
Derivatives	10	16,627	25,466
Other financial liabilities	17	9,291	9,183
Deferred tax liabilities	18	31,745	28,289
		400,629	**380,553**
CURRENT LIABILITIES:			
Liabilities associated with non-current assets classified as held for sale	20	—	12,322
Financial debt	16	24,108	20,452
Derivatives	10	14,886	34,610
Other financial liabilities	17	1,562	574
Trade and other payables	12	201,902	181,964
Corporate Income Tax payable	18	1,313	365
Other accounts payable to Public Authorities	18	8,472	17,655
Other current liabilities		453	136
		252,696	**268,078**
TOTAL EQUITY AND LIABILITIES		**1,378,049**	**1,368,794**

The accompanying Notes 1 to 26 are an integral part of the consolidated balance sheet at 31 December 2012.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS

FOR 2012 AND 2011

Thousands of Euros	Note	2012	2011
Continuing operations:			
Revenue	19.a	827,578	825,451
Gains or losses on hedging operations	10	(27,567)	(10,434)
Changes in inventories of finished goods and work in progress		831	(1,688)
Procurements	19.b	(408,048)	(390,759)
GROSS MARGIN		**392,794**	**422,570**
In-house work on non-current assets	8	24,183	27,236
Other operating income		2,267	5,173
Capital grants transferred to profit and loss	14	4,280	7,431
Staff costs	19.c	(82,102)	(89,413)
Depreciation and amortisation charge	6, 7 and 8	(63,372)	(63,460)
Impairment and gains or losses on disposals of non-current assets	7	6,329	4,392
Other operating expenses	19.e	(202,113)	(233,850)
PROFIT FROM OPERATIONS		**82,266**	**80,079**
Finance income		747	1,397
Change in fair value of financial instruments	10	6,799	1,554
Finance costs	19.f	(24,371)	(28,101)
Exchange differences		(1,803)	2,085
FINANCIAL LOSS		**(18,628)**	**(23,065)**
Net results from the valuation of non-current assets classified as held for sale	20	(660)	—
PROFIT BEFORE TAX		**62,978**	**57,014**
Income tax	18	(19,947)	(15,822)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**43,031**	**41,192**
PROFIT FOR THE YEAR	19.h	**43,031**	**41,192**
Earnings per share:			
Basic	13	**0.16**	**0.16**
Diluted	13	**0.16**	**0.16**

The accompanying Notes 1 to 26 are an integral part of the consolidated income statement for the year 2012.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR 2012 AND 2011

Thousands of Euros	Note	2012	2011
PROFIT PER CONSOLIDATED INCOME STATEMENT (I)	**13**	**43,031**	**41,192**
Income and expenses recognised directly in equity—			
Cash flow hedges		(2,527)	(34,608)
Conversion differences		(1,420)	(591)
Tax effect		758	10,382
TOTAL INCOME AND EXPENSES RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY (II)	**13**	**(3,189)**	**(24,817)**
Transfers to consolidated profit or loss			
—Arising from cash flow hedges		30,920	14,068
—Other adjustments		(54)	
—Tax effect		(9,260)	(4,220)
TOTAL TRANSFERS TO CONSOLIDATED PROFIT AND LOSS (III)	**13**	**21,606**	**9,848**
TOTAL CONSOLIDATED RECOGNISED INCOME AND EXPENSE (I+II+III)		**61,448**	**26,223**

The accompanying Notes 1 to 26 are an integral part of the consolidated statement of recognised income and expense for 2012.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES
STATEMENT OF CHANGES IN TOTAL CONSOLIDATED EQUITY
FOR 2012 AND 2011

2012—Thousands of Euros	Note	Balance at 1-1-2012	Recognised Income / (Expense)	Capital Increases/ Decreases	Distribution of Prior Year's Profit	Distribution of Dividends	Treasury Shares Transactions	Distribution of Treasury 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)
Treasury shares		(49,217)	—	16,828	—	21,173	(40,017)	14,020	(37,213)
Valuation adjustments		33,155	19,837	—	—	—	—	—	52,992
Profit for the year attributed to the Parent Company		41,192	43,031	—	(41,192)	—	—	—	43,031
		720,163	**61,448**	**—**	**—**	**(16,514)**	**(40,373)**	**—**	**724,724**

2011—Thousands of Euros	Note	Balance at 1-1-2011	Recognised Income / (Expense)	Capital Increase	Distribution of Prior Year's Profit	Distribution of Dividends	Treasury Shares Transactions	Distribution of Treasury Shares	Balance at 31-12-2011
Share capital		232,212	—	—	—	—	—	—	232,212
Share premium		254,328	—	—	—	—	—	—	254,328
Legal reserve		31,482	—	—	8,284	—	—	—	39,766
Other Parent Company reserves		150,341	—	—	(83,644)	—	167	—	66,864
Reserves in fully consolidated companies		120,583	—	—	(18,129)	—	—	—	102,454
Prior years' losses		(132,400)	—	—	132,400	—	—	—	—
Translation differences		—	(591)	—	—	—	—	—	(591)
Treasury shares		(2,434)	—	—	—	—	(46,783)	—	(49,217)
Valuation adjustments		47,533	(14,378)	—	—	—	—	—	33,155
Profit for the year attributed to the Parent Company		64,711	41,192	—	(64,711)	—	—	—	41,192
		766,356	**26,223**	**—**	**(25,800)**	**—**	**(46,616)**	**—**	**720,163**

The accompanying Notes 1 to 26 are an integral part of the statement of changes in consolidated equity for 2012.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR 2012 AND 2011

Thousands of Euros	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated profit for the year before tax	**62,978**	**57,014**
Adjustments for—		
Depreciation and amortisation charge	53,284	53,736
Exhaustion of forestry reserve	9,110	8,455
Amortisation of intangible assets	978	1,269
Changes in provisions and other deferred expenses (net)	3,679	(3,565)
Gains/Losses on disposal of non-current assets	(2,975)	(4,224)
Finance income	(747)	(5,296)
Finance costs	18,044	29,291
Grants and subsidies transferred to profit and loss	(1,243)	(1,124)
	80,130	**78,542**
Changes in working capital—		
Trade and other receivables	(24,047)	(27,953)
Current financial and other assets	18,184	(10,823)
Trade creditors, other payables and other debts	(13,775)	(7,974)
Inventories	18,314	(8,332)
	(1,324)	**824**
Other cash flows from operating activities—		
—Interest paid	(21,542)	(28,036)
—Interest received	747	5,296
—Income tax recovered (paid)	(9,416)	(2,907)
	(30,211)	**(25,647)**
Net cash flows from operating activities (I)	**111,573**	**110,733**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments:		
Property, plant and equipment	(104,387)	(94,895)
Intangible assets	(16,052)	(447)
Other financial assets	(173)	—
	(120,612)	**(95,342)**
Disposals:		
Property, plant and equipment	361	4,338
Other financial assets	161	1,682
	522	**6,020**
Net cash flows from investing activities (II)	**(120,090)**	**(89,322)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds and payments relating to equity instruments:		
Purchase of treasury shares	(41,693)	(53,708)
Disposal of treasury shares	1,309	7,164
	(40,384)	**(46,544)**
Proceeds and payments relating to financial liability instruments:		
Increase / (decrease) in bank borrowings, net of loan arrangement costs	37,428	43,057
Grants and subsidies received	—	8,523
	37,428	**51,580**
Dividends and returns on other equity instruments paid		
Dividends	(16,514)	(25,801)
Financial instruments (Equity swap)	(3,276)	—
	(19,790)	**(25,801)**
Translation differences	**(161)**	**—**
Net cash flows from financing activities (III)	**(22,907)**	**(20,765)**
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)	**(31,424)**	**646**
Cash and cash equivalents at beginning of year	71,629	70,983
Cash and cash equivalents at end of year	40,205	71,629

The accompanying Notes 1 to 26 are an integral part of the consolidated statement of cash flows for 2012.

ENCE Energía y Celulosa, S.A. and Subsidiaries

Notes to the consolidated financial statements

for the year ended 31 December 2012

1. Activity of the Group and Strategic Plan

Ence Energia y Celulosa, S.A. (hereinafter "ENCE" or the "Parent Company") was incorporated in 1968 under the name Empresa Nacional de Celulosas, S.A. It has its registered offices at Paseo de la Castellana 35, Madrid. On 26 April 2012 the General Meeting of Shareholders of the Parent Company, formerly known as Grupo Empresarial ENCE, S.A., resolved to change its name to the current name.

The corporate purpose established in the by-laws consists of:

a) Manufacture of cellulose pulp and related by-products, obtaining necessary products and items, and exploitation of any sub-products arising from the aforementioned activities.

b) Generation by any means, sale and usage of electricity and of other energy sources, and of the raw materials and primary energy sources required for generating, in accordance with the provisions of prevailing legislation; and marketing, sale and supply of power in any way permitted by law.

c) Cultivation, exploitation and use of forests and timberland, forest plantation work and specialist forestry work and services. Preparation and transformation of forestry products. Commercial use, exploitation and marketing of forest products of all kinds (including biomass and forest energy crops), and their derivatives and by-products. Forestry studies and projects.

d) Design, promotion, development, construction, operation and maintenance of the installations referred to in paragraphs a), b) and c) above.

The Group's principal activity is the production of cellulose pulp BEKP (Bleached Eucalyptus Kraft Pulp) with ECF (elemental chlorine free) and TCF (totally chlorine free) bleaching based on eucalyptus. In order to carry out its activities, the Group operates three mills in Spain, located in the provinces of Asturias, Pontevedra and Huelva, which have combined production capacity of approximately 1.3 million metric tons per year.

In addition to its cellulose pulp production, the Group also generates electricity from biomass and bio-fuels obtained from the pulp production process (mainly lignin), and to a lesser extent using gas and fuel oil. The integrated generating capacity currently in use in the three plants totals approximately 230 megawatts per year from 6 power installation.

The Group likewise using the experience acquired in the forestry sector and in the development of short cycle energy crops is linking its expansion strategy through the electrical generation business with biomass from forest waste and energy crops. The company in January 2013 started up operation of a plant in Huelva with installed power of 50 megawatts, and an installation is currently under construction in Merida which is scheduled for start up in the last quarter 2014 with 20 megawatts power.

In order to assure supplies of timber for the paper pulp manufacturing process and meet the power plants' demand for biomass to generate energy, the Group has 87,924 hectares of managed forest land in the Peninsula, of which it owns 51,918 hectares are its own property (this does not include the forest assets of the Group in Uruguay after its sale was agreed—see Note 20).

The Parent Company's shares are listed on the Madrid Stock Exchange.

2. Group companies

The following subsidiaries in which the Parent Company directly or indirectly owns 100% of share capital were fully consolidated in the consolidated financial statements for 2012:

Fiscal Year 2012

			Thousands of Euros		
			Equity of the Investee Company		
Company	Registered Office	Activity	Share Capital	Premium Emission Reserves	Profit / (Loss) for the year
Subsidiaries—					
Celulosa Energía, S.A.U.[a]	Ctra Madrid-Huelva Km. 630. (Huelva)	Electricity generating and sale of power	3,756	18,928	5,225
Celulosas de Asturias, S.A.U.[a]	Armental s/n Navia (Asturias)	Production and sale of paper pulp, electricity generating and sale of power	37,863	24,243	47,360
Silvasur Agroforestal, S.A.U.[a]	Avda de Andalucía s/n. (Huelva)	Forest 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 management	2,464	21,370	(661)
Norfor Maderas, S.A.U.[b]	Marisma del Lourizán s/n (Pontevedra)	Forest management	601	479	—
Ence Investigación y Desarrollo, S.A.U.[b][d]	Pontecaldelas (Pontevedra)	Research and development of new products and processes	1,208	(664)	(52)
Iberflorestal, S.A.U.[a]	Lisbon (Portugal)	Purchase and 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)	Dormant	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)	Electricity generating and sale of power	7,506	29,139	(536)
Ence Energía Huelva, S.L.U.[a]	Paseo de la Castellana, 35 (Madrid)	Electricity generating and sale of power	6,757	26,358	(1,541)
Ence Energía Extremadura, S.L.U.[a]	Paseo de la Castellana, 35 (Madrid)	Electricity generating and sale of power	735	2,927	(119)

(a) Financial statements audited by PwC.

(b) Financial statements to 31 December 2012, which have been subject to a limited review by PwC.

(c) Euro value translated at the year-end rate of exchange.

(d) Formerly known as Eucalipto de Pontevedra, S.A.U.

2. Group companies (Continued)

Fiscal Year 2011

Company	Registered Office	Activity	Thousands of Euros — Equity of the Investee Company: Share Capital	Premium Emission and Reserves	Profit / (Loss) for the year
Subsidiaries—					
Celulosa Energía, S.A.U.[a]	Ctra Madrid-Huelva Km. 630. (Huelva)	Electricity generating and sale of power	3,756	26,609	7,319
Celulosas de Asturias, S.A.U.[a]	Armental s/n Navia (Asturias)	Production and sale of paper pulp, electricity generating and sale of power	37,863	23,896	25,348
Silvasur Agroforestal, S.A.U.[a]	Avda de Andalucía s/n. (Huelva)	Forest management	39,666	7,409	(7,228)
Ibersilva, S.A.U.[a]	Avda de Alemania, 9 (Huelva)	Forestry services	10,000	(7,101)	(11,298)
Norte Forestal, S.A.U.[a]	Marisma del Lourizán s/n (Pontevedra)	Forest management	2,464	17,630	3,741
Norfor Maderas, S.A.U.[a]	Marisma del Lourizán s/n (Pontevedra)	Forest management	601	449	30
Eucalipto de Pontevedra, S.A.U.	Pontecaldelas (Pontevedra)	Lease of properties	1,208	(653)	(11)
Iberflorestal, S.A.U.[a]	Lisbon (Portugal)	Purchase and sale of wood	55	1,943	262
Las Pléyades, S.A. (SAFI)[b][a]	Montevideo (Uruguay)	Export of wood	2	2,412	327
Maderas Aserradas del Litoral, S.A.[a][b]	Montevideo (Uruguay)	Dormant	5,661	(1,970)	(1,950)
Sierras Calmas, S.A.[a][b]	Montevideo (Uruguay)	Forest management	1,569	7,529	3,785
Ence Energía S.L.U.	Paseo de la Castellana, 35 (Madrid)	Electricity generating and sale of power	6,774	26,595	(383)
Ence Energía Huelva, S.L.U.[a]	Paseo de la Castellana, 35 (Madrid)	Electricity generating and sale of power	6,757	27,016	(658)

(a) Financial statements audited by PwC.

(b) Euro value translated at the year-end rate of exchange.

2. Group companies (Continued)

The Group also includes the following dormant companies, all of which are 100% owned by the Parent Company: Electricidad de Navia, S.L.U, Ibercel Celulosa, 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.

The Group holds minority shareholdings in certain other companies which were not consolidated because the effect would not have been material. These are: 50% of the corporate capital of Imacel, A.E.I.E., an inactive corporation; 6% of the capital of Sociedad Andaluza de Valorizacion de la Biomasa, S.L.; and 5% of Electroquimica de Hernani, S.A.

3. Basis of presentation of the consolidated annual statements and consolidation principles

3.1 Basis of presentation

The consolidated financial statements for fiscal year 2012 were obtained from the books and records and annual statements of the Parent Company and companies members of the Group, and were prepared in accordance with the applicable regulatory framework for financial reporting and, in particular, in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union pursuant to Regulation (EU) 1606/2002 of the European Parliament and Law 62/2003, of 30 December establishing tax, administrative and social measures and, accordingly, they present fairly the Group's equity and financial position at 31 December 2012 and the results of its operations, changes in equity and consolidated cash flows for the Group for the year then ended.

Note 4 presents a summary of the most significant accounting principles and assessment criteria used, the alternatives allowed by the code for these purposes as well as standards and interpretations issued that were not in effect as of the date of preparation of these annual statements.

These consolidated financial statements for the Group for 2012, which were formally prepared by the Parent Company's directors, will be submitted for approval by the shareholders at the Annual General Meeting. It is considered that they will be approved without any changes. The Group's consolidated financial statements for 2011 were approved by the shareholders at the Annual General Meeting of the Parent Company held on 26 April 2012.

The euro is the Group's functional currency, and the consolidated financial statements are therefore expressed in euros.

3.2 Key decisions in relation to IFRS

The Group adopted the following key decisions in relation to the presentation of the consolidated financial statements and the additional information disclosed in the notes thereto:

a. The assets and liabilities recognised in the accompanying consolidated balance sheet are classified as current (short term) and non-current (long term). The items in the accompanying consolidated income statement are presented according to their nature.

b. The Group has opted to present the consolidated cash flow statement using the indirect method.

3.3 Principles of consolidation—

3.3.1 Subsidiaries

"Subsidiaries" are defined as companies over which the Parent Company has the capacity to exercise effective control; control is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when, for example, there are agreements with other shareholders of the investee that give the Parent control. Control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

3. Basis of presentation of the consolidated annual statements and consolidation principles (Continued)

The financial statements of the subsidiaries are fully consolidated with those of the Parent Company. Accordingly, all material balances and effects of the transactions between consolidated companies are eliminated on consolidation.

The assets and liabilities and contingent liabilities of a subsidiary are calculated at reasonable values on its date of acquisition that led to the form of control indicated in the IFRS 3—business mergers. Any acquisition cost in excess of reasonable values of net assets identified is recognised as goodwill. If the acquisition cost is less than the reasonable value of identifiable net assets, the difference is charged to results on the acquisition date.

The results generated by companies acquired during a year are consolidated considering only those related to the period between the acquisition and closing dates of that year. At the same time the results generated by companies sold during a year are consolidated considering only those related to the period between the beginning and closing dates of that year.

3.3.2 Associates

Associates are companies over which the Parent Company is in a position to exercise significant influence, but not control or joint control. The capacity to exercise significant influence usually exists because the Parent Company directly or indirectly holds 20% or more of the voting power of the investee.

Associates are valued in the consolidated annual accounts using the participation method, that is by the fraction of their net capital that represents their share of capital in the Group, after considering the dividends received for same and other capital write-offs.

3.3.3 Homogenisation

The entities comprising the framework of the consolidation were consolidated from their individual financial statements, which are prepared under the Spanish National Chart of Accounts for companies resident in Spain and according to their own local code for foreign companies. All significant adjustments that were necessary to adapt them to International Financial Reporting Standards and/or to homogenise them with Group accounting criteria were considered in the consolidation process.

3.3.4 Changes in the scope of consolidation and percentage ownership interests

Fiscal Year 2012

Ence Energia Extremadura, S.L.U. was incorporated to the consolidation framework during fiscal year 2012. This company was constituted in 2009, and construction of an electrical generation plant with 20 megawatts installed power was begun in 2012.

Fiscal Year 2011

Ence Energia Huelva, S.L.U. was incorporated to the consolidation framework during fiscal year 2011. This company was constituted in 2009, and construction project of an electrical generation plant with 50 megawatts installed power was acquired in 2011 (see Note 7).

3.4. Comparative information

The information contained in these notes to the 2012 financial statements is presented together with comparative figures for 2011.

The amount of EUR 3,899 thousand was presented in the section "Other financial costs" in the consolidated profit and loss statement for fiscal year 2011, corresponding to capitalised financial costs; in the consolidated financial statements for fiscal year 2011 these were included under the heading "Financial income" in the consolidated profit and loss statement.

3. Basis of presentation of the consolidated annual statements and consolidation principles (Continued)

3.5. Seasonality of Group transactions

Given the activities of the Group Companies, Group transactions are not cyclical or seasonal. Consequently specific breakdowns are not included in these annual reports.

Nevertheless the production of wood pulp and energy requires stoppages for periods of between 10 and 15 days to undertake maintenance work. Group installations had their general annual shut down in the first half of 2012.

4. Accounting principles and assessment standards

Adoption of new standards and interpretations issued

***a)* Standards and interpretations taking effect in the current year**

The following new standards, amendments and interpretations entered into force on 1 January 2012:

Standard	Contents	Mandatory application in years commencing as of
IFRS 7 Financial instruments: Breakdown	Expands the financial instrument breakdown regarding financial assets transfers when some type of continue involvement remains in the asset transferred	Annual periods commencing as of 1 July 2011

***b)* Standards and interpretations issued but not yet in force**

At the date of preparation of these consolidated financial statements, the main standards and interpretations published by the IASB but not yet adopted by the European Union and, therefore, not in force were:

Standard	Contents	Mandatory application in years commencing as of
IAS 12—"Profit tax"	Change affects deferred taxes related to real properties according to the reasonable value model of IAS 40 "Real Estate Investments"	Annual periods commencing as of 1 January 2013
IFRS 9 Financial instruments: Classification and measurement	Replaces the classification and measurement requirements established by IAS 39 for financial assets and liabilities	Annual periods commencing as of 1 January 2015

4. Accounting principles and assessment standards (Continued)

Standard	Contents	Mandatory application in years commencing as of
IFRS 1 (Amendment) "Elevated hyperinflation and elimination of fixed dates applicable to first adopters"	Changes related to the high level of hyperinflation provide a guide on first time presentation, or how to summarise with the presentation of financial statements prepared under the IFRS, after a period when the entity could not comply with IFRS requirements because their functional currency was subject to high levels of hyperinflation	Annual periods commencing as of 1 January 2013
IFRS 10 Consolidated financial statements (published in May 2011)	Replaces the current consolidation requirements established in IAS 27	Annual periods commencing as of 1 January 2014
IFRS 11 Joint arrangements (published in May 2011)	Replaces the current IAS 31 on interests in joint ventures	Annual periods commencing as of 1 January 2014
IFRS 12 Breakdown of shareholdings In other entities (published in May 2011)	Separate standard establishing disclosure requirements for ownership interests in subsidiaries, associates, jointly controlled entities and non-consolidated entities	Annual periods commencing as of 1 January 2014
IFRS 13 Fair value measurement (published in May 2011)	Establishes the framework for fair value measurement	Annual periods commencing as of 1 January 2013
IAS 27 (Revised) Separate financial statements (published in May 2011)	Revision of the standard, as only an entity's separate financial statements following the issuance of IFRS 10.	Annual periods commencing as of 1 January 2014
IAS 28 (Revised) Investments in associates and joint ventures (published in May 2011)	Parallel review in relation to the issue of IFRS 11—Joint ventures	Annual periods commencing as of 1 January 2014
Amendment of IAS 1—Presentation of Other Comprehensive Income (published in June 2011)	Minor amendment in relation to the presentation of Other Comprehensive Income	Annual periods commencing as of 1 July 2012
Amendment of IAS 32—Financial instruments: Presentation-Compensation of assets with financial liabilities (published in December 2011)	Addition clarifications to the IAS 32 rules for compensation of financial assets and liabilities, and introduction of new IFRS 7 breakdowns	Annual periods commencing as of 1 January 2014

4. Accounting principles and assessment standards (Continued)

Standard	Contents	Mandatory application in years commencing as of
Amendment of IFRS 7— Financial instruments: Presentation-Compensation of assets with financial liabilities (published in December 2011)	Additional clarifications to the IAS 32 rules for compensation of financial assets and liabilities, and introduction of new IFRS 7 breakdowns	Annual periods commencing as of 1 January 2013
Intepretation IFRIC 20: Extraction costs during the production phase of an open-pit mine (published in October 2011)	The International Financial Reporting Interpretations Committee addresses the accounting treatment of the cost of eliminating waste materials in surface mines	Annual periods commencing as of 1 January 2013
Improvements to IFRS Cycle 2009-2011 (published in May 2012)	Exception in consolidation for parent companies that comply with the definition of investment company	Annual periods commencing January 2013
Amendment of IAS 19 Employee benefits (published in June 2011)	Amendments basically affect defined benefits plans, as one of the key changes is the elimination of the "fluctuation corridor"	Annual periods commencing as of 1 January 2013
Amendment, IFRS 10, IFRS 11 and IFRS 12 (Amendment) "Consolidated financial statements, joint agreements and breakdowns of shareholdings in other companies: Transitory provisions"	Amendments to clarify that the first date of application is the first day of the first fiscal year when IFRS 10 is applied for the first time.	Annual periods commencing as of 1 January 2013
Amendment IFRS 10, IFRS 12 and IAS 27 "Investment entities"	The amendment to IFRS 10 under determined circumstances implies that similar entities and funds will be exempt from consolidation of the parent entities. Instead, they will be assessed at a reasonable value with changes in results. Amendments to IFRS 12 to introduce reporting requirements that a company of this type must include in its consolidated annual accounts.	Annual periods commencing as of 1 January 2014

4. Accounting principles and assessment standards (Continued)

Standard	Contents	Mandatory application in years commencing as of
IFRS 1 (Amendment) "Public loans"	Amendment intended to allow entities adopting the IFRS for the first time, to apply the provisions of IAS 20 "Accounting for official subsidies and information on public entities to be reported", applicable to entities that already use IFRS, with respect to public loans at interest rates below market.	Annual periods commencing as of 1 January 2013

Accounting policies

Following are the principal assessment standards used in preparing the consolidated annual financial statements of the Group according to International Financial Reporting Standards (IFRS) adopted by the European Union:

a) Intangible assets

Intangible assets are initially recognised at cost of acquisition or production. After initial recognition, these assets are carried at cost less the amount of accumulated amortisation and any impairment losses incurred.

The Group's intangible assets are considered to have finite useful lives and are amortised on the straight-line basis over the period representing the best estimate of the said useful lives.

Development costs—

Development costs are capitalised annually providing the amounts concerned are separately identified for each project, and there are sound reasons to expect projects to succeed technically and generate financial returns. These costs are amortised on the straight-line basis over 5 years.

Computer software—

The Group recognises the costs incurred in the acquisition of computer software and software licences under this caption. Computer software maintenance costs are recognised with a charge to the consolidated income statement for the year in which they are incurred.

Computer software is amortised on a straight-line basis over 5 years.

Greenhouse gas emission rights—

Until the year 2012 the Group every year obtained CO2 emission rights, without charge, by virtue of the Spanish National Assignment Plan that was developed under Law 1/2005, which regulates the sale of these rights.

Emission rights equivalent to emissions occurred during the year are delivered during the first months of the following year. If emissions are over the volume of rights assigned, then emission rights must be acquired on the market. And along the same lines if emissions are below the rights assigned, then these can be sold on the market.

Emission rights are registered when assigned at their fair market value under "Intangible assets—Greenhouse gas emission rights", and a non-refundable capital subsidy is recorded at the same time in the same amount.

4. Accounting principles and assessment standards (Continued)

After initial recognition, emission rights are carried at cost less the amount of any cumulative impairment losses recognised, but they are not amortised.

The costs associated with the greenhouse gases consumed in the period are recognised with a charge to "Other operating expenses" under "Non-current provisions" in the accompanying consolidated balance sheet at the amount for which any available emission rights were granted, or as measured based on best estimates of the possible cost it would be necessary to incur to cover any shortfall in the said rights.

The provision made and the intangible asset recognised when the emission rights were received will be cancelled upon redemption of the rights.

Non-repayable grants associated with the emission rights acquired free of charge are recognised under "Capital grants transferred to profit and loss" in the accompanying consolidated income statement as CO2 emissions are related with the subsidised emission rights.

b) Property, plant and equipment

Property, plant and equipment are initially recognised at acquisition or production cost, and are subsequently presented net of accumulated depreciation and any impairment losses incurred, where appropriate, in accordance with the criteria described in this Note 4.b.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency, or to a lengthening of the useful lives of the assets are capitalised.

Upkeep and maintenance expenses are recognised in the consolidated income statement for the year in which they are incurred.

For non-current assets that necessarily take a period of more than one year to get ready for their intended use, the capitalised costs include such borrowing costs as might have been incurred before the assets are ready to enter service and were charged by the supplier or relate to loans or other specific-purpose or general-purpose borrowings directly attributable to the acquisition or production of the assets. The interest rate used corresponds to the rate for specific financing or, if none, the mean financing rate for the Group.

Group work on non-current assets is measured at accumulated cost, which is calculated as external costs plus in-house costs, determined on the basis of in-house warehouse materials consumption, and manufacturing costs allocated using hourly absorption rates similar to those used for the measurement of inventories.

The Group companies depreciated their property, plant and equipment by the straight-line basis method at annual rates based on the years of estimated useful life of the assets (land is understood to have an indefinite useful life and is therefore not depreciated), as follows:

	Estimated Years of Useful Life
Buildings	20 - 40
Plant and machinery	11 - 16
Other fixtures, tools and furniture	11
Other items of property, plant and equipment	11

Investments made in buildings constructed on land granted under administrative concessions are recognised 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.

<u>Assets financed with financing applied to projects</u>

Grupo Ence has invested in infrastructure for biomass production of electricity, financed through "Project finance".

4. Accounting principles and assessment standards (Continued)

These financing structures are applied to projects that in themselves sufficiently guarantee the participating financial entities the reimbursement of the debts undertaken to carry them out. Each of these are therefore normally carried out through specific companies in which the project assets are financed on the one hand by funds contributed by the promoters, which is limited to a determined amount, and on the other by third party funds, generally a larger amount, which comprise long term debt. The service of these credits or loans is backed mainly by the future flows generated by each project, as well as by real guarantees over the project assets.

These assets are valued by costs incurred, net of revenue generated, that are charged directly to its construction until start up in operating condition and include such items as studies and plans, expropriations, replacement of services, project performance, construction administration costs and management, installations, buildings and other similar costs, as well as the part corresponding to other indirect costs incurred during the construction period. Financing costs accrued prior to start up in operating conditions are also included, deriving from the third party financing used to finance construction of the building. Capitalised financial costs are from specific financing used expressly as acquisition of the asset.

Impairment of intangible and tangible assets

On the closing date of each balance sheet the Group reviews the book amounts of its property, plant and equipment, biological assets, real properties and intangible assets to determine if these have suffered any loss or impairment.

Whenever there are indications of impairment, the Group tests tangible and intangible assets for impairment to determine whether the recoverable amount of the assets has been reduced to below their carrying amount. Recoverable amount is the higher of fair value less costs to sell and value in use.

The directors of the Parent Company perform impairment tests as follows:

Recoverable values are calculated for each cash generating unit, which are the cellulose production and electricity generation plants operated by the Group, and include the forest capital planned to supply those units.

Each year, the Group prepares a business plan for each cash-generating unit, generally covering a period of three years. The business plans consists of financial projects prepared by the Group Administration on the basis of past experience and the best available estimates of earnings, investments and working capital.

A residual value is also calculated from the normalised cash flow from the last year projected, and a growth rate applied to perpetuity (generally between 0% and 3%). The cash flow used to calculate residual value includes investments in replacement that are necessary for the business to continue in the future at the estimated growth rate.

For assets that are related to projects with an independent financial structure whose flows can be seen with a certain degree of precision during the construction as well as during the operating phases, expected cash flows are projected to the end of the expected life of the asset. Consequently no terminal value is considered. Projections include both known information (based on project contracts) as well as fundamental hypotheses supported by specific expert studies (for production, etc.). Macroeconomic data (inflation, interest rates, etc.) are also projected and a sensitivity analysis is made around all the variables whose changes could significantly affect the value of the asset.

In order to calculate value in use, the cash flows so estimated are discounted applying a discount rate representing the mean weighted cost of capital, taking into account the cost of borrowing and business risks deriving from the type of asset and market in which it is developed. These discount rates in their minimum range consider the cost of the debt incurred by the Group.

If the recoverable amount of an asset is estimated as below its book value, then the latter is reduced to its recoverable rate, recognising the corresponding discount through in the consolidated profit and loss

4. Accounting principles and assessment standards (Continued)

accounts; except when the relevant asset may have been registered at a revalued amount, in which case the loss due to impairment is considered a reduction in the existing revaluation reserve.

Where an impairment loss subsequently reverses, the carrying amount of the cash-generating unit is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal for an impairment loss is recognised as income.

The directors of the Parent Company find that there is no significant indication of impairment of the Group's non-current assets.

c) Investment property

The section in the attached balance sheet entitled "Real Estate Investments" uses values, net of accumulated amortization, for the land, buildings and other constructions that are kept either for operation under lease, or for a gain upon their sale.

Real estate investments are presented appraised at their acquisition cost, following the same criteria as elements of the same class included in the section "Property, plant and equipment".

d) Biological assets

A part of the Group's activity involves the cultivation of various species of trees, mainly eucalyptus, for use as raw material in the production of wood pulp and energy. Standing timber is treated as a biological asset. Forest land is measured in accordance with IAS 16 "Property, plant and equipment" and is recognised under "Property, plant and equipment" in the consolidated balance sheet (see Note 7).

Currently there are no markets for these tree species in Spain, nor valid information that would allow us to estimate their reasonable value. Also, standing timber matures in an average period of up to 40 years including between 2 and 4 cycles, and a range of other variables may affect valuation using the discounted cash flows measurement, so that it is not possible to calculate fair value reliably using this method. As a consequence of the foregoing, the Group has opted to recognise standing timber at historic cost (i.e. cost less accumulated depreciation, less any accumulated impairment losses). Also, sensitivity analyses are performed to test the value of these assets based on certain indicators. The results of these analyses confirm the measurement criteria currently applied.

Therefore, investments in forestry assets are measured by allocating all costs directly incurred in the acquisition and development of the assets, including leases, clearing and preparation of land, planting, fertilisers, care and upkeep.

Furthermore, a variable and individualised percentage of the carrying amount of standing timber is capitalised as interest up to the limit of its estimated realizable value. The interest rate used is the mean financing rate for the Group.

The cost allocation method applied to harvest is based on the total costs incurred to the date of felling and the residual value of the plantation. Divestments of the lumber of the Group came to EUR 9.107 million during 2012, and EUR 8.635 million during 2011. These amounts are included in the account "Forestry reserves depletion" in the section "Provision for Amortisation" in the consolidated profit and loss statement (see Note 8).

e) Leases

The Group leases certain assets. All of the leases concluded by the Group have been classified as operating leases based on the substance of the contracts, which under no circumstances transfer ownership of the leased assets or any of the rights and risks inherent therein.

4. Accounting principles and assessment standards (Continued)

Expenses from operating leases are recognised in the consolidated income statement in the year in which they are accrued.

f) Financial instruments

f.1) Financial assets

The financial assets held by the Group are classified into the following categories:

- Credits and accounts receivable: trade receivables and financial assets with fixed or determinable payments arising from non-trade operations arising on the sale or goods or the provision of services.
- Financial assets available for sale: Includes mainly financial shares in other companies as well as the remaining financial assets that have not been classified in the above categories.

No financial assets were reclassified during fiscal year 2012 and 2011, among the categories defined in the above paragraphs.

Initial recognition—

Financial assets are initially recognised at the fair value of the consideration given plus any directly attributable transaction costs.

Subsequent measurement—

Loans and receivables are measured at amortised cost. The Group also records impairments as charges against the consolidated profit and loss account, when there is an estimated risk of recoverability of same, based on the age of the debt.

Available-for-sale financial assets are measured at fair value, and the gains and losses arising from changes in fair value are recognised 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 recognised are taken to the net consolidated profit or loss for the year.

Derecognition—

The Group derecognises 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, the Group does not derecognise financial assets, and recognises a financial liability for an amount equal to the consideration received, in transfers of financial assets in which substantially all the risks and rewards of ownership are retained.

f.2) Financial liabilities

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

Accounts payable are initially recognised at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost. In this case bank loans are recorded for the amount received, net direct issuance costs. Financial costs including direct issuance costs are recorded following the accrual criteria in the profits and loss account, using the effective interest method, and the book amount of the instrument is added to the degree that it was not liquidated during the period caused.

The Group derecognises financial liabilities when the obligations giving rise to them cease to exist.

4. Accounting principles and assessment standards (Continued)

f.3) Derivative financial instruments and hedge accounting

The Group's activities expose it mainly to financial and market risks arising from changes in the US dollar/ euro exchange rate, which mainly affect its sales because the price of pulp is quoted in US dollars in the international market, and exchange rate fluctuations affecting sales made in foreign currency, as well as changes in the prices of the pulp, fuel oil, gas and electricity, as these are necessary inputs for the production process. The Group is also exposed to the impact of variations in interest rates on its financial liabilities. The Group uses financial derivative instruments to hedge these exposures.

These financial instruments are initially recognised 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 recognised under "Derivatives" in the consolidated balance sheet, and any eventual write-backs are recognised in "Financial assets—Derivatives". The gains or losses on these changes in value are recognised in the consolidated income statement, unless the derivative has been designated as a hedging instrument, in which case it is recognised as follows:

1. Hedge value coverage: both the hedged item and the hedging instrument are measured at fair value, and any changes in the value of either are recognised in the consolidated income statement. Effects are offset in the same caption of the consolidated income statement.
2. Cash flow hedges Changes in the fair value of financial derivatives are recognised in "Equity— Valuation adjustments". The cumulative loss or gain recognised 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. The Group also verifies, 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 recognised 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 recognised directly in equity is maintained until the expected commitment or transaction materialises, 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 recognised in equity is taken to the consolidated income statement.

<u>Estimation of fair value</u>

Fair value appraisals made of the different financial derivatives are found in level 2 of the hierarchy of fair values established by IFRS 7, as they are referenced to observable variables other than listed prices. More specifically, the fair values calculated for each type of financial instrument (see Note 10) are as follows:

- Interest rate swaps are valued by discounting future liquidations between the fixed and variable rate, according to market conditions, obtained from swap rate curves at long term. The volatility inherent in the calculation is used, through formulas for appraising options, to calculate reasonable fair values of caps and floors.

4. Accounting principles and assessment standards (Continued)

- Hedge agreements on foreign currency exchange and options hedge agreements are valued using the contract exchange rate listings and interest rate curves for the currencies involved as well as implicit volatility until expiration in the case of options.
- Commodities agreements (fuel) are valued in a similar manner, in this case considering future prices for the underlying asset and the implicit market volatility for options.
- The Group uses the discounted cash flows method in the case of derivatives not negotiable in organised markets to discount expected cash flows and generally accepted options structures, based on both cash as well as future market conditions as of the closing date of the period. However at December 31, 2012 and 2011 the Group had no non-negotiable derivative contracts on organised markets.

f.4) Equity instruments

An equity instrument represents a residual ownership interest in the equity of the Parent Company once all of its liabilities have been deducted.

The equity instruments issued by the Parent Company are recognised in equity for the amount of the proceeds received, net of issue costs.

Treasury shares acquired by the Parent Company are recognised 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 are recognised directly in equity. No amounts are recognised in the income statement in this respect.

f.5) Classification of current and non-current

Assets and liabilities are classified in the attached consolidated balance sheet according to their expiration; that is, as current with a maturity at or less than twelve months and non-current with maturity greater than twelve months.

g) Inventories

Stocks of raw materials, finished products and work in progress are measured at the lower of cost of acquisition, production cost or market value.

Production costs is determined by including the cost of materials, labour, and direct and indirect manufacturing expenses.

The Group uses the weighted average cost method to assign value to its inventories.

Net realizable value is the estimated selling price less the estimated costs of completion and costs to be incurred in marketing, selling and distribution. The Group recognises the appropriate write-downs as an expense in the consolidated income statement when the estimated net realizable value of the inventories is lower than acquisition (or production) cost thereof. These estimates consider the age and degree of turnover of inventories.

h) Cash and cash equivalents

Cash comprises both cash and demand bank deposits. Cash equivalents are highly liquid, short-term investments that are easily converted into cash, have an original maturity of no more than three months and are not subject to any significant risk of change in value.

4. Accounting principles and assessment standards (Continued)

i) Income tax, assets and liabilities for deferred taxes

Income tax expense for the year is calculated by adding the current tax resulting from application of the tax rate to the adjusted profit for the year, and then applying the tax deductions allowed, plus the variation in assets and liabilities for deferred taxes.

Assets and liabilities for deferred taxes are taxes payable or recoverable for differences between the book value of the assets and liabilities in the financial statements, and their tax value. These are recorded applying the tax rate which is expected for recovery or liquidation.

Corporate tax and variations in deferred taxes recorded as assets or liabilities that do not arise from business mergers, are recorded in the consolidated profit and loss account or in the net equity accounts in the consolidated balance sheet, according to where the profits or losses originated by them were recorded.

Variations from business mergers that are not recognised in the takeover as recovery is not insured, are reduced, as applicable, from the goodwill value recognised in the accounting for the merger, or using the above criteria if there is no goodwill.

Assets for deferred taxes identified with temporary differences, negative tax bases and deductions pending compensation are recognised only if the consolidated entities are considered to probably have sufficient tax gains in the future against those that may use them.

Deferred taxes recorded (both assets as well as liabilities) are reviewed at the close of each period in order to prove that they remain current, with the appropriate corrections made according to the results of the analysis made.

The Parent Company and the rest of its subsidiaries registered in Spain in which the Parent owns interests in share capital equal to or exceeding 75% file consolidated tax returns under the regime established in Chapter VII, Title VIII of the Corporate Income Tax Law.

j) Income and expenses

Income is measured at the fair value of the consideration received or receivable and is recognised when the Group is likely to receive the economic benefits of the transaction and the amount thereof can be reliably measured. Sales are recorded net of VAT and discounts.

Revenues from the sale of goods is recognised when the goods are delivered and all of the risks and rewards inherent in ownership have been transferred.

Dividend income is recognised when the shareholder's right to receive payment is established.

Expenses are recognised in the consolidated income statement when there is a decrease in future economic benefits relating to a reduction in an asset or an increase in a liability which can be reliably measured. This implies that an expense is recognised at the same time as an increase in a liability or a reduction in an asset.

Expenses derived from the receipt of goods or services are recognised at the moment in which they are received.

An expense is recognised immediately when a payment does not generate future economic benefits, or when it does not meet the requirements for recognition as an asset.

k) Provisions and contingencies

The consolidated financial statements include all provisions with respect to which it is considered likely that an obligation will have to be settled. Contingent liabilities are not recognised 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.

4. Accounting principles and assessment standards (Continued)

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 recognised as finance costs as they are accrued.

At 2012 year end, various legal actions and claims were in progress against the Group. Both the Parent Company's legal advisers and its directors consider that the conclusion of these proceedings and claims will not have a material effect on these consolidated financial statements.

l) Termination benefits

Under current legislation, the Group is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken.

The Group recognised an allowance of EUR 1,369 thousand for this item under "Trade and other payables—payable to employees" in the consolidated balance sheet at 31 December 2012 (EUR 251 thousand at 31 December 2011) in order to cover incentivised terminations at the end of the reporting period.

m) Environmental assets and liabilities

Environmental activities are operations with the main objective of preventing, reducing or repair environmental damages.

In this case, investments deriving from environmental activities are valued at their acquisition cost and included as the greatest fixed asset cost in the year incurred, according to the assessment rules described in sections a) and b) of this note.

Expenses deriving from environmental protection and improvement are charged to the results for the year in which they are incurred, regardless of the time when the monetary or financial currents occurred deriving from them (see Note 25).

Provisions relating to probable or certain environmental responsibilities, litigation and compensation or obligations payable for indeterminate amounts that are not covered by the insurance policies arranged are set aside, where appropriate, at the time the responsibility or obligation determining compensation or payment arises.

n) Pension obligations

Certain group companies have established the following commitments for retirement, widows, orphans and ancestors pensions, to supplement the Social Security benefits due to employees and members of their families:

1. Current employees

   Commitment to current employees at year end whereby the Company and the employee concerned contribute a pre-established percentage of salary for pension purposes to the Ence Group's "Joint Promotion Pension Plan" promoted in accordance with article 40.d) of the Pension Plans and Funds Regulations (defined contributions). This pension plan is included in the SERVIRENTA II F.P. Pension Fund.

2. Retired employees

   In December 1997 the Parent Company arranged a single premium insurance policy with an insurance company to guarantee the contingencies covered by the aforementioned fund.

4. Accounting principles and assessment standards (Continued)

Payments made by the insurance company constitute a tax deductible expense when they are settled.

o) Stock-based payments

The General Meeting of Shareholders of the Parent Company on 30 March 2007 approved a Special Executive Variable Compensation Plan for the years 2007-2011, which was amended on 22 June 2010 to the current ENCE Energia y Celulosa S.A. Long Term Incentive Plan for 2010-2015" (the Plan).

The objective of the Plan is to incentivise compliance with the goal set by the Board of Directors for the years 2010, 2011 and 2012. A maximum of 3,850,000 stock options are subject to delivery, representing 1.53% of equity.

Currently 539,079 options have been granted for the year 2010 at a price of EUR 2.44 per share; and 753,225 options for the year 2011 at a price of EUR 1.95 per share.

These options may be exercised two years after they are granted, provided that:

1. the beneficiary continues to serve Ence under an employment or commercial relationship, unless service was discontinued as a consequence of unfair dismissal; and
2. the Parent Company has specified a regular dividend policy at the time the options are exercised.

At the Annual General Meeting held on 29 April 2011, the shareholders resolved to extend the term of the aforementioned Grupo Empresarial ENCE, S.A. Long-Term Incentive Plan for 2010-2015 for the Chief Executive Officer, to allow him to be assigned the unallocated options under the Plan in 2013 up to the maximum number of options authorised for the CEO.

The stock options will be settled in cash. Consequently, a liability is recognised in this respect at the date of each consolidated balance sheet equal to the portion of services received at the current fair value thereof.

The fair value of the Special Variable Executive Compensation Plan has been determined using the Black-Scholes method, which is generally accepted for financial instruments of this type. Following that method the accrued cost for 2012 was EUR 160 thousand (null in fiscal year 2011).

p) Grants

Non-refundable capital grants associated with investment in production assets are valued at the fair market value of the amount received, and charged to results in proportion to the period depreciation for the elements for which the grant was received or, as applicable, upon disposal of the asset or recognition of the impairment loss.

These are charged to the consolidated income statement when they are awarded, unless the award is made to finance specific expenses, in which case the grant is recognised in line with the accrual of the subsidised expenses.

q) Consolidated cash flow statement

The following terms are used in the consolidated cash flow statements (prepared using the indirect method) with the meanings specified:

1. Cash flows: inflows and outflows of cash and cash equivalents, the latter being understood as highly liquid current financial instruments with a low risk of fluctuations in value.
2. Operating activities: the principal revenue-producing activities of the entities forming the consolidated Group and other activities that are not investing or financing activities.
3. Investment activities: activities involving the acquisition, sale or disposal in any other way of non-current assets or other investments not included in cash and cash equivalents.

4. Accounting principles and assessment standards (Continued)

4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Group companies that are not operating activities.

r) Related party transactions

The Group performs all transactions with related parties on an arm's length basis.

s) Balances and transactions in currencies other than the euro

The consolidated financial statements are presented in euros, which the Group's functional and presentation currency.

Translation of transactions and balances—

The Group converts balances receivable and payable expressed in currencies other than the euro applying the exchange rates ruling at the transaction date. Receivables and balances are measured at this exchange rate until they are settled. Exchange gains or losses arising on the collection of receivables and payment of liabilities in currencies other than the euro, and differences arising from year-end measurement of non-euro receivables and payables at the exchange rates ruling at the end of the reporting period, are recognised in the consolidated income statement in which they arise.

Translation of the financial statements of Group companies—

The earnings and financial position of all Group companies using a presentation currency other than the euro (none of which is the currency of a hyperinflationary economy) are translated to euros as follows: assets and liabilities are converted at the year-end rate ruling at the reporting date; equity is translated at historic rates of exchange; and revenues and expenses are converted at the average rate for the period. The resulting differences on exchange are recognised in equity, and will be charged to the consolidated profit and loss account for the period in which the investment was transferred.

Long-term loans granted by the Parent Company to consolidated establishments and companies using a functional currency other than that of the Group are treated as net financial assets held abroad. All resulting exchange differences arising are recognised in equity.

t) Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets earmarked for disposal is classified as a held-for-sale asset where its value will be recovered basically as a result of sale, providing the sale is considered highly likely.

These assets or groups of assets are valued at book value or at estimated sales value, whichever is lower, deducting the costs necessary for this and are no longer amortised after they are classified as non-current assets held for sale; however the corresponding corrections are made at the date of each balance sheet so the book value does not exceed reasonable value plus sales costs. These corrections are listed in the section "Net result of non-current classified as held for sale" in the consolidated balance sheet.

Non-current assets held for sale and elements of groups classified as held for sale are presented in the consolidated balance sheet, as follows: Assets in a single line denominated "non-current assets held for sale" and liabilities, also in a single line, denominated "liabilities associated with non-current assets held for sale".

A discontinued operation is any component of the Group which has been sold or otherwise disposed of, or which has been classified as held for sale and, among other conditions, represents a line of business or a significant area which may be regarded as separate from the rest.

After tax profit or loss on discontinued operations appear in a single line in the consolidated profit and loss statement, denominated "Net result of appraisal of non-current assets held for sale".

4. Accounting principles and assessment standards (Continued)

u) Earnings per share:

Base earning per shares is calculated as the quotient between net profit for the period attributable to the Parent Company and the mean weighted number of ordinary shares in circulation during the period, not including the mean number of Parent Company treasury shares in Group companies.

Diluted share earnings are calculated as the quotient between the net profit/loss of the period attributable to ordinary shareholders and adjusted for the effect to potential ordinary shares with a dilutive effect and the mean weight number of ordinary shares that would be issued if all potential ordinary shares were converted into ordinary shares of the company. The conversion in this case is considered as occurring at the beginning of the period or at the time of issue of the potential ordinary shares, if these would be placed in circulation during the same period. Since there are no potential ordinary shares with a dilutive effect with the Group, the base earning and diluted by share for the years 2012 and 2011 are the same.

Responsibility for information and estimates made—

Certain estimates were made in preparing the consolidated financial statements for 2012, in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The assessment of possible impairment losses on certain assets.
- The useful life of property, plant and equipment and intangible assets.
- The fair values of certain assets, basically comprising financial instruments.
- The assumptions employed in the calculation of certain commitments with employees.
- Calculation of the provisions necessary to cover the risks related with ongoing litigation and insolvencies.
- The recoverability of deferred tax assets.

These estimates were made on the basis of the best information available at 31 December 2012 and 2011. However, events that take place in the future might make it necessary to change them. Any such changes in accounting estimates would be applied prospectively in accordance with IAS 8.

Changes in estimates and accounting policies and fundamental error corrections

The effect of any change in accounting estimates is recorded prospectively, in the same section of the profit and loss account in which the cost or revenue is recorded with the previous estimate.

Changes in accounting policies and correction of fundamental errors are registered as follows, if they have an important impact; the accumulated effect at the beginning of the period is adjusted under reserves and the effect in the period is recorded in the profit and loss account for the period. In these cases the financial information for the comparative period is re-stated together with the period in course.

There were no significant changes in accounting estimates, or in accounting policies, or in error corrections at 31 December 2012 or 2011.

5. Exposure to risk

Assisted by senior management, the Board of Directors defines the Group's risk management criteria for risks to which the Group is exposed, and establishes internal control systems that allow the Group to maintain the probability and impact of any such event within established levels of tolerance.

The internal auditing department assures appropriate implementation of the risk management criteria and policies defined by the Board of Directors and oversees compliance with the internal control systems implemented.

5. Exposure to risk (Continued)

The main financial risks affecting the Group and the policies and controls adopted to mitigate them are as follows:

Market risk—

Pulp and energy prices—

The price of BEKP cellulose pulp is established in an active market, the evolution of which significantly conditions the volume of the Group's revenues and its earnings. Changes in cellulose pulp prices modify the cash flows obtained from sales.

Cellulose pulp price display a marked cyclical nature, and there has been considerable price volatility in recent years. The behaviour of the price is associated basically 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, the Group has made significant investments in recent years to raise productivity and improve the quality of the product it markets. It also continually assesses the possibility of hedging pulp prices for future sales (see Note 10).

A 5% increase in the international pulp price in euros would increase the Group's revenues by approximately 3.6%.

Timber supplies—

Eucalyptus timber is the main input for the production of cellulose 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, resulting in the consequent logistics overheads, when more local supplies are insufficient to meet demand.

The risk arises from an insufficient offering in the areas where our plants are located, and is managed mainly through access to alternate markets that normally include a higher logistical cost.

Furthermore, the Group maximises the value added in its products *among others* by increasing its use of certified timber, which is more costly.

A 5% increase in the price per cubic metre of eucalyptus timber used in the production process would reduce the operating margin by approximately 15%.

Regulation—

European Union environmental regulation has in recent years increased restrictions on the emission of effluents; CO2, etc. Future regulatory changes could cause increases in the expenses incurred to comply with those requirements.

Renewable energy generation is also a regulated activity. Future regulatory changes could therefore affect revenues. A 5% increase in the prices determining revenues from electricity generating operations would raise the Group's total revenues by approximately 1%.

On 27 January 2012, the Spanish Council of Ministers approved Royal Decree Law 1/2012, temporarily suspending the procedures for pre-allocation of remuneration and removing financial incentives for new power plants using cogeneration, renewable energy sources and waste. This legislation also allows the Government to regulate specific financial regimes covering certain special regime power plants, and it also establishes the right of cogeneration plants and other power plants using primary energy sources, non-consumable and non-hydraulic renewable energy, biomass, bio-fuels and agricultural waste to receive remuneration under a specific financial regime.

Law 15/2012 of 27 December with tax measures for sustainable energy effective 1 January 2013 includes tax changes that affect the Group's activities. A tax is created on the value of the energy produced with an

5. Exposure to risk (Continued)

impact on the entire energy sector, equivalent to 7% of revenue from generation. Tax rates established for natural gas are changed, and exemptions provided for energy products used in the production and cogeneration of electricity and useful heat, are eliminated.

Royal Decree Law 2/2013 of 1 February with emergency measures for the electrical sector and the financial system establishes that for all methodologies for revenue changes that are tied to the general CPI, the latter is replaced by the Consumer Price Index at constant taxes without unprocessed foods or energy products; and the prime economic regimen can be based only on the option of a regulated tariff (with the pool+premium option eliminated).

This regulation enter uncertainties with regard to the development of new plants in Spain as the suspension period is undetermined, and the impact on earnings by the tax measures adopted in this year.

Exchange rate—

While the majority of the Group's sales are made in the European market, revenues from sales of cellulose pulp are affected by the USD/EUR exchange rate, because the benchmark sale price on the international market is in USD per ton. Insofar as the Group's cost structure is mainly in euros, changes in the dollar exchange rate can have a significant impact on earnings volatility.

In order to mitigate this risk, the Group's policy is to lock in the exchange rate in parallel with its management of the risks inherent in the evolution of cellulose pulp prices. Accordingly, it continuously assesses the possibility of using exchange rate hedges for foreseeable future sales (see Note 10).

A 5% appreciation in the dollar would increase the Group's revenues before hedges, by approximately 3.6%.

Credit risk—

The Group is exposed to credit risk in respect of outstanding balances receivable from customers. This risk is mitigated mainly by arranging credit insurance policies, which assign credit limits based on credit quality as determined by the insurer and provide cover for between 75% and 90% of trade receivables associated with sales of cellulose pulp.

Provision is made for overdue balances where there is evidence of impairment, and for all receivables overdue by more than 6-12 months that are not covered by credit insurance policies.

Revenues associated with the electricity generating business are obtained from the electricity system, which is backed by the Spanish state.

Liquidity—Asset Management Risk

Exposure to adverse situations in the debt and capital markets can hinder or prevent the Group from covering financial needs related with operations and the future Business Plan.

This is one of the risks that is most closely tracked by the Ence Group, and a series of key financial objectives has been established by the Group: 1) to assure the continuity of operations in any cellulose price environment, 2) to support the capacity for growth of the businesses conducted by maintaining a sound capital structure and an appropriate level of liquidity; and 3) to keep net indebtedness at levels that do not exceed the gross operating profit generated by more than 2.5 times, based on the average cellulose pulp price for the cycle.

This risk is managed by following the schedule of financial debt, proactive management and maintenance of lines of credit and other forms of financing that hedge projected treasury needs.

As part of this financial policy, Ence Energia y Celulosa, S.A. has projected refinancing its corporate debt with maturity in 2014. Therefore on 1 February 2013 the Parent Company completed the process of

5. Exposure to risk (Continued)

offering to qualified institutional investors, a bonds issue in the amount of EUR 250 million maturing in 2020 (see Note 26), to be used mainly to repay the current syndicated loan.

The information necessary for the analysis of the maturities of the financial liabilities referred to in IFRS 7 is provided in Notes 10 and 16 below.

Interest rate risk—

This risk arises from exposure to changes in the interest rates of the Company's financial assets and liabilities, which can have an adverse impact on the income statement and on cash flows.

The objective of interest rate risk management is to achieve a balance in the debt structure to minimise the cost of debt over a time horizon of several years with low volatility in the consolidated income statement. The hedging instruments contracted are assigned to specific financial operations, and the derivatives are appropriately aligned with the timing and amount of the financing concerned.

At 31 December 2012 the Group held hedging instruments covering most financial debt contracted at floating rates of interest. The corporate debt refinancing indicated above contracted at a fixed rate of 7.25% minimised interest rate risk.

6. Intangible assets

Changes in intangible assets and the related accumulated amortization in 2012 and 2011 were as follows:

Fiscal Year 2012

Thousands of Euros	Balance at 01/01/2012	Additions or Charge for the year	Retirements or disposals	Exchange Differences	Transfer to Held For Sale Assets (Note 20)	Balance at 31/12/2012
Computer software	14,361	—	(110)	(3)	110	14,358
Emission rights	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 comprising development costs

6. Intangible assets (Continued)

Fiscal Year 2011

Thousands of Euros	Balance at 01/01/2011	Additions or Charge for the year	Retirements or disposals	Transfers (Note 7)	Exchange Differences	Transfer to Held For Sale Assets (Note 20)	Balance at 31/12/2011
Computer software	14,329	144	—	—	(2)	(110)	14,361
Emission rights	2,544	9,099	(6,390)	—	—	—	5,253
Other intangible assets(*)	11,867	291	(16)	(317)	—	(1,420)	10,405
Total cost	**28,740**	**9,534**	**(6,406)**	**(317)**	**(2)**	**(1,530)**	**30,019**
Computer software	(13,532)	(319)	—	—	(3)	110	(13,744)
Other intangible assets(*)	(8,674)	(941)	15	101	—	1,351	(8,148)
Total amortisation	**(22,206)**	**(1,260)**	**15**	**101**	**(3)**	**1,461**	**(21,892)**
Total	**6,534**						**8,127**

(*) Mainly comprising development costs

Additions and disposals—

The Group in fiscal year 2012 acquired Foresta Capital, S.L. and Foresta Mantenimiento Plantaciones, S.L., companies linked by common shareholders (see Note 24), as well as intangible knowledge, experiences and techniques that optimise energy crops and the in vitro reproduction of eucalyptus, and also a clone of the Populus Deltoides species. The companies were acquired for an initial payment of approximately EUR 3.5 million, and deferred payments for an additional EUR 3 million, if and when a series of conditions were met, including raising the moratorium on the special economic regimen for biomass electricity generation, established in Royal Decree Law 17/2012 of 27 January, or investment in energy generation plants outside of Spain with a minimum power of 70 MW. This agreement includes a purchaser's right for an option, exercisable within six months after the lifting of the moratorim and for the market value of such assets at the time of its acquisition, to buy determined electricity production projects currently being promoted by the sellers.

The Group has also annually received, free of charge, greenhouse gas emissions rights under the National Assignment Plan 2008-2012, for 657,970 tons of CO_2 per year. In 2012 the Group used 92,368 tons of CO_2 assigned to it as well as remainders from previous years, to redeem the rights consumed in the previous year (278,121 tons in fiscal year 2011). The 565,602 tons of CO_2 remaining for 2012 (379,849 tons in 2011) are registered in the section "Emission Rights", in the amount of EUR 3.535 million (EUR 5.253 million at 31 December 2011).

On 3 June 2008 the Group executed a contract selling greenhouse gas emission rights received free of charge in 2008, equivalent to 657,970 tons of CO_2, and also executed an agreement to purchase emission rights for 506,202 tons of CO_2 at a mean price of EUR 24.6. This purchase that took place in December 2012, represented an investment of EUR 12.486 million.

In fiscal year 2011 the Group also executed various emission rights purchase commitments for a total of 601,000 tons of CO_2 at an average price of EUR 14.85 maturing in 2012. These agreements were later amended to mature in 2013, at a price of EUR 15.37 per ton. The purpose is to hedge future consumption of emission rights by the Group.

The "Provisions" section of the long term liabilities balance sheet at 31 December 2013 shows EUR 3.015 million (EUR 5.845 million at 31 December 2011) corresponding to liabilities from 2012 and 2011 consumption of 481,609 tons of CO_2 and 472,217 tons of CO_2, respectively (see Note 15).

6. Intangible assets (Continued)

Fully amortised intangible assets—

At 31 December 2012 and 2011, fully amortised intangible assets, mainly consisting of development costs and computer software, totalled EUR 16,711 thousand and EUR 15,659 thousand, respectively.

7. Property, plant and equipment

Changes in the property, plant and equipment carried in the consolidated balance sheet and the related accumulated depreciation in 2012 and 2011 were as follows:

Fiscal Year 2012

Thousands of Euros	Balance at 01/01/2012	Additions or Charge for the year	Retirements or disposals	Transfers	Exchange Differences	Transfer to/from Held For Sale Assets (Note 20)	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 items of property, plant and equipment	30,652	600	(1,186)	1,494	(21)	1,068	32,607
Advances and non-current assets under construction	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 items of property, plant and equipment	(18,570)	(1,627)	1,167	24	3	(818)	(19,821)
Amortisation	**(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 items of property, plant and equipment	—	(183)	—	—	—	—	(183)
Impairments	**(11,157)**	**(368)**	**7,005**	**—**	**—**	**(1,532)**	**(6,052)**
Total	**770,142**						**774,179**

7. Property, plant and equipment (Continued)

Fiscal Year 2011

Thousands of Euros	Balance at 01/01/2011	Additions or Charge for the year	Retirements or disposals	Transfers (Note 6)	Exchange Differences	Transfer to Held For Sale Assets (Note 20)	Balance at 31/12/2011
Forest land	153,516	477	—	—	324	—	154,317
Other land	7,598	—	(1,212)	—	(9)	—	6,377
Buildings	145,081	448	(8,283)	1,793	(34)	(28)	138,977
Plant and machinery	1,001,898	7,512	(2,363)	18,609	109	(5,468)	1,020,297
Other items of property, plant and equipment	28,989	1,659	(1,498)	2,643	(2)	(1,139)	30,652
Advances and non-current assets under construction	80,320	66,059	(263)	(22,728)	(5)	(3)	123,380
Cost	**1,417,402**	**76,155**	**(13,619)**	**317**	**383**	**(6,638)**	**1,474,000**
Buildings	(74,080)	(4,442)	660	1	(11)	18	(77,854)
Plant and machinery	(548,988)	(48,090)	(2,860)	(60)	(55)	3,776	(596,277)
Other items of property, plant and equipment	(22,510)	(1,144)	4,236	(41)	(2)	891	(18,570)
Amortisation	**(645,578)**	**(53,676)**	**2,036**	**(100)**	**(68)**	**4,685**	**(692,701)**
Land and buildings	(13,289)	—	8,305	—	—	—	(4,984)
Plant and machinery	(11,395)	(819)	4,509	(1)	—	1,533	(6,173)
Impairments	**(24,684)**	**(819)**	**12,814**	**(1)**	**—**	**1,533**	**(11,157)**
Total	**747,140**						**770,142**

Additions—

The Group has made investments at all of its facilities to improve the efficiency of the paper pulp production process, optimise electricity generating and improve environmental protection. This is broken down as follows:

	Thousands of Euros 31/12/2012	Thousands of Euros 31/12/2011
Navia	6,212	11,321
Huelva	14,262	8,789
Huelva—50 Mw plant	38,407	42,600
Pontevedra	4,347	6,224
Merida—20 Mw plant	20,513	—
Other(*)	3,157	7,221
	86,898	**76,155**

(*) Includes mainly investments in irrigation equipment for plantations of energy crops and capitalised costs incurred in the development of energy projects.

On 1 August 2012, the Group, through affiliate Ence Energia Extremadura, S.L.U., concluded a turnkey construction contract for a biomass renewable energy generating plant with installed capacity of 20 megawatts. The plant will be located in Merida (Badajoz), and start up operations in fourth quarter 2014. Projected investment in the project is EUR 80.7 million, of which EUR 60.7 million will be financed by a bank syndicate through a "Project Finance" (See Note 16). Accumulated investment at 31 December 2012 comes to EUR 20.5 million.

7. Property, plant and equipment (Continued)

On 21 June 2011, the Ence Group concluded a turnkey construction contract for a biomass renewable energy generating plant with install capacity of 50 megawatts via the subsidiary, Ence Energía Huelva, S.A.U. The plant will be located in Group installations in Huelva, and start up operations in the first quarter of 2013. Projected investment in the project is EUR 146.6 million, of which EUR 101.3 are financed by a bank syndicate through a "Project Finance" (See Note 16). The cumulative investment made at 31 December 2012 was EUR 138.1 million, of which EUR 38.4 million were invested in 2012 and EUR 42.6 million in 2011.

The Group capitalised finance costs totalling EUR 5,670 thousand incurred in 2011, basically in respect of project finance indebtedness (EUR 2,678 thousand at 31 December 2011).

The Group likewise at 31 December 2012 has investment commitments for material assets for EUR 17,327 thousand, that will mostly be developed in 2013.

Retirements and disposals—

On 11 September 2011 the Group sold certain land in Uruguay owned by Sociedad Zona Franca de M'Bopicúa, S.A. for a total of USD 5 million (EUR 3,741 thousand). This transaction generated a profit of EUR 2,690 thousand, which was recognised in the accompanying consolidated income statement under "Impairment and gains or losses on disposals of non-current assets".

Fully depreciated property, plant and equipment—

At 31 December 2012 and 2011 the Group had fully depreciated items of property, plant and equipment still in use as follows:

Thousands of Euros	2012	2011
Buildings	42,066	41,945
Machinery	397,860	374,196
Equipment and tools	396	473
Furniture	1,559	2,251
Other	10,935	10,197
	452,816	**429,062**

Grant of public land—

The maritime-terrestrial concession of the land on which the Pontevedra factory is located was awarded to the Parent Company by Ministerial Order of 13 June 1958. The concession deed did not establish any fixed term, but Article 66 of the subsequent Coasts Law established a maximum term of 30 years for maritime-terrestrial concessions of public domain. In accordance with Transitional Provision 14.3 of the Coasts Regulations, moreover, the holders of concessions granted prior to the entry into force of the Coasts Law (as in the present case) should understand that the same "are granted for a maximum period of thirty years as from the entry into force of the Coasts Law", whatever the term established in the concession deed (the Law came into force on 29 July 1988, and the concession will therefore expire on 29 July 2018). The carrying amount of all assets associated with land at 31 December 2012 was EUR 71,865 thousand (EUR 80,839 thousand at 31 December 2011).

The Bill for the Coastal Protection and Sustainable Use act and Amendment of Law 22/1988 of 28 July on Coasts was published in the Official Gazette of the General Courts/Chamber of Deputies on 19 October 2012. The changes to the Coasts Law proposed includes the possibility of extending grants of maritime-terrestrial public domain issued prior to the amendment—as in the case of Ence in Pontevedra—up to 75 years.

7. Property, plant and equipment (Continued)

On 19 May 20112, the Administrative Disputes bench of the Spanish High Court issued a ruling on the appeal filed by the Association, "Salvemos Pontevedra". This judgment did not enter into the merits of the case, and it therefore did not find that ENCE had breached any of the terms of the concession, as the claimant Association had sought. Rather, the Court confined itself to ordering the Administration to open proceedings in connection with the expiration of the concession and the adoption of legal measures to halt activity and the use and operation of the facility. This judgment does not prejudge the outcome of these proceedings which would, where applicable, be conducted as a full administrative process leading to a final decision that would be open to appeal in the administrative disputes jurisdiction. Both the Administration and ENCE have appealed against the judgment, which is not enforceable while the appeal proceedings continue.

Revaluations—

As of 1 January 2004, the date of transition to EU-IFRS, forest land was revalued at fair value. The fair value was determined by specialist independent appraisers and is considered to be a reference historical cost as permitted by International Accounting Standards. The revaluation surplus of EUR 54,882 thousand, net of deferred tax liabilities totalling EUR 23,498 thousand, was recognised in net equity under "Valuation adjustments". This market value is treated as the historical cost reference at subsequent dates.

Law 16/2012 of 27 December which adopts various tax measures that consolidate public finances and drive economic activity, contemplates the possibility of voluntarily accepting the restatement of values regulated by that provision.

Taxpayers subject to the fiscal consolidation regimen under the provisions of Chapter VII of Title VII of the Consolidated Corporate Tax Law, approved by Legislative Royal Decree 4/2004 of 5 March, would carry out the update operations in the individual regimen.

Parent Company Directors are currently evaluating said Law 16/2012 and its potential implications and accounting and fiscal impacts. As of the date of preparation of those consolidated annual reports no decision had been made.

Insurance and other matters—

The Group arranges insurance policies to cover the possible risks to which its property, plant and equipment are exposed. The Parent Company's directors consider that the insurance cover for these risks is adequate at 31 December 2012.

Assets located outside Spain, mainly in Uruguay, amounted to EUR 39,991 thousand at 31 December 2012 (EUR 37,928 thousand at 31 December 2011). These are mostly classified as held for sale in the section "Non-current assets held for sale" on the consolidated balance sheet (see Note 20).

8. Biological assets

Biological assets comprise basically the Group's standing timber (forest land owned by the Group is presented in "Property, plant and equipment—forest land"), as follows:

Thousands of Euros	31/12/2012	31/12/2011
Standing timber—Iberian Peninsula	125,655	124,154
Standing timber—Uruguay	—	19,294
Standing timber—Energy crops	44,622	36,366
Other standing crops—Iberian Peninsula	681	772
	170,958	**180,586**

8. Biological assets (Continued)

Changes in 2012 and 2011 were as follows:

Fiscal Year 2012

Thousands of Euros	Balance at 01/01/12	Additions or Charge for the year	Transfers	Exchange differences	Transfer to Available for sale (Note 20)	Balance at 31/12/12
For use as cellulose:						
Forest land	236,480	11,264	(111)	(483)	(26,083)	221,067
Forestry reserve depletion	(91,690)	(6,268)	—	109	5,582	(92,267)
Impairments	(570)	(533)	(1,361)	—	—	(2,464)
	144,220	**4,463**	**(1,472)**	**(374)**	**(20,501)**	**126,336**
For use as energy crops:						
Forest land	36,907	11,267	(699)	—	—	47,475
Forestry reserve depletion	(14)	(2,839)	—	—	—	(2,853)
Impairments	(527)	—	527	—	—	—
	36,366	**9,678**	**(172)**	**—**	**—**	**44,622**
	180,586					**170,958**

Fiscal Year 2011

Thousands of Euros	Balance at 01/01/11	Additions or Charge for the year	Transfers	Exchange differences	Balance at 31/12/11
For use as cellulose:					
Forest land	243,474	14,407	(20,216)	(1,185)	236,480
Forestry reserve depletion	(82,937)	(8,621)	—	(132)	(91,690)
Impairments	—	(570)	—	—	(570)
	160,537	**5,216**	**(20,216)**	**(1,317)**	**144,220**
For use as energy crops:					
Forest land	6,177	10,514	20,216	—	36,907
Forestry reserve depletion	—	(14)	—	—	(14)
Impairments	(527)	—	—	—	(527)
	5,650	**10,500**	**20,216**	**—**	**36,366**
	166,187				**180,586**

The Group planted 4,452 hectares and 6,664 hectares respectively in 2011 and 2012, and carried out conservation and forestry work on a further 47,125 ha. And 55,481 hectares, respectively.

8. Biological assets (Continued)

Details of standing timber at 31 December 2012 and 2011 are as follows:

Fiscal Year 2012

	Iberian Peninsula			
	Pulp		Energy crops(*)	
	Hectares	Thousands of Euros	Hectares	Thousands of Euros
Years Age	Productive land (Ha.)	Carrying Amount	Productive land (Ha.)	Carrying Amount
>17	1,010	1,490	—	—
16	28	33	—	—
15	170	841	20	30
14	622	1,569	2	2
13	1,227	4,153	154	485
12	1,399	5,231	1,199	2,284
11	2,516	8,073	173	346
10	2,631	6,729	398	331
9	2,622	6,018	15	13
8	2,919	9,263	145	279
7	6,578	21,843	1,633	5,126
6	5,133	15,686	736	2,746
5	4,209	10,233	1,731	4,290
4	4,915	10,510	827	2,692
3	5,225	11,765	926	3,264
2	4,708	8,170	1,792	5,785
1	3,233	3,794	3,138	9,502
0	2,276	2,396	3,625	6,886
Impairment	—	(2,464)	—	—
Deferred costs	—	1,003	—	561
	51,423	**126,336**	**16,516**	**44,622**

(*) Part of the biological assets to be used as "Energy crops" come from changes in use of crops to be used for cellulose.

8. Biological assets (Continued)

Fiscal Year 2011

	Iberian Peninsula					
	Pulp		Energy crops		Uruguay (Note 20)	
	Hectares	Thousands of Euros	Hectares	Thousands of Euros	Hectares	Thousands of Euros
Years Age	Productive land (Ha.)	Carrying Amount	Productive land (Ha.)	Carrying Amount	Productive land (Ha.)	Carrying Amount
>17	1,062	1,598	—	—	180	288
16	254	336	1	3	—	—
15	62	41	21	19	5	9
14	363	1,534	2	—	51	74
13	707	2,125	156	457	98	147
12	1,493	5,311	1,214	2,073	69	105
11	1,926	6,860	183	324	324	456
10	2,655	9,553	398	262	1,390	1,967
9	2,864	6,397	54	10	537	686
8	2,642	5,808	108	220	201	324
7	3,040	9,195	1,733	4,982	654	1,068
6	6,762	20,910	732	2,395	1,662	1,827
5	5,213	14,979	1,832	5,094	2,410	3,153
4	4,280	8,862	741	1,930	2,027	2,560
3	4,902	10,221	1,025	3,010	844	1,097
2	5,748	11,037	893	1,927	1,353	2,194
1	4,586	6,948	3,247	6,756	1,622	1,551
0	3,253	3,009	4,552	5,154	3,009	1,788
Impairment	—	(570)	—	(527)	—	—
Deferred costs	—	772	—	2,277	—	—
	51,812	**124,926**	**16,892**	**36,366**	**16,436**	**19,294**

The Group capitalised forestry plantation and maintenance costs in fiscal year 2012, corresponding to services received, in the amount of EUR 21,042 thousand (EUR 22,346 thousand in 2011).

A total of EUR 1,489 thousand for financial costs was capitalised in 2012 (EUR 2,575 thousand in 2011), and are discounted from the section "Other financial costs" in the consolidated profit and loss statement.

9. Leases

At 2012 year end the Group had contracted the following lease instalments with certain lessors under leases currently in force, not including common expenses, future increases for inflation or future contractual rent rises:

Thousands of Euros	31/12/2012	31/12/2011
Less than one year	5,371	3,545
Between one and five years	21,610	8,690
Over five years	29,194	22,301
	56,175	**34,536**

The Group leased 28,256 hectares of forest land in 2012 (28,419 ha. in 2011) for the cultivation of standing timber. These leases have an average term of 30 years.

10. Derivative financial instruments

In accordance with the risk management policy described in Note 5, the Group contracts derivatives to hedge risks arising from changes in interest rates, exchange rates, cellulose pulp prices, and the prices of gas, fuel oil and electricity used in the production process.

The most commonly used derivatives are interest rate swaps. The exchange rate derivatives and instruments contracted to hedge fluctuations in the prices of cellulose pulp and energy products consist mainly of swaps and futures.

The Group classifies derivatives in three categories:

1. Derivatives designated as cash flow hedges: these are used mainly to hedge cash flows, interest payments, collections and payments in foreign currencies, etc.
2. Derivatives designated as fair value hedges: these are used to hedge the fair values of assets and liabilities carried in the consolidated balance sheet.
3. Other derivatives: these comprise instruments that are not designated hedges or that do not meet the requirements established by the appropriate accounting standards to qualify for hedge accounting.

All financial instruments were measured after initial recognition with reference to observable market data, whether directly (i.e. via prices) or indirectly (i.e. via price derivatives).

Details of the derivatives carried in the consolidated balance sheet at 31 December 2012 and 2011 are as follows:

	Current Assets		Non-Current Liabilities		Current Liabilities	
Thousands of Euros	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
IR Swap—Corporate borrowings	—	—	—	18,851	10,164	—
IR Swap—Project finance, 50 megawatts	—	—	8,134	6,615	2,365	—
IR Swap—Project finance, 20 megawatts	—	—	1,518	—	330	—
Equity Swap	—	—	6,975	—	2,027	12,386
Exchange rate hedges	10,721	—	—	—	—	22,224
Pulp price hedges	—	867	—	—	—	—
Total	**10,721**	**867**	**16,627**	**25,466**	**14,886**	**34,610**

Exchange rate hedges—

In order to hedge the risks to which the Group is exposed due to fluctuations in the USD/Euro exchange rate, which can have a material impact on the sale price of cellulose pulp and on a significant part of purchases, the Parent Company proceeded to make forward sales of US dollars to hedge future revenues. The notional amount of these hedges at 31 December 2012 and 2011 was 222 million dollars at a mean exchange rate of 1.24 USD/EUR and 516 million dollars at 1.38 USD/EUR, respectively. These contracts meet the requirements established in the relevant accounting standards to qualify as effective hedges.

The market value of these instruments at 31 December 2012 was positive by EUR 10,721 thousand, which was recognised in the accompanying consolidated balance sheet under "Current liabilities—Derivatives" with an equivalent entry, net of the tax effect, in "Equity—Valuation adjustments".

"Gains or losses on hedging operations" in the accompanying consolidated income statement for 2012 includes a loss of EUR 26,381 thousand in respect of hedges settled during the reporting period (EUR 22,224 thousand in 2011).

Considering the contract conditions at 31 December 2012, a 5% gain in the euro would have a positive impact of EUR 7,973 thousand on the consolidate profit/loss for 2013. A 5% depreciation of the euro on the other hand would give a negative impact of EUR 8,801 thousand on the consolidated results for 2013.

10. Derivative financial instruments (Continued)

Pulp price hedges—

In order to hedge the risks to which the Group is exposed due to fluctuations in BHKP pulp prices, which have a significant impact on the amount of cellulose sales, the Parent Company arranged BHKP pulp price swaps in 2011 maturing in 2012 in order to hedge sales revenues. Notional amounts of those hedges at 31 December 2011 came to 48 thousand tons of pulp. These contracts meet the requirements established in the relevant accounting standards to qualify as effective hedges.

These instruments were recognised at fair value in the accompanying consolidated balance sheet. The Group had no wood price hedge agreement at 31 December 2012. The fair value of these financial assets at 31 December 2011 was positive by EUR 867 thousand, which was recognised in the accompanying consolidated balance sheet under "Current assets—Derivatives" with an equivalent entry, net of the tax effect, in "Equity—Valuation adjustments".

"Gains or losses on hedging operations" in the accompanying consolidated income statement for 2012 includes a loss of EUR 1,186 thousand in respect of hedges settled during the reporting period (EUR 10,899 thousand in 2011).

Other hedges—

The Group is exposed to fluctuations in the prices of certain energy products consumed in the production process, which can significantly affect production costs. This risk is partially hedged using commodity swaps, which comply with hedge accounting requirements.

At 31 December 2012 and 2011, the Group had no contracts in force to hedge the price of electricity or fuel oil.

Interest Rate Swap—

The Group hedges the interest rate risk inherent in euro-denominated long-term floating rate financial liabilities using interest rate swaps.

The purpose of these hedges is to neutralise fluctuations in cash outflows associated with floating interest rates (Euribor) on the Group's borrowings.

The Group uses the discounted cash flows method to determine the fair value of interest rate derivatives, basically fixed rate swaps, based on implicit values determined by the Euribor interest rate curve according to market conditions at the measurement date.

The interest rate derivatives contracted by the Group outstanding at 31 December 2012 and 2011 and their negative fair values at the reporting dates were as follows:

Fiscal Year 2012

Thousands of Euros	Fair Value	Notional amount at the end of						
		2013	2014	2015	2016	2017	2018	2019
IR Swap—Corporate borrowings	10,164	194,498	—	—	—	—	—	—
IR Swap—Project finance, 50 megawatts	10,499	75,982	74,874	69,933	63,997	57,502	50,584	43,563
IR Swap—Project finance, 20 megawatts	1,848	15,628	34,334	44,908	42,036	38,981	35,928	32,685

10. Derivative financial instruments (Continued)

Fiscal Year 2011

Thousands of Euros	Fair Value	Notional amount at the end of 2012	2013	2014	2015	2016	2017	2018	2019
IR Swap—Corporate borrowings	18,851	232,298	194,498	—	—	—	—	—	—
IR Swap—Project finance, 50 megawatts	6,615	47,641	75,982	74,874	69,933	63,997	57,502	50,584	43,563

An analysis of the Group's liquidity for interest rate derivatives prepared from undiscounted net cash flows is as follows:

	Thousands of Euros				
	Less than 1 Month	1 - 3 Months	3 Months - 1 Year	1 - 5 Years	Over 5 years
IR Swap—Corporate borrowings	—	2,734	7,447	—	—
IR Swap—Project finance, 50 megawatts	—	—	2,371	6,992	1,333
IR Swap—Project finance, 20 megawatts	—	—	330	1,883	(380)

On 29 May 2008 the Parent Company contracted an interest rate swap to hedge approximately 60% of its corporate financing paid out at that time. This debt changed substantially in 2009, with the result that the interest rate swap ceased to qualify for hedge accounting on 16 October 2009. Since that date, changes in the value of this instrument have been recognised through the consolidated income statement for the year. A gain of EUR 8,687 thousand (EUR 8,267 thousand in 2011). was recognised in the consolidated income statement under "Changes in fair value of financial instruments" in respect of the change in the value of the interest rate swap.

The part of the value of the hedging instrument associated with the hedged item, which was recognised in consolidated equity for a total of EUR 1,075 thousand before the tax effect (EUR 3,120 thousand in 2011), will be recognised prospectively through the consolidated income statement until 2013, the period in which the hedged item will affect the Group's results, as follows:

Thousands of Euros	2012	2011
Fiscal Year 2012	—	2,045
Fiscal Year 2013	1,075	1,075
	1,075	**3,120**

The IRSs associated with financing arrangement for the Huelva 50 MW and Merida 20 MW projects meets the requirements established to quality as an effective hedge.

Based on the contractual terms and conditions prevailing at 31 December 2012, a 10% increase in the Euribor interest rate curve would have a positive impact of EUR 87 thousand on the consolidated earnings for 2013. In contrast, a 10% decline in the Euribor interest rate curve would have a negative impact on consolidated earnings for 2013.

Equity swap—

On 25 October 2007, the Parent Company arranged an equity swap with Bankia, as one of the requirements established in the terms and conditions of the Special Variable Executive Compensation Plan made on that date. On 18 June 2008 that contract was terminated a new contract executed with similar terms, although adapting the annual price to the changes in the Company's listed share prices. The equity swap was renewed for a second time on 14 October 2010 to bring it into line with the modification made to the Long-Term Incentives Plan (see Note 4-o).

10. Derivative financial instruments (Continued)

The aforementioned equity swap was contracted for a total of 5,100,000 shares of the Parent Company at a base price of EUR 4.11 per share. The benchmark interest rate for this instrument is Euribor at 12 months plus an additional spread of 0.05% settled annually. Initial maturity is scheduled for 30 June 2012. There is no share buy-back agreement, and there is an express mention that the shares will not return to the Group. Any shares remaining at the end of the 5-year period will be placed directly in the market by Bankia, thereby ensuring that they do not have to be recognised as treasury shares.

This instrument does not meet the criteria to qualify as a hedging instrument, and changes in fair value must therefore be recognised in the consolidated income statement as they occur. The fair value of the equity swap is calculated based on the discounted cash flows of the share component (present value of dividends plus the final share price, less EUR 4.11) and the discounted cash flows generated by the accrual of interest.

On 28 June 2012 the Parent Company novated the instrument so that it acts as a hedge for the "Ence Energia y Celulosa S.A. Long Term Incentive Plan for 2010-2015". This modification, based on 3,850,000 shares extends maturity to 15 December 2012 for 1,025,000 shares, to 15 December 2013 for 1,025,000 shares, and to 15 March 2015 for 1,800,000 shares; and establishes a benchmark interest rate of Euribor 6 months plus 2.30%. Liquidation of the remaining 1,250,000 shares represented a loss of EUR 3,225 thousand, and is recorded in the consolidated balance sheet under "Variation on fair value of financial instruments".

The fair value of the equity swap was negative EUR 9,002 thousand at closing 31 December 2012 (EUR 12,386 at 31 December 2011). This amount has been recognised as a current and non-current liability under "Derivatives" in the accompanying consolidated balance sheet, according to its maturity.

A 10% rise in the Parent Company's share price would have a positive impact of EUR 785 thousand on consolidated earnings for 2013. In contrast, a 10% fall in the Parent Company's share price would have a negative impact for the same amount on the consolidated earnings for 2013.

11. Inventories

The detail of the Group's inventories at 31 December 2012 and 2011 is as follows:

Thousands of Euros	31/12/2012	31/12/2011
Wood	48,555	70,759
Other raw materials	3,995	4,921
Spare parts	23,878	22,889
Work in progress	1,383	—
Products in progress	441	441
Finished goods	17,597	17,601
Advances to suppliers	1,069	3,396
Impairments(*)	(9,343)	(7,545)
	87,575	**112,462**

(*) Mainly related to spare parts.

There no restrictions on the disposability of inventories. The Group arranges insurance policies to cover the possible risks to which its inventories are exposed. The directors consider that the cover arranged for these risks is adequate at 31 December 2012 and 2011.

The Group has contracts executed with suppliers and agreements with producer associations for the acquisition of 174 thousand tons of eucalyptus to be used in paste production and 698 thousand tons of forestry waste for energy generation.

12. Trade and other accounts receivable / payable

"Trade and other receivables" carried in the consolidated balance sheet at 31 December 2012 and 2011 were as follows:

Thousands of Euros	31/12/2012	31/12/2011
Trade receivables for sales	138,339	120,471
Sundry accounts receivable	4,854	5,392
Employee receivables	16	256
Impairments	(4,629)	(3,330)
	138,580	**122,789**

"Trade receivables for sales" includes delinquent balances unimpaired and not covered by credit insurance (see Note 5) in the amount of EUR 2,710 thousand, mostly with a maturity of less than 180 days.

The average collection period on sales of cellulose pulp is between 55 and 65 days.

"Trade and other payables" carried in the consolidated balance sheet at 31 December 2012 and 2011 were as follows:

Thousands of Euros	31/12/2012	31/12/2011
Trade payables	177,479	162,144
Suppliers of non-current assets	16,088	12,408
Remuneration payable	8,335	7,412
	201,902	**181,964**

The average payment period for purchases of goods and services is between 65 and 75 days. The fair value of accounts receivable and payable does not differ materially from their carrying amounts.

At 31 December 2012 the Group had receivables and payables in dollars for EUR 27,549 thousand and EUR 6,512 thousand respectively.

The Group has entered into various no-recourse confirming arrangements with an available limit and amount paid out of EUR 83,500 thousand and EUR 62,806 thousand respectively at 31 December 2012 (EUR 73,700 thousand limit and EUR 54,239 thousand had been utilised at 31 December 2011).

Law 15/2010, of 5 July, on measures to combat default in commercial transactions, establishes certain disclosure requirements with regard to the operations carried out by companies. The breakdown of payments for trade operations in 2012 and 2011 pending payment at closing, excluding operations between Group companies and those corresponding to payments to suppliers of non-current assets, is as follows:

	Fiscal Year 2012		Fiscal Year 2011	
	Thousands of Euros	%	Thousands of Euros	%
Payments made within the maximum period permitted by law	469,013	89%	559,315	94%
Other	56,274	11%	32,841	6%
Total payments made in the year	525,287	100%	592,156	100%
Weighted average past due payments (days)	32.75	—	23.98	—
Deferrals which at the closing date extended beyond the maximum legal period at the year-end(*)	6,179	—	7,298	—

13. Equity

Share capital

The share capital of ENCE Energia y Celulosa, S.A. at 31 December 2012 was represented by 250,272,500 fully subscribed and paid bearer shares with a par value of EUR 0.9 each. The shareholders at 31 December 2012 and 2011 were as follows:

Percentage	31/12/2012	31/12/2011
Retos Operativos XXI, S.L.	24.5	22.2
Alcor Holding, S.A.	21.9	20.4
Liberbank, S.A.	6.9	6.3
Fidalser, S.L.	—	5.0
Treasury shares	7.5	7.8
Free Float	39.2	38.3
Total	**100.0**	**100.0**

The Parent Company's shares are listed on the Madrid Stock Exchange. All shares have the same voting and profit-sharing rights.

Legal reserve—

In accordance with the Consolidated Text of the Spanish Corporations Law, 10% of net profit for each year must be transferred to the legal reserve until the balance thereon reaches at least 20% of share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

Share premium—

The Consolidated Text of the Spanish Corporations expressly allows use of the balance on the share premium account to increase share capital, and it does not establish any specific restrictions on disposal.

13. Equity (Continued)

Reserves in fully consolidated companies—

A breakdown of "Equity—Reserves in fully consolidated companies" by companies at 31 December 2012 and 2011 is as follows:

Thousands of Euros	31/12/2012	31/12/2011
Celulosas de Asturias, S.A.U.	45,426	45,079
Celulosa Energía, S.L.U.	43,879	36,560
Norte Forestal, S.A.U.	17,054	13,314
Silvasur Agroforestal, S.A.U.	8,516	7,809
Iberflorestal, S.A.U.	2,204	1,941
Ibersilva, S.A.U.	(18,059)	(7,028)
Norfor Maderas, S.A.U.	480	450
Eucalipto de Pontevedra, S.A.U.	(1,987)	(1,976)
Electricidad de Navia Asturias, S.L.U.	2,839	2,845
Maderas Aserradas del Litoral, S.A.	(2,721)	(927)
Celulosas de M'Bopicuá, S.A.	(129)	(73)
Zona Franca M'Bopicuá, S.A.	2,895	72
Las Pléyades de Uruguay, S.A.	(59)	(83)
Las Pléyades, S.A. (SAFI)	2,026	1,742
Las Pléyades Argentina	(176)	(93)
Sierras Calmas, S.A.	5,627	1,428
Ence Energia, S.L.U.	(803)	(420)
Ence Energía Huelva, S.L.U.	(658)	—
Consolidation adjustments	6,186	1,814
	112,543	**102,454**

Restricted reserves in consolidated companies totalled EUR 14,979 thousand at 31 December 2012 (EUR 14,599 thousand at 31 December 2011), basically comprising the legal reserves of the Group companies.

Dividends

At the Annual General Meeting of ENCE Energia y Celulosa, S.A. held on 26 April 2012 the shareholders approved the distribution of dividends totalling EUR 16,514,432, representing a gross EUR 0.07 per share, out of the profit for 2011. The dividend was paid on 8 May 2012.

That Meeting of Shareholders likewise ordered a distribution in kind of part of the share issue premium through the delivery of Ence Energia y Celulosa, S.A. treasury shares at 1 share for each 26 shares in circulation. Almost 9,052,679 shares of the Parent Company were delivered, with a market value at the time of the resolution of EUR 14,484 thousand and an average acquisition cost of EUR 21,173 thousand.

The Extraordinary Meeting of Shareholders of the Parent Company on 24 July 2012 approved a capital reduction of EUR 6,966,351 through the amortization of 7,740,390 treasury shares, as well as the distribution in kind of the share issue premium with the delivery of Ence Energia y Celulosa, S.A. treasury shares to shareholders at the rate of 1 share for every 37 shares in circulation. A total of 6,502,173 treasury shares of the Parent Company were distributed, with a market value at the time of the resolution of EUR 9,623 thousand and an average acquisition cost of EUR 14,020 thousand. The Board of Directors with the authorization of the Extraordinary General Meeting held 24 July 2012, approved a Share Buyback Program designed to remunerate shareholders through the later reduction in corporate capital. Buyback Program have the following characteristics: 1) the Share Buyback Program will continue until 30 June 2013; 2) shares will be purchased at market price according to price and volume conditions established in Article 5 of EC Regulation 2273/2003 and the Company's Internal Code of conduct for Securities Markets; and 3) the maximum number of treasury shares that can be acquired under the Buyback Program is equivalent to 5% of corporate capital. The share buyback program is simultaneous with other Company treasury stock operations.

13. Equity (Continued)

Earnings per share:

The calculation of basic and diluted consolidated earnings per share at 31 December 2012 and 2011 is as follows:

Net Earnings per Share	Fiscal Year 2012	Fiscal Year 2011
Consolidated net profit for the year attributed to ordinary shares (thousands of euros)	43,031	41,192
Ordinary shares in circulation at 1 January	258,012,890	258,012,890
Number of ordinary shares at 31 December	250,272,500	258,012,890
Weighted average number of ordinary shares	254,629,113	258,012,890
Basic earnings per share (euros)	**0.16**	**0.16**
Diluted earnings per share (euros)	**0.16**	**0,16**

Parent Company shares

Changes in "Treasury Shares—Parent Company" in the accompanying consolidated balance sheet in 2012 and 2011 were as follows:

	Fiscal Year 2012		Fiscal Year 2011	
	Number of Shares	Thousands of Euros	Number of Shares	Thousands of Euros
At beginning of year	20,211,000	49,217	995,000	2,434
Purchases	22,538,848	41,596	22,067,678	53,777
Distribution in kind of treasury stock	(15,554,852)	(35,193)	—	—
Amortization	(7,740,390)	(16,828)	—	—
Sales	(711,223)	(1,579)	(2,851,678)	(6,994)
At end of year	**18,743,383**	**37,213**	**20,211,000**	**49,217**

The Parent Company at 7 December 2012 had acquired a total of 12,815,353 shares from shareholder Fidalser, S.L., representing 5.12% of its capital, for EUR 25,246 thousand.

The Parent Company shares held as treasury stock at 31 December 2012 represented 7.5% of share capital (7.8% at 31 December 2011) with a total par value of EUR 16,869 thousand (EUR 18,190 thousand at 31 December 2011). The average purchase price was EUR 1.8455 per share. The company will keep the shares as treasury shares until the Board of Directors decides on a better alternative for their use in order to maximise the creation of value for shareholders.

Valuation adjustments—

"Valuation adjustments" carried in consolidated equity comprise changes in the fair value of hedging operations (see Note 10) and the reserve generated on the recognition of forest land at fair value at 1 January 2004 (see Note 7). This reserve is unrestricted.

13. Equity (Continued)

Changes in the fair value of derivative hedging instruments in 2012 and 2011 are as follows (see Note 10):

	Fiscal Year 2012			Fiscal Year 2011		
Thousands of Euros	**Fair Value**	**Tax Effect**	**Valuation Adjustment**	**Fair Value**	**Tax Effect**	**Valuation Adjustment**
IRSwap-corporate borrowing—						
Beg. balance	(3,120)	(937)	(2,183)	(6,748)	(2,024)	(4,724)
Transfer to income statement	2,045	614	1,431	3,628	1,087	2,541
Other changes in value	—	—	—	—	—	—
End balance	(1,075)	(323)	(752)	(3,120)	(937)	(2,183)
IRSwap-Project 50 Megawatts—						
Beg. balance	(6,615)	(1,985)	(4,630)	—	—	—
Transfer to income statement	1,291	387	904	307	92	215
Other changes in value	(5,175)	(1,552)	(3,623)	(6,922)	(2,077)	(4,845)
End balance	(10,499)	(3,150)	(7,349)	(6,615)	(1,985)	(4,630)
IRSwap-Project 20 Megawatts—						
Beg. balance	—	—	—	—	—	—
Transfer to income statement	16	4	12	—	—	—
Other changes in value	(1,864)	(559)	(1,305)	—	—	—
End balance	(1,848)	(555)	(1,293)	—	—	—
Exchange rate—						
Beg. balance	(22,226)	(6,667)	(15,559)	(2,014)	(604)	(1,410)
Transfer to income statement	26,381	7,914	18,467	(465)	(139)	(326)
Other changes in value	6,566	1,970	4,596	(19,747)	(5,924)	(13,823)
End balance	10,721	3,217	7,504	(22,226)	(6,667)	(15,559)
Pulp price—						
Beg. balance	867	260	607	(2,577)	(773)	(1,804)
Transfer to income statement	1,187	356	831	11,071	3,321	7,750
Other changes in value	(2,054)	(616)	(1,438)	(7,627)	(2,288)	(5,339)
End balance	—	—	—	867	260	607
Energy products						
Beg. balance	—	—	—	786	235	551
Transfer to income statement	—	—	—	(473)	(142)	(331)
Other changes in value	—	—	—	(313)	(93)	(220)
End balance	—	—	—	0	0	0
	(2,701)	**(811)**	**(1,890)**	**(31,094)**	**(9,329)**	**(21,765)**

14. Grants

Changes in this section of the balance sheet in 2012 and 2011 were as follows:

Thousands of Euros	Grants	Emissions Rights	Total
Balance at 1/1/2011	**5,958**	**4,002**	**9,960**
Increase due to new grants(*)	8,615	—	8,615
Emission rights granted for 2011	—	9,100	9,100
Transfer to consolidated profit and loss	(1,124)	(6,307)	(7,431)
Balance at 31.12.11	**13,449**	**6,795**	**20,244**
Emission rights granted for 2012	—	4,112	4,112
Transfer to consolidated profit and loss	(1,243)	(3,037)	(4,280)
Balance at 31.12.12	**12,206**	**7,870**	**20,076**

(*) Net costs incurred to obtain grants

During fiscal year 2011 the Group was awarded two non-refundable grants associated with the modernization plan for its mill in Navia (Asturias) under the measures established to correct regional economic imbalances established by the Regional Incentives Law (Law 50/1985, of 27 December). The total obtained net of expenses incurred to apply for the grants was EUR 8,882 thousand.

The Group has also obtained soft loans from various public entities. These loans bear interest at below-market rates and mature in periods of up to ten years. The outstanding principal at 31 December 2012 was EUR 12,165 thousand (EUR 11,405 thousand at 31 December 2011) (see Note 17). The differential between market interest rate and rate applied in these credits is considered as a capital grant. These loans were granted subject to certain undertakings in relation to jobs and investment.

15. Non-current provisions

Changes in non-current provisions in 2012 and 2011 were as follows:

Thousands of Euros	Liabilities	Emission Rights (Note 6)	Other	Total
Balance at 1/1/2011	16,069	6,619	1,145	23,833
Charge for the year	1,517	5,614	—	7,131
Amounts used	(1,251)	(6,388)	(140)	(7,779)
Balance at 31/12/2011	**16,335**	**5,845**	**1,005**	**23,185**
Charge for the year	874	3,029	—	3,903
Amounts used	(7,971)	(5,859)	—	(13,830)
Balance at 31/12/12	**9,238**	**3,015**	**1,005**	**13,258**

A detail of the provision for liabilities at 31 December 2012 and 2011 is as follows:

Thousands of Euros	31/12/2012	31/12/2011
Provision for liabilities:		
Sewage Agreement, Galicia	5,357	5,357
Ría de Pontevedra Discharge Royalty	3,140	6,565
VAT inspection, Germany, 2002-2008	67	2,898
Other	674	1,515
	9,238	**16,335**

15. Non-current provisions (Continued)

EUR 4,053 thousand were liquidated in 2012 for spill duties pending payment to "Aguas de Galicia" for the years 2004 to 2007.

The German Tax Administration in 2011 concluded an inspection of Grupo Ence's handling of Value Added Tax (VAT) in its operations in Germany for the years 2002 to 2008. The Tax Administration as a result of that inspection claimed quotas for EUR 12,692 thousand and interest of EUR 2,829 thousand, which were paid in 2012. Over 90% of the amounts of VAT were recovered from clients at the close of fiscal year 2012.

Emission rights comprise the expenses associated with greenhouse gas emissions during the reporting period, which are charged to "Other operating expenses" (see Note 19.e).

16. Bank borrowings, cash and cash equivalents

Details of the Group's bank borrowings at 31 December 2012 and 2011 are as follows:

	Fiscal Year 2012		Fiscal Year 2011	
	Short Term	Long Term	Short Term	Long Term
Loans and credit facilities	24,588	214,579	19,346	224,169
Project finance, 50 megawatts—	1,477	83,779	—	57,256
Project finance, 20 megawatts—	—	15,000	—	—
Opening fee(*)	(2,477)	(3,726)	—	(7,239)
Interest and other payables	520	—	1,106	—
	24,108	**309,632**	**20,452**	**274,186**

(*) Corporate financing: EUR 1,987 thousand and EUR 4,354 thousand at 31 December 2012 and 2011, respectively. Project finance, 50 megawatts: EUR 2,560 thousand and EUR 2,885 thousand at 31 December 2012 and 2011, respectively. Project finance, 20 megawatts: EUR 1,656 thousand at 31 December 2012.

Bank borrowings at 31 December 2012 and 2011 comprise loans, overdraft facilities and discounting facilities. A breakdown classified by maturity is as follows:

			Maturities				
Fiscal Year 2012—Thousands of Euros	**Limit**	**Principal**	**2013**	**2014**	**2015**	**2016**	**Next**
Loans and credit facilities	302,011	239,167	24,588	212,391	615	524	1,049
Project finance, 50 megawatts	101,309	85,256	1,477	5,310	6,660	7,288	64,521
Project finance 20 megawatts	60,692	15,000	—	125	952	1,012	12,911
Interest and other payables	—	520	520	—	—	—	—
Opening fee	—	(6,203)	(2,477)	(503)	(495)	(471)	(2,257)
	464,012	333,740	24,108	217,323	7,732	8,353	76,224

			Maturities				
Fiscal Year 2011—Thousands of Euros	**Limit**	**Principal**	**2012**	**2013**	**2014**	**2015**	**Next**
Loans and credit facilities	304,314	243,515	19,346	24,520	197,451	624	1,574
Project finance, 50 megawatts—	101,309	57,256	—	1,477	6,588	7,914	41,277
Interest and other payables	—	1,106	1,106	—	—	—	—
Opening fee	—	(7,239)	—	(3,513)	(503)	(495)	(2,728)
	405,623	294,638	20,452	25,997	204,039	8,538	42,851

The average interest charged on credit facilities and loans (except the syndicated loan and non recourse debt) in 2012 was 4.20% (4.78% in 2011).

16. Bank borrowings, cash and cash equivalents (Continued)

Syndicated loan—

The Company arranged a syndicated loan for a maximum total of EUR 176,393 thousand after the cancellation of bilateral financing on 14 October 2010, and at the same time it renewed and amended the terms of the existing syndicated loan to establish a limit for drawings of EUR 121,229 thousand.

The syndicated loan is structured in three tranches: tranche A, which had an initial limit of EUR 112,255 thousand (the current limit is EUR 61,817 thousand), to finance the repayment and cancellation of the bilateral loans arranged by the Group with various financial institutions; tranche B, which has a limit of EUR 56,928 thousand, to cover the Group's working capital requirements in addition to the amount granted under tranche A; and tranche C, which is in turn structured in two parts, the first with a limit of EUR 28,464 thousand to cover the Group's working capital needs, and the second with a limit of EUR 29,183 thousand that will become available for utilization to finance biomass generating projects only where the first part is fully drawn down.

This financing which accrues annual interest at Euribor with a margin of 300 basis points, has a grace period of eighteen months, equivalent to a mean rate of 3.72% in 2012 (4.40% in 2011) and matures on 14 January 2014.

The main collateral for the syndicated loan agreement renewed in 2010 is a pledge over the shares of Silvasur Agroforestal, S.A.U., Norte Forestal, S.A.U., and Iberflorestal Comercio e Serviços Florestais, S.A.U. The main guarantees for the new syndicated loan consist of a second order pledge over the shares of the aforementioned companies, the personal guarantee of the subsidiary Celulosas de Asturias, S.A. and a mortgage on the Celulosas de Asturias, S.A. production plant sited in Navia (Asturias), subject to the condition that the "Financial Debt / EBITDA" ratio exceeds a specified limit. This guarantee is subordinate to the others.

Both syndicated loans include certain covenants relating basically to compliance with certain economic and financial ratios associated with the consolidated financial statements of the Ence Group, and prepayment of 25% of the free cash flow generated each year in which net indebtedness with financial institutions is more than EUR 265 million. The loan agreements also establish certain restrictions, mainly related with guarantees granted to third parties, acquisition of treasury shares, realization of recurring investments, financing of future biomass generating projects and asset disposals.

The Group on 1 February 2013 terminated this financing in advance, as well as the guarantees granted (see Note 26).

Huelva Project finance, 50 megawatts—

On 21 June 2011 the Group arranged syndicated "Project Finance" with seven financial entities to fund a biomass electricity generating plant (see Note 7). That financing is total EUR101,309 thousand, amortization will begin 22 June 2013 and maturity date is 22 December 2022. This loan accrues annual interest at Euribor with a variable margin in the range of 3.25% - 3.75%, based on the amortization rate. The fees paid on to arrange this financing in 2011 totalled EUR 3,483 thousand.

This loan is backed principally by a pledge on the shares of Ence Energía Huelva, S.L.U. and current and future receivables. Ence Energia y Celulosa, S.A. has also given undertakings in relation to crops and stocks for the future supply of the plant, the date it will enter service and the price applicable to the power produced when generating operations commence, as well as the functioning and availability of the plant. These undertakings are partially covered by warranties given to Ence Energia y Celulosa, S.A. by the builder of the plant.

This loan also includes certain covenants related basically with the provision of certain operational and financial information, compliance with economic and financial rations associated with the financial statements of Ence Energía Huelva, S.L.U., holding of a given volume of standing and cut biomass, prepayment of 50% of surplus cash until 50% of the principal is repaid, and early payment of 25% of

16. Bank borrowings, cash and cash equivalents (Continued)

surplus cash until 65% of the principal is repaid. The loan agreement also establishes certain restrictions, mainly in relation to the distribution of dividends and the arrangement of new borrowings.

In order to hedge the risk arising as a result of the arrangement of this loan at a floating rate of interest, the Group has entered into interest rate hedges with six of the lenders financing the project, the notional amount on which is equal to 75% of the estimated drawings over the term of the loan and a fixed rate of 3.47% (Note 10).

Merida Project finance, 20 megawatts—

On 1 August 2012 the Group arranged syndicated "Project Finance" with three financial entities to fund a biomass electricity generating plant (see Note 7). That financing is total EUR60,692 thousand, amortization will begin 15 December 2014 and maturity date is 15 June 2027. This loan accrues annual interest at Euribor with a variable margin in the range of 3.5% - 4.0%, based on the amortization rate. The fees paid on to arrange this financing in 2012 totalled EUR 1,656 thousand.

This loan is backed principally by a pledge on the shares of Ence Energía Extremadura, S.L.U. and current and future receivables, as well as a pledge on the Biomass Plant. Ence Energia y Celulosa, S.A. has also given undertakings for different concepts; inscription in the Special Regimen Installations Registry in relation to crops and stocks for the future supply of the plant, the date it will enter service and the price applicable to the power produced when generating operations commence, as well as project overcosts, functioning and availability of the plant. These undertakings are partially covered by warranties given to Ence Energia y Celulosa, S.A. by the builder of the plant.

This loan also includes certain obligations, basically supply of determined operating and financial information, compliance with determined economic and financial ratios associated with Ence Energia Extremadura, S.L.U. annual accounts, maintenance of a determined volume of biomass stock either standing or cut, early payment at a floating percentage of cash ranging between 30% and 50% according to the years of financing transpired. The loan agreement also establishes certain restrictions, mainly in relation to the distribution of dividends and the arrangement of new borrowings.

In order to hedge the risk arising as a result of the arrangement of this loan at a floating rate of interest, the Group has entered into interest rate hedges with six of the lenders financing the project, the notional amount on which is equal to 75% of the estimated drawings over the term of the loan and a fixed rate of 2% (Note 10).

Cash and cash equivalents—

"Cash and cash equivalents" includes cash balances held by the Group and short-term deposits at banks with initial maturity of three months or less. The carrying amount of these assets approximates to their fair value, and the average return in 2012 has been 1.42% (2.35% in 2011).

Other financial assets—

Other financial assets basically comprise deposits made to guarantee the obligations assumed under certain financial derivative contracts (see Note 10) and in the commitments entered into for future purchases of CO2 (see Note 6).

No-recourse factoring—

The Group has entered into various no-recourse confirming arrangements, under which all risks are transferred to the factor, with an available limit of EUR 85,000 thousand and EUR 33,520 thousand, respectively (EUR51,000 thousand and EUR35,072 thousand at 31 December 2011). The financial cost associated with the receivables transferred is Euribor at 3 months plus a spread of 1-1.65%.

17. Other financial liabilities

Other financial liabilities recognised in the accompanying consolidated balance sheet consist basically of repayable advances received from the Spanish Ministry of Industry, Tourism and Trade, normally at below-market interest rates or even interest free, by way of aid for projects undertaken by the Group to extend and increase the production capacity of its Huelva, Pontevedra and Navia plants, optimise its technologies and make environmental improvements.

Maturities at 31 December 2012 and 2011 were as follows:

Thousands of Euros	2012	2011
2012	—	574
2013	1,562	1,536
2014	1,423	1,423
2015	1,403	1,169
2016	1,149	974
2017 and thereafter	6,628	5,729
Financial discount (Note 14)	(1,312)	(1,648)
	10,853	**9,757**

These loans were measured at fair value at the time they were awarded, and the difference between the amount of the award and fair value was recognised as a grant and is transferred to the consolidated income statement in line with the depreciation of the fixed assets for which the financial aid was granted. The amount of the grant pending recognition through the consolidated income statement at 31 December 2012 was EUR 1,312 thousand (EUR 1,648 thousand at 31 December 2011).

18. Tax matters

Current tax receivables and payables

Tax receivables and balances at 31 December 2012 and 2011 were as follows:

	Thousands of Euros			
	31/12/12		31/12/11	
	Receivables	Payables	Receivables	Payables
Non-current items—				
Deferred tax assets	30,580	—	42,653	—
Deferred tax liabilities	—	31,745	—	28,289
Total	**30,580**	**31,745**	**42,653**	**28,289**
Current items—				
VAT balances receivable and payable	27,262	2,576	9,840	14,796
Current income tax	1,031	1,313	1,687	365
Other tax receivables and payables	1,364	5,896	1,478	2,859
Total	**29,657**	**9,785**	**13,005**	**18,020**

Reconciliation of accounting profit to the taxable profit

Group companies resident in Spain for tax purposes—

Ence Energia y Celulosa S.A. is subject to the Consolidated Income Tax Regime set forth in Chapter VII of Title VIII of the Consolidated Text of the Spanish Corporations Law as the Parent Company of Group No. 149/02 which was constituted in 2002. This special regimen is effective indefinitely except when

18. Tax matters (Continued)

expressly waived, and implies the absence of preparing individual corporate income tax returns for the entities that comprise the group, which are:

- Celulosas de Asturias, S.A.U.
- Celulosa Energía, S.L.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.
- Ibercel Celulosa, S.L.U.
- Enersilva, S.L.U.
- Ence Energía, S.L.U. and subsidiaries

The nominal rate of corporate income tax is 30%.

Group companies resident in Uruguay for tax purposes—

Group companies in Uruguay are subject to the Uruguayan general tax regimen, Income Tax on Economic Activities (IRAE), at a nominal rate of 25% of book income/loss corrected with tax adjustments established by applicable norms. This does not include "Las Pleyades, S.A." which is subject to the special regimen of Financial Investment Corporations (SAFI), at a tax rate of 0.3% of its equity.

Group companies resident in Portugal for tax purposes—

Iberflorestal, S.A. files corporate tax returns in Portugal under the general corporate tax regime. The nominal rate of the Imposto sobre o Rendimiento das Pessoas Colectias is 25%.

Taxable income is not determined on the basis of consolidated book earnings but of the separate taxable income generated by the companies forming the Group, determined in accordance with the applicable individual tax regimes. For these purposes, the individual tax bases of the companies resident in Spain for tax purpose are included in the taxable income of Consolidated Tax Group No. 149/02, which cannot be offset by tax losses incurred by non-resident companies.

Regulatory changes—

Tax regulations underwent various changes in fiscal year 2012, pursuant to Royal Decree-Law 12/2012 and 20/2012. Among the changes made the capacity to use negative tax bases accredited in previous years was temporarily reduced to 25% of the tax base; the possibility of freely amortising investments in new assets was eliminated; and limits were established on the deductibility of financial costs.

18. Tax matters (Continued)

Reconciliation—

A reconciliation of accounting profit and taxable income at 31 December 2012 and 2011 is as follows:

Thousands of Euros	2012	2011
Accounting profit before tax[(*)]	62,978	57,014
Permanent differences—		
Arising in profit and loss	516	1,215
Temporary differences—		
Arising in the year	2,395	8,818
Arising in prior years	(11,545)	(37,099)
Arising in transfers from equity	(41)	(161)
Consolidation adjustments	1,225	(6,027)
Tax losses offset	(13,826)	(12,742)
Taxable income	**41,702**	**11,018**
Gross tax charge	**12,511**	**3,233**
Credits, withholdings and other amounts	(11,198)	(4,555)
Tax payable / (recoverable)	**1,313**	**(1,322)**

(*) Generated from continuing operations in its entirety.

Permanent differences arising in profit and loss

Permanent differences arising in profit and loss consist of expenses incurred that are not allowable for tax purposes. This section includes mainly administrative sanctions and fines.

Temporary differences

Temporary differences arise from differences in charges for temporary income tax and expenses between accounting and tax norms. These are broken down by nature in another part of this note.

Reconciliation of accounting profit to the income tax expense

A reconciliation of accounting profit and taxable income at 31 December 2012 and 2011 is as follows:

Thousands of Euros	2012	2011
Accounting profit before tax	62,978	57,015
Permanent differences arising in profit and loss	516	1,215
Elimination of accounting profit / loss of non-resident companies	730	(4,646)
Eliminations / inclusions on consolidation	272	(6,025)
Taxable income	**64,496**	**47,559**
Tax charge	**19,349**	**14,268**
Deductions and adjustment for prior years' tax effect	(1,399)	897
Adjustment for tax effect of non-resident companies	1,997	657
Corporate income tax expense / (rebate)	**19,947**	**15,822**

18. Tax matters (Continued)

A breakdown of the corporate income tax expense for 2012 and 2011 is as follows:

Thousands of Euros	2012	2011
Current tax expense and other movements	29,435	18,659
Deferred tax expense	(9,488)	(2,837)
	19,947	**15,822**

Deferred tax assets and liabilities recognised

Changes in deferred tax assets and liabilities in 2012 and 2011 were as follows:

Deferred tax assets

Fiscal Year 2012

Thousands of Euros	Balance at 01/01/2012	Increases	Decreases	Transfers	Balance at 31/12/2012
Deferred tax assets recognised in income—					
Depreciation and amortisation of non-current assets	461	—	(230)	—	231
Impairment of non-current assets	323	404	(279)	—	448
Provisions	4,459	400	(212)	(2,467)	2,180
Impairment of current assets	1,375	424	(2,335)	977	441
Employee benefits	—	90	(407)	1,491	1,174
Non-resident companies	2,214	415	(2,462)	1	168
Consolidation adjustments	58	—	(106)	(2)	(50)
Tax loss carryforwards	27,371	—	(5,408)	—	21,963
Tax credits	—	415	(415)	—	—
	36,261	**2,148**	**(11,854)**	**—**	**26,555**
Deferred tax assets recognised in equity—					
Hedging instruments	9,328	2,372	(7,675)	—	4,025
Total	**45,589**	**4,520**	**(19,529)**	**—**	**30,580**

18. Tax matters (Continued)

Fiscal Year 2011

Thousands of Euros	Balance at 01/01/2011	Increases	Decreases	Balance at 31/12/2011
Deferred tax assets recognised in income—				
Depreciation and amortisation of non-current assets	782	—	(321)	461
Impairment of non-current assets	4,236	714	(4,627)	323
Provisions	6,935	2,064	(4,540)	4,459
Impairment of current assets	2,480	1,375	(2,480)	1,375
Non-resident companies	2,489	379	(654)	2,214
Consolidation adjustments	1,031	18	(991)	58
Tax loss carryforwards	27,761	2,478	(2,868)	27,371
Tax credits	1,001	547	(1,548)	—
	46,715	**7,575**	**(18,029)**	**36,261**
Deferred tax assets recognised in equity—				
Hedging instruments	3,166	6,162	—	9,328
Total(*)	**49,881**	**13,737**	**(18,029)**	**45,589**

(*) Includes EUR 2,935 thousand classified as available-for-sale assets (see Note 20).

The deferred tax assets were recognised in the consolidated balance sheet because the directors of the Group companies understand, on the basis of best estimates of the future earnings of the entities forming the consolidated Tax Group, that it is highly likely that the assets will be recovered within the period established by prevailing tax legislation.

The tax loss carryforwards recognised were generated in 2009. In accordance with Spanish legislation, the tax losses generated in a given year may be carried forward to be offset against the future profits obtained by consolidated Tax Group No. 149/02 in the eighteen annual tax periods immediately succeeding the year in which the loss was incurred.

Deferred tax liabilities recognised

Fiscal Year 2012

Thousands of Euros	Balance at 01/01/2012	Increases	Decreases	Transfers	Balance at 31/12/2012
Deferred tax liabilities recognised in income—					
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 13)	23,509	—	(11)	—	23,498
Hedging instruments	—	3,216	—	—	3,216
Consolidation adjustments and other items	(426)	499	(30)	(33)	10
	23,083	3,715	(41)	(33)	26,724
	28,289	**3,814**	**(358)**	**—**	**31,745**

18. Tax matters (Continued)

Fiscal Year 2011

	Thousands of Euros			
	Balance at 01/01/2011	Increases	Decreases	Balance at 31/12/2011
Deferred tax liabilities recognised in income-				
Accelerated depreciation	—	3,106	—	3,106
Other	—	2,100	—	2,100
	—	**5,206**	**—**	**5,206**
Deferred tax liabilities recognised in equity—				
Revaluation of forest land (Note 13)	23,515	—	(6)	23,509
Consolidation adjustments and other items	134	—	(560)	(426)
Total	**23,649**	**5,206**	**(566)**	**28,289**

Unrecognised deferred tax assets

The Group has not recognised certain deferred tax assets in the accompanying consolidated balance sheet. Unrecognised deferred tax assets at 31 December 2012 and 2011 were as follows:

Thousands of Euros	2012	2011
Property, plant and equipment and intangible assets	—	2,921
Tax loss carryforwards	2,412	2,880
Total at end of reporting period	**2,412**	**5,801**

All of the tax loss carryforwards relate to Group companies resident for tax purposes in Uruguay. In accordance with Uruguayan corporate income tax (IRAE) regulations, tax loss carryforwards generated after 31 December 2007 expire in five years. The amount of tax loss carryforwards is revised each year based on the change in the Uruguayan National Products Price Index (IPPN).

Years open for review and tax audits

The Tax Agency is currently performing inspections of the Parent Company and various companies of Grupo Ence; Income Tax for 2007 to 2009, Value Added Tax and Withholdings 2008 and 2009, Special Tax on Electricity 2008 to 2010, and Tax on Economic Activities 2009-2012. Tax payments according to current tax law cannot be considered as final until it has been inspected by the tax authorities or until the conclusion of the statute of limitations established in each tax jurisdiction: Four years in Spain and Portugal, five years in Uruguay. In the opinion of the Directors contingencies that could arise from the inspections in process as well as the review of years open to inspection will have no important impact on the Group financial statements.

19. Income and expenses

a) Sales

The Group's net ordinary sales for 2012 and 2011 were distributed as follows:

Thousands of Euros	2012	2011
Pulp sales	596,954	596,895
Electricity sales	208,371	184,304
Wood and forestry services	22,253	44,252
	827,578	**825,451**

19. Income and expenses (Continued)

The Group sold 1,248,805 tons of wood pulp in fiscal year 2012 and 1,542,773 megawatt hours of electricity (1,232,501 tons of pulp and 1,490,290 megawatt hours in fiscal year 2011).

Practically all sales of electricity were made in Spain. The distribution by geographical market of revenues from pulp sales was as follows:

Percentage/ Pulp sales	2012	2011
Germany	21.6	23.1
Italy	17.1	16.4
Spain	13.0	14.6
France	9.4	10.1
Austria	6.9	4.8
China	4.2	6.5
Turkey	3.7	2.8
Poland	3.6	4.5
Sweden	3.5	2.1
Netherlands	2.5	1.9
Slovenia	2.5	2.8
United Kingdom	2.3	2.0
Israel	2.0	1.3
Switzerland	1.9	2.5
Other	5.8	4.6
	100	**100**

One customer accounts for more than 10% of the Group's revenues.

b) Procurements—

The detail of raw and other materials consumed in 2012 and 2011 is as follows:

Thousands of Euros	Fiscal Year 2012	Fiscal Year 2011
Purchases	336,182	358,274
Changes in inventories of raw materials, other materials and merchandise	16,666	(10,914)
Other external expenses	55,200	43,399
	408,048	**390,759**

Procurements basically comprise the cost of timber, chemicals, fuel and other variable costs incurred in the cellulose pulp manufacturing process.

c) Employee receivables

The detail of "Staff costs" incurred in 2012 and 2011 is as follows:

Thousands of Euros	Fiscal Year 2012	Fiscal Year 2011
Wages and salaries	59,999	63,638
Social security taxes	13,936	15,211
Pension contributions and other employee benefit costs	3,472	3,755
	77,407	**82,604**
Termination benefits	4,695	6,809
	82,102	**89,413**

19. Income and expenses (Continued)

The average headcounts for 2012 and 2011 were as follows:

	Average Number of Employees in the Year					
	2012			2011		
Professional Category	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Executives	6	1	7	6	1	7
Employees with individual contracts	220	56	276	187	52	239
Employees subject to collective labour agreement	654	103	757	792	134	926
Temporary employees	202	28	230	371	32	403
	1,082	**188**	**1,270**	**1,356**	**219**	**1,575**

At 31 December 2012 the Group had 16 disabled employees (19 disabled employees at 31 December 2011).

The distribution of employees by gender at 31 December 2012 and 2011, classified by professional category, was as follows:

	Number of Employees at the close of the period					
	2012			2011		
Professional Category	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Executives	6	1	7	6	1	7
Employees with individual contracts	236	65	301	181	47	228
Employees subject to collective labour agreement	590	92	682	738	118	856
Temporary employees	67	16	83	211	21	232
	899	**174**	**1,073**	**1,136**	**187**	**1,323**

At 31 December 2012, the Board of Directors was composed of twelve directors, all of whom were men (13 directors at 31 December 2011).

d) Transactions in currencies other than the euro

The Group companies made sales totalling EUR 186,430 thousand in non-euro currencies, principally US dollars (EUR 187,027 thousand in 2011).

e) Other operating expenses

Details of other operating expenses in 2012 and 2011 are as follows:

	Thousands of Euros	
Thousands of Euros	**Fiscal Year 2012**	**Fiscal Year 2011**
Other expenses	187,277	214,732
Emission rights used (Note 15)	3,029	5,614
Other taxes and operating expenses	6,722	4,969
Change in operating provisions	5,085	8,535
Total	**202,113**	**233,850**

19. Income and expenses (Continued)

Details of "Other expenses" in the consolidated income statements for 2012 and 2011 are as follows:

Thousands of Euros	Fiscal Year 2012	Fiscal Year 2011
Transport, freight and marketing costs	60,399	87,844
Utilities	60,750	64,392
Repairs and maintenance	16,476	18,734
Leases and royalties	7,714	8,577
Insurance premiums	5,293	6,131
Independent professional services	6,942	5,769
Banking and similar services	2,537	2,475
Advertising, publicity and public relations	1,008	817
Research and development expenses(*)	100	98
Other services	26,058	19,895
	187,277	**214,372**

(*) In addition approximately 10 people work full time in R&D for the Group.

f) Finance costs

Details of other operating expenses in 2012 and 2011 are as follows:

Thousands of Euros	Fiscal Year 2012	Fiscal Year 2011
Syndicated loan	8,657	10,478
Project Finance	3,044	1,426
Overdraft, factoring and confirming facilities	1,936	2,255
Commissions charged to income	4,886	5,035
Settlement of IR Swap—Corporate borrowings	11,107	11,708
Settlement of IR Swap—Project finance	1,307	307
Settlement of Equity Swap	485	332
Activation of financial costs	(7,159)	(3,899)
Other	108	459
	24,371	**28,101**

g) Other disclosures

The fees for financial audit and other services provided by the Group's auditor or by a firm related to the auditors by control, common ownership or management in 2012 and 2011 were as follows:

	Thousands of Euros	
	Fiscal Year 2012	Fiscal Year 2011
Audit services	197	197
Total audit and related services	**197**	**197**
Other services	120	30
Total professional services	**120**	**30**

19. Income and expenses (Continued)

h) Profit or loss by company

The contributions made by each of the consolidated companies to Group profit for 2012 and 2011 were as follows:

Thousands of Euros	2012	2011
ENCE Energía y Celulosa, S.A.	37,279	35,472
Celulosas de Asturias, S.A.U.(*)	22,360	348
Celulosa Energía, S.L.(*)	(9,775)	7,319
Norte Forestal, S.A.U.	(784)	3,741
Silvasur Agroforestal, S.A.U.	1,459	707
Iberflorestal, S.A.U.	174	262
Ibersilva, S.A.U.	668	(11,031)
Norfor Maderas, S.A.U.	—	30
Eucalipto de Pontevedra, S.A.U.	(52)	(11)
Electricidad de Navia Asturias, S.L.	(46)	(5)
Maderas Aserradas del Litoral, S.A.	(2,570)	(1,794)
Celulosas de M'Bopicuá, S.A.	11	(55)
Zona Franca M'Bopicuá, S.A.	(2)	2,823
Las Pléyades Uruguay, S.A.	(79)	24
Las Pléyades S.A.F.I.	(57)	285
Las Pléyades Argentina	(5)	(82)
Sierras Calmas, S.A.	(590)	4,199
Ence Energía, S.L.U	(536)	(383)
Ence Energía Huelva, S.L.U.	(1,541)	(657)
Ence Energía Extremadura, S.L.U	(119)	—
Consolidation adjustments	(2,764)	—
Total	**43,031**	**41,192**

(*) Affiliates Celulosa Energia S.L. and Celulosa de Asturias S.A.U. distributed dividends in fiscal year 2012 to the Parent Company in the amount of EUR 15 million and 25 million, respectively.

20. Non-current assets held for sale

The Group classifies a non-current asset or transferrable asset as held for sale when it has decided to sell the asset or it considers that it will be sold within the next twelve months. These assets are valued at their book value or fair value, whichever is lower after deducting costs necessary for sale.

The Parent Company on 15 December 2102 decided to sell its forest assets in Uruguay. These assets are 27,780 hectares of eucalyptus forest in southeast Uruguay, as well as a lumber milling installation. Sale of the lands and related assets will provide 77.3 million dollars to the Group. The transaction requires authorization of the Uruguayan forest authorities. The section on "Non-current assets held for sale" includes assets sold in the operation.

The assets listed in this section are valued at fair value. The impact from valuing these assets at fair value as well as other costs deriving from the operation give a loss of EUR 660 thousand, registered in the section "Net profit/loss from the value of non-current assets held for sale", in the 2012 consolidated profit and loss statement.

20. Non-current assets held for sale (Continued)

"Non-current assets held for sale" at 31 December 2012, at fair value, is 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**

Assets held for sale are included in the operating segments "Forest management" and "Forest and other services"

It was decided in June 2011 to sell the share held by the Group in Ibersilva, S.A., from the assets and liabilities "held for sale".

One year from that decision, market conditions have had a significant change, with a significant reduction in sale opportunities. As a result the assets and liabilities held by this affiliate were no longer be classified as "held for sale" at 31 December 2012. This has also significantly reduced the activity of this affiliate, which at the close of 2012 was practically inactive. Following is the breakdown of assets and liabilities for this Group company at 31 December 2011 and 30 June 2012:

Thousands of Euros	30/06/2012	31/12/2011		30/06/2012	31/12/2011
NON-CURRENT ASSETS	3,330	3,468	**NON-CURRENT LIABILITIES**	90	90
CURRENT ASSETS	11,433	13,076	**CURRENT LIABILITIES**	13,391	12,232
Inventories	672	876	Bank borrowings	631	257
Trade and other receivables	8,314	9,265	Trade and other payables	11,959	11,104
Current financial assets	1,056	817	Payable to public authorities and other payables	801	871
Cash and other cash equivalents	1,391	2,118			
TOTAL ASSETS	**14,763**	**16,544**	**TOTAL LIABILITIES**	**14,763**	**12,322**

The effects of the classification of assets and liabilities of Ibersilva, S.A. as "held for sale" in the 2012 balance sheet were not significant.

21. Operating segments

The manufacture of cellulose pulp is closely tied to electricity generating operations using waste generated from the pulp production process as fuel. Furthermore, the Group has plants that are specifically designed to generate power using biomass and other fuels, and it also owns forests and timber land providing the raw material for the production of paper pulp.

In this context, the results of the activities conducted by the cellulose pulp manufacturing and electricity generating business units are analysed jointly by the Management Committee, and the financial information produced only distinguishes between the revenues earned.

The Committee also made an independent analysis of forest management on the plantations held or owned by it and used for pulp. Investments currently in process in electricity generation plants located outside of the pulp plants that use their forest assets as supply, and other minor activities.

21. Operating segments (Continued)

Segment information for 2012 and 2011 based on the regular management information produced by the Group is as follows:

Fiscal Year 2012

	Thousands of Euros						
Income Statement	**Pulp and Power**	**New Energy Projects**	**Forest management**	**Forestry and other services**	**Sub-total**	**Consolidation adjustments between Segments**	**Total**
Revenue:							
External	794,511	10,814	8,709	13,544	827,578	—	827,578
Inter-segment	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**
Profit / Loss							
Profit / (loss) from operations	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 profit/loss from assets held for sale	(251)	—	1,953	(2,362)	(660)		(660)
Taxes	(19,429)	942	(1,164)	(296)	(19,947)	—	(19,947)
Profit / (Loss) for the year	**49,822**	**(2,194)**	**115**	**(1,949)**	**45,794**	**—**	**43,031**
Investment[(*)]	26,870	72,035	9,524	4,044	112,473		112,473
Depreciation and amortization charge	(52,351)	(2,926)	(7,526)	(569)	(63,372)	—	(63,372)
Accumulated depreciation and provisions	(758,753)	(3,053)	(104,347)	(7,315)	(873,468)	—	(873,468)

(*) Not including emission rights.

	Thousands of Euros						
Balance Sheet	**Pulp and Power**	**New Energy Projects**	**Forest management**	**Forestry and other services**	**Sub-total**	**Consolidation adjustments between Segments**	**Total**
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 consolidated liabilities[(a)]	**595,769**	**223,089**	**195,507**	**27,739**	**1,042,104**	**(420,526)**	**621,578**

(a) Not including equity or deferred tax assets & liabilities

21. Operating segments (Continued)

Fiscal Year 2011

	Thousands of Euros					
Income Statement	**Pulp and Power**	**Forest management(*)**	**Forestry and other services**	**Sub-total**	**Consolidation adjustments between segments**	**Total**
Revenue:						
External	781,199	23,865	20,387	825,451	—	825,451
Inter-segment	—	307,277	9,165	316,442	(316,442)	—
Total revenue:	**781,199**	**331,142**	**29,552**	**1,141,893**	**(316,442)**	**825,451**
Profit / Loss						
Profit / (loss) from operations	78,073	18,199	(16,193)	80,079	—	80,079
Finance income	20,912	4,134	65	25,111	(19,815)	5,296
Finance costs	(38,211)	(10,454)	(1,596)	(50,261)	19,815	(30,446)
Exchange differences	2,798	(774)	61	2,085	—	2,085
Taxes	(20,033)	(379)	4,590	(15,822)	—	(15,822)
Profit / (loss) for the year	**43,539**	**10,726**	**(13,073)**	**41,192**	**—**	**41,192**
Other disclosures						
Investment(*)	71,369	30,079	62	101,510	—	101,510
Depreciation and amortization charge	(52,466)	(9,703)	(1,291)	(63,460)	—	(63,460)
Accumulated depreciation and provisions	(709,969)	(104,968)	(5,300)	(820,237)	—	(820,237)

(*) This activity in fiscal year 2011 includes forest management for stands of forest owned or managed for use for cellulose. This activity also includes the purchase of wood from third parties, to be used in wood pulp production plants in the amount of EUR 280,124 thousand. These purchases were registered in 2012 in the section “Wood Pulp and Energy”.

(*) Not including emission rights.

	Thousands of Euros					
Balance Sheet	**Pulp and Power**	**Forest management**	**Forestry and other services**	**Sub-total**	**Consolidation adjustments between segments**	**Total**
Assets						
Non-current	934,636	348,050	8,539	1,291,225	(326,115)	965,110
Current	269,022	141,567	25,831	436,420	(75,389)	361,031
Total assets(a)	**1,203,658**	**489,617**	**34,370**	**1,727,645**	**(401,504)**	**1,326,141**
Liabilities						
Non-current	387,647	179,866	23,345	590,858	(238,594)	352,264
Current	212,390	114,119	16,958	343,467	(75,389)	268,078
Total consolidated liabilities(a)	**600,037**	**293,985**	**40,303**	**934,325**	**(313,983)**	**620,342**

(a) Not including equity or deferred tax assets and liabilities.

Installations specifically used to generate electrical energy from biomass grouped in the segment “New energy projects”, including investments in non-current assets that at the close of 2011 were grouped in “Forest Management” in the amount of EUR 136,550 thousand.

22. Guarantee commitments to third parties and other contingent liabilities

At 31 December 2012 various financial institutions had extended guarantees, mainly relating to commercial operations, to various Group companies for a total of EUR 50,497 thousand (EUR 56,209 thousand at 31 December 2011). The directors do not expect that the guaranteed amounts or the guarantees given will give rise to significant liabilities.

The Parent Company and its subsidiaries have arranged civil liability insurance. The directors consider that this policy reasonably covers the related contingencies.

23. Remuneration and other benefits paid to directors and senior executives of the Parent Company, and other information

In 2012 and 2011 the directors of the Parent Company earned the following amounts in respect of the discharge of their duties as members of the Board of Directors:

		Thousands of Euros		
2012—Director	**Type**	**Fixed Remuneration**	**Attendance Fees**	**Total**
Juan Luis Arregui Ciarsolo	Executive	124	77	201
Retos Operativos XXI, S.L.	Nominee	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
Jose Guillermo Zubía Guinea	Independent	34	53	87
Norteña Patrimonial, S.L.	Nominee	34	14	48
Pedro José López Jiménez[b]	Nominee	34	24	58
José Carlos de Álamo Jiménez	Independent	34	26	60
Pascual Fernández Martínez	Nominee	34	36	70
Javier Echenique Landiribar	Nominee	34	44	78
		498	**446**	**944**

(a) Director resigned in 2012.

		Thousands of Euros		
2011—Director	**Type**	**Fixed Remuneration**	**Attendance Fees**	**Total**
Juan Luis Arregui Ciarsolo	Executive	113	72	185
Retos Operativos XXI, S.L.	Nominee	31	28	59
José Manuel Serra Peris	Independent	31	37	68
Pedro Barato Triguero	Independent	28	26	54
Fernando Abril-Martorell Hernández	External	31	42	73
Gustavo Matías Clavero	Independent	31	30	61
Jose Guillermo Zubía Guinea	Independent	31	71	102
Atalaya de Inversiones, S.R.L.[a]	Nominee	14	16	30
Norteña Patrimonial, S.L.	Nominee	31	26	57
Pedro José López Jiménez	Nominee	31	26	57
José Carlos de Álamo Jiménez	Independent	31	26	57
Pascual Fernández Martínez	Nominee	31	30	61
Javier Echenique Landiribar[b]	Nominee	31	42	73
		465	**472**	**937**

(a) Directors standing down in 2011.

(b) Also in receipt of prior years' remuneration amounting to EUR 10 thousand.

23. Remuneration and other benefits paid to directors and senior executives of the Parent Company, and other information (Continued)

In 2012 the Parent Company's Management Committee earned total remuneration of EUR 3,366 thousand (EUR 3,676 thousand in 2011) in respect of all items, including the duties of the Chief Executive Officer by way of services provided and termination benefits.

Directors performing executive functions and Upper Management received 628,792 options to shares of Ence Energia y Celulosa, S.A., as part of their remuneration, under the conditions established in the "Ence Energia y Celulosa S.A. Long Term Incentive Plan for 2010-2015" (see Note 4-o).

Members of upper management during 2012 and 2011 are:

Name:	Title:
Ignacio de Colmenares y Brunet	CEO
José Manuel Zarandona de la Torre	Head of Pulp
Jacinto Lobo Morán	Head of Energy
María José Zueras Saludas	Head of Human Capital
Diego Maus Lizariturry	Head of Finance
Luis Carlos Martínez Martín	Head of Communications
Guillermo Medina Ors	Secretary General

No advances or loans have been granted to the directors of the Parent Company.

The Parent Company has not contracted any pension or alternative life insurance obligations with its directors in their capacity as such. However, the Chief Executive Officer receives certain social benefits under his service agreement, which are included in the pertinent pensions contributions and payments.

Pursuant to Article 229 of the Spanish Corporations Law and in order to reinforce the transparency of public limited companies, it is hereby expressly stated that the directors did not hold any ownership interests at 31 December 2012 in the share capital of companies engaging in an activity that is identical, similar or complementary to that which constitutes the Company's object. Furthermore, they did not and do not currently perform any activities, as independent professionals or employees, that are identical, similar or complementary to the activity that constitutes the company object of the Parent Company, Except for Messrs. Arregui Ciarsolo and Abril-Martorell Hernández, who indirectly own 90% and 4.97% respectively of Foresta Capital, S.L. Mr. Arregui Ciarsolo also holds a 0.577% ownership interest in the share capital of Iberdrola, S.A.

24. Transactions with related parties

The Company had various sources of financing from related companies at 31 December 2012 and 2011, all at market price, as follows:

Year	Carrying Amount	Currency	Interest Rate	Maturity
2012	6.155	EURO	Euribor + 3%	2014
2011	5.452	EURO	Euribor + 3%	2014

The Group companies carried out the following transactions with related parties in 2012 and 2011:

		Thousands of Euros	
Related Party	Transaction	2012	2011
Liberbank, S.A.	Interest and banking fees	255	481
Fidalser, S.L.	Share purchase	25,246	—
Atalaya de Inversiones, S.R.L.	Share purchase	—	26,389
Grupo Foresta	Purchase of intangible assets	3,566	—

24. Transactions with related parties (Continued)

The Parent Company on 20 December 2012 also executed a service agreement with Agroluan, S.L., represented by Javier Arregui Abendivar, to assure the correct implementation of R&D technology acquired during the year (see Note 6). That agreement provides for an annual payment of EUR 250 thousand.

25. Environment

The Ence Industrial Group has three plants located in Huelva, Navia and Pontevedra, each of which has the pertinent Integrated Environmental Authorization to conduct its industrial activities and to generate renewable electricity using biomass. Those authorizations were renewed in 2011.

In addition and in accordance with current standards the Cellulose Business Unit plants have a Greenhouse Gas Emission Authorization (CO_2), obtained from the annual joint assignment of 657,970 emission rights for the period 2008-2012. Emissions for 2012, verified by AENOR, did not exceed the rights assigned; any excess generated will be used in 2013-2020 as greenhouse gas emission rights trading.

The processes carried out in Ence follow the TQM Management Model, excellence in management, are structured around three linchpins:

1) Direct improvement

2) Manage process

3) Manage daily activities.

The management model has been implemented through continuous improvement with a focus on maximum efficiency and competitiveness with an integral focus on quality, personal health and safety, respect for the environment and prevention of pollution.

The three Operating Centres are certified by certified rating agencies (AENOR and Lloyd's) pursuant to UNE-EN-ISO 14001:2004, and the corresponding audits were performed in June to renew the management systems.

Auditors validating the Environmental Statement were almost carried out so the three plants keep their EMAS (Eco-audit and Eco-Management System) certificate pursuant to EU Regulation 1221/2009. Each of the three factories were the first in their respective Autonomous Communities to undertake this voluntary commitment, which few other companies have done to date.

Environmental management forms part of the TQM Management Model which offers one of the tools in the *toolbox*. This is the *Fundamental Improvement Objectives (*OMF) that were defined in each of the Operating Centres, and which have an environmental interest as they incorporate such aspects as minimising noxious smells, improving the quality of spills, improving resource management, decreasing electric consumption or reducing wastes generated.

Regular analytic controls are carried out at the plants covering all discharge parameters, as well as atmospheric emissions, noise levels and the waste generated and managed. The results obtained reflect the efficacy of this management model, and certify compliance with applicable legislation.

These results are the result of the commitment of all those who work in Ence, as well as the efforts made over recent years with implementation of best available techniques (BAT) as well as best environmental practices (BEP) defined in the sector BREF (Best Available Techniques in the Pulp and Paper Industry 2001).

Huelva Centre of Operations

In 2012 the Huelva mill completed the 50 MW biomass generating project, which involves a boiler, a turbine and a biomass treatment plant.

25. Environment (Continued)

With this plant the biomass project is the largest of its kind in Spain, using biomass energy and therefore reducing the consumption of fossil fuels.

Actions implemented in 2012 have channelled emissions from some parts of the process, thereby reducing noxious odours by 45%.

The 11% reduction in water use achieved during the second half of 2011 was consolidated this year.

The principle parameters of effluent spills have also been improved, with total organic carbon (TOC) and suspended solids reduced by 30%, for the second consecutive year.

The amendment of the Integrated Environmental Authorization reclassified determined waste products from the process, such as grit and ash from the biomass boiler and ash from the recovery boiler as by-products or secondary raw materials. This amendment opened the door to management procedures designed to extract value rather than dumping the waste produced. Different improvements have also helped to reduce the amount of dregs generated.

Other improvements implemented in the TQM model were designed to reduce the consumption of raw materials such as, for example, fossil fuels.

Environmental investments made in 2012 represented a total of EUR 13.2 million. The most important were construction of a new, energy efficient stripping and chipping plant that allows a better use of the biomass generated. The investment made in a construction of a new gas discharge condensation system with accumulator tank included is also important. Total investments in Huelva in 2012 came to EUR 4,509 thousand.

Navia Centre of Operations

The Navia Plant had record pulp and energy production in 2012, consolidating and optimising the amplification and renovation performed in 2009 and improving its processes. With these positive results noxious odours have been reduced, from the reduction in atmospheric emissions and wastes generated.

The most important environmental investment made in 2012 in the Navia Operations Centre is the amplification of the effluent treatment plant, which with its commissioning in 2013 will improve the quality of liquid effluents to benchmark values at the European level. The project has a budget of EUR 12 million, and includes minimising noxious odours and the treatment of organic wastes generated.

The treatment plant currently in construction in 2012 improved effluent quality by optimising processes and improving the internal effluent channelling system for the lumber camp and recirculating currents during the digestion and washing stages, to make a better use of organic matter and reduce its contribution to total effluents.

Noxious odours were reduced through operating improvements and better gas treatment equipment in the plant, which have reduced atmospheric emissions from the lime ovens. This improvement was seen with the investment made in 2012 in air quality metering equipment.

Finally the plan to cut sources of noise focusing on the lumber camp installations continued in 2012.

The total investments made at the Navia plant in 2012 amounted to EUR 2,484 thousand.

Pontevedra Centre of Operations

One environmental improvement projects in the Pontevedra Centre of Operations, underway with the collaboration of the Universidad de Santiago de Compostela, is to eliminate noxious odours.

Proposals planned in the study made have been implemented, such as for example the start up of a solution to eliminate odours from the pressing shop at the effluent treatment plant, which was done using biological treatment towers which achieved high performance in eliminating odours.

25. Environment (Continued)

New investments have also been made in the thickening cover or changing the gas boiler chimney and the chimney of the recovery boiler.

These measures, together with the 2012 commitment to improved operations according to indicators showed a decrease of 75% this year in the impact of noxious odours.

New investments have been made with this goal of *"Zero odour"* in mind, such as the gathering of washing gases for burning in the Recovery Boiler, the system to burn biological sludge in the Recovery Boiler, or the installation of hydraulic seals on the tanks to eliminate leaks. Conclusion of the work is scheduled for the annual shut down next March.

A total of EUR 3.2 million was invested in Pontevedra in 2012, to eliminate odours.

Another projected prepared in 2012 is designed to improve the visual impact of the Operations Centre by eliminating the vapours trails that leave the cooling towers. The work involved in this investment of EUR 1.8 million will concluded during the annual shutdown this March.

Finally the continuous monitoring of atmospheric emissions was certified according to UNE-EN 14181. This represents an investment of EUR 0.12 million for the acquisition, adaptation and calibration of the metering equipment.

Excellent results were achieved in 2012 in terms of spill quality. With this the Pontevedra factory continues to set the European benchmark in terms of effluent quality.

Finally and complying with their commitment to the environment, a webpage (www.encepontevedra.com) was set up making the daily indicators for the Pontevedra Operations Centre environmental performance, available to the public. The webpage provides data for the previous 30 days, contextualised with parameters of the Integrated Environmental Authorization and BREF indicators for the EU.

The total investments made at the Pontevedra plant in 2012 amounted to EUR 1,198 thousand.

Forestry Operations

Forestry activities continued during 2012 in Group companies (Silvasur Agroforestal and Norte Forestal, including investments in maintaining production mass (fertilization, fire and pest fighting activities, forest investments), management (mass activities designed to protect or preserve biodiversity) and amplification of the forest. Environmental activities focus on reducing risks to masses of all kinds and to maximising intrinsic values such as biodiversity maintenance, improved soil conservation, and in general to a global mitigation of climate change through the carbon fixing capacity in forest ecosystems.

As part of their efforts to protect the environment, the Group companies that are primarily engaged in forestry activities have obtained and maintained certificates issued by duly authorised firms demonstrating the sustainable and responsible use of forests, boosting confidence in the consumption of forest products. Silvasur Agroforestal, Norte Forestal and Ibersilva maintained their Management System certification under UNE-EN-ISO 14001:2004.

Norte Forestal and Silvasur Agroforestal which at one time were the first forest managers in the Iberian Peninsula to obtain PEFC (*Programme for the Endorsement of Forest Certification Schemes)* certification for a sustainable forestry management, continue to hold that certification based on the planning, monitoring and operations of forest masses. They continue to hold that certification for their chain of custody, assuring the origin of the wood is traceable throughout the process, and showing that there are no conflictive sources. In 2012 the internal certification process for the chain of custody was integrated for the entire Group. Although this is certified separately, the process is integral and coordinated, reinforcing product traceability and positioning the company favourably for entry of the Due Diligence Regulation in 2013.

The greatest progress made in Forestry Management dealt with the FSC® benchmark. Throughout 2012 the certificate scope was amplified; consequently Norfor has duplicated certified surface and Silvasur has include cork production within its scope, making it the main FSC certified cork producer in the Province of

25. Environment (Continued)

Huelva. The integration process progressed in 2012 with a grouped certification pre-audit that would allow a single FSC Sustainable Forestry Management Certificate for the entire Grupo Ence.

A single CdC FSC certificate allows the wood's traceability for all of the Group in Spain. Affiliate Iberflorestal in Portugal, dedicated mainly to the sale of wood, holds its own certificate.

Las Pleyades (Uruguay) and Sierras Calmas Uruguay) maintained their GFS and CdC for both PEFT and FSC systems in 2012.

We also note the work performed throughout 2012 to acquire uncut wood, especially in the north of the peninsula, which involved the direct work of Ence on the land at the time of cutting. This activity, under the coordination of the Standing Purchases and Usage Areas was carried out under functioning standards similar to those applied to the surface completely managed by Ence; so certificate groups were created to cover forest management in the stands purchased. These certifications were issued under the PEFC system; these will be issued under the FSC system in 2013, pursuant to regulatory changes made in the Spanish system at the initiative of Ence, to allow the certification of very small surfaces, mostly in northern Spain.

Forestry activities in assets managed by Grupo Ence represented a total forest surface of 1,341 ha. Controlled assets increased by 248 hectares, representing an investment of EUR 479,162. Forestry investment is listed in Note 8.

26. Events after the end of the reporting period

Corporate debt refinancing

Ence Energia y Celulosa S.A. on 1 February 2013 completed the placement of a bonds issue for EUR 250 million among institutional investors, in accordance with 144A Reg S of the Securities Law of 1933 and its later amendments. The issue was made under the rules of the State of New York (United States of America) and bonds will be listed on the Luxembourg exchange MTF Euro market.

This issue, which matures 15 February 2020 accrues fixed annual interest of 7.250%, payable semi-annually, and as the principal guarantees offers a pledge on the shares of the principal operating companies of the Group (Ence Energia y Celulosa, S.A., Celulosas de Asturias, S.A., Norte Forestal, S.A. and Silvasur Agroforestal, S.A.P, as well as a pledge on receivables, bank accounts and Group loans excluding those used to hedge the financing project. Transactions costs came to approximately EUR 10 million.

The issue includes debt and interest hedge covenants, as well as limits on the execution of determined payments, customary in this type of issue.

Two financial rating agencies have issued their opinion within the framework of the issue, on the Group as a whole and on the debt issue; Standard & Poor's rated the Group and the issue as BB and Moody's rated the Group as Ba3 and the issue as B1.

A revolving credit facility was also signed as part of the issue in the amount of EUR 90M, with a syndicate of national and international first level banks. This financing earns interest at Euribor and matures in 2017.

Funds captured were used to pay the amounts pending payment from the syndicated loan taken by the Group in 2010 for EUR 229,410 thousand (see Note 16), loans and credit lines in the amount of EUR 2,913 thousand, and the IRS linked to corporate financing for EUR 10,068 thousand (see Note 10).

Regulatory changes in the energy sector

Regulatory changes applicable to the energy business (see Note 5) have a negative impact on project finance for the Huelva 50 Mw and Merida 20 Mw projects, as these are calculated based on determined ratios that include projected cash flows.

26. Events after the end of the reporting period (Continued)

The estimated effect on the financial institutions of joint implementation of Law 15/2012 of 27 December, on tax for energy sustainability and Royal Decree Law 2/2013 of 1 February, on urgent measures in the electricity sector and in the financial system, is a reduction in the funding available for Merida projects 20 MW and 50 MW Huelva 20 million euros and 29 million euros respectively.

Currently the Group's management is analysing the reasonableness of the assumptions used by financial institutions, mainly the evolution of costs and the core CPI. We estimate that these analyses will result in a negotiation process that matches the available funding for both projects to the expected impact of these regulatory changes, limiting the reduction in the funding available above.

ENCE Energía y Celulosa, S.A. and Subsidiaries

Consolidated Directors' Report for the year ended 31 December 2012

ECONOMIC BACKGROUND AND OUTLOOK

The 2012 macroeconomic environment turned positive during the year. Although a worsening of the euro crisis was noted in the first semester after doubts on Spanish and Italian ability to make the structural reforms necessary for their economies to once again grow and create jobs in the context of a restrictive fiscal policy, the second semester showed a clear reduction in uncertainty on both economies.

Although meeting deficit commitments is proving hard to do, cost cutting measures implemented at the national and regional levels began to show an improvement in both ratios. The government deficit reduced the 8.9% recorded in 2011 by levels close to 7%, while regional and local administration deficits were cut in half. Labour reform is generating a reduction in company costs (a drop of close to 3% in unit labour cost in 2012) allowing companies to recover the competitiveness lost in the years before the crisis. Based on this improvement the current account deficit is expected to drop to 1.5% from the 3.5% registered in 2011, with a positive number in the second semester. The balance sheet clean up by banks and savings funds after the provisions assumed, the rescue fund agreed with European bodies and creation of a bad bank to absorb the so-called "toxic assets" is improving the visibility of the health of Spanish financial institutions. As a result the risk premium for Spanish debt against the German bond closed the year at below 400 basis points, after reaching a maximum high over 600 basis points in July.

The euro:dollar exchange rate in part was tied to the evolution of the euro crisis during the year. The worsening of the crisis caused a change in the exchange rate of close to 1.22 USD/EUR in mid-July, leading to a progressive deprecation of the US dollar to 1.32 at the end of the year, and coinciding with a reduction in Eurozone uncertainty and the stagnating of budget talks by the American government (the so-called "fiscal cliff").

The pulp market during the year has shown signs of solidness and greater stability despite the usual volatility shown by raw materials. After cellulose prices remained stable at the level of $650/t, prices took an upward trend until July, placing prices at levels over $780/t. This trend was possible thanks to the rise in demand in the year (+2.4%), the absence of new capacities and low inventory levels (consumer levels have remained at minimum levels of 20 days and producers at normalised levels close to 33 days). Although prices showed a slight correction in the third quarter to $750/t, coinciding with a lower demand in the summer months together with greater shut downs by paper producers, the rise in activity in the fourth quarter allowed us to finish the year at levels close to $780/t. Production of the new Eldorado plant in Brazil for 1.5 million tons began in November, although the impact on total sector offering has been marginal.

Perspectives for 2013 remain positive for the cellulose business. Although new capacities are expected in Uruguay and Brazil around the last quarter of the year (Montes del Plata and Maranhao with 1.3 and 1.5 million tons respectively), the learning curve will limit the volume that will arrive at markets next year. Although the Eldorado plant will progressively increase its levels of use during coming months, the close of the 0.4 million tons Jari plant in Brazil and a rise in demand of between 1 and 2 million tons, expected by various consultants, support expectations that 2013 market prices will be in line with current prices. Activity is expected to rise in 2014 in the plant mentioned (no new significant increases are expected this year). This will be absorbed by a greater rise in demand in mature markets, arising from the recovery of their economies.

Electric activity on the other hand is penalised by fiscal changes implemented for a new 7% tax on electricity sales and a heavier tax on hydrocarbon use, as well as the elimination of the variable option in the tariff applicable within the special regimen.

BUSINESSES AND EARNINGS PERFORMANCE

2012 was a good year for Grupo Ence, both for operations as well as for the cellulose market, although with prices below 2011 levels of $800/t vs. the slight gains over the $750/t of 2012. This drop was compensated by greater cellulose and electricity sales and a reduction in production costs, placing the Group's 2012 operating profits below those achieved in 2011.

Group sales as a whole in 2012 were EUR 828 million, slightly above those of the previous year. Cellulose sales came to EUR 597 million in 2012, in line with 2011 sales after compensating the 1% growth in volumes with a similar drop in net sales price. The drop in the cellulose price in dollars was compensated by the rise in the dollar during the year (1.28 USD/EUR in 2012 vs. 1.39 USD/EUR in 2011).

Electricity sales also set record highs, in terms of both volumes and prices. Electricity sales rose 4% to 1,542,773 MWh thanks to the increased evacuation capacity in Navia and turbine improvements in Pontevedra, with 76% generated with biomass. Prices per MWh rose 7% over 2011 thanks to the updated tariffs and the greater weight of forest waste in the generation mix. In accounting terms, electricity sales grew by 13% to EUR 208 million.

Forestry and consulting activity fell 50% to EUR 22 million in comparison with 2011, due to the restructuring and slow abandonment of this activity.

Operating profit (EBIT) was EUR 82 million, 3% over those of 2011. The drop in prices was compensated by efficiency improvements that allowed not just a rise in production, but also a reduction in production costs per ton on the order of 6% in 2012. This improvement was despite unscheduled stops for repairs in Huelva, the impact of the general strike in the third quarter and a lower plant stability in the second half of the year. An important effort was made to increase wood supplied through agreements with forest owners, to 50% more than in 2011. Those agreements reduced dependency on imported wood to satisfy the growing consumption, and also reduced operating and transportation costs through a greater control and modernization of this part of the supply chain. It also allowed the sale of Company assets in Uruguay, which closed in December 2012.

Investments in 2011 amounted to EUR 130 million. Close to 18% of this investment was made in biological assets, including both reforestation and forest improvement work in step with the growth in pulp output, and the development of energy crops to feed the new electricity generating plants. Industrial investments in tangible assets totalled EUR 87 million, more than 65% of which were applied to the projects related with the expansion of biomass electricity generating, principally the construction of the 50 MW plant in Huelva, and to a lesser extent to the construction of the 20 MW plant in Merida, and to the development of new projects and to irrigation systems for plantations of energy crops.

Net consolidated equity at 31 December 2012 was EUR 725 million (EUR 720 million at 31 December 2011), equal to 53% of total assets. The drop in growth was due mainly to the recommencement of dividend payments of EUR 16.5 million in 2012 out of the profit earned in 2011. The objective of this measure was to ensure appropriate remuneration of the Group's shareholders at the same time as reducing leverage while ensuring that investment needs related with the new generating plants are met in a financial scenario of tight credit, and acquiring treasury shares.

Ongoing Research, Innovation and Technology activities focused on the continuation of programmes aimed at achieving the genetic and silvicultural improvement of the eucalyptus tree, innovation and improvement of pulp processes, mechanical transformation of timber and the engineering of new projects, as described in the section "Intangible Assets" in the notes to the consolidated financial statements.

ENVIRONMENT

See Note 25 to the accompanying consolidated financial statements.

RISK FACTORS ASSOCIATED WITH THE GROUP'S ACTIVITY

Identified risk factors that affect Grupo ENCE and its activities are listed in Note 5 of the Consolidated Notes attached.

TRANSACTIONS WITH TREASURY SHARES

The Parent Company carried out certain transactions with treasury shares in 2012. The Parent Company shares held as treasury stock at 31 December 2012 represented 7.5% of share capital (7.8% at 31 December 2011) with a total par value of EUR16,869 thousand (EUR 18,190 thousand at 31 December 2011). The average purchase price was EUR 1.8455 per share.

EVENTS AFTER THE REPORTING PERIOD

No important facts occurred after the close of fiscal year 2012, in addition to those included in Note 26 of the consolidated annual statements attached.

CORPORATE GOVERNANCE

The annual Corporate Governance Report forms part of this Consolidated Management Report and is published on the CNMV webpage.

The 2012 consolidated financial statements and directors' report of ENCE Energia y Celulosa, S.A. and subsidiaries prepared in accordance with IFRS as adopted by the European Union were formally prepared by the directors of the Parent Company on 19 February 2013. The financial and accompanying notes are set forth on 73 sheets of ordinary paper (numbered from 1 to 5 in the case of the consolidated financial statements, and from 1 to 68 in the case of the explanatory notes), the directors' report on 3 sheets (numbered from 69 to 71). All of the aforementioned sheets of ordinary paper have been signed by the Secretary to the Board of Directors, and all of the directors have signed the present sheet.

And for purposes of RD 1362/2007 of 19 October (Art. 8.1.b), the Company Directors who sign below, *declare as follows regarding responsibility* for the Annual Financial Report for Fiscal Year 2012 of Ence Energia y Celulosa, S.A. and subsidiaries, including financial information for its consolidated group*: i"*to the best of my knowledge, the annual financial statements for fiscal year 2012 have been prepared following applicable accounting standards, offer a true image of the capital, financial situation and profit and loss of the Company and the companies included in the consolidation taken as a whole, and the director report includes a true analysis of the information required".

The annual accounts and the consolidated management report for the year 2012 Ence Energía y Celulosa, S.A. and subsidiaries, prepared in accordance with IFRSs as adopted by the European Union, have been formulated by the Directors of the Parent Company on 19 February 2013. This document contains the English translation of such financial information.

In the event that there was a discrepancy between the English translation with the version of the annual accounts and consolidated management report for the year 2012 Ence Energía y Celulosa, S.A. and subsidiaries in Spanish, the Spanish version prevails.

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Mr. Ignacio de Colmenares y Brunet

Quarterly Report for the period ending September 30, 2015

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails

CONTENTS

Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails

1. Executive Summary, 9M15 in review

figures in €M	3Q15	2Q15	△%	3Q14	△%	9M15	9M14	△%
Revenue from pulp business[(a)]	145.6	137.9	6%	168.3	(14%)	415.8	484.9	(14%)
Revenue from energy business[(b)]	28.0	19.0	47%	19.1	46%	71.0	40.8	74%
Total revenue	**173.5**	**156.9**	**11%**	**187.4**	**(7%)**	**486.7**	**525.7**	**(7%)**
Adjusted EBITDA	**55.6**	**46.3**	**20%**	**15.7**	**253%**	**141.0**	**40.3**	**250%**
EBITDA	**52.5**	**42.8**	**22%**	**(24.8)**	**n.s.**	**129.7**	**(19.2)**	**n.s.**
EBIT	**35.8**	**27.4**	**30%**	**(129.3)**	**n.s.**	**81.4**	**(187.8)**	**n.s.**
Net profit/(loss) for the period	**13.0**	**12.4**	**4%**	**(91.1)**	**n.s.**	**35.1**	**(139.7)**	**n.s.**
Net debt (recourse)[(c)]	**154.8**	**160.8**	**(4%)**	**147.9**	**5%**	**154.8**	**147.9**	**5%**
Pulp sales (tonnes)	**220,623**	**211,370**	**4%**	**287,073**	**(23%)**	**652,389**	**888,841**	**(27%)**
Energy sales (MWh)[(b)]	**183,108**	**107,875**	**70%**	**136,835**	**34%**	**458,879**	**290,316**	**58%**
Net pulp sale price (€/ton)	**563**	**553**	**2%**	**428**	**31%**	**539**	**435**	**24%**
Average energy sale price (€/MWh)[(b)]	**153**	**176**	**(13%)**	**140**	**9%**	**155**	**140**	**10%**
Cash cost (€/t)[(d)]	**363**	**368**	**(1%)**	**400**	**(9%)**	**365**	**409**	**(11%)**

(a) Includes 2M€ of forestry sales done by the energy subsidiaries in 9M15

(b) Includes operations at Huelva 50MW, Merida 20MW before the acceptance deeds were signed and Huelva 41MW since November 2014

(c) There is also €102 M of project finance loans funding Huelva 50MW and Merida 20MW outstanding at 30/09/2015

(d) This metric is not impacted by Huelva 50MW, Merida 20MW and Huelva 41MW as they are not related to the pulp business; 2Q15 cash cost figure has been adjusted retroactively by +€1/t due to the loss of complement in the energy sales

- The 9M15 results lend visibility to the successful execution of the company's plan for boosting its competitiveness, against the backdrop of a favourable market environment, as evidenced by the adjusted EBITDA figure of €141m, which is more than three times the 9M14 figure. Adjusted 3Q15 EBITDA amounted to €56m, the highest level in the last five years.
- Moreover, operating cash flow reached €85m, despite a €39m increase in working capital requirements, shaped mainly by growth in accounts receivable on account of the rise in pulp prices. The cash generated has enabled the company to reduce its net debt by €23m between year-end, during which time it also funded €41m of capex and paid out €25m in dividends.
- Pulp prices have staged a sharp recovery, underpinned by strong demand, which has paved the way for successive price increases to $810/t by the reporting date. These price increases drove year-on-year growth in net sales prices in euros of 24%, specifically from €435/t in 9M14 to €539/t in 9M15, buoyed by the trend in demand and dollar appreciation. The company has arranged monthly dollar hedges for the per iod elapsing between October 2015 and September 2016 using tunnel structures with a floor of $/€1.07 and a ceiling of $/€1.15 over a notional amount of $226m, around 50% of pulp sales assuming mid-cycle prices.

1. Executive Summary, 9M15 in review (Continued)

- Revenue from pulp sales totalled €416m in 9M15, down 14% year-on-year due to a 27% drop in sales volumes in the wake of the closure of the Huelva mill last October, as well as a longer maintenance stoppage at Navia (21 days vs. 12 in 2014) to execute investments in efficiency and phase one of a plan for expanding capacity by 40,000 tonnes. Adjusting for these non-recurring factors, output would have been 3% higher year-on-year.
- Meanwhile, the effort to reduce production costs continued: the plants' cash cost was cut by €44/t, or 11%, vs. 9M14, following closure of the Huelva production centre and also thanks to a reduction in overhead and transformation costs following the gradual rollout of the plans for boosting the company's competitiveness.
- Revenue from energy sales jumped 74% year-on-year. This growth is attributable to the contribution of the Mérida 20-MW and Huelva 41-MW power plants from September and October 2014, respectively, driving volume growth of 58%. Prices also climbed 10% higher, from €140/MWh in 9M14 to €155/MWh in 9M15, underpinned by higher pool prices for electricity. The biomass plant supply scheme has been restructured to a regime furnished exclusively from biomass purchased under agreements with third parties. This strategic change is enabling the group to sell up to €39m worth of land formerly earmarked for the development of energy crops; these assets are currently classified as available-for-sale assets. To date, Ence has sold 562 hectares of this land for €14.1m and has entered into sale agreements over another 620 hectares for €14.3m, €1.7m of which has been collected upfront.
- Adjusted EBITDA was €141m, three times the 9M14 figure, while reported EBITDA was €130m (vs. a loss of €19m in 9M14); the difference between the two figures is related mainly to the engagement of consult ants with a view to supporting and accelerating delivery of the planned operational improvements, as well as the impact of the share price recovery on the executive bonus schemes. As a result, profit for the nine -month period amounted to €35m, compared to a bottom-line loss of €140m in 9M14.
- Net recourse debt was reduced by €23m in 9M15 to €155m, having paid a dividend of €25m in April and repaid €5m related to the Huelva closure (provisioned in 2014), to put the ratio of net recourse debt to EBITDA at 1.2x.
- Against this backdrop, the Board of Directors approved a dividend from 2015 profits of €0.044/share (before withholdings), which was paid out on 7 October.
- In October, Ence successfully refinanced the bonds issued in February 2013 with a new €250m issue of 5.375% bonds due November 2022. In parallel, it refinanced the revolving credit facility associated with the new bonds due October 2020, bringing its cost down by 175 basis points.

2. Pulp business

Ence's pulp business encompasses the activities related to the production of pulp for sale to third parties. It therefore includes not only the production of pulp but also the generation of electricity at the plants involved in the productive process, as well as the supply of timber to the factories (whether from owned or third-party forest plantations).

2. Pulp business (Continued)

2.1. *Pulp production and sale*

	3Q15	2Q15	00%	3Q14	00%	9M15	9M14	00%
Huelva	—	—	n.s.	66,586	(100%)	—	230,673	(100%)
Pontevedra	118,003	105,940	11%	105,073	12%	312,420	303,360	3%
Navia	119,819	99,274	21%	125,279	(4%)	345,054	347,992	(1%)
Pulp production (tonnes)	**237,822**	**205,215**	**16%**	**296,939**	**(20%)**	**657,474**	**882,024**	**(25%)**
Huelva	—	—	n.s.	61,581	(100%)	—	226,412	(100%)
Pontevedra	114,979	103,072	12%	101,833	13%	312,660	307,506	2%
Navia	105,643	108,297	(2%)	123,660	(15%)	339,730	354,923	(4%)
Pulp sales (tonnes)	**220,623**	**211,370**	**4%**	**287,073**	**(23%)**	**652,389**	**888,841**	**(27%)**
BHKP ($/t)	**804**	**780**	**3%**	**727**	**11%**	**778**	**749**	**4%**
Average exchange rate ($/€)	**1.11**	**1.11**	**0%**	**1.33**	**(16%)**	**1.12**	**1.36**	**(18%)**
Net sale price (€/t)	**563**	**553**	**2%**	**428**	**31%**	**539**	**435**	**24%**
Revenue from pulp sales (€M)	**123.5**	**117.1**	**6%**	**123.4**	**0%**	**352.0**	**387.0**	**(9%)**

Pulp production fell by 25% year-on-year in 9M15, due mainly to the discontinuation of pulp production in Huelva on 11 October 2014, a decision taken in light of the heavy losses sustained by this facility in the wake of passage of the new renewable and co-generation regulatory regime. Stripping out the impact of the Huelva closure, output inched 1% higher.

Production in Pontevedra was also affected by the programmed 10-day maintenance stoppage last March, whereas the Navia facility was stopped for 21 days in June in order to carry out efficiency upgrades and execute phase one of a plan to boost capacity by 40,000 tonnes. Adjusting for the longer stoppage at Navia (12 days in 2014), pulp production at these two plants would have increased by 3% in 9M15.

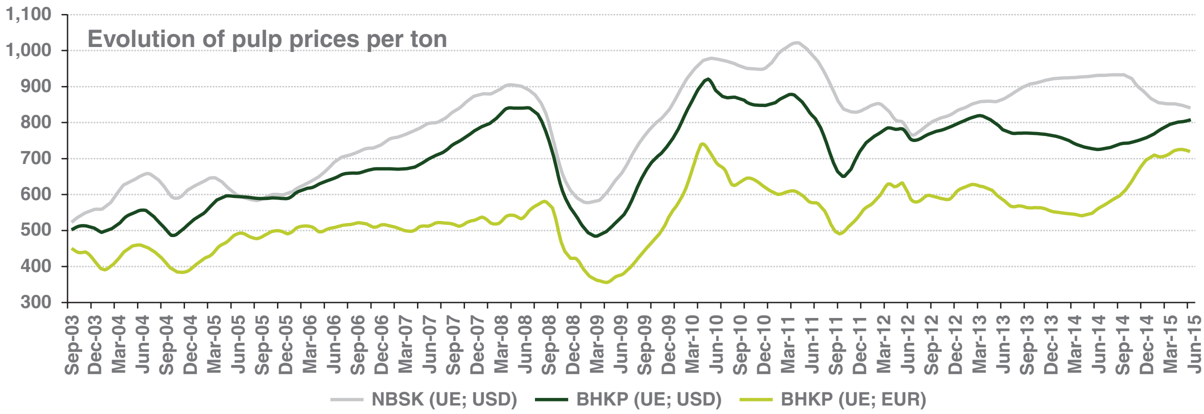
The average net sales price was €539/t in 9M15, up 24% year-on-year, driven by sharp dollar appreciation (18% vs. 9M14). Prices continued to climb higher, reaching $810/t by the end of September. The 9M15 results do not evidence the full impact of the price recovery due to customary contractual terms: pulp prices are set at the prior- month average, generating a lag of close to one month between price/currency improvements and their impact in terms of merchandise invoicing.

The company has arranged monthly dollar hedges for the period elapsing between October 2015 and September 2016 using tunnel structures with a floor of $/€1.07 and a ceiling of $/€1.15 over a notional amount of $226m.

Outlook for the pulp market

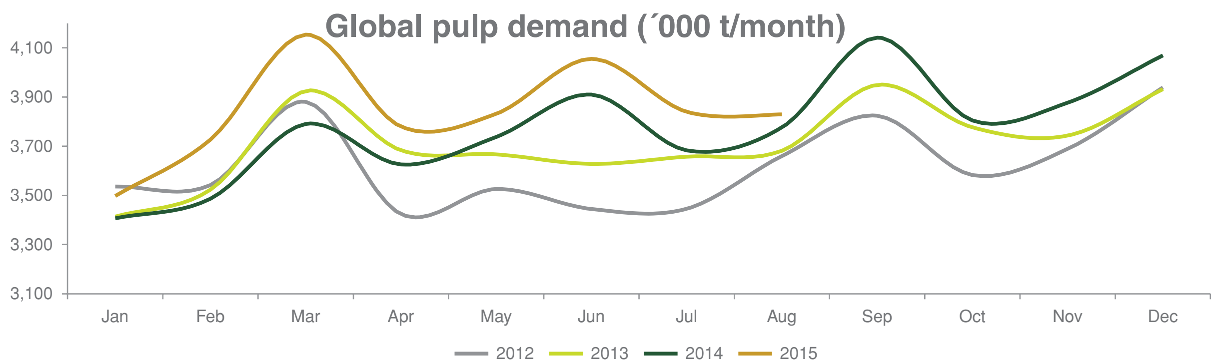
Pulp prices extended the upward climb initiated in September 2014 and were hiked successively to end the reporting period at $810/t. These increases have coincided with dollar appreciation against the euro, putting prices at 5-year highs in euro terms. Long fibre price stability in recent months has had the effect of narrowing the gap with short fibre prices to within $50/t, in line with the historical differential between the two benchmarks.

2. Pulp business (Continued)



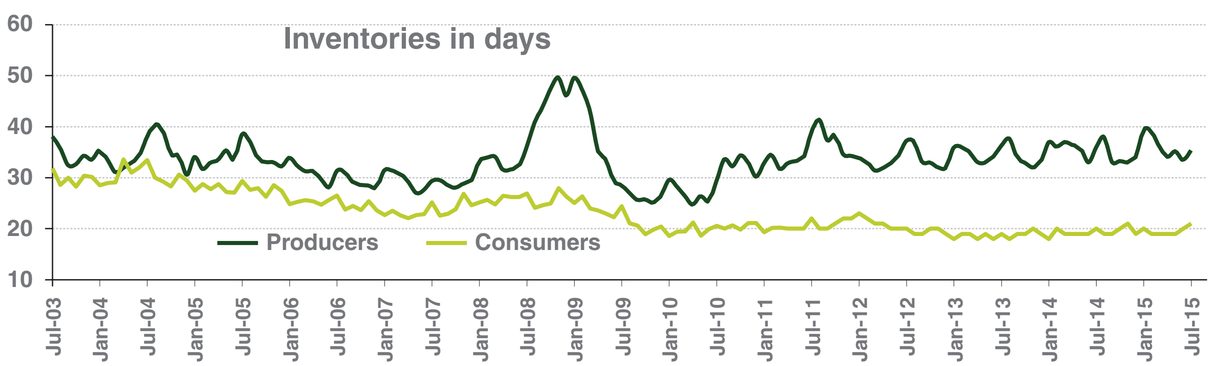
Source: FOEX

Demand remains strong, up 3.7% worldwide to August. In the wake of the commissioning of two plants in 2014, the low level of additional capacity expected to come on stream in 2015, low consumer inventories and the outlook for economic recovery have underpinned solid growth in demand, paving the way for price increases. By region, demand rose by 1.4% and 0.3% in the US and Europe, respectively, and increased by 12.3% in China, which is above the trendline of recent years (PPPC).



Source: PPPC (W-20)

Producer inventories worldwide remain at mid-cycle levels of around 35 days (as of August), while consumer inventory levels were still at record lows of 20 days at the end of July (PPPC). The situation in Europe is just as encouraging: consumer inventories remained at low levels of 21 days as of July (Utipulp).



Source: PPPC (W-20 statistics)

2. Pulp business (Continued)

The main source of new supply commissioned in 2015 has been the Guaiba II expansion, which came on stream in May, adding 1.3 million tonnes of new capacity. The impact on pulp supply in 2015 is proving gradual given the learning curve effect at the facility and the offsetting impact of the 410,000 tonnes of capacity taken offline in the wake of the Huelva closure. Against this backdrop, an increase in short fibre prices to $830/t has been announced.

2.2. *Generation and sale of electricity in connection with pulp production*

figures in €M	3Q15	2Q15	△%	3Q14	△%	9M15	9M14	△%
Huelva	—	—	n.s.	170,538	(100%)	—	380,890	(100%)
Pontevedra	60,513	55,440	9%	53,705	13%	161,531	155,907	4%
Navia	140,537	112,733	25%	138,166	2%	387,417	389,096	(0%)
Electricity production (MWh)	**201,050**	**168,173**	**20%**	**362,409**	**(45%)**	**548,948**	**925,894**	**(41%)**
Biomass generation	57,815	43,909	32%	104,262	(45%)	152,070	244,919	(38%)
Biomass co-generation	131,997	114,903	15%	157,939	(16%)	366,968	473,792	(23%)
Natural gas co-generation	—	—	n.s.	89,378	(100%)	—	175,711	(100%)
Electricity sales (MWh)[(a)]	**189,813**	**158,812**	**20%**	**351,578**	**(46%)**	**519,038**	**894,421**	**(42%)**
Electricity consumption (MWh)	**125,961**	**108,126**	**16%**	**176,077**	**(28%)**	**359,333**	**522,778**	**(31%)**
Average sale price (€/MWh)	**91**	**84**	**8%**	**93**	**(2%)**	**87**	**80**	**9%**
Investment remuneration (€M)	**2.6**	**2.6**	**(0%)**	**5.8**	**(56%)**	**7.9**	**16.5**	**(52%)**
Average income (€/MWh)	**105**	**100**	**4%**	**110**	**(5%)**	**102**	**98**	**4%**
Revenue from electricity sales (€M)[(b)]	**19.9**	**15.9**	**25%**	**38.6**	**(49%)**	**53.0**	**87.7**	**(40%)**

(a) Adjusted for system imbalances

(b) Excludes the sales volumes of Huelva 50MW and Merida 20MW and Huelva 41MW, the latter since November 2014 and includes adjustments in 1H14 for settlements made by the regulator (the CNE) in respect of sales made in prior periods

Revenue from energy sales associated with installed capacity at the pulp mills amounted to €53m in 9M15, down 40% from 9M14, due to a 42% drop in sales volumes (in MWh) at the co-generation facilities fuelled by lignin as a result mainly of lower pulp production following the closure of the Huelva mill, as well as the cap on output (at 6,500 hours/MW/year) imposed under the new regulatory regime on the 37-MW Navia power plant. The drop in volumes was offset by a year-on-year increase in average revenue per MWh sold of 4%, due to a 26% jump in electricity pool prices compared to 9M14.

2. Pulp business (Continued)

2.3. *Forestry*

	3Q15	2Q15	△%	3Q14	△%	9M15	9M14	△%
Timber consumption (m3)	**695,068**	**614,389**	**13%**	**882,225**	**(21%)**	**1,963,680**	**2,633,174**	**(25%)**
Cost €/m3	**67**	**65**	**3%**	**72**	**(6%)**	**66**	**69**	**(4%)**
Wood purchases per source								
Owned timber	2%	5%		4%		3%	5%	
Standing timber acquired directly from land owners	28%	22%		34%		26%	32%	
Suppliers	70%	73%		50%		71%	51%	
Imported timber	—	—		12%		—	12%	
Own hectares	49,147	49,147	—	49,058	0%	49,147	49,058	0%
Third party hectares (consortia)[(a)]	27,677	33,713	(18%)	34,261	(19%)	27,677	34,261	(19%)
Hectares managed by ownership regime	**76,824**	**82,860**	**(7%)**	**83,319**	**(8%)**	**76,824**	**83,319**	**(8%)**
Revenue from forestry sales and other[(b)]	**2.1**	**4.9**	**(56%)**	**6.3**	**(66%)**	**10.8**	**16.3**	**(34%)**

(a) Includes 2,598 hectares sold in Portugal in December 2013; Ence does not own the standing timber or biological assets on this land but does manage them

(b) Includes €2 M of forestry sales done by the energy subsidiaries in 9M15

Timber costs, meanwhile, decreased by 4% thanks to the price cut of €3.5/m3 announced to suppliers in April 2014, which has enabled a gradual reduction in the cost of timber sourced from suppliers in northern Spain from September. Costs were also influenced by the virtual elimination of timber imports since the Huelva pulp mill's closure, as this facility had been the group's biggest importer of timber. Timber consumption declined by 25% in 9M15 as a result of lower pulp output in the wake of closure of the Huelva mill.

3. Energy business

Ence's energy business encompasses the generation of power at plants that have no relation to the pulp production process. It currently comprises two facilities (the 50-MW Huelva and the 20-MW Mérida plants), whose construction was funded using project finance and are owned by Ence Energía SL, and a third facility (the Huelva 41-MW plant), which used to be part of the Huelva industrial pulp complex and is owned by CENER SA.

3.1. *Power generation at the independent plants*

figures in €M	3Q15	2Q15	△%	3Q14	△%	9M15	9M14	△%
Huelva 50MW	99,233	48,625	104%	99,050	0%	242,228	238,566	2%
Mérida 20MW	38,371	24,381	57%	37,784	2%	102,139	51,750	97%
Huelva 41MW	45,503	34,869	30%	—	n.s.	114,512	—	n.s.
Energy sales (MWh)	**183,108**	**107,875**	**70%**	**136,835**	**34%**	**458,879**	**290,316**	**58%**
Average pool price (€/MWh)	**56**	**48**	**15%**	**52**	**6%**	**50**	**40**	**26%**
Average sale price (€/MWh)	**110**	**109**	**1%**	**104**	**6%**	**104**	**108**	**(3%)**
Investment remuneration (€M)	**7.8**	**7.3**	**7%**	**4.9**	**60%**	**23.3**	**9.5**	**144%**
Average revenue (€/MWh)	**153**	**176**	**(13%)**	**140**	**9%**	**155**	**140**	**10%**
Sales[(a)]	28.0	19.0	47%	19.1	46%	71.0	40.8	74%
EBITDA	10.0	6.6	51%	5.3	90%	25.0	11.2	123%
Forest depletion (energy crops)	(1.5)	(0.1)	n.s.	—	n.s.	(2.0)	(2.0)	(3%)
EBITDA excluding forest depletion charge[(b)]	8.5	6.5	31%	5.3	62%	23.1	9.2	151%
Industrial depreciation	(2.9)	(2.9)	0%	(1.6)	89%	(8.8)	(4.4)	102%
EBIT	5.6	3.4	62%	3.7	50%	14.3	4.8	196%

(a) Includes €6M capitalised in 9M14 regarding the sale of electricity produced at Merida 20MW before its acceptance deeds were signed in September 2014

(b) EBITDA ex-forestry depletion charges is consistent with the criteria used to prepare and disclose the plants' EBITDA guidance

Electricity sales volumes were 58% higher year-on-year in 9M15 at 459 GWh, thanks to the growing contribution by the 20-MW Merida plant and the re-opening of the 41-MW Huelva plant in November 2014. Although the Merida plant began to contribute energy to the Spanish electricity system on 31 March 2014, its sales were capitalised until August, inclusive. The 41-MW Huelva plant was originally part of the Huelva industrial complex. In the wake of discontinuation of the activities related to pulp production and co-generation, this facility is now operating as a standalone unit.

EBITDA amounted to €25m in 9M15 (more than twice the 9M14 level) thanks to growth in sales volumes (in MWh) and a 10% increase in average revenue per MWh sold, underpinned by higher pool prices which drove year-on-year growth in revenue from energy sales of 74%.

The power plants' volumes increased by 70% quarter-on-quarter in 3Q15, shaped by the maintenance stoppages carried out in April and May, which lasted 41 days. The reason for the timing of the stoppages is the cap on output imposed under current regulations of 6,500 hours/MW/year, which makes it more efficient from an operational standpoint to scale back operations during the months in which pool prices tend to be lower in order to be able to operate at full tilt during the second half of the year, when pool prices are expected to be higher. In addition, the company took advantage of the stoppage at the 41-MW Huelva plant to fine-tune the equipment to enable higher capacity utilisation ratios (output of 46 GWh in 3Q15 vs. 35 GWh in 2Q15), driving growth in sales volumes and EBITDA.

3. Energy business (Continued)

3.2. *Electricity market trends*

Pool prices averaged €50/MWh in 9M15, above the 9M14 average of €40/MWh and in line with the €49.52 €/MWh estimated by the regulator as the basis for its operation supplement remuneration proposal, which is intended to cover the operating costs of power-producing facilities fuelled by renewable sources, co-generation and waste. The company has hedged 75% of its plants' 4Q15 output at a price of €49/MWh and 27% of 1H16 output at €46/MWh.

4. 9M15 earnings analysis

figures in €M	3Q15	2Q15	△%	3Q14	△%	9M15	9M14	△%
Pulp sales[a]	145.6	137.9	6%	168.3	(14%)	415.8	484.9	(14%)
Energy sales[b]	28.0	19.0	47%	19.1	46%	71.0	40.8	74%
Total revenue	**173.5**	**156.9**	**11%**	**187.4**	**(7%)**	**486.7**	**525.7**	**(7%)**
Cost of goods sold[c]	(65.5)	(65.1)	1%	(103.5)	(37%)	(200.0)	(303.7)	(34%)
Employee benefits expense	(16.0)	(13.2)	21%	(36.9)	(57%)	(46.0)	(70.1)	(34%)
Other operating expenses	(39.6)	(35.8)	11%	(71.9)	(45%)	(111.0)	(171.1)	(35%)
EBITDA	**52.5**	**42.8**	**22%**	**(24.8)**	**n.s.**	**129.7**	**(19.2)**	**n.s.**
Forest depletion	(1.9)	(2.2)	(13%)	(1.6)	22%	(6.5)	(9.4)	(30%)
Other D&A	(15.7)	(13.3)	18%	(15.0)	5%	(42.9)	(44.1)	(3%)
Provisions and others	1.0	0.1	n.s.	(87.8)	n.s.	1.2	(115.1)	n.s.
EBIT	**35.8**	**27.4**	**30%**	**(129.3)**	**n.s.**	**81.4**	**(187.8)**	**n.s.**
Net finance cost	(20.8)	(9.6)	116%	(5.3)	291%	(35.5)	(19.0)	86%
Net gains/(loss) on non-current assets held for sale	2.3	—	n.s.	—	n.s.	2.3	—	n.s.
Profit before tax	**17.3**	**17.8**	**(3%)**	**(134.6)**	**n.s.**	**48.2**	**(206.9)**	**n.s.**
Income tax	(4.3)	(5.4)	(20%)	43.4	n.s.	(13.1)	67.1	n.s.
Net profit/(loss) for the period	**13.0**	**12.4**	**4%**	**(91.1)**	**n.s.**	**35.1**	**(139.7)**	**n.s.**
Adjusted EBITDA	**55.6**	**46.3**	**20%**	**15.7**	**253%**	**141.0**	**40.3**	**250%**
Cash cost (€/t)[d]	**363**	**368**	**(1%)**	**400**	**(9%)**	**365**	**409**	**(11%)**

(a) Includes €2 M of forestry sales done by the energy subsidiaries in 9M15

(b) Includes operations at Huelva 50MW, Merida 20MW before the acceptance deeds were signed and Huelva 41MW since November 2014

(c) supplies +/− change in inventories

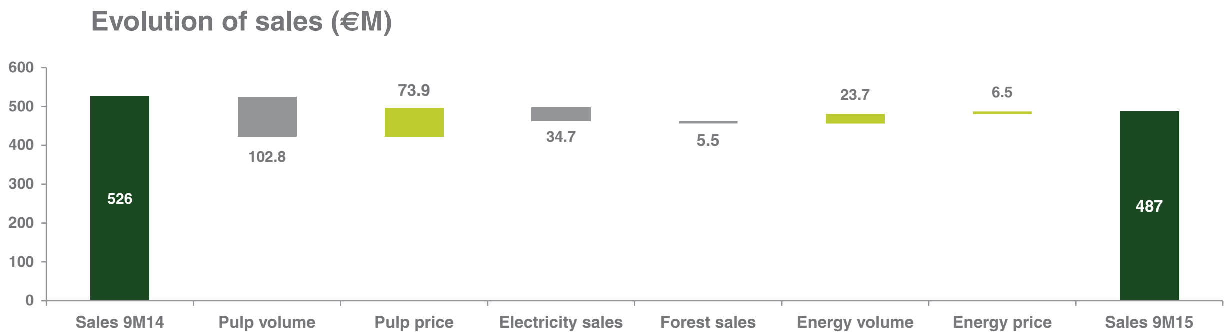
(d) This metric is not impacted by Huelva 50MW, Merida 20MW and Huelva 41MW as they are not related to the pulp business; 2Q15 cash cost figure has been adjusted retroactively by +€1/t due to the complement losses in the energy sales

Revenue decreased by 7% year-on-year to €487m.

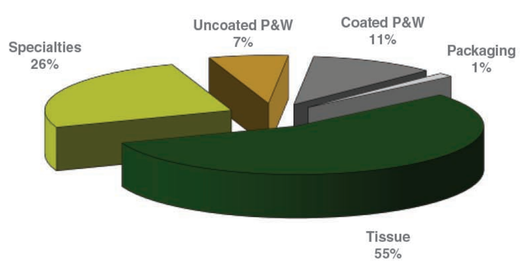
9M15 revenue from pulp sales totalled €416m, down 14% year-on-year due to a 27% drop in sales volumes derived from the closure of the Huelva mill; production at the Navia and Pontevedra mills rose 1% (up 3% adjusting for the longer stoppage at Navia this year). The net sales price in euro terms rose by 24% thanks to strong pulp prices and favourable currency trends.

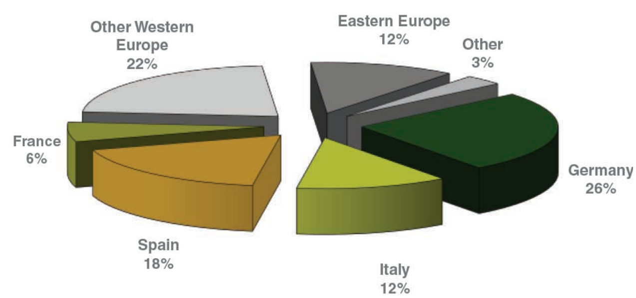
Revenue in the energy business, meanwhile, rose by 74% year-on-year to €71m in 9M15 due to a relatively higher contribution by the independent power plants and growth of 9% in average revenue from electricity sales, driven by higher pool prices; note that the 9M14 figures already reflected the impact of the tariff cuts under electricity sector reform.

4. 9M15 earnings analysis (Continued)

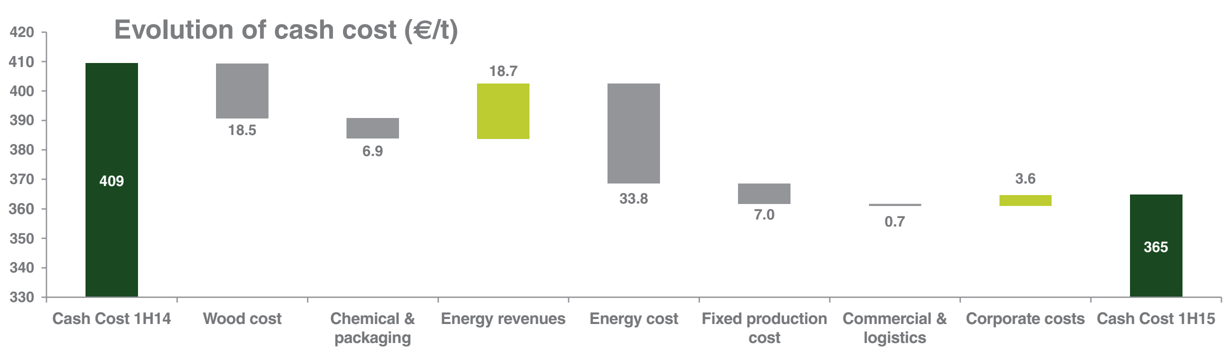


The breakdown by segment did not change substantially, with tissue paper remaining the main use for the group's pulp. Geographically, Spain accounted for a slightly higher 18% of the total (vs. 16% in 9M14), while total European sales accounted for 97% of the group total (92% in 9M14), implying a market share of close to 12%.

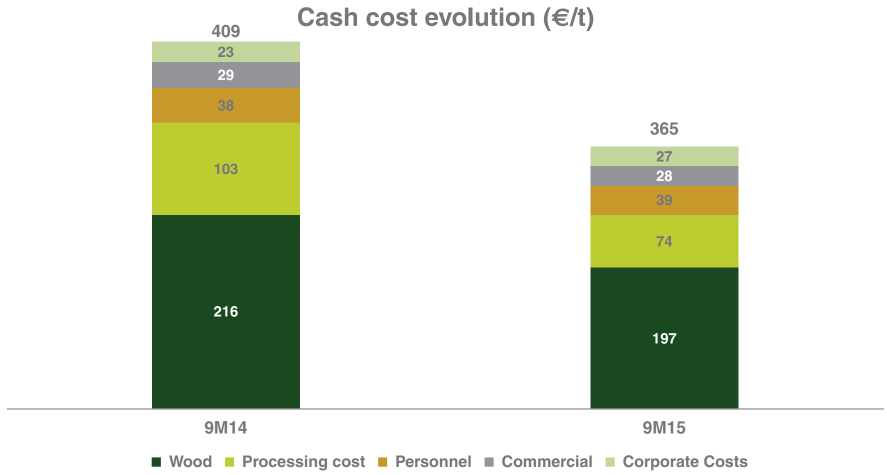




Cash costs were cut by 11% year-on-year in 9M15 to €365/t, due mainly to the discontinuation of pulp production in Huelva and implementation of efficiency measures. The improvement was concentrated in timber and energy costs but was also shaped by the dilution of fixed manufacturing overhead and lower chemicals consumption.



4. 9M15 earnings analysis (Continued)



Adjusted 9M15 EBITDA was €141m vs. €40m in 9M14. Factoring in the impact of hedges, termination benefits and provisions, 9M15 EBITDA (reported EBITDA) amounted to €130m compared to a loss of €19m in 9M14; the main adjustments relate to the cost of the expert consultant hired to support and accelerate delivery of the efficiencies deriving from the investments made and the provision for the executive bonus plan recognised in the wake of the sharp gain in the company's share price during the reporting period. The improvement in profitability is mainly attributable to higher pulp prices, higher pool prices and a €44/t reduction in production costs.

figures in €M	3Q15	2Q15	△%	3Q14	△%	9M15	9M14	△%
EBITDA	**52.5**	**42.8**	**22%**	**(24.8)**	**n.s.**	**129.7**	**(19.2)**	**n.s.**
Hedging instruments: pulp prices and exchange rates	(0.2)	0.8	n.s.	(0.1)	246%	0.3	0.4	(2%)
Non recurrent personal expenses	0.2	(0.3)	n.s.	19.2	(99%)	3.8	18.9	(80%)
Provisions and others	(0.0)	0.8	n.s.	5.0	n.s.	1.3	8.2	(85%)
Other non-recurring items	3.1	2.2	41%	16.4	(81%)	5.9	32.0	(82%)
Adjusted EBITDA	**55.6**	**46.3**	**20%**	**15.7**	**253%**	**141.0**	**40.3**	**250%**

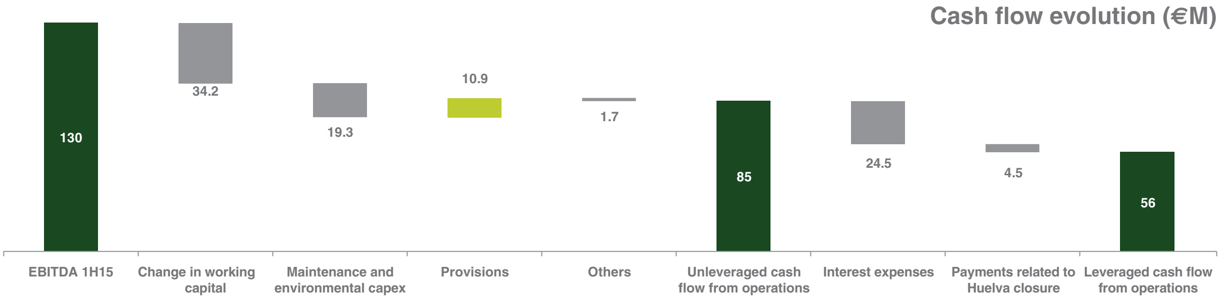
Net of depreciation and amortisation charges, net finance costs and tax, the company posted a profit of €35m in 9M15 compared to a loss of €140m in 9M14.

At the reporting date, the cash outflows related to the Huelva closure pending and fully provisioned amounted to €17m.

5. Liquidity and financing

5.1. *Cash flows*

Operating cash flow, net of maintenance capex, totalled €85m in 9M15.



Net cash flows from operating activities totalled €85m in 9M15, compared to €15m in 9M14, thanks to higher pulp prices, higher revenue from electricity sales and the collection in 1Q15 of €12m of refundable corporate tax paid on account in 2014 (refundable as a result of the losses generated by the Huelva closure and partially offset against tax expense this year). The year-on-year comparison reveals an increase in trade receivables related to the increase in pulp prices.

figures in €M	3Q15	2Q15	△%	3Q14	△%	9M15	9M14	△%
Consolidated profit/(loss) for the period before tax	**17.3**	**17.8**	**(3%)**	**(134.6)**	**n.s.**	**48.2**	**(206.9)**	**n.s.**
Depreciation and amortisation charge	17.6	15.5	14%	16.6	6%	49.5	53.4	(7%)
Finance income/costs	20.9	9.4	124%	7.1	195%	35.6	20.8	72%
Increase/decrease other deferred income/costs	(0.1)	(2.4)	(94%)	131.6	n.s.	5.7	172.8	(97%)
Adjustments of profit for the year-	**38.4**	**22.4**	**71%**	**155.3**	**(75%)**	**90.8**	**247.0**	**(63%)**
Trade and other receivables	(16.1)	4.1	n.s.	(1.7)	n.s.	(26.3)	8.9	n.s.
Current financial and other assets	0.8	0.1	411%	0.4	110%	0.7	3.0	(76%)
Trade and other payables	(12.9)	13.7	n.s.	(9.1)	42%	(12.5)	(23.6)	(47%)
Inventories	(2.3)	(3.5)	(34%)	10.4	n.s.	(0.6)	6.6	n.s.
Changes in working capital-	**(30.5)**	**14.4**	**n.s.**	**0.1**	**n.s.**	**(38.7)**	**(5.1)**	**n.s.**
Interest paid/received	(9.1)	(5.6)	63%	(8.6)	5%	(24.3)	(20.1)	21%
Income tax recovered (paid)	(0.0)	(2.3)	(99%)	—	n.s.	9.3	—	n.s.
Other cash flows from operating activities	**(9.1)**	**(7.9)**	**15%**	**(8.6)**	**6%**	**(15.0)**	**(20.1)**	**(25%)**
Net cash flows from operating activities	**16.1**	**46.8**	**(66%)**	**12.2**	**32%**	**85.3**	**15.0**	**470%**

Cash used in investing activities amounted to €32m in 9M15 vs. €43m in 9M14, down 26% year -on-year due to proceeds from disposals this year. This year the group has closed the sale of forest land for €8m and collected €1m upfront on additional sales agreed totalling €9m.

figures in €M	3Q15	2Q15	△%	3Q14	△%	9M15	9M14	△%
Property, plant and equipment	(23.7)	(7.3)	226%	(16.0)	49%	(38.2)	(40.3)	(5%)
Intangible assets	(0.7)	(0.2)	174%	(0.6)	20%	(2.5)	(2.7)	(10%)
Other financial assets	(0.2)	0.1	n.s.	(0.2)	(8%)	(0.1)	0.0	n.s.
Investments	**(24.6)**	**(7.4)**	**233%**	**(16.8)**	**47%**	**(40.8)**	**(43.0)**	**(5%)**
Disposals	**5.2**	**3.6**	**44%**	**—**	**n.s.**	**8.9**	**0.1**	**n.s.**
Net cash flows from investing activities	**(19.4)**	**(3.8)**	**415%**	**(16.8)**	**16%**	**(31.9)**	**(42.9)**	**(26%)**

Cash outflows from financing activities amounted to €4m in 9M15, compared to an inflow of €26m in 9M14 (which was due to the maturity of a €45m investment in 12-month deposits made in 2Q13 using the proceeds from the Uruguay disposal).

5. Liquidity and financing (Continued)

Gross borrowings increased by €25m from year-end, mainly due to the arrangement of two €15m bank loans to take advantage of prevailing low interest rates and the buyback of 10% of the €250 bond issue placed in 2013. In addition, the renegotiation of the biomass project finance facilities enabled the company to draw down an additional €30m under the related credit lines. Other cash outflows included a €25m dividend payment and a €3.3m payment upon maturity of the existing equity swap, which was offset by proceeds from the sale of own shares totalling €4m.

figures in €M	3Q15	2Q15	△%	3Q14	△%	9M15	9M14	△%
Proceeds from and payments for equity instrument	**—**	**0.0**	**(100%)**	**(2.4)**	**(100%)**	**4.0**	**(4.4)**	**n.s.**
Bonds and other marketable securities (net)	—	(25.0)	(100%)	0.0	(100%)	(25.0)	0.0	n.s.
Increase/(decrease) in bank borrowings (net)	42.0	10.5	300%	0.3	n.s.	52.6	4.6	n.s.
Other financial liabilities	0.9	(0.0)	n.s.	0.0	n.s.	(2.4)	(0.5)	387%
Proceeds from and repayments of financial liabilities	**42.9**	**(14.5)**	**n.s.**	**0.3**	**n.s.**	**25.1**	**4.1**	**n.s.**
Dividends and payments on other equity instruments	**(0.0)**	**(24.9)**	**(100%)**	**(19.4)**	**(100%)**	**(24.9)**	**(19.4)**	**28%**
Translation differences	**(0.0)**	**0.0**	**n.s.**	**0.1**	**n.s.**	**0.0**	**0.1**	**(93%)**
Fixed-term deposit	—	—	n.s.	—	n.s.	—	45.0	(100%)
Other cash received from (used in) financing activities	**—**	**—**	**n.s.**	**—**	**n.s.**	**—**	**45.0**	**(100%)**
Net cash flows from financing activities	**42.9**	**(39.4)**	**n.s.**	**(21.3)**	**n.s.**	**4.3**	**25.5**	**(83%)**

In all, the company's cash balance rose by €58m to €130m at the 9M15 close; this figure rises to €138m factoring in short-term financial investments.

figures in €M	3Q15	2Q15	△%	3Q14	△%	9M15	9M14	△%
Increase/decrease in cash and cash equivalents	**3.7**	**39.6**	**(91%)**	**(25.9)**	**n.s.**	**57.6**	**(2.5)**	**n.s.**

5.2. *Working capital*

The working capital requirement amounted to €13m in 9M15, compared to a €14m surplus in 9M14, shaped by significant changes in inventories and taxes payable related to the drop in volumes in the wake of closure of the Huelva mill, as well as the refund of corporate income tax paid on account in connection with the losses generated by the closure.

figures in €M	3Q15	2Q15	△%	3Q14	△%	9M15	9M14	△%
Inventories	35.9	34.1	5%	53.4	(33%)	35.9	53.4	(33%)
Trade and other receivables	121.7	104.2	17%	103.8	17%	121.7	103.8	17%
Income tax receivable	0.1	0.3	(56%)	11.6	(99%)	0.1	11.6	(99%)
Other current financial assets	7.8	8.5	(9%)	7.9	(2%)	7.8	7.9	(2%)
Other accounts receivables from public authorities	15.0	16.7	(10%)	13.4	12%	15.0	13.4	12%
Other current assets	1.7	3.0	(44%)	2.6	(35%)	1.7	2.6	(35%)
Trade and other payables (a)	(150.6)	(167.8)	(10%)	(165.6)	(9%)	(150.6)	(165.6)	(9%)
Income tax payable	(10.5)	(6.7)	56%	(0.1)	n.s.	(10.5)	(0.1)	n.s.
Other accounts payable to public authorities	(7.7)	(7.0)	10%	(10.9)	(29%)	(7.7)	(10.9)	(29%)
Other current liabilities	(0.0)	(0.0)	—	(2.7)	(100%)	(0.0)	(2.7)	(100%)
Working capital	**13.4**	**(14.7)**	**n.s.**	**13.7**	**(2%)**	**13.4**	**13.7**	**(2%)**
Change in WC as per cash flow statement	**(30.5)**	**14.4**	**n.s.**	**10.2**	**n.s.**	**(8.2)**	**(5.1)**	**59%**

(a) the provision for the revenue restatement in the wake of the new regulations is included within trade accounts payable

5. Liquidity and financing (Continued)

5.3. *Capital expenditure*

Capital expenditure in the pulp business (industrial and forestry) amounted to €49m in 9M15, up €17m from 9M14, and was earmarked mainly to investments designed to make the plants more cost-efficient. This figure includes €23m corresponding to part of the effort to enhance efficiency and expand capacity at the Navia complex, work that was carried out in June. As of the reporting date, €76m of assets at the Huelva plant and nearby eucalyptus plantations have been reclassified as "Non-current assets held for sale".

figures in €M	3Q15	2Q15	△%	3Q14	△%	9M15	9M14	△%
Maintenance	4.6	4.8	(5%)	2.4	90%	10.4	5.9	78%
Improvements in efficiency/production	14.3	4.8	196%	6.5	119%	23.4	14.1	66%
Environmental	0.9	2.7	(67%)	0.4	136%	4.2	1.1	277%
Industrial capex, pulp	**19.8**	**12.4**	**60%**	**9.4**	**112%**	**38.0**	**21.0**	**81%**
Plantation and maintenance activity	0.5	1.1	(53%)	0.7	(32%)	2.3	1.2	94%
Financial expenses	—	—	n.s.	0.3	(100%)	—	1.0	(100%)
Forestry capex, pulp	**0.5**	**1.1**	**(53%)**	**1.1**	**(53%)**	**2.3**	**2.2**	**4%**
Industrial capex, biomass	**1.9**	**3.1**	**(40%)**	**(0.1)**	**n.s.**	**5.1**	**5.7**	**(10%)**
Forestry capex, biomass	**0.9**	**1.4**	**(37%)**	**0.5**	**75%**	**3.6**	**3.0**	**20%**
Total capital expenditure	**23.1**	**18.0**	**28%**	**10.8**	**113%**	**49.0**	**31.9**	**54%**

6. Net finance cost and net debt

6.1. *Net finance cost*

Finance costs (excluding capitalised borrowing costs but including payments related to interest rate hedges) amounted to nearly €21m, somewhat below the 9M14 figure due to a reduced interest burden in the wake of the repurchase of 10% of the 2013 bond issue. The equity swap, which was cancelled on 15 March, had a positive impact thanks to the share price recovery.

The net finance cost attributable to the energy projects increased by €15m in 9M15 as the refinancing of the associated project finance facilities triggered the arrangement of related interest rate hedges (€12m) and the recognition of the arrangement fees (€3m). In all, net finance cost (at the corporate level) increased by 11% year- on-year to €16m.

figures in €M	3Q15	2Q15	△%	3Q14	△%	9M15	9M14	△%
Interest on bond	(4.1)	(5.1)	(21%)	(4.5)	(10%)	(13.8)	(13.6)	1%
Interest on loans	(1.6)	(1.6)	(2%)	(1.4)	13%	(4.7)	(4.4)	7%
Interest on factoring and reverse factoring lines	(0.2)	(0.3)	(28%)	(0.3)	(20%)	(0.8)	(1.0)	(15%)
Capitalization of borrowing costs	0.0	0.0	—	0.8	(97%)	0.1	2.9	(97%)
Finance costs	**(5.9)**	**(7.1)**	**(17%)**	**(5.4)**	**9%**	**(19.2)**	**(16.1)**	**19%**
Settlement of interest under IRS	0.1	(0.8)	n.s.	(0.8)	n.s.	(1.5)	(2.2)	(31%)
Change in fair value of IRS	(12.2)	—	n.s.	—	n.s.	(12.2)	—	n.s.
Financial expenses for equity swap	—	0.0	(100%)	(0.2)	(100%)	1.0	(1.5)	n.s.
Net gain/(loss) on hedges (IRS and equity swap)	**(12.1)**	**(0.8)**	**n.s.**	**(1.0)**	**n.s.**	**(12.7)**	**(3.7)**	**240%**
Debt redepmtion expense	**—**	**(1.4)**	**(100%)**	**—**	**n.s.**	**—**	**—**	**n.s.**
Net exchange differences	**0.1**	**(0.8)**	**n.s.**	**1.4**	**(95%)**	**0.8**	**1.8**	**(57%)**
Other financial expenses	**(2.9)**	**(0.5)**	**n.s.**	**(0.7)**	**349%**	**(4.6)**	**(1.9)**	**139%**
Financial income	**0.1**	**0.1**	**(6%)**	**0.3**	**(72%)**	**0.2**	**0.9**	**(77%)**
Net finance cost	**(20.8)**	**(10.4)**	**101%**	**(5.3)**	**291%**	**(35.5)**	**(19.0)**	**86%**
Interests on non recourse debt	(15.6)	(1.9)	n.s.	(1.6)	n.s.	(19.4)	(4.6)	323%
Net finance cost excluding project finance facilities	**(5.2)**	**(8.5)**	**(39%)**	**(3.7)**	**41%**	**(16.1)**	**(14.5)**	**11%**

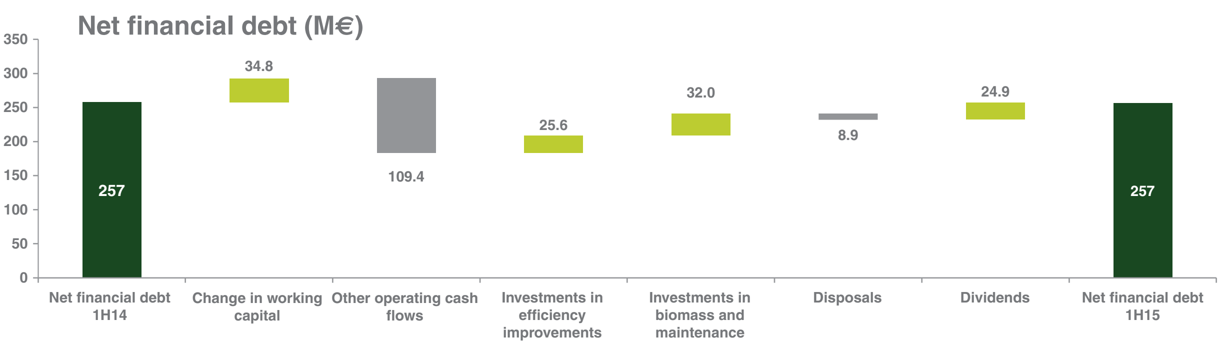
6. Net finance cost and net debt (Continued)

6.2. *Net debt*

At the 9M15 close, net recourse debt (i.e., excluding gross borrowings under the project finance facilities associated with the energy projects) amounted to €155m, up 5% from the 9M14 close, due to the cost of closing the Huelva mill and the investments made in efficiency at the Navia complex. Compared to year-end, borrowings declined by 13% thanks to cash flow generation year-to-date, which more than offset the €25m dividend payment. Total net debt, including non-recourse debt, stood at €257m, in line with the year-end 2014 level.

figures in €M	3Q15	2Q15	△%	3Q14	△%	9M15	9M14	△%
Bond	225.0	225.0	—	250.0	(10%)	225.0	250.0	(10%)
Bonds—arrangement fees	(6.2)	(6.5)	(5%)	(8.3)	(25%)	(6.2)	(8.3)	(25%)
Bank borrowings	30.0	15.1	99%	0.4	n.s.	30.0	0.4	n.s.
Other financial liabilities	8.1	8.9	(9%)	10.2	(21%)	8.1	10.2	(21%)
Other financial liabilities—grant	(0.8)	(0.9)	(7%)	(1.1)	(25%)	(0.8)	(1.1)	(25%)
Non-current borrowings	**256.1**	**241.5**	**6%**	**251.2**	**2%**	**256.1**	**251.2**	**2%**
Bonds—accrued interest	2.4	6.4	(63%)	2.5	(6%)	2.4	2.5	(6%)
Bank borrowings	0.4	0.4	—	0.4	—	0.4	0.4	—
Bank borrowings—accrued interest	0.3	0.1	121%	0.1	402%	0.3	0.1	402%
Other financial liabilities	2.0	1.9	4%	1.1	87%	2.0	1.1	87%
Other financial liabilities—accrued interest	0.1	0.0	34%	0.1	(3%)	0.1	0.1	(3%)
Current borrowings	**5.1**	**8.9**	**(43%)**	**4.1**	**24%**	**5.1**	**4.1**	**24%**
Total gross borrowings	**261.2**	**250.5**	**4%**	**255.3**	**2%**	**261.2**	**255.3**	**2%**
Cash hold by pulp business	98.5	81.1	22%	99.5	(1%)	98.5	99.5	(1%)
Short-term financial investments	7.8	8.5	(9%)	7.9	(2%)	7.8	7.9	(2%)
Total net debt (recourse)	**154.8**	**160.8**	**(4%)**	**147.9**	**5%**	**154.8**	**147.9**	**5%**
Non-current, non-recourse debt	121.8	95.7	27%	105.0	16%	121.8	105.0	16%
Non-current, non-recourse debt—arrangement fees	(2.4)	(2.5)	(5%)	(2.8)	(17%)	(2.4)	(2.8)	(17%)
Current non-recourse debt	13.2	9.0	47%	7.0	89%	13.2	7.0	89%
Current non-recourse debt—arrangement fees	—	(0.5)	(100%)	(0.5)	(100%)	—	(0.5)	(100%)
Current non-recourse debt—accrued interest	0.6	0.6	(8%)	2.3	(74%)	0.6	2.3	(74%)
Cash hold by energy business	31.5	10.4	202%	1.4	n.s.	31.5	1.4	n.s.
Total net debt	**256.5**	**252.8**	**1%**	**257.5**	**(0%)**	**256.5**	**257.5**	**(0%)**

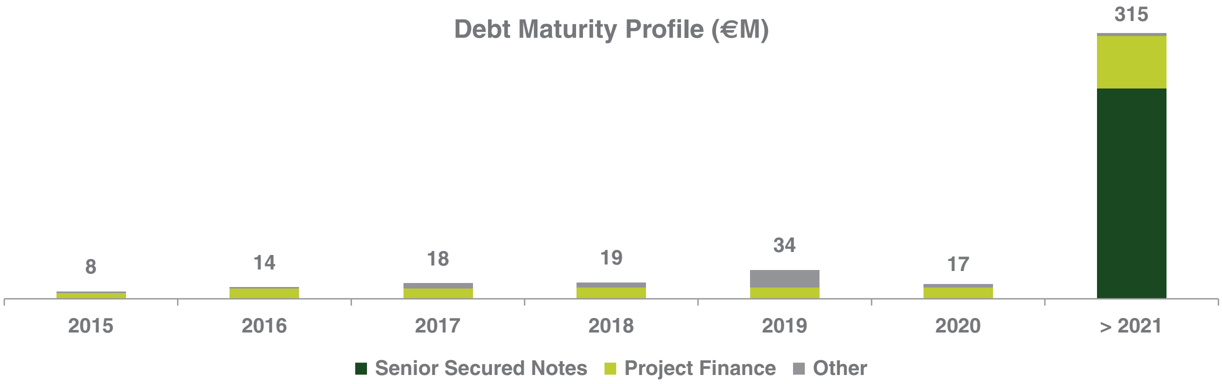
In addition, the company has discounting facilities with a limit of €70m, which were drawn down by €36m at the reporting date (by €36m at year-end 2014). In terms of liquidity other than the company's cash on hand, it also had an undrawn €90m credit line at the reporting date.



The group does not face significant refinancing requirements until 2022, which is when the €250m of bonds issued in February 2013 and refinanced in October 2015.

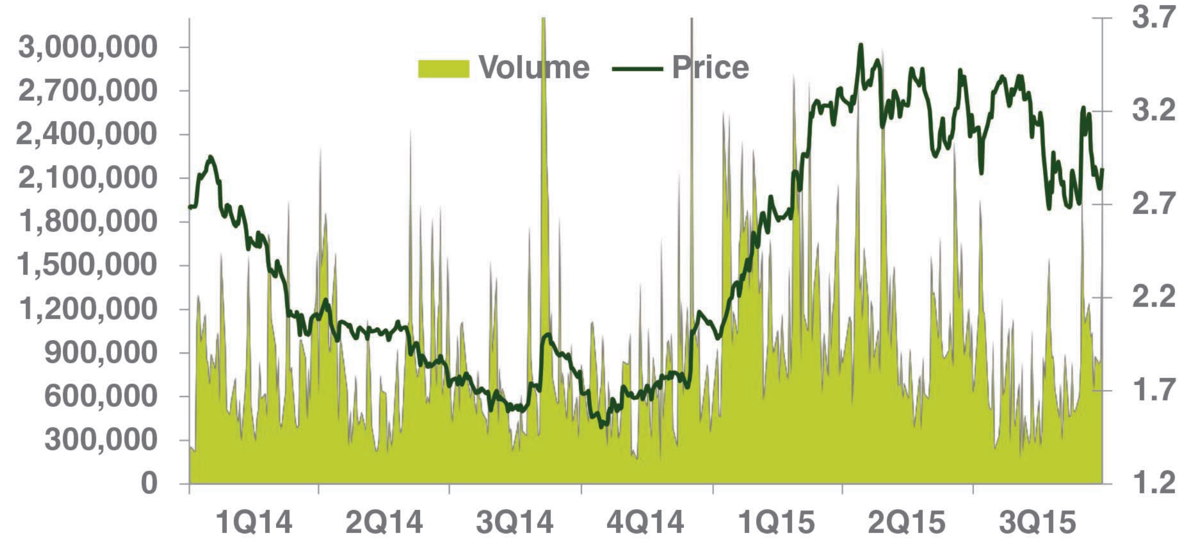
Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails

6. Net finance cost and net debt (Continued)



7. Share price performance

The share price gained a noteworthy 40% in 9M15, outperforming the Spanish and European stock markets by 47% and 41%, respectively.



Source: Thomson Reuters

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15
Average daily volume (shares)	808,674	878,515	829,628	790,434	1,382,498	1,094,473	805,633
Ence performance	(23%)	(13%)	(3%)	17%	60%	(7%)	(6%)
Ibex 35 performance	4%	6%	(1%)	(5%)	12%	(7%)	(11%)
Eurostoxx performance	2%	1%	(0%)	(2%)	18%	(8%)	(9%)

Note: Ence's share price performance has been adjusted for the €0.08 per share dividend paid on 11 July 2014 and the €0.10 per share dividend paid on 8 May 2015; it has not been adjusted for the in-kind dividend paid on 21 July 2014, which had the effect of increasing the total shareholder return by 3%.

Ence's shares are part of the IBEX Medium Cap, the IBEX Top Dividendo and FTSE4Good Ibex indices.

7. Share price performance (Continued)

In addition to having its shares publicly traded, in January 2013, the Company issued €250m of 7.25% bonds due 2020. In October 2015, it refinanced these bonds with a new €250m issue of 3.735% bonds due 2022 using the proceeds generated to the optional redemption of the bond issued in 2013.

From time to time ENCE may buy back its bonds on the secondary market. Any such buyba ck 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.

8. 2015 milestones

€0.10 dividend per share

Ence's shareholders approved a cash dividend of €0.10 per share at the Annual General Meeting held on 28 April 2015 (charged against the share premium account); the dividend was paid on 8 May 2015. The yield implied by this dividend was 3% at the time of the shareholder resolution.

Cancellation of 10% of the €250m 7.25% bonds

On 28 April 2015, Ence announced its decision to exercise its right to buy back 10% of the €250m bond issue carried out in February 2013. The bonds were bought back at a premium of 3% to face value and the bondholders were paid on 4 June 2015. The rationale for the decision was to reduce the Company's borrowing costs against the backdrop of growth in the wake of the momentum created by the cost-cutting and competitiveness enhancement programmes implemented by it, higher pulp prices and favourable exchange rates.

Refinanciación de los Project Finance

The company closed the refinancing of the project finance facilities funding the 50-MW Huelva and 20-MW Merida plants on 31 July. As a result, the total amount drawn down has increased by €30m and the borrowing cost (including interest rate hedges) has decreased by 100bps; in addition, recourse to the pulp business has been eliminated.

€0.044/share interim dividend

On 30 September 2015, the Board of Directors approved an interim dividend from 2015 profits of €0.044/share (before withholdings), which was paid out on 7 October. The yield implied by this dividend was 1.5% at the time of the shareholder resolution.

Refinancing of the €250m of 7.25% bonds issued in February 2013

In October, Ence successfully refinanced the bonds issued in February 2013 with a new €250m issue of 5.375% bonds due November 2022. In parallel, it refinanced the revolving credit facility associated with the new bonds due October 2020, bringing down its cost by 175 basis points.

9. Financial statements

Income Statement

figures in €M	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15
Revenue	**170.3**	**168.0**	**187.4**	**161.8**	**687.5**	**156.3**	**156.9**	**173.5**
Cost of sales	(101.1)	(92.9)	(108.0)	(77.4)	(379.4)	(66.9)	(62.8)	(71.8)
Changes in inventories of finished goods	1.3	(7.5)	4.5	(8.5)	(10.1)	(2.4)	(2.3)	6.3
Gross profit	**70.5**	**67.6**	**83.9**	**75.9**	**298.0**	**86.9**	**91.8**	**108.0**
Own work capitalised	2.7	1.2	(0.4)	2.6	6.2	2.0	2.8	1.6
Other income	2.4	3.8	3.7	2.2	12.1	2.5	1.5	2.3
Net gain/(loss) on hedging transactions	—	(0.4)	0.1	0.4	0.0	0.2	(0.8)	0.2
Employee benefits expense	(16.3)	(16.9)	(36.9)	(16.9)	(87.0)	(16.8)	(13.2)	(16.0)
Other operating expenses	(50.8)	(58.2)	(75.2)	(43.3)	(227.6)	(40.4)	(39.3)	(43.6)
EBITDA	**8.5**	**(2.9)**	**(24.8)**	**20.9**	**1.7**	**34.4**	**42.8**	**52.5**
EBITDA margin	**5.0%**	**(1.7%)**	**(13.3%)**	**12.9%**	**0.2%**	**22.0%**	**27.3%**	**30.2%**
Depreciation and amortisation	(16.3)	(12.8)	(15.0)	(15.4)	(59.5)	(14.0)	(13.3)	(15.7)
Forestry Depletion	(4.8)	(3.0)	(1.6)	(0.3)	(9.7)	(2.4)	(2.2)	(1.9)
Impairment of and gains/(losses) on fixed-asset disposals	(1.5)	(25.9)	(87.8)	14.0	(101.2)	0.1	0.1	1.0
EBIT	**(14.1)**	**(44.5)**	**(129.3)**	**19.2**	**(168.6)**	**18.2**	**27.4**	**35.8**
EBIT margin	**(8.3%)**	**(26.5%)**	**(69.0%)**	**11.9%**	**(24.5%)**	**11.6%**	**17.5%**	**20.6%**
Finance income	0.4	0.2	0.3	0.2	1.1	0.0	0.1	0.1
Finance costs	(7.7)	(6.7)	(5.6)	(7.8)	(27.7)	(5.1)	(9.7)	(20.9)
Non-Current Assets result classified as kept for Sale	—	—	—	—	—	—	—	2.3
Profit before tax	**(21.3)**	**(51.0)**	**(134.6)**	**11.6**	**(195.3)**	**13.1**	**17.8**	**17.3**
Income tax	6.6	17.2	43.4	(2.3)	64.8	(3.4)	(5.4)	(4.3)
Restatement of deferred tax assets	—	—	—	(10.4)	(10.4)	—	—	—
Net profit/(loss)	**(14.8)**	**(33.8)**	**(91.1)**	**(1.2)**	**(140.9)**	**9.7**	**12.4**	**13.0**

9. Financial statements (Continued)

Balance Sheet

figures in €M	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15
Property, plant and equipment	923.0	901.1	803.1	734.2	734.2	723.2	725.4	731.6
Intangible assets	20.9	12.8	12.5	13.7	13.7	15.6	10.3	10.5
Non-current financial assets	2.8	2.7	2.9	3.0	3.0	3.0	2.8	3.1
Other non-current assets	42.5	57.0	100.9	81.6	81.6	80.9	79.2	74.9
Total fixed assets	**989.2**	**973.5**	**919.4**	**832.5**	**832.5**	**822.7**	**817.7**	**820.0**
Inventories	74.4	70.1	53.4	37.9	37.9	34.2	34.1	35.9
Trade other accounts receivable	137.6	113.6	117.3	110.2	110.2	125.6	120.9	136.7
Cash and other short-term financial assets	137.7	135.1	108.8	81.9	81.9	96.5	100.1	137.9
Current derivatives	—	—	—	1.0	1.0	0.3	—	0.7
Other current assets	12.0	15.0	14.2	13.3	13.3	2.6	3.3	1.8
Non-current assets held for sale	—	—	—	77.4	77.4	78.8	75.9	71.6
Total current assets	**361.7**	**333.9**	**293.7**	**321.7**	**321.7**	**338.0**	**334.2**	**384.6**
Total assets	**1,350.9**	**1,307.4**	**1,213.1**	**1,154.2**	**1,154.2**	**1,160.7**	**1,151.9**	**1,204.6**
Equity	**694.0**	**638.2**	**545.0**	**542.9**	**542.9**	**555.3**	**544.3**	**553.7**
Non-current borrowings	349.4	351.6	353.4	348.6	348.6	348.4	334.8	375.5
Non-current provisions	19.5	5.2	6.6	11.1	11.1	14.6	8.8	9.0
Non-current derivatives	6.2	7.1	8.4	8.1	8.1	9.1	6.8	8.5
Other non-current liabilities	42.9	41.9	41.9	33.0	33.0	32.9	32.0	32.4
Total non-current liabilities	**418.0**	**405.7**	**410.3**	**400.8**	**400.8**	**405.0**	**382.4**	**425.3**
Current borrowings	12.3	16.4	12.9	17.7	17.7	15.8	18.1	18.9
Trade payables(a)	194.5	180.7	165.6	144.6	144.6	141.1	167.8	150.6
Current provisions	6.7	14.5	32.2	23.8	23.8	21.9	14.0	16.2
Current derivatives	6.6	7.5	7.4	7.4	7.4	3.2	3.7	2.7
Other current liabilities(b)	18.8	44.4	39.8	16.9	16.9	18.4	21.8	37.2
Total current liabilities	**238.9**	**263.5**	**257.9**	**210.4**	**210.4**	**200.4**	**225.3**	**225.6**
Total equity and liabilities	**1,350.9**	**1,307.4**	**1,213.1**	**1,154.2**	**1,154.2**	**1,160.7**	**1,151.9**	**1,204.6**

(a) Amount of €8.9M were reclassified from current provisions to trade payables in 1Q14 in connection with the retroactive restatement of revenue in the wake of passage of the new regulatory framework

(b) The 2Q14 figure includes €19.6M of dividends payable

9. Financial statements (Continued)

Cash Flow Statement

figures in €M	1Q14	2Q14	3Q14	4Q14	2014	1Q15	2Q15	3Q15
Consolidated profit/(loss) for the period before tax	**(21.3)**	**(51.0)**	**(134.6)**	**11.6**	**(195.3)**	**13.1**	**17.8**	**17.3**
Depreciation	16.1	12.7	14.9	15.2	58.9	13.7	12.9	15.1
Depletion of forest reserve	4.8	3.0	1.6	0.3	9.7	2.4	2.2	1.9
Amortisation	0.1	0.1	0.1	0.2	0.6	0.2	0.4	0.6
Impairment of and gains/(losses) on disposals intangible assets and PP&E	1.5	25.7	87.1	(13.1)	101.2	(0.2)	(0.2)	(2.3)
Finance costs	7.3	7.0	7.4	7.8	29.5	5.4	9.5	21.0
Finance income	(0.4)	(0.2)	(0.3)	(0.2)	(1.1)	(0.0)	(0.1)	(0.1)
Government grants taken to income	(0.3)	(0.4)	(0.3)	(0.3)	(1.3)	(0.4)	(0.6)	(0.4)
Changes in provisions and other deferred expense (net)	8.5	6.3	44.7	(26.7)	32.8	8.8	(1.6)	2.5
Adjustments to profit	**37.6**	**54.2**	**155.3**	**(16.8)**	**230.3**	**29.9**	**22.4**	**38.4**
Trade and other receivables	(5.3)	15.9	(1.7)	5.0	13.9	(14.3)	4.1	(16.1)
Current financial and other assets	1.3	1.3	0.4	(0.6)	2.4	(0.2)	0.1	0.8
Trade and other payables	(3.9)	(10.5)	(9.1)	(18.4)	(41.9)	(13.3)	13.7	(12.9)
Inventories	(7.5)	3.6	10.4	17.9	24.5	5.2	(3.5)	(2.3)
Changes in working capital	**(15.4)**	**10.2**	**0.1**	**3.9**	**(1.2)**	**(22.6)**	**14.4**	**(30.5)**
Interest paid	(8.9)	(3.3)	(8.9)	(4.2)	(25.2)	(9.7)	(5.6)	(9.1)
Interest received	0.4	0.2	0.3	0.2	1.1	0.0	0.1	0.1
Income tax received/(paid)	—	—	—	(0.2)	(0.2)	11.6	(2.3)	(0.0)
Other cash flows from operating activities	**(8.5)**	**(3.0)**	**(8.6)**	**(4.2)**	**(24.3)**	**1.9**	**(7.9)**	**(9.1)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**(7.6)**	**10.4**	**12.2**	**(5.5)**	**9.5**	**22.4**	**46.8**	**16.1**
Property, plant and equipment	(11.8)	(12.4)	(16.0)	(15.5)	(55.7)	(7.2)	(7.3)	(23.7)
Intangible assets	(1.4)	(0.8)	(0.6)	(1.4)	(4.1)	(1.5)	(0.2)	(0.7)
Other financial assets	0.1	0.1	(0.2)	(0.0)	(0.0)	(0.0)	0.1	(0.2)
Investments	**(13.1)**	**(13.1)**	**(16.8)**	**(16.9)**	**(59.8)**	**(8.8)**	**(7.4)**	**(24.6)**
Property, plant and equipment	—	0.1	—	—	0.1	—	3.6	4.2
Other financial assets	—	—	—	—	—	—	—	—
Disposals	**—**	**0.1**	**—**	**—**	**0.1**	**—**	**3.6**	**5.2**
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(13.1)**	**(13.1)**	**(16.8)**	**(16.9)**	**(59.8)**	**(8.8)**	**(3.8)**	**(19.4)**
Buyback of own equity instruments	(0.5)	(1.6)	(2.4)	(1.6)	(6.1)	(0.3)	0.0	—
Disposal of own equity instruments	0.1	0.0	—	—	0.2	4.3	—	—
Proceeds from and payments for equity instruments	**(0.4)**	**(1.6)**	**(2.4)**	**(1.6)**	**(5.9)**	**4.0**	**0.0**	**—**
Issuance of bonds and other marketable securities (net)	(0.0)	0.0	0.0	(0.0)	—	(0.0)	(25.0)	—
Increase/(decrease) in bank borrowings (net)	1.5	2.8	0.3	(3.5)	1.1	0.1	10.5	42.0
Grants received	0.8	0.0	(2.2)	2.2	0.9	—	—	2.0
Other financial liabilities	(1.3)	(0.0)	2.2	(2.2)	(1.3)	(3.3)	(0.0)	(1.1)
Proceeds from and repayments of financial liabilities	**0.9**	**2.8**	**0.3**	**(3.4)**	**0.6**	**(3.2)**	**(14.5)**	**42.9**
Dividends	—	—	(19.4)	—	(19.4)	—	(24.9)	(0.0)
Dividends payments	**—**	**—**	**(19.4)**	**—**	**(19.4)**	**—**	**(24.9)**	**(0.0)**
Translation differences	**(0.0)**	**0.0**	**0.1**	**(0.1)**	**0.0**	**0.0**	**0.0**	**(0.0)**
Fixed-term deposit	45.0	—	—	—	45.0	—	—	—
Other cash received from (used in) financing activities	**45.0**	**—**	**—**	**—**	**45.0**	**—**	**—**	**—**
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	**45.5**	**1.3**	**(21.3)**	**(5.1)**	**20.4**	**0.8**	**(39.4)**	**42.9**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**24.8**	**(1.4)**	**(25.9)**	**(27.5)**	**(30.0)**	**14.4**	**3.7**	**38.6**

10. Appendices

10.1. *Income Statement by segment—September 2015*

figures in €M	PULP	ENERGY	ADJUSTMENTS	CONSOLIDATED
Revenue	**415.9**	**72.1**	**(1.2)**	**486.7**
Cost of sales	(184.5)	(18.2)	1.2	(201.5)
Changes in inventories of finished goods	1.5	—	(0.0)	1.5
Gross profit	**232.9**	**53.9**	**(0.0)**	**286.8**
Own work capitalised	2.8	3.6	0.0	6.4
Other income (a)	11.8	0.0	(5.5)	6.3
Net gain/(loss) on hedging transactions	(0.3)	(0.0)	0.0	(0.3)
Employee benefits expense	(46.0)	—	—	(46.0)
Other operating expenses[(a)]	(103.3)	(24.3)	4.3	(123.3)
EBITDA	**97.9**	**33.1**	**(1.3)**	**129.7**
EBITDA margin	**23.5%**	**46.0%**		**79.6%**
Depreciation and amortisation	(36.7)	(6.2)	—	(42.9)
Forestry Depletion	(4.8)	(1.9)	0.2	(6.5)
Impairment of and gains/(losses) on fixed-asset disposals	1.0	(0.0)	0.2	1.2
EBIT	**57.3**	**25.0**	**(0.9)**	**81.4**
EBIT margin	**13.8%**	**34.8%**		**49.8%**
Finance income[(b)]	3.7	3.5	(7.0)	0.2
Finance costs[(b)]	(20.6)	(23.4)	8.3	(35.7)
Non-Current Assets result classified as kept for Sale	2.3	—	—	2.3
Profit before tax	**42.7**	**5.1**	**0.4**	**48.2**
Income tax	(11.7)	(1.4)	0.0	(13.1)
Restatement of deferred tax assets	—	—	—	—
Net profit/(loss)	**31.0**	**3.7**	**0.4**	**35.1**

(a) includes the sale of biomass and services provided by the parent to the energy business

(b) includes interests related to intragroup loans

Note: EBITDA in the pulp business includes €8m of expenses associated with operation of the furnace and auxiliary equipment which also service the 41-MW Huelva generator. The idea is to transfer these assets to the energy business in the months to come, which will increase EBITDA in the pulp business by this amount and reduce EBITDA in the energy business accordingly.

10.2. *Remuneration parameters applicable to the ENCE Group's facilities*

Facility	Type of facility	MW	Remuneration to investment 2015 (Ri; €/MW)	Type of fuel	Remuneration to operation 2015 (Ro; €/MW)	Maximum of sale hours per MW under tariff
Navia	Biomass co-generation	40.3	—	Black liquor	29,616	—
	Biomass generation	36.7	230,244	Forestry waste	54,361	6,500
Pontevedra	Biomass co-generation	34.6	49,945	Black liquor	29,616	—
				Forestry waste	54,126	6,500
Huelva	Biomass co-generation	27.5	—	Black liquor	29,616	—
	Natural gas co-generation	49.9	—	Natural gas	43,634	—
	Biomass generation[(b)]	41.1	305,543	Forestry waste	59,793	6,500
Huelva 50MW	Biomass generation	50.0	266,452	Forestry waste	52,721	6,500
Mérida 20MW	Biomass generation	20.0	293,579	Forestry waste	51,106	6,500

(a) The turbine operates according to a combination of steam from a recovery boiler and a biomass boiler

10. Appendices (Continued)

The remuneration deriving from the new remuneration regime is calculated as follows:

- **Ri (remuneration on investment):** annual remuneration per gross installed MW, generating an annual payment which is the product of this parameter and gross installed capacity (MW)

  Investment income = MW * Ri

- **Ro (remuneration for operations):** remuneration per MWh sold incremental to the pool price fetched, generating income calculated by adding this supplement to the pool price and multiplying the result by sales volumes in MWh

  Income from operations = (Ro + pool) * MWh

  Sales volumes in MWh may not exceed the product of a facility's gross installed capacity (MW) and the annual cap on hourly impact (there is no cap in the case of co-generation facilities).

  MWh < MW * 6,500 (for power generated from biomass)

  Output above this cap is sold at pool prices, with no entitlement to additional premiums.

Under the new regulatory framework, the company's revenue from electricity sales in any given period will depend on the trend in pool prices. Deviations in average pool prices with respect to the estimate reflected in the ministerial order (€49.16/MWh on average in 2014-2016; €52/MWh thereafter), within certain fluctuation ranges, will be offset in the next regulatory stub period (which lasts three years) by means of adjustments to the standard facility remuneration parameters.

Following publication of Spanish Royal Decree 413/2014, the biomass power generation plants located in the industrial complexes in Pontevedra, Navia and Huelva were incorrectly classified as black liquor facilities in the new official remuneration regime registry. ENCE is taking the administrative steps that the Ministry of Industry, Energy and Tourism made available to the generators with a view to seeking redress for errors of this kind. The case addressing the first misclassification has already been ruled in the company's favour and the other two were still being processed as of the reporting date.

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10. Appendices (Continued)

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