

2012 Annual Report



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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





1 Ence, Energía y Celulosa



Letter from the Chairman

Dear shareholder,

Ence - Energía y Celulosa had good results in 2012. I believe that we at the company have many reasons to be pleased - particularly given the economic context this year- with the performance of our company and of the professionals who work here.

2012 has been an extraordinarily difficult year for everyone. The drop in GDP, the Industrial Production index, and the employment rates, as well as the increase in unemployment, reflect the worrying situation of recession in Spain. This has been the cause of great difficulties for citizens as well as for the business world, which generates employment in our country, and which we must trust now more than ever to come out of this deep crisis in which we are plunged.

Despite this situation, we managed to generate wealth in Spain, on the basis of the export capacity, close to 90%, for our cellulose sales, particularly in Europe. This is the company's main market, in which we maintain a very

significant share - close to 15% - and where we are a benchmark.

In addition, this year we at Ence continued our efforts to strengthen our competitiveness in international markets, increasing our industrial efficiency, reducing costs in all our processes, and improving wood supply through the reduction of imports and larger purchases of standing forests. This strategy reduces cost and brings benefits to small forestry holders thus ensuring that a large part of the generation of wealth made possible by Ence stays in Spain and directly benefits Spanish families.

All this has led to positive results, which can be said to be satisfactory in this hugely difficult situation. The company obtained a net profit of 43 million euros in 2012, 4% more than in 2011, with a positive evolution over the last quarters of the year.

This outcome is also the result of Ence's progress in total management quality, financial rigour and strength, and

the increase in renewable electricity sales, which have consolidated the company as sustainable, sound, and profitable. All of this has been achieved without forsaking excellence in our environmental behaviour and social sustainability, which has led to the generation of wealth and employment around our activity.

I would like to point out that in 2012 Ence attained a total profitability for shareholders of 14%. In this connection, in May it distributed a dividend of 0.07 euros per share, and shareholders also received one extra action for every 26. Moreover, the Extraordinary Shareholders Meeting held in July approved the distribution of one share for every 37 with a charge to the company's own portfolio, and a 3% capital amortisation.

Further, the company maintains its policy of an approximately 40% profit distribution. All this has led Ence to be selected to become part of the IBEX TOP DIVIDENDO, an index comprising the 25 stocks with the highest

profitability per dividend from those included in IBEX 35, IBEX Medium Cap, or IBEX Small Cap.

Dear shareholder: I would like to convey to you my full confidence, and that of the Board of Directors, in the future of this company. We are a sound, healthy, growing company that is making a profit despite the current environment. Trusting in Ence is trusting in the guarantee, solvency, and results of a company that is proving that it has a very solid foundation to face the future. Honestly, I believe that this is the best that a company can offer its shareholders and investors: confidence, future, solvency, and results.

Thank you for this. I believe that Ence is able to return all the trust that you have placed in it.

Juan Luis Arregui Ciarso
Chairman of Ence - Energía y Celulosa

About us

Ence is the leading European producer of eucalyptus pulp and the second largest in terms of sales. We also lead the way in Spain in renewable energy production from woody biomass and we are the leading Spanish company in the responsible, comprehensive management of forest areas and woody crops.

To this end, we are constantly seeking to offer efficient and competitive solutions to our customers' needs, relying on our technical expertise and unrivalled levels of service, the quality of our products and our customer orientation and logistical prowess.

We are staunchly committed to developing a strong and sustainable forestry sector, and therefore champion forest certification and best management practices as a means of driving economic development, particularly in rural environments.

Moreover, our whole-tree harvesting model and our leadership in developing woody crops allow us to grow in the field of renewable energies from woody biomass, thus helping to combat climate change while improving the environment and making it more sustainable.

With the dedication and involvement of everyone here at Ence, we aspire to become a global leader in the full and sustainable utilisation of woody crops, on the path to generating sustainable returns for our shareholders, the best possible service for our customers and employment and wealth in the areas in which we operate.

Ence has over 1,200 employees and generates over 11,000 direct and indirect jobs in Spain, of which around 60% are related to forest management and support employment in rural areas. Ence therefore provides an important structuring effect for the region, helping to



generate income while preventing populations from emigrating to urban areas.

The company manages forests in accordance with the most demanding internationally recognised sustainability and business responsibility standards. In doing so, Ence has pioneered certification projects undertaken in Spain, not only in relation to its own forest and tree growth, but also extending this policy to its immediate environment, encouraging its partners and collaborators to certify their forest areas.

Ence has a production capacity of over 1,300,000 tonnes of high quality eucalyptus pulp at its plants in Navia (Asturias), Pontevedra (Galicia) and Huelva (Andalusia), where it implements technologies to protect the environment and continuous improvement processes to strengthen its competitiveness and the standard of quality provided.

This has enabled the group to export over 85% of its pulp production, using an advanced logistics system, to Europe, where the most demanding international customers are found.

Furthermore, Ence is Spain's leading company in generating renewable energy from biomass, with an installed biomass capacity of 230 MW and a further 49 MW in gas cogeneration. The company currently has enough capacity to supply nearly 700,000 Spanish households, equivalent to the energy consumption of over 2,000,000 people.

Ence is, all things said, a company that makes logging an environmentally-friendly industry that generates employment and helps combat climate change, while also providing essential products for our society: natural pulp and renewable energy.

Key figures for the year

Ence GROUP INCOME STATEMENT (I.F.R.S.)

	thousands of euros		
	2012	2011	% variation
Sales	827,578	825,451	0.3%
EBITDA (1)	139,309	139,147	0.1%
EBIT (1)	82,266	80,079	2.7%
% over sales	10%	10%	
% over bib current assets	8%	8%	
EBITDA Recurrente (2)	175,319	152,067	15.3%
Exchange gains (losses)	-1,803	2,085	n.s
Other financials	-16,821	-25,150	-33.1%
NET FINANCIAL ITEMS	-18,624	-23,065	-19.3%
CORPORATION TAX & MINORITIES	-19,947	-15,822	26.1%
NET PROFIT AFTER TAX	43,031	41,192	4.5%
% over equities	5.9%	5.7%	
NET EARNINGS PER SHARE € (3)	0.17	0.16	5.9%
Cash dividend paid share €	0.07	0.10	n.s.
Dividend un kind per share (€)	0.11	0.00	
INVESTMENT	113,000	101,611	11.2%

(1) EBITDA and EBIT acc. to I.F.R. including the hedging program.

(2) Recurring EBITDA and EBIT-not including extraordinary items.

(3) Cancellation of shares from 258,012,890 to 250,272,500 shares since 24/7/2012. Avg nº of shares 2012: 254,502,732.

Workforce

Total workforce at period-end (full-time & part-time)

	2012	2011	2010	2009
Forestry	378	311	677	691
Industrial	751	910	804	798
Headquarters	113	153	160	152
Energy	30	32	22	13
Total	1,271	1,406	1,663	1,654

Total average workforce (full-time & part-time)

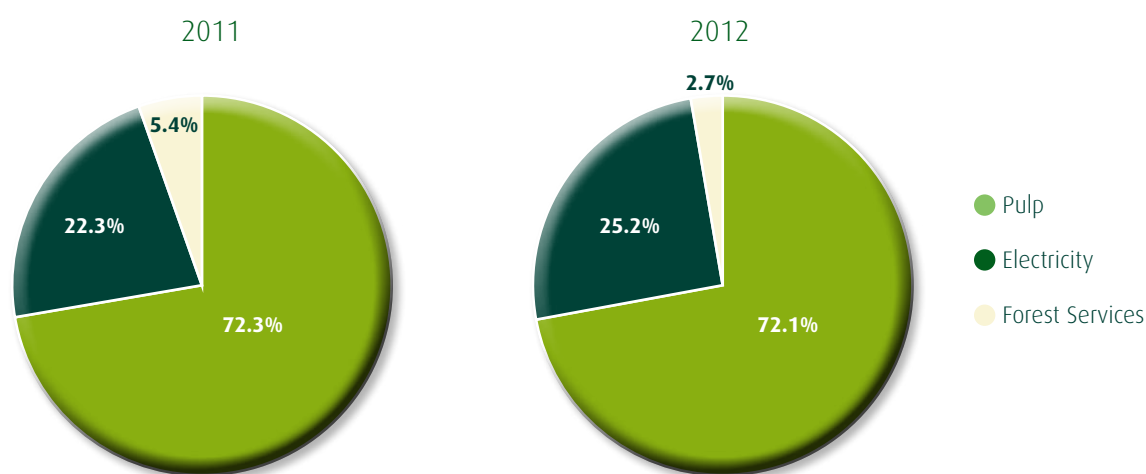
	2012	2011	2010	2009
Forestry	180	311	677	691
Industrial	726	910	804	798
Headquarters	124	153	160	152
Energy	44	32	22	13
Total	1,074	1,406	1,663	1,654

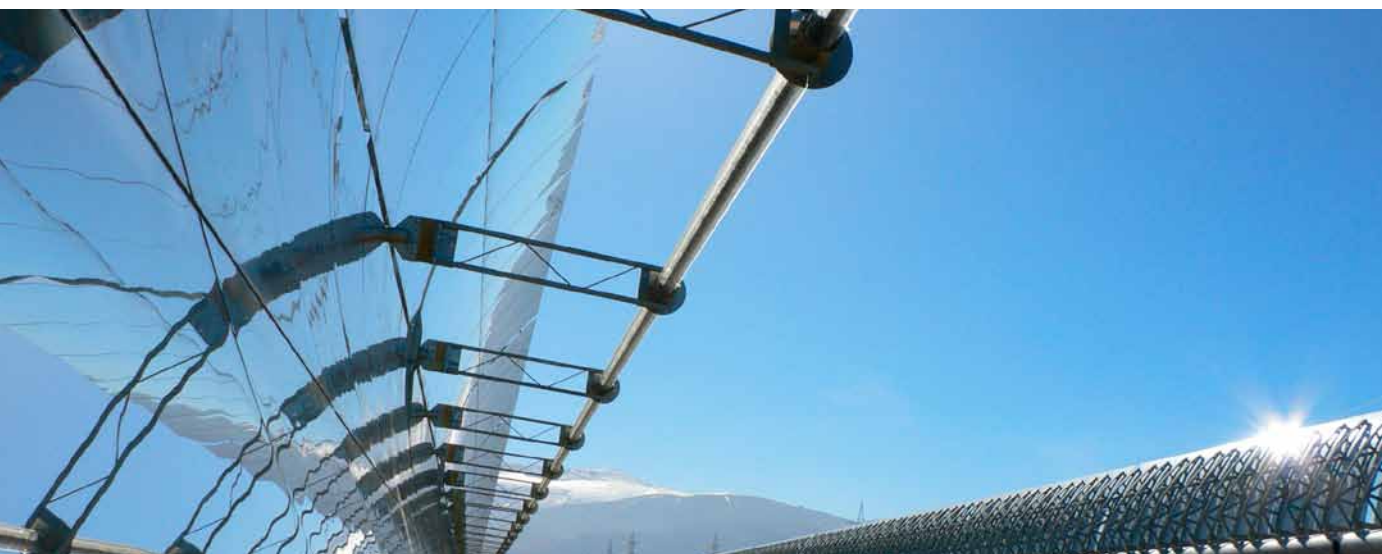
Stock Market performance Ence vs IBEX35 2012



	Value	Date
Share price (beginning of year)	1.64	30/12/2011
Share price (year-end)	2.13	31/12/2012
Average share price	1.73	-
Maximum annual share price	2.17	20/12/2012
Minimum annual share price	1.30	01/06/2012
Average annual volume (shares)	244,722	-
Maximum volumen	1,653,822	29/06/2012

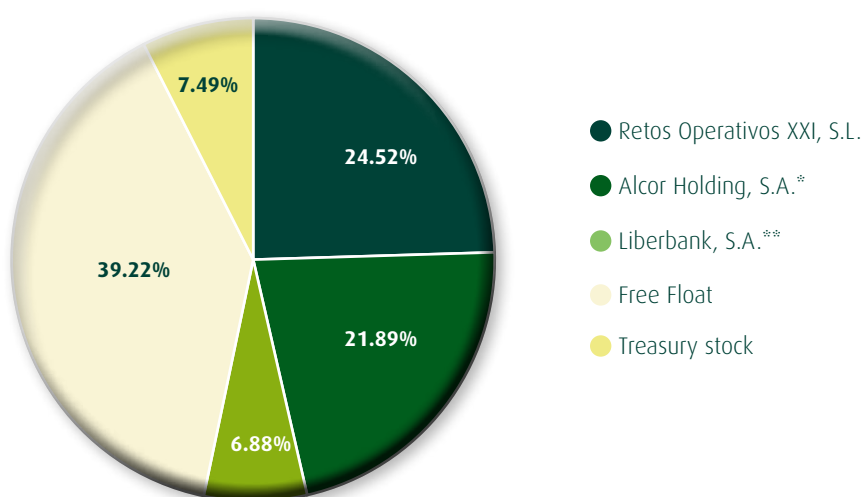
Sales





Shareholding structure

The shareholding structure of Ence, Energía y Celulosa at 31 December 2012 is as follows



* Part of the stake of Alcor Holding, S.A. is held indirectly through Imvernelin Patrimonio, S.L.

**The stake of Liberbank, S.A. is held indirectly through Cantábrica de Inversiones de Cartera, S.L., Norteña Patrimonial, S.L. and Banco de Castilla – La Mancha, S.A.

Governing bodies

Board of directors

Chairman

D. Juan Luis Arregui Ciarso
(Executive Director)

CEO

D. Ignacio Colmenares y Brunet
(Executive Director)

Directors

D. Pedro Barato Triguero
(External Independent Director)

D. José Guillermo Zubía Guinea
(External Independent Director)

D. Gustavo Matías Clavero
(External Independent Director)

D. José Manuel Serra Peris
(External Independent Director)

D. José Carlos del Álamo Jiménez
(External Independent Director)

Retos operativos XXI, S.L.

Represented by Javier Arregui Abendívar
(External Proprietary Director)

Norteña Patrimonial, S.L.

Represented Jesús Ruano Mochales
(External Proprietary Director)

D. Pascual Fernández Martínez
(External Proprietary Director)

D. Javier Echenique Landiribar
(External Proprietary Director)

D. Fernando Abril-Martorell Hernández
(Other External Directors)

D. José Antonio Escalona de Molina
Secretary to the Board (Non-Director)

D. Guillermo Medina Ors
Vice-Secretary to the Board (Non-Director)

Management committee

Ignacio de Colmenares y Brunet
CEO

Jacinto Lobo Morán
General Manager for the Energy Business Unit

Luis Carlos Martínez Martín
General Manager for Communication and Institutional Relationships

Diego Maus Lizariturry
Chief Financial Officer

Guillermo Medina Ors
General Secretary and Vice-Secretary to the Board of Directors

José Manuel Zarandona de la Torre
General Manager for the Pulp Business Unit

María José Zueras Saludas
General Manager of Human Capital



Addresses

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NAVIA MILL

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Apartado 39
33710 Navia – Asturias
Spain
Tel.: + 34 985 63 02 00
Fax : + 34 985 63 06 86

PONTEVEDRA MILL

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36153 Pontevedra
Apartado 157
36080 Pontevedra
Spain
Tel.: + 34 986 85 60 00
Fax : + 34 986 84 77 74

Human resources

Workforce

Ence Energía y Celulosa has 1,272 employees. Of the total headcount, 29.7% work in the Forestry Division, 59% in the

Industrial Division, 8.9% in the Structure Division and 2.4% in the Energy Division.

Plantilla Grupo Ence media a 31 de Diciembre

Total workforce at period-end (full-time & part-time)	2012	2011	2010	2009
Forestry	180	311	677	691
Industrial	726	910	804	798
Headquarters	124	153	160	152
Energy	44	32	22	13
Total	1,074	1,406	1,663	1,654

Total average workforce (full-time & part-time)	2012	2011	2010	2009
Forestry	378	462	741	876
Industrial	751	831	786	836
Headquarters	113	172	144	142
Energy	30	23	21	8
Total	1,272	1,488	1,692	1,862

Training

Ence employees benefited from a total of 116 courses in 2012 under a number of different training schemes. In all, 1,782 people attended the courses for a total of 8,480 hours. The external cost associated with these programmes amounted to €223,016.

Training ratios	2012
Courses	116
Participants	1,782
Traning Hours	8,480
External Cost (Euros)	223,016







2 Our Business

Forest management

Efficient management

During 2012, Ence continued with its policy of adjusting prices on the timber market to bring them in line with global pricing projections and expected prices on the international pulp market.

Direct procurement from forest owners increased, with highlights including the new agreements signed with eleven associations for a maximum of 600,000 tonnes of timber, in contrast to the 250,000 tonnes agreed upon with one association back in 2011.

This has enabled us to step up production and while increasing sustainable forest certification by establishing clear and transparent price premiums. These premiums are paid directly to the owners, thus helping also to improve forestry and better combat pests and parasites.

We have also increased the number of suppliers, particularly those from whom we order less, in a bid to diversify timber sources.

Ence carried out a logistical drive in 2012 to increase timber procurement from Spanish suppliers intended for the Huelva plant. As a result, two exclusive concessions were set up at the ports of Cee and Ferrol to ship timber down from Galicia to the Huelva facility. The maximum transport

capacity of both ports is approximately 500,000 tonnes of timber a year.

Thanks to intensive logistics management, timber imports in 2012 dropped by 50% year-on-year. This reduction in the volume of imports has been offset by increased buying of uncut timber from forest owners and from small Spanish suppliers.

Sustainable management

Ence treats Responsible Forest Management as the hub of its forestry business. For the last twelve years, the company has gone about this by adhering to voluntary forest certification standards (Sustainable Forest Management and Chain of Custody), as promulgated by the FSC (Forest Stewardship Council) and the PEFC (Programme for the Endorsement of Forest Certification Schemes). In keeping with responsible management principles, Ence's work in this regard extends not only to its own business (forests under management and supply of timber), but also to all related business, as the company encourages third parties to obtain forest certification.

During 2012, Ence implemented an intensive working plan intended to improve existing forest certification

in Spain, particularly within the context of the FSC, the certification scheme most frequently demanded by society and business partners. Actions to date have focused on three areas: attempting to adapt Spanish certification standards to the reality of modern-day forest management (so that they can become a genuine tool for improving forest management and helping small owners gain access to these management models); direct work with forest owners and suppliers (championing association membership and the creation and certification of groups); and work on forests themselves (increasing the scope of company certifications and developing new control and tracking tools).

In this regard, milestones for 2012 included the following: setting up a taskforce in collaboration with the FSC and other economic and social parties to present (and subsequently approve) modifications to the Spanish FSC standard; participating on the standards taskforce to help bring the Spanish standard in line with the new international framework (under way); sponsoring activities to raise awareness of FSC forest certification (annual FSC assembly, FSC Friday, adherence to the "FSC Certifica Galicia" (FSC Certifies Galicia) programme; creating certification groups for forest owners and suppliers (with the technical support and involvement of FSC España); and increasing the reach of FSC certification of the Group's subsidiary forestry companies by a further 3,000 ha. and to a new product, cork. All this makes Ence

a leading player in advancing FSC forest certification in Spain. Another key milestone has been Ence's decision to insist on FSC-certified timber when buying from third parties.

In terms of the PEFC, actions to date have focused on maintaining certification schemes and facilitating membership by associations of forest owners, thus broadening existing market supply, which is considered suitable and sufficient (different ways of certifying through different bodies).

This drive towards responsible forest management forms part of a far-reaching forest extension programme to provide private forest owners with the means of improving sustainability when managing their forests. We have therefore witnessed a marked increase in the number of meetings with owners (events promoted by Ence, visits to associations, and so forth) with the aim of introducing them to best management techniques and approaches. Agreements have also been signed to acquire better plant and owners have taken part in courses on plant health, advanced plant use techniques, health and safety, traceability, etc.

This work is carried out in conjunction with associations, government bodies, certification bodies, consultancy firms and other specialist companies.



Supply of wood and biomass

In 2012 a total of 3,543,736 m³ of wood was supplied to the mills, which represented an increase of approximately 5.94% compared to 2011, at a cost of 245.74 million euros.

With respect to the mix, on the basis of the origin of the supply, the capture of Iberian wood had a volume of 3,140,670 m³ (6.19% increase with respect to 2011). Extra-European imported wood had a volume of 403,066 m³, with a 50.23% drop with respect to 2011. Extra-European imported wood in 2012 came from Uruguay (313,525 m³) and the Republic of Congo (89,542 m³).

In the area of forestry management, in 2012 Ence cut down 1,031,47 m³ in the Iberian Peninsula, 132.000 m³ of which came from the Group's Forest Properties (3.73% of the total wood supply), and 983,090 m³ came from the purchase of standing forests (29.4% more than in 2011). Moreover, in 2012 Ence purchased 1,445,045 m³ from national suppliers.

Additionally, 292,998 m³ was supplied to third parties for the sum of 13.1 million euros.

The external biomass consumed for electrical generation in operations centres amounted to a total of 377,177 tonnes, at a cost of 16.416 million euros.

Forestation and forestry assets

In 2012, Ence planted a total of 3,801 hectares, 2,470 of which were intended for energy crops and 1,331 for pulp production.

Planted area (in ha.)

Company	Energy crops	Pulp
Ence-Norte	0	569
Ence-Huelva	737	772
Ence-Portugal	0	0
Ence-Energía	1,743	0
Ence-Uruguay	0	0
Total	2,470	1,331

At 31 December 2012, Ence had a total of 115,986 hectares under management, 28,159 of which are located in Uruguay⁽¹⁾. Of the total area managed on the Iberian peninsula, 18,114 hectares are used to produce biomass for power generation.

Area under management (ha.)

Company	Biomass	Pulp	Conservation	Total - general
Ence - Energía	3,946	0	182	4,128
Ence- Energía Huelva	11,647	0	685	12,332
Ence-Energía Extremadura	1,796	0	81	1,876
Ence - Huelva	271	35,967	14,854	51,093
Ence - Norte	452	11,326	2,185	13,963
Ence - Portugal	2	3,884	647	4,532
Ence - Uruguay ⁽¹⁾	0	16,268	11,891	28,159
Total	18,114	67,445	30,525	116,083

67% of the total surface area managed by the Group is self-owned, while the rest is leased or held via consortiums with third parties.

Area managed by Ence (ha.)

Company	Leased	Under consortium	Owned	Mixed	Total
Ence-Energía	4,128	0	0	0	4,128
Ence- Energía HU	3,485	0	8,847	0	12,332
Ence-Energía Ext	1,876	0	0	0	1,876
Ence-Huelva	11,715	1,843	37,535	0	51,093
Ence-Norte	3,433	5,599	2,928	2,002	13,963
Ence-Portugal	1,698	226	2,608	0	4,532
Ence-Uruguay ⁽¹⁾	1,959	386	25,814	0	28,159
Total	28,294	8,847	77.732	2,002	116,083

Ence's forestry business is certified in accordance with quality management (UNE-EN-ISO 9001:2008) and environmental management (UNE-EN-ISO 14001:2004) standards, covering in both cases all forestry work. In relation to forest surface area, 72% of the forest managed in Spain by the group's subsidiaries is certified under the PEFC scheme (Programme for the Endorsement of Forest Certification), and about 24,000 hectares are certified under the FSC (Forest Stewardship Council) scheme, both promoting sustainable forest management.

Chain of Custody (CoC) certification ensures the traceability of all certified timber on the Iberian Peninsula.

All forest assets in Uruguay are currently certified under the FSC and PEFC schemes, both in terms of forest management and the traceability of timber, also known as the Chain of Custody.

Certified area (ha.)

Company	Total area (ha.)	PEFC	% PEFC	FSC	% FSC
Ence-Energía	4,128	0	0	0	0
Ence- Energía Hu	12,332	6,539	53	2,599	21
Ence-Energía Ext	1,876	0	0	0	0
Ence-Huelva	51,093	41,968	82	17,077	33
Ence-Norte	13,963	11,777	84	6,371	46
Ence-Portugal	4,532	0	0	0	0
Ence-Uruguay ⁽¹⁾	28,159	27,819	99	27,819	99
Total	116,083	88,103	76	53,866	46

Close to 26% of the area managed by Ence, about 29,625 hectares, is devoted exclusively to habitat conservation and restoration and is not used for productive purposes. Of the total forest area, 2,129 hectares have been declared high conservation value forest.

In addition, 18,000 hectares are in protected natural areas, officially designated as such by the competent authorities.

In Uruguay, 1,576 hectares of the area managed by Sierras Calmas cover native forests, which are protected under Forestry Law No. 15,939.

This information provides clear evidence of the company's commitment to protecting and improving the natural environment in which it works.

Company	Total area	Conserv. area (ha)	Conserv. area %	High cons. val. forest (ha)	High cons. val. forest %	Prot. area (ha)	Prot. area %
Ence - Energía	4,128	181.5	4.40%	0	0	0	0
Ence - Energía Hu	12,332	685.2	5.60%	0	0	1631.9	13.20%
Ence - Energía Ex	1,876	80.6	4.30%	0	0	0	0
Ence - Huelva	51,093	14,854.2	29.10%	1,700.7	3.30%	28,163.1	55.20%
Ence - Norte	13,963	1,767.8	12.70%	428.2	3.10%	576.3	4.10%
Ence - Portugal	4,532	629.1	13.90%	0	0	3,232	71.30%
Ence - Uruguay ⁽¹⁾	28,159	11,426.61	41%	0	0	1,576	6%
TOTAL	116,083	29,625.01	25.50%	2,128.9	1.80%	35,179.3	30.30%

(1) On 15 December 2012, Ence agreed to sell off its forestry assets in Uruguay. The sale was completed in March of 2013.



Forest R&D

During 2012, the company's Forest R&D division completed its assessment and development of two new improved *Eucalyptus globulus* plants, which have been added to commercial production at the company's tree nurseries. These two new upgraded facilities are the product of exhaustive experimental work, effective assessment and an intensive selection process over the last few years, with the work focusing on the development of genetic material more resistant to limiting factors and with better environmental adaptation capacity.

Yet without doubt, the most significant milestone in the genetic improvement programme has been obtaining the 3rd generation of "elite" improved plants, meaning those incorporating the best values for each of the sixteen traits evaluated as part of the species improvement programme (roots, tolerance to drought, resistance to *Phoracantha*, sprouting capacity, basic density, gross cooking performance, resistance to *Mycosphaerella*, resistance to *Gonipteris*, growth, cold tolerance, tolerance to waterlogging, and tolerance to boron deficiency. More than 400 enhanced plants of this generation have been successfully reproduced via cuttings and they are currently being evaluated in experimental trials.

These achievements demonstrate the sustainability of the company's genetic improvement strategy, allowing for the continuous development of commercial materials in the short term while improving progenitor populations and preserving genetic diversity in the mid to long term.

For the first time, Ence has also evaluated and developed improved hybrid plants, mixing *globulus* with other eucalyptus varieties to strengthen certain key characteristics, such as growth, tolerance to waterlogging, and so on. The new improved hybrid plants have been planted as part of different experimental trials under different growing conditions, and are also being reproduced on a pre-commercial scale, which is allowing us to assess and validate them using pilot plantations.

Last year, the company successfully implemented its new forestry management model, thanks to which all forestry procedures applied to Ence's eucalyptus assets have been reviewed and improved. This improvement has also provided an opportunity to incorporate, on an operational scale, all available R&D developments in the fields of soil preparation, fertilisation, integrated pest control and forest treatments.

Forestry investments

Total investment in forestry for 2012 on the Iberian Peninsula amounted to €11.6 million. Of this, 97.6% of this was invested in forestation and conservation, while the remaining 2.4% was used to acquire new estates.

In terms of energy crops, total investment for 2012 came in at €17.6 million, €5.83 million of which were employed to acquire estates and the rest for forest management activities, particularly irrigation systems, replanting and forest treatments.

Leading european producer of eucalyptus pulp

The pulp market

Worldwide demand for cellulose pulp climbed to 58.3 M tonnes in 2012, up 2.8% year-on-year. Of particular note was the rising demand for short fibre pulp, which witnessed 3.4% growth to reach 27.6 million tonnes, with eucalyptus cellulose accounting for roughly 60% of the total.

Although eucalyptus pulp prices dropped towards the end of 2011 and it was feared 2012 would get off to a rocky start, the cellulose market began to stabilise and rally from March 2012 onward, closing out the year with 1.4% growth in demand, albeit with a price difference of -1%. With these changes, the average price for the year stood at €585.15.

In the paper and cardboard industry, global demand from the printing and writing segment shed 2.3%, equivalent to 2.1 M tonnes, but largely affecting mechanical pulp paper, which Ence does not supply. Chemical pulp paper lost 0.5%, equivalent to 0.46 M tonnes.

The tissue segment grew by around 0.5% worldwide in 2012 (30 M tonnes), with growth of close to 1% in western Europe. The European tissue pulp market accounts for approximately 6.5 M tonnes, of which 3.1 M are eucalyptus.

The new eucalyptus pulp capacity brought online in the final quarter of 2012 had no negative impact on 2013

contract negotiations due in part to Jari's announcement that it was to close its 400,000-tonne mill in Brazil.

Pulp sales

Ence sold a total of 1,249,000 tonnes of pulp in 2012, outstripping the 1,233,000 tonnes sold in 2011. The European pulp market has remained stable and Ence has defended its position as a strategic supplier of eucalyptus pulp in the European paper industry, the world's largest pulp market, and its market leadership within the printing and writing, tissue and speciality paper segments, where the company maintains a well-balanced presence, having strengthened its relations with the main manufacturers.

Pulp sales amounted to €598 million in 2012, Germany being the number one destination for production (21%), followed by Italy (17%), Spain and Portugal (14%) and France (9%). Remaining production is destined for other markets in Europe, the Middle East and Asia.

Total sales climbed by 1.3% on the back of a diversified customer and market profile, while pulp sales revenue in 2012 stood at €598 million, on par with the same figure for 2011 and within the context of a year in which average pulp prices fell by 1% year-on-year.

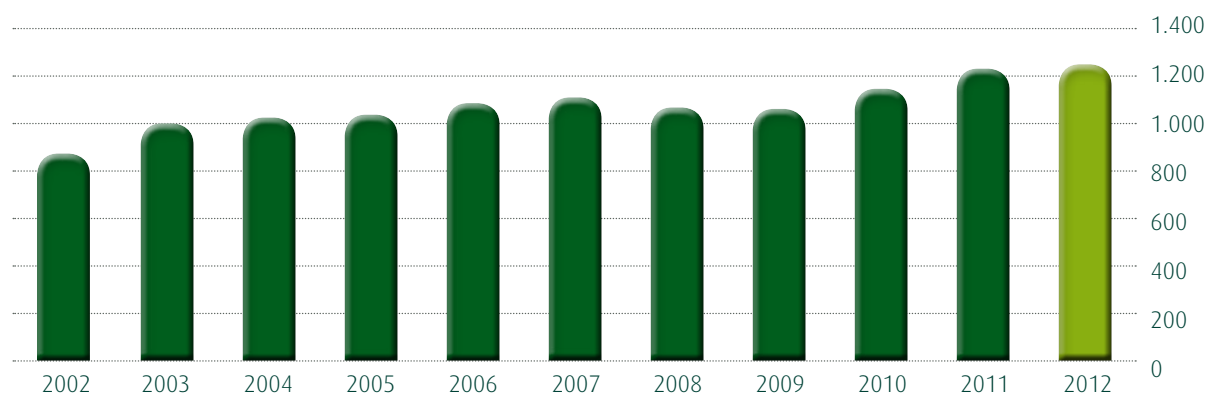
In this regard, the distribution of sales by country and segments in 2012 was in line with 2011, with the exception of a mild drop in deliveries to Asia, and with the main markets being Europe (to which 88% of production is exported) and those paper market segments with a greater capacity to produce paper from eucalyptus fibre and showing stable growth.

In 2012, Ence initiated a process to improve the sales division so as to make it more customer-oriented and strengthen its competitive standing in Europe. The “Customer Voice” project has been rolled out as part of this process. The aim is to strengthen customer ties so as to better comprehend their needs and thus provide greater value in the medium and long term. This work will continue in 2013.

Showing distribution of pulp sales (by country)

Country	Percentage
Germany	21%
Italy	17%
Spain	14%
France	9%
Rest of Europe	27%
Other Markets	12%
Total	100%

Pulp Sales (thousand tons)



Pulp production

Ence has three pulp production mills, located in Huelva, Navia and Pontevedra. Total production for 2012 amounted to 1,250,000 tonnes.

The Pontevedra mill produced 406,772 tonnes of TCF (Totally Chlorine Free) pulp. The Huelva and Navia facilities, which produce ECF (Elementary Chlorine Free) pulp, produced 357,008 and 485,906 tonnes, respectively.

Ence's three plants have been awarded the so-called Integrated Environmental Authorisation (Autorización Ambiental Integrada in Spanish), allowing them to operate and generate renewable electrical power from biomass. These authorisations were renewed in 2012.

In accordance with applicable law, the mills of the Pulp Business Unit also have their Greenhouse Gas Emissions Authorisation (CO₂). Verified emissions for 2012 did not exceed the carbon rights assigned, meaning the surplus can be carried over to the 2013-2020 greenhouse gas emission trading period.

At Ence, processes are carried out in accordance with the TQM Management Model, management excellence, which is rooted in three core principles:

- 1) Drive improvement
- 2) Manage processes
- 3) Manage daily business

Ence has integrated this business model through continuous improvement, focusing on maximum efficiency and competitiveness and embracing quality, health and safety, environmental protection and preventing pollution at the same time.

The company's three plants are certified under UNE-EN-ISO 14001:2004 (environmental management systems), with the corresponding certification renewal audits having been conducted in June of 2012.

Audits to validate the Environmental Statement have also been conducted so as to keep the three mills on the

register under the eco-management and audit scheme (EMAS) pursuant to Regulation (EC) 1221/2009 of the European Parliament. Each of the three mills was the first in its respective autonomous region to undertake this demanding voluntary commitment, which few other companies have done to date.

Continuous improvement of environmental performance

The environmental management of the Operational Centres falls within the TQM Management Model, with one of the tools in the toolbox being the *Fundamental Improvement Objectives* (FIO), which have already been defined and which have a clear environmental focus, in that they incorporate aspects such as minimising odour impact, improving discharge quality, improving resource management, lowering electrical power consumption and reducing the volume of waste generated.

Regular analytical checks are carried out at the Operational Centres of all parameters relating to discharges, atmospheric emissions, noise and the waste generated and how these are all handled. The results obtained, which reflect the efficiency of the TQM management approach, certify group compliance with the legal limits stipulated in the corresponding Integrated Environmental Authorisations, in some cases even improving upon the benchmark values established by the applicable BREF for the sector.

Accordingly, these results are thanks to the dedication of everyone who works at Ence, as well as the heavy investment the company has been making over recent years, with the implementation of the Best Available Techniques (BAT) and Best Environmental Practices (BEP) outlined in the BREF for the sector (*Best Available Techniques in the Pulp and Paper Industry 2001*).

At the **Huelva Operations Centre**, the 50 MW biomass plant was started up in 2012 following completion of all phases of the project. The facility includes a boiler, a turbine and a preliminary biomass treatment plant.

With the arrival of this new plant, which is now Spain's largest biomass facility, the company can utilise biomass to generate energy, thus reducing dependency on fossil fuels.

A total of €13.2 million was invested in environmental improvement in 2012. The most significant projects included the construction of a new, more energy efficient debarking and chipping plant, enabling the company to use more of the biomass generated. We would also highlight the company's investment on the construction of a new off-gas condensation system, with accumulator tank included.

In relation to water consumption, the 11% reduction reported in the latter half of 2011 was consolidated in 2012, while the main effluent discharge figures improved year-on-year, with total organic carbon (TOC) and total suspended solids (TSS) dropping by 30% for the second year in a row.

At the **Navia Operations Centre**, the most significant environmental investment for 2012 was the extension to the effluent treatment plant, which, once started up in 2013, will help bring the quality of liquid effluent in line with European benchmark values. The project has a budget of €12 million and includes aspects to minimise the odour impact and to treat the organic waste generated.

The odour impact has been successfully lowered thanks to a number of operating and machinery improvements in treating plant gases, which has also brought about a reduction in the atmospheric emissions of the lime kilns. This improvement was made thanks to the investment made in 2012 in equipment to measure the quality of intake air.

On a final note, and in relation to noise, the company pressed on in 2012 with its plan to soundproof noise sources at wood yards.

Total investment at the Navia plant in 2012 amounted to €2.48 million.

Finally, at the **Pontevedra Operations Centre**, and as part of the project to eliminate odour currently being undertaken in collaboration with the University of Santiago de Compostela, the company has been gradually implementing the proposals outlined in finished study, such as eliminating press room odour at the effluent treatment plant through the use of biological treatment towers, which are highly efficient in eliminating odour.

A number of new investments have also been made, such as changing the cover of the thickener and changing the old gas boiler chimney for the recovery boiler chimney.

As a result of these measures, coupled with Ence's ongoing commitment to improving operating processes, performance indicators reported a year-on-year drop of more than 75% in the associated odour impact.

But with the aim of attaining "zero odour", the company has planned a number of new investments, such as collecting, scrubbing, and bleaching gases for subsequent incineration in the recovery boiler; the biological sludge incineration system at the recovery boiler; or eliminating diffuse sources of pollution by installing hydraulic seals on the tanks. All this work is expected to be finished during the annual shutdown scheduled for this coming March.

Total investment in odour elimination for 2012 amounted to €3.2 million.

Another project to have been rolled out during 2012 is intended to improve the visual impact of the Operational Centre by eliminating the steam plumes that emerge from the cooling towers. The work involved in this €1.8 million investment will be completed during the annual shutdown scheduled for March.

On the subject of discharge quality, the company reported excellent results in 2012, outperforming those for 2011. The findings confirm the Pontevedra mill's status as a European reference facility in the quality of its effluent.

Lastly, and reflecting its unflinching commitment to the environment, Ence has created the www.encepontevedra.com website, providing the public with daily indicators on the environmental performance of the company's Operational Centre at Pontevedra. Visitors to the site can check figures for each of the 30 preceding days, conveniently contextualised with the parameters of the Integrated Environmental Authorisation and the BREF benchmark indicators of the European Union.

Leaders in renewable energy from biomass

Ence is a leader in renewable energy production using biomass waste and energy crops in Spain; a technology using a non-fossil fuel to reduce the risks associated with rising oil prices and which is a carbon-neutral energy source.

Ence co-generates the electricity and heat required for its industrial operations and sells surplus production to the national grid. For this purpose, Ence uses biomass from three main sources as its input:

- Lignin (also known as black liquor). Lignin is the waste product resulting from a delignification process where wood fibres are separated through a cooking process, which forms part of the pulp production process. The black liquor is used as fuel in recovery boilers, generating steam for electricity generation. Additionally, during combustion, the cooking chemicals are recovered for reuse during the production process, thus helping to eliminate waste generation and benefit the environment and increasing efficiency in the pulp production process.
- Wood bark (solid biomass). Ence uses the left-over biomass from the process of chipping timber for

the pulp manufacturing process. This bark is burned to generate steam for electricity, increasing the efficiency of the process, eliminating the resulting waste impact on the environment and generating "green" electrical power generation without CO₂ emissions.

- Biomass from energy crops and forest residues. Provides the rural sector with new alternatives for long-term viable and stable crops by stimulating economic and environmental development in the affected areas since large areas are cultivated in order to grow energy crops (countryside management) and forests are cleaned to harvest forest residues (helping to prevent fire hazards). All this work is aimed at generating "green" energy, not only driving the economies of these more remote areas, but also meaning fossil fuel imports are no longer needed, thereby improving the country's energy independence while emitting less CO₂ into the atmosphere.

Ence has an installed capacity of 279 MW of operating power, 230 MW of which are generated solely from biomass and 49 MW from cogeneration with gas. All the Group's generating and cogeneration units are recorded

on the register of producers of electrical power through the special “feed-in” system, regulated by Royal Decree 661/2007 of 25 May.

The company is committed to gradually increasing its production capacity of renewable energy in the coming years, cementing its position as a leader in power generation from woody biomass and energy crops.

In order to accomplish this, Ence developed a strategic plan that is now beginning to pay off, including the following milestones achieved during the year:

- **Start-up of the Huelva biomass plant:**

On 24 August 2012, administrative authorisation was awarded to start up the Huelva biomass plant, which has an installed capacity of 50 MW. On 14 September 2012, the facility was officially entered on the Administrative Register of Facilities Operating under the Special Feed-In Tariff Framework.

This is particularly important milestone and an industry benchmark as it is Spain’s largest biomass plant and also the first plant of its kind to have

received funding via “Project Finance”. Since being connected to the power grid, the plant has been reporting excellent operating results, proving to be solid and reliable investment and, therefore, a design success. The facility runs on woody biomass and energy crops grown in the county where it is located.

- **Financing secured and start of construction on the Mérida biomass plant:**

Funding was secured on 31 July 2012 for the Mérida biomass plant, which will have an installed capacity of 20 MW. Long-term “project finance” was awarded, representing another milestone for the sector.

In relation to the construction phase, earthmoving has already been completed and the main suppliers of plant and equipment selected, meaning the project is already well under way and on schedule.

Like the Huelva plant, the facility will run on woody biomass and energy crops grown in the region of Mérida.

Category A: Cogeneration €/MWh

Group	Fuel	Premium (1)	Tariff (1)	Premium (2)	Tariff (2)	Premium (3)	Tariff (3)	Premium (4)	Tariff (4)
a.1	a.1.1	34.454	100.893	34.938	102.309	35.817	104.884	37.091	108.615
a.1.3	b.6.1	117.0320	162.6890						
	b.6.3	85.6360	131.2850						
	b.8.2	38.2300	79.1820						
	b.8.3	60.0120	103.2140						

Category B: biomass €/MWh

Group	Tariff (1)	Benchmark premium (1)	Floor (1)	Cap (1)
b.6.1	162.689	117.032	167.471	158.371
b.6.3	131.285	85.636	136.064	126.963
b.8.2	72.227	26.571	77.022	67.921
b.8.3	88.785	40.716	99.884	83.237

Energy management

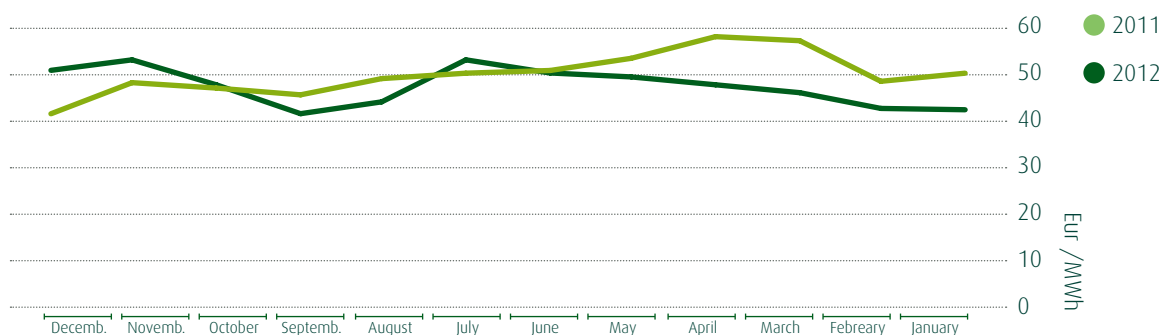
Ence has a multidisciplinary human team to handles all sector-related tasks without any kind of outsourcing to third-party companies. These areas are:

- Purchase and sale of electrical power (front office, middle office and back office)
- Planning and control of the energy business
- Plant operation and management
- Consultancy and advice on energy regulation

- Development and implementation of new projects
- Management of CO₂ emission rights

The company trades on the daily power market via its own energy control centre, which makes daily and intraday bids for the purchase and sale of electrical power to the Market Operator (OMIE, which manages the bidding system), and business operations with the Red Eléctrica de España (REE, Electrical Grid in Spain), the Spanish National Energy Commission (CNE), the Ministry of Industry and other industry bodies.

Pool price developments in Spain

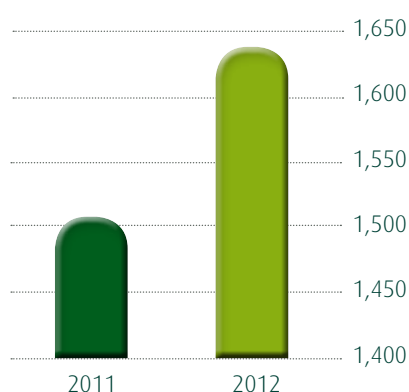


However, the premiums, fixed tariffs and cap & floor limits for electricity production are established by Royal Decree 661/2007 of 25 May on the regulation of electricity production through a special "feed-in" system. Accordingly, our company is not exposed to the fluctuating pool price of electricity, thereby offering a fixed return for our energy business, in turn providing us with financial stability.

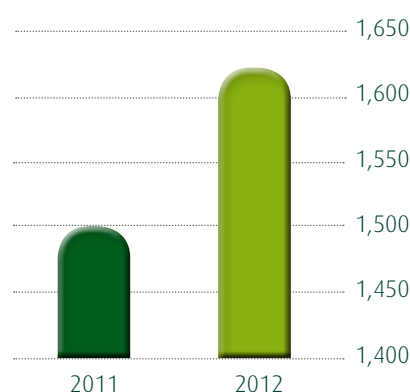
Due to continuous efficiency improvements in managing and operating our plants and the start-up of a new 50

MW plant in Huelva, **electricity production in 2012 climbed to 1,634 GWh**, marking a year-on-year increase of 8.6%. The same factors also helped bring **electricity sales up to 1,620 GWh** (up 8.6% year-on-year), exceeding the all-time high reported by the company in 2011 and therefore setting a new record. This trend will continue over the coming years due to the increase in installed capacity following the launch of the projects currently under development.

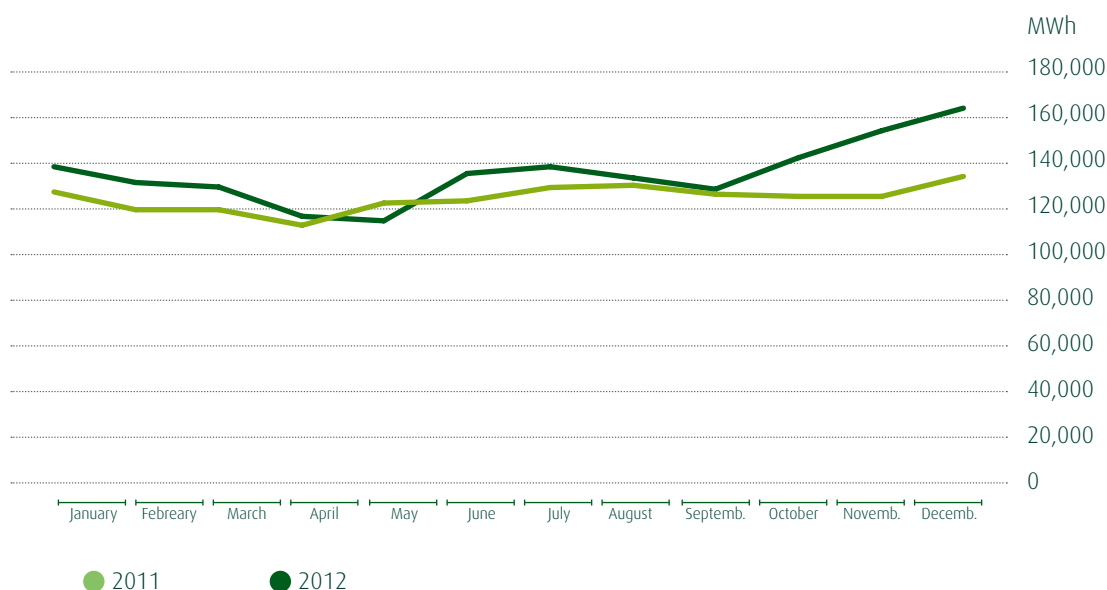
Production in GWh



Sale of Energy in GWh



Monthly production comparison graph (2012 vs. 2011)







2012 Consolidated Balance Sheets



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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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.

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 y 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.



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.

Statement of changes in total consolidated equity for 2012 and 2011

2012 - Thousands of Euros	Balance at 1-1-2012	Recognised Income / (Expense)	Capital Increases/ Decreases
Share capital	232,212	-	(6,967)
Share premium	254,328	-	-
Legal reserve	39,766	-	-
Other Parent Company reserves	66,864	-	(9,861)
Reserves in fully consolidated companies	102,454	-	-
Translation differences	(591)	(1,420)	-
Treasury shares	(49,217)	-	16,828
Valuation adjustments	33,155	19,837	-
Profit for the year attributed to the Parent Company	41,192	43,031	-
	720,163	61,448	-

2011 - Thousands of Euros	Balance at 1-1-2011	Recognised Income / (Expense)	Capital Increase
Share capital	232,212	-	-
Share premium	254,328	-	-
Legal reserve	31,482	-	-
Other Parent Company reserves	150,341	-	-
Reserves in fully consolidated companies	120,583	-	-
Prior years' losses	(132,400)	-	-
Translation differences	-	(591)	-
Treasury shares	(2,434)	-	-
Valuation adjustments	47,533	(14,378)	-
Profit for the year attributed to the Parent Company	64,711	41,192	-
	766,356	26,223	-

The accompanying Notes 1 to 26 are an integral part of the statement of changes in consolidated equity for 2012.

Distribution of Prior Year's Profit	Distribution of Dividends	Treasury Shares Transactions	Distribution of Treasury Shares	Balance at 31-12-2012
-	-	-	-	225,245
-	(14,484)	-	(9,623)	230,221
3,110	-	-	-	42,876
27,993	(23,203)	(356)	(4,397)	57,040
10,089	-	-	-	112,543
-	-	-	-	(2,011)
-	21,173	(40,017)	14,020	(37,213)
-	-	-	-	52,992
(41,192)	-	-	-	43,031
-	(16,514)	(40,373)	-	724,724

Distribution of Prior Year's Profit	Distribution of Dividends	Treasury Shares Transactions	Distribution of Treasury Shares	Balance at 31-12-2011
-	-	-	-	232,212
-	-	-	-	254,328
8,284	-	-	-	39,766
(83,644)	-	167	-	66,864
(18,129)	-	-	-	102,454
132,400	-	-	-	-
-	-	-	-	(591)
-	-	(46,783)	-	(49,217)
-	-	-	-	33,155
(64,711)	-	-	-	41,192
(25,800)	-	(46,616)	-	720,163

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

Consolidated statements of cash flows for 2012 and 2011

Thousands of Euros	2012	2011
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.

1. Activity of the Group and Strategic Plan

Ence Energía 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:

Año 2012

			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.

Fiscal Year 2011

			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	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.	Pontecaldeas (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.

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 Valorización de la Biomasa, S.L.; and 5% of Electroquímica 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.

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.

3.5. 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
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

Standard	Contents	Mandatory application in years commencing as of
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
Amendment of IFRS 7 – 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 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
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.

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.

Assets financed with financing applied to projects

Grupo Ence has invested in infrastructure for biomass production of electricity, financed through "Project finance".

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 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.

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 of 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.

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.

Estimation of fair value

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.
- 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.

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.

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.

Payments made by the insurance company constitute a tax deductible expense when they are settled.

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).

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 Energía 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

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. 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".



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.

5. Exposure to risk

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.

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.

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 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 enters 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.

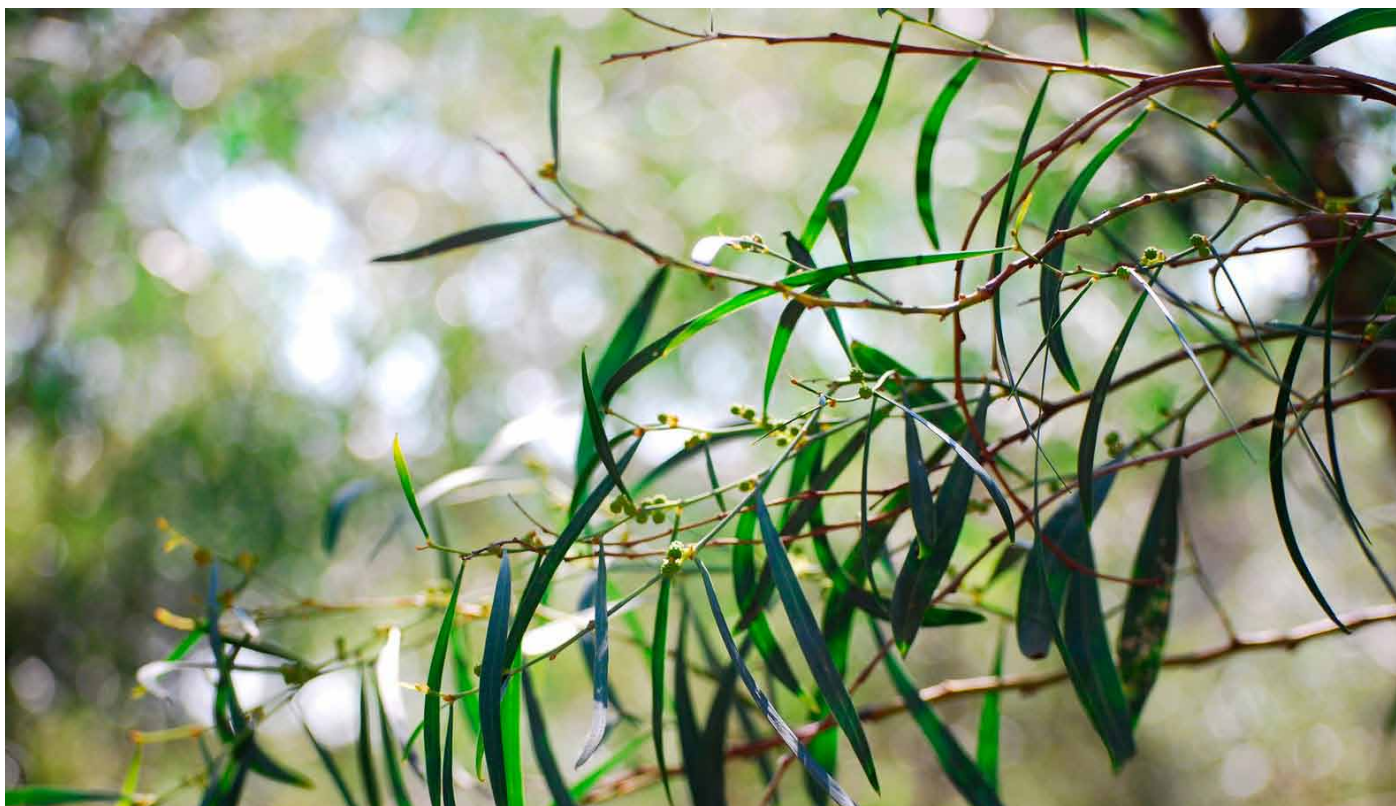
Provision is made for overdue balances where there is evidence of impairment, and for all receivables overdue by more than 6-12 months that are not covered by credit insurance policies.

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 Energía 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 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

Fiscal Year 2011

Thousands of Euros	Balance at 01/01/2012	Additions or Charge for the year	Retirements or disposals	Transfers (Note 7)	Exchange Differences	Transfer to Held For Sale Assets (Note 20)	Balance at 31/12/2012
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 moratorium 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 CO₂ per year. In 2012 the Group used 92,368 tons of CO₂ 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 CO₂ 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 CO₂, and also executed an agreement to purchase emission rights for 506,202 tons of CO₂ 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 CO₂ 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 CO₂ and 472,217 tons of CO₂, respectively (see Note 15).

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
Buildings	1,474,000	86,898	(5,112)	-	(718)	(29,829)	1,525,239
Plant and machinery							
Other items of property, plant and equipment	(77,854)	(4,041)	2	13	14	880	(80,986)
Amortisation	(596,277)	(47,496)	657	(37)	50	(1,098)	(644,201)
Otro inmovilizado	(18,570)	(1,627)	1,167	24	3	(818)	(19,821)
Amortizaciones	(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

Fiscal Year 2011

Thousands of Euros	Balance at 01/01/2012	Additions or Charge for the year	Retirements or disposals	Transfers (Note 6)	Exchange Differences	Transfer to/from Held For Sale Assets (Note 20)	Balance at 01/01/2011
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	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 Energía 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.

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'Bopícula, 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.

On 19 May 2012, 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 prejudice 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
Total	170,958	180,586

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
Total	180,586					170,958



Fiscal Year 2011

Thousands of Euros	Balance at 01/01/12	Additions or Charge for the year	Transfers	Exchange differences	Balance at 31/12/12
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
Total	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.

Details of standing timber at 31 December 2012 and 2011 are as follows:

Fiscal Year 2012

IBERIAN PENINSULA				
Years	Pulp		Energy crops (*)	
	Hectares	Thousands of Euros	Hectares	Thousands of Euros
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
Total	51,423	126,336	51,423	126,336

(*) Part of the biological assets to be used as "Energy crops" come from changes in use of crops to be used for cellulose.

Fiscal Year 2011

IBERIAN PENINSULA					URUGUAY (NOTE 20)	
Years	Pulp		Energy crops (*)			
	Hectares	Thousands of Euros	Hectares	Thousands of Euros	Hectares	Thousands of Euros
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	-	-
Total	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
Total	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:

Thousands of Euros	Current Assets		Non-Current Liabilities		Current Liabilities	
	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 consolidated 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.

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

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
Total	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 qualify 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).

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 Energía 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)
Total	87,575	112,462

(*) Mainly related to spare parts.

There are 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)
Total	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
Total	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	Thousands of Euros	%
Payments made within the maximum period permitted by law	469,013	89%
Other	56,274	11%
Total payments made in the year	525,287	100%
Weighted average past due payments (days)	32.75	-
Deferrals which at the closing date extended beyond the maximum legal period at the year-end (*)	6,179	-

Fiscal Year 2011	Thousands of Euros	%
Payments made within the maximum period permitted by law	559,315	94%
Other	32,841	6%
Total payments made in the year	592,156	100%
Weighted average past due payments (days)	23.98	-
Deferrals which at the closing date extended beyond the maximum legal period at the year-end (*)	7,298	-

13. Equity

Share capital

The share capital of Ence Energía 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
Fidalse, 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.

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 Energía, S.L.U.	(803)	(420)
Ence Energía Huelva, S.L.U.	(658)	-
Consolidation adjustments	6,186	1,814
Total	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 Energía 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 Energía 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 Energía 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.

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.

their use in order to maximise the creation of value for shareholders.

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

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.

Changes in the fair value of derivative hedging instruments in 2012 and 2011 are as follows (see Note 10):

Thousands of Euros	Fiscal Year 2012			Fiscal Year 2011		
	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
Total	(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.

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.

The Group has also obtained soft loans from various public entities. These loans bear interest at below-market rates

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
Total	9,238	16,335

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:

Fiscal Year 2012 - Thousands of Euros	Limit	Principal	Maturities				
			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

Fiscal Year 2011 - Thousands of Euros	Limit	Principal	Maturities				
			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).

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 Energía 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 Energía 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 ratios 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 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 Energía 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 Energía 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 Energía 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)
Total	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 Energía 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 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.
- Ence Investigación y Desarrollo, S.A.U.
- Celulosa Energía, S.L.U.
- Electricidad de Navia Asturias, S.L.U.
- Silvasur Agroforestal, S.A.

- Ibercel Celulosa, S.L.U.
- Norte Forestal, S.A.
- Enersilva, S.L.U.
- Ibersilva, S.A.U.
- Ence Energía, S.L.U. and subsidiaries
- Norfor Maderas S.A.U.

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 Colectivas 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.

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

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

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.

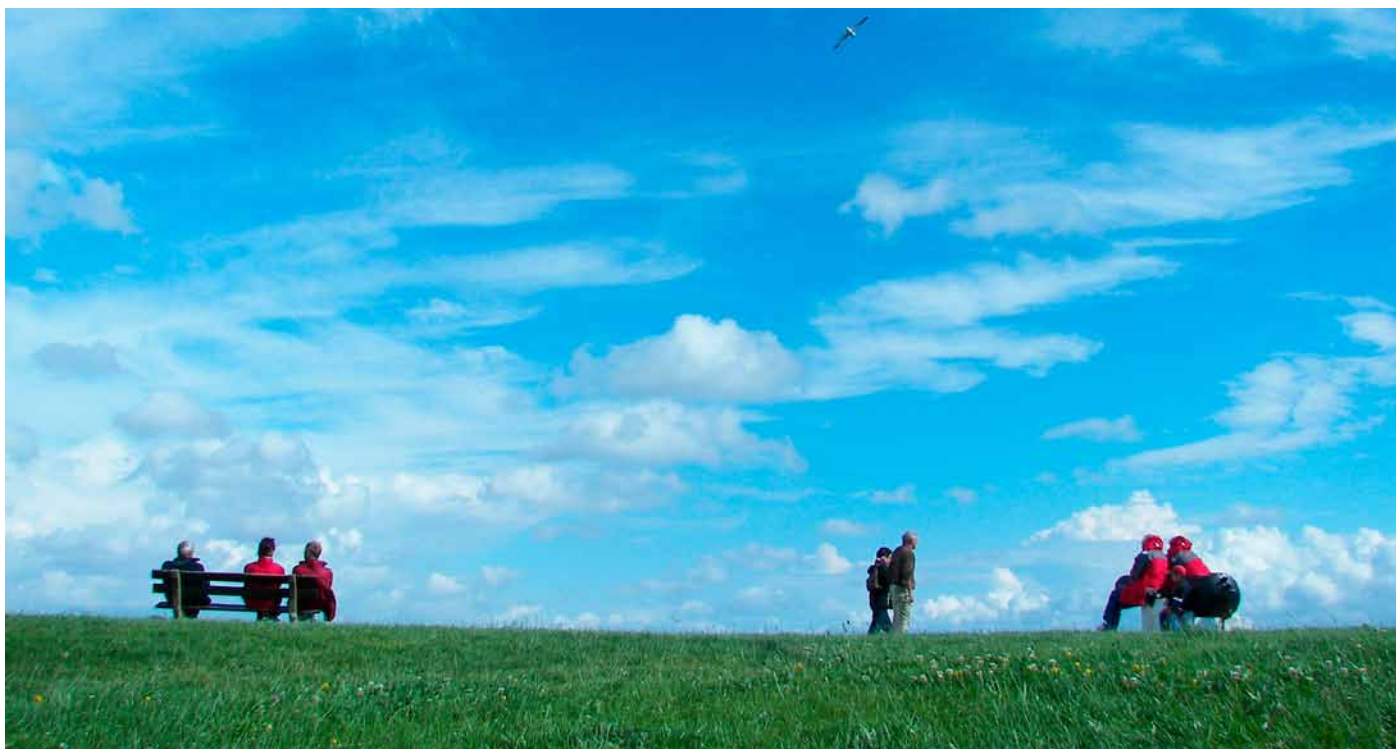
Deferred tax liabilities recognised

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
Total	28,289	3,814	(358)	-	31,745

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
Total	827,578	825,451

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
Total	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
Total	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
Total	77,407	82,604
Termination benefits	4,695	6,809
Total	82,102	89,413

The average headcounts for 2012 and 2011 were as follows:



Professional Category	Average Number of Employees in the Year					
	2012			2011		
	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
Total	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:

Professional Category	Number of Employees at the close of the period					
	2012			2011		
	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
Total	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	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

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
Total	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
Total	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

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
Iberforestal, 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 Energía 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.

"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 activo	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
Non-current assets	3,330	3,468
Current assets	11,433	13,076
Inventories	672	876
Trade and other receivables	8,314	9,265
Current financial assets	1,056	817
Cash and other cash equivalents	1,391	2,118
Total assets	14,763	16,544

	30/06/2012	31/12/2011
Non-current liabilities	90	90
Current liabilities	13,391	12,232
Bank borrowings	631	257
Trade and other payables	11,959	11,104
Payable to public authorities and other payables	801	871
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.

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.

Balance Sheet	Thousands of Euros						Total (a)
	Pulp and Power	New Energy Projects	Forest management	Forestry and other services	Sub-total	Consolidation adjustments between Segments	
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

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
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 (a)
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:

2012 – Director	Type	Thousands of Euros		
		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
Total		498	446	944

(a) Director resigned in 2012.

2011 – Director	Type	Thousands of Euros		
		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
Total		465	472	937

(a) Directors standing down in 2011.

(b) Also in receipt of prior years' remuneration amounting to EUR 10 thousand.

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 Energía y Celulosa, S.A., as part of their remuneration, under the conditions established in the "Ence Energía 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:

Related Party	Transaction	2012	2011
Liberbank, S.A.	Interest and banking fees	255	481
Fidalsar, S.L.	Share purchase	25,246	-
Atalaya de Inversiones, S.R.L.	Share purchase	-	26,389
Grupo Foresta	Purchase of intangible assets	3,566	-

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 (CO₂), 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.

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.

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 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. Financial entities predict a reduction in available financing in the Merida 20 Mw and Huelva 50 Mw projects, in the amount of EUR 10 million and EUR 2 million respectively.

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

Informe de Gestión Consolidado del ejercicio anual terminado el 31 de diciembre de 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 depreciation 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 Energía 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 Energía y Celulosa, S.A. and subsidiaries, including financial information for its consolidated group: "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.

Mr. Juan Luis Arregui Ciarso

Mr. Ignacio de Colmenares y Brunet

Mr. Javier Echenique Landiribar

Mr. José Carlos del Álamo Jiménez

Mr. José Guillermo Zubia Guinea

Mr. Gustavo Matías Clavero

Mr. Pascual Fernández Martínez

Mr. Pedro Barato Triguero

Mr. José Manuel Serra Peris

Mr. Fernando Abril-Martorell Hernández

RETOS OPERATIVOS XXI, S.A.,
representada por Mr. Javier Arregui Abendivar

NORTEÑA PATRIMONIAL, S.L.,
representada por Mr. Jesús Ruano Mochales

