ENCE ENERGÍA Y CELULOSA, S.A.

Independent Auditor´s Report on Consolidated Annual Accounts
at 31 December 2014

This version of our report is a free translation from the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the shareholders of ENCE Energía y Celulosa, S.A.:

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of ENCE Energía y Celulosa, S.A. and its subsidiaries (the "Group" hereinafter), which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

The parent company´s directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of ENCE Energía y Celulosa, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company´s directors´ preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of ENCE Energía y Celulosa, S.A. and its subsidiaries as at December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' Report for 2014 contains the explanations which the parent company´s directors consider appropriate regarding ENCE Energía y Celulosa, S.A. and its subsidiaries´ situation, the development of their business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the directors' Report is in agreement with that of the consolidated annual accounts for 2014. Our work as auditors is limited to checking the directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from ENCE Energía y Celulosa, S.A. and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

Mar Gallardo

26 February 2015

ENCE Energía y Celulosa, S.A. and subsidiaries

Consolidated financial statements for 2014 prepared under the International Financial Reporting Standards adopted by the European Union, the Group Management Report and the Audit Report

Consolidated financial statements for 2014

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2014 AND 2013

Thousands of euros	Note	Year-end 2014	Year-end 2013
NON-CURRENT ASSETS:			
Intangible assets	7	13,698	19,057
Property, plant and equipment	8	643,996	776,246
Investment property	4.3	-	1,967
Biological assets	9	90,247	154,145
Other financial assets	19	2,956	2,918
Deferred tax assets	21	81,588	35,557
		832,485	**989,890**
CURRENT ASSETS:			
Non-current assets held for sale	28	77,379	-
Inventories	13	37,919	70,989
Trade and other receivables	14	100,431	114,364
Receivable from public authorities	21	9,747	18,592
Income tax receivable from the tax authorities	21	11,934	8,204
Current financial assets:			
Derivatives	12	999	-
Other financial assets	19	8,513	55,876
Cash and cash equivalents	19	73,428	103,391
Other current assets		1,321	953
		321,671	**372,369**
TOTAL ASSETS		**1,154,156**	**1,362,259**
EQUITY:			
Share capital	16	225,245	225,245
Share premium	16	195,665	210,037
Parent company reserves	16	99,965	117,458
Reserves in fully-consolidated companies	16	123,282	126,422
Valuation adjustments	16	46,501	48,807
Profit for the year		(140,909)	4,311
Translation differences	4.20	(1,077)	(2,218)
Own shares - parent company shares	16	(5,744)	(19,762)
Equity attributable to owners of the parent		**542,928**	**710,300**
TOTAL EQUITY		**542,928**	**710,300**
NON-CURRENT LIABILITIES:			
Bonds and other marketable securities	19	242,089	240,679
Bank borrowings	19	97,960	98,258
Grants	17	11,032	15,209
Derivative financial instruments	12	8,103	7,393
Other financial liabilities	20	7,486	8,546
Deferred tax liabilities	21	21,948	27,633
Non-current provisions	18	11,147	18,505
		399,765	**416,223**
CURRENT LIABILITIES:			
Bank borrowings	19	16,404	12,925
Derivative financial instruments	12	7,373	4,534
Other financial liabilities	20	2,385	1,962
Trade and other payables	15	156,326	197,179
Income tax payable to the tax authorities	21	94	39
Other payables to public authorities	21	8,649	11,318
Other current liabilities		512	699
Current provisions	18	19,720	7,080
		211,463	**235,736**
TOTAL EQUITY AND LIABILITIES		**1,154,156**	**1,362,259**

The accompanying notes 1 to 31 are an integral part of
the consolidated statement of financial position at 31 December 2014

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR YEAR-ENDS 2014 AND 2013

Thousands of euros	Note	Year ended 31 Dec 2014	Year ended 31 Dec 2013
Continuing operations:			
Revenue	22	687,546	853,136
Gain (loss) on hedging transactions	12	39	12,102
Changes in inventory of finished goods and work in progress		(10,145)	2,117
Cost of sales	23	(379,447)	(427,836)
GROSS PROFIT		**297,993**	**439,519**
Own work capitalised	8 & 9	6,193	14,757
Other income		6,448	7,543
Government grants taken to income	17	5,686	6,320
Employee benefits expense	24	(87,035)	(80,459)
Depreciation and amortisation charges	4.3, 7 & 8	(59,479)	(63,133)
Depletion of forest reserve	9	(9,656)	(15,205)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	5, 7, 8, 9 & 18	(101,175)	(37,516)
Other operating expenses	25	(227,599)	(240,008)
OPERATING PROFIT/(LOSS)		**(168,624)**	**31,818**
Finance income		1,066	2,039
Change in fair value of financial instruments	12	(1,326)	1,830
Other finance costs	26	(28,032)	(30,762)
Exchange differences		1,612	641
NET FINANCE COST		**(26,680)**	**(26,252)**
PROFIT/(LOSS) BEFORE TAX		**(195,304)**	**5,566**
Income tax	21.3	54,395	(1,255)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**(140,909)**	**4,311**
PROFIT/(LOSS) FOR THE YEAR	27	**(140,909)**	**4,311**
Earnings per share:			
Basic	16	**(0.56)**	**0.02**
Diluted	16	**(0.56)**	**0.02**

Accompanying notes 1 to 31 are an integral part of the consolidated 2014 income statement

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR-ENDS 2014 AND 2013

Thousands of euros	Note	Year ended 31 Dec 2014	Year ended 31 Dec 2013
CONSOLIDATED PROFIT/(LOSS) FOR THE YEAR (I)	16	(140,909)	4,311
Income and expense recognised directly in equity:			
- Cash flow hedges (*)		(5,425)	3,340
- Translation differences (*)		1,141	(207)
- Tax effect		1,118	(1,001)
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY (II)	16	(3,166)	2,132
Amounts transferred to the consolidated income statement			
- Cash flow hedges (*)		2,860	(8,271)
- Tax effect		(859)	2,479
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS (III)	16	2,001	(5,792)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) (I+II+III)		(142,074)	651

Accompanying notes 1 to 31 are an integral part of the consolidated 2014 statement of comprehensive income

(*) Items that may be subsequently be reclassified to profit or loss

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR-ENDS 2014 AND 2013

2014 (thousands of euros)	Balance at 1/1/2014	Total recognised income/ (expense)	Issuance / (cancellation) of equity	Appropriation of prior-year profit/(loss)	Dividends	Trading in own shares	Distribution of own shares	Balance at 31/12/2014
Share capital	225,245	-	-	-	-	-	-	225,245
Share premium	210,037	-	-	-	-	-	(14,372)	195,665
Legal reserve	45,050	-	-	-	-	-	-	45,050
Other parent company reserves	72,408	-	-	7,451	(19,376)	(48)	(5,521)	54,915
Reserves in fully-consolidated companies	126,422	-	-	(3,140)	-	-	-	123,282
Translation differences	(2,218)	1,141	-	-	-	-	-	(1,077)
Own shares	(19,762)	-	-	-	-	(5,875)	19,893	(5,744)
Valuation adjustments	48,807	(2,306)	-	-	-	-	-	46,501
Consolidated profit (loss) for the period	4,311	(140,909)	-	(4,311)	-	-	-	(140,909)
	710,300	(142,074)	-	-	(19,376)	(5,923)	-	542,928

2013 (thousands of euros)	Balance at 1/1/2013	Total recognised income/ (expense)	Issuance / (cancellation) of equity	Appropriation of prior-year profit/(loss)	Dividends	Trading in own shares	Distribution of own shares	Balance at 31/12/2013
Share capital	225,245	-	-	-	-	-	-	225,245
Share premium	230,221	-	-	-	-	-	(20,184)	210,037
Legal reserve	42,876	-	-	2,174	-	-	-	45,050
Other parent company reserves	57,040	-	-	27,710	(16,154)	2,109	1,703	72,408
Reserves in fully-consolidated companies	112,543	732	-	13,147	-	-	-	126,422
Translation differences	(2,011)	(207)	-	-	-	-	-	(2,218)
Own shares	(37,213)	-	-	-	-	(1,030)	18,481	(19,762)
Valuation adjustments	52,992	(4,185)	-	-	-	-	-	48,807
Consolidated profit (loss) for the period	43,031	4,311	-	(43,031)	-	-	-	4,311
	724,724	651	-	-	(16,154)	1,079	(0)	710,300

Accompanying notes 1 to 31 are an integral part of the consolidated 2014 statement of changes in equity

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR-ENDS 2014 AND 2013

Thousands of euros	Year ended 31 Dec 2014	Year ended 31 Dec 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated profit/(loss) for the year before tax	(195,304)	5,566
Adjustments for:		
Depreciation	58,866	61,696
Depletion of forest reserve	9,656	15,205
Amortisation	613	1,437
Changes in provisions and other deferred expense (net)	32,840	21,962
Impairment of and gains/(losses) on disposals intangible assets and PP&E	101,175	35,890
Finance income	(1,066)	(2,039)
Finance costs	29,502	28,699
Government grants taken to income	(1,300)	(1,290)
	230,286	161,560
Changes in working capital:		
Trade and other receivables	13,904	29,791
Financial and other current assets	2,363	(2,939)
Trade payables, other payables and other liabilities	(41,929)	4,657
Inventories	24,451	10,359
	(1,211)	**41,868**
Other cash flows from operating activities:		
- Interest paid	(25,207)	(18,048)
- Interest received	1,065	2,038
- Income tax received (paid)	(166)	(17,120)
	(24,308)	**(33,130)**
Net cash generated from operating activities (I)	**9,463**	**175,864**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments:		
Property, plant and equipment and biological assets	(55,718)	(112,844)
Intangible assets	(4,113)	(893)
Other financial assets	(16)	1,347
	(59,847)	**(112,390)**
Disposals:		
Property, plant and equipment and biological assets	58	64,397
	58	**64,397**
Net cash used in investing activities (II)	**(59,789)**	**(47,993)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from and payments for equity instruments		
Buyback of own equity instruments	(6,073)	(26,505)
Disposal of own equity instruments	156	27,506
	(5,917)	**1,001**
Proceeds from and repayments of financial liabilities:		
Proceeds from issuance of bonds and other marketable securities, net of issuance costs	-	239,454
Increase (decrease) in bank borrowings, net of issuance costs	1,127	(232,101)
Repayment of other borrowings and cancellation of derivatives	(1,338)	(11,965)
Grants received	860	115
	649	**(4,497)**
Dividends and payments on other equity instruments		
Dividends	(19,376)	(16,155)
	(19,376)	**(16,155)**
Translation differences	7	**(34)**
Other cash received from (used in) financing activities		
Fixed-term deposits	45,000	(45,000)
	45,000	**(45,000)**
Net cash from / (used in) financing activities (III)	**20,363**	**(64,685)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)	**(29,963)**	**63,186**
Cash and cash equivalents at beginning of year	103,391	40,205
Cash and cash equivalents at end of year	73,428	103,391

Accompanying notes 1 to 31 are an integral part of the consolidated 2014 statement of cash flows

Notes to the 2014 consolidated financial statements

Contents

ENCE Energía y Celulosa, S.A. and subsidiaries

Notes to the 2014 consolidated financial statements

1. Group information

Ence Energía y Celulosa, S.A. (hereinafter "ENCE", the "Company" or the "Parent") was incorporated in 1968. Its registered office is located at Calle Beatriz de Bobadilla, 14 in Madrid. It formerly went by the name of Empresa Nacional de Celulosas, S.A. until 1999 and Grupo Empresarial ENCE, S.A. until 2012.

Its corporate purpose, as per its bylaws, consists of:

a) The manufacture of cellulose pulp and derivatives thereof, the obtainment of the products and other elements necessary to this end and the use of the sub-products of both;

b) The production by any means, sale and use of electric energy and other sources of energy and of the materials and primary energies needed for its generation, as permitted under prevailing legislation; and the marketing, sale-purchase and supply thereof under any of the formulae permitted under law.

c) The cultivation, exploitation and use of forests and forest land, afforestation work and the provision of expert forestry-related services and works. The preparation and transformation of forestry products. The use and exploitation for commercial and business purposes of all manner of forestry products (including biomass and forest energy products), their derivatives and their sub-products. Forestry studies and projects:

d) The planning, development, construction, operation and maintenance of the facilities referred to in sections a), b) and c) above.

The Group has structured its activities around two business lines:

i) Pulp manufacturing:

The main activity is the production of bleached eucalyptus kraft pulp (BEKP) by means of elementary chlorine free (ECF) and totally chlorine free (TCF) bleaching sequences, from eucalyptus wood.

To carry out this activity, the Group had, until the third quarter of 2014, three factories in Spain (located in Asturias, Pontevedra and Huelva) with combined nominal capacity of approximately 1,350,000 tonnes per annum.

During the third quarter of 2014, following publication in Spain of Royal Decree 413/2014 (6 June 2014) and Ministerial Order IET/1045/2014 (16 June 2014), enacting the remuneration parameters applicable to certain classes of electricity-producing facilities fuelled from renewable energy, co-generation and waste, with retroactive effect to 12 July 2013, the date on which Royal Decree-Law 9/2013 adopting urgent measures in the electricity system took effect, the Group announced its decision to focus the industrial complex in Huelva on the generation of power from renewable sources and to discontinue pulp production at this facility; in tandem, management announced plans to reorganise the Group's corporate structure to align it with the new productive configuration. Since then, the Group has concentrated its pulp-making activities at its factories in Asturias and Pontevedra, which between them have nominal capacity of 940,000 tonnes per annum.

To complement its core business, the Group uses the wood that cannot be transformed into pulp, essentially lignin and biomass, along with other fuels, to generate and co-generate electric power. The Group's aggregate nominal installed operative power generation capacity (integrated within the Asturias and Pontevedra factories) is approximately 113 megawatts (MW), divided between three facilities.

ii) Generation of electric power from biomass:

In addition, the Group has been developing power generation projects which are fuelled using forestry and agricultural biomass. The 50-MW power generation plant in Huelva began operations in February 2013, while the 20-MW plant in Mérida started up in September 2014. In addition to these two plants, and as a result of the decision to discontinue pulp production at the industrial complex in Huelva, this business line now also includes a third generation plant, with capacity of 40 MW, which was formerly integrated into the pulp operations. Factoring in this third facility, power generation capacity at the stations independent of pulp operations stands at 110 MW.

In order to lock in the timber supplies needed for the pulp manufacturing process and to meet the power generation plants' biomass requirements, the Group manages 83,163 hectares of forested land in Spain and Portugal, 49,071 hectares of which it owns.

The land under management includes 2,598 hectares located in Portugal that the Group sold in 2013, having entered into an agreement with the buyer covering the purchase by the ENCE Group, at market prices, of the wood produced from the land sold for a term of 20 years.

All of the Company's shares are represented by book entries and are officially listed on the Spanish stock exchanges and traded on the continuous market (SIBE for its acronym in Spanish).

2. Group companies

The following subsidiaries, 100% directly or indirectly owned by the Parent, are fully consolidated in the accompanying 2014 consolidated financial statements:

2014

Company	Registered office	Business activity	Thousands of euros — Investee equity — Share capital	Share premium and reserves	Profit (loss) for the year
Subsidiaries:					
Celulosa Energía, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	3,756	23,111	5,134
Celulosas de Asturias, S.A.U. (a)	Armental s/n Navia (Asturias)	Generation and sale of pulp and electric energy	37,863	92,440	13,610
Silvasur Agroforestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	39,666	(11,631)	(19,871)
Ibersilva, S.A.U. (a)	Ctra A-5000 Km. 7.5 (Huelva)	Forestry services	280	(5)	(399)
Norte Forestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	2,464	19,754	(1,996)
Ence Investigación y Desarrollo, S.A.U. (a)	Pontecaldelas (Pontevedra)	Research into and development of new materials, products and processes	1,208	(1,804)	(1,984)
Iberflorestal, S.A.U. (a)	Lisbon (Portugal)	Purchase-sale of wood	55	995	(735)
Las Pléyades, S.A. (SAFI) (b) (c)	Montevideo (Uruguay)	Export of wood	2	2,640	(152)
Maderas Aserradas del Litoral, S.A. (b) (c)	Montevideo (Uruguay)	Dormant	6,419	(7,289)	4
Sierras Calmas, S.A. (b) (c)	Montevideo (Uruguay)	Forest management	1,393	3,560	236
Ence Energía, S.L.U (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	7,506	9,150	(19,055)
Ence Energía Huelva, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	6,757	40,353	(15,901)
Ence Energía Extremadura, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	3,179	27,563	(11,498)

(a) Financial statements audited by PwC
(b) Equivalent amounts in euros translated at closing exchange rate
(c) Dormant

2013

Company	Registered office	Business activity	Thousands of euros – Investee equity – Share capital	Share premium and reserves	Profit (loss) for the year
Subsidiaries:					
Celulosa Energía, S.A.U. (a)	Paseo de la Castellana, 35 (Madrid)	Generation and sale of electric energy	3,756	24,154	(1,043)
Celulosas de Asturias, S.A.U. (a)	Armental s/n Navia (Asturias)	Generation and sale of pulp and electric energy	37,863	56,602	33,040
Silvasur Agroforestal, S.A.U. (a)	Paseo de la Castellana, 35 (Madrid)	Forest land management	39,666	(6,057)	(5,574)
Ibersilva, S.A.U. (a)	Avda de Alemania, 9 (Huelva)	Forestry services	10,000	(9,031)	(694)
Norte Forestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	2,464	21,187	(1,433)
Ence Investigación y Desarrollo, S.A.U. (a)	Pontecaldelas (Pontevedra)	Research into and development of new materials, products and processes	1,208	108	(1,913)
Iberflorestal, S.A.U. (a)	Lisbon (Portugal)	Purchase-sale of wood	55	2,378	(1,384)
Las Pléyades, S.A. (SAFI) (c)	Montevideo (Uruguay)	Export of wood	2	2,562	78
Maderas Aserradas del Litoral, S.A. (b) (c)	Montevideo (Uruguay)	Dormant	6,419	(7,180)	(109)
Sierras Calmas, S.A. (b) (c)	Montevideo (Uruguay)	Forest management	1,393	4,673	(1,114)
Ence Energía, S.L.U (a)	Paseo de la Castellana, 35 (Madrid)	Generation and sale of electric energy	7,506	28,602	(19,452)
Ence Energía Huelva, S.L.U. (a)	Paseo de la Castellana, 35 (Madrid)	Generation and sale of electric energy	6,757	24,817	(3,464)
Ence Energía Extremadura, S.L.U. (a)	Paseo de la Castellana, 35 (Madrid)	Generation and sale of electric energy	3,179	12,585	(821)

(a) Financial statements audited by PwC
(b) Financial statements for year-end 2013 in respect of which PwC has conducted a limited review
(c) Equivalent amounts in euros translated at closing exchange rate

In addition, the Group comprises the following dormant companies that are wholly-owned by the Parent: Celulosas de M'Bopicuá, S.A., Las Pléyades Argentina, S.A., Las Pléyades Uruguay, S.A. and Zona Franca M'Bopicuá, S.A.

Elsewhere, the Group has non-controlling interests in certain companies that have not been consolidated on account of their scant materiality: Imacel, A.E.I.E., a dormant company that is 50%-owned by the Parent, Sociedad Andaluza de Valorización de la Biomasa, S.L., in which the Parent holds a 6% interest, and Electroquímica de Hernani, S.A., in which it owns a 5% shareholding.

3. Basis of preparation and consolidation

3.1 Basis of preparation

The 2014 consolidated annual financial statements were prepared from the accounting records and annual financial statements of the Parent and Group companies. They were prepared in accordance with the prevailing financial reporting framework, specifically the International Financial Reporting Standards (IFRS) adopted by the European Union, as provided for in Regulation (EC) No. 1606/2002 of the European Parliament, and Spanish Law 62/2003 (30 December 2003) on tax, administrative and corporate measures, to give a true and fair view of the Group's financial position at 31 December 2014 and of its financial performance and cash flows for the year then ended.

Note 4 summarises the most significant mandatory accounting policies and measurement criteria applied.

The Group's consolidated financial statements for 2014, which have been authorised for issue by the Parent's directors, will be submitted for shareholder approval at the Annual General Meeting at which they are expected to be ratified without modification. The Group's consolidated financial statements for 2013 were approved at the Annual General Meeting held by the Parent on 30 June 2014.

The Group's functional currency is the euro and the consolidated financial statements are accordingly presented in euros.

3.2 New and amended standards taking effect during the reporting period

The following new and amended standards took effect in 2014 and were applied in preparing the accompanying consolidated financial statements, albeit without having a material impact thereon:

- IFRS 10 - Consolidated financial statements

  IFRS 10 replaces the sections of IAS 27 relating to consolidation requirements and the SIC 12 interpretation and modifies the definition of control which now pivots around three prerequisites for the existence of control: power over the investee, exposure or the right to variable returns from involvement with the investee and the ability to affect those returns through the power held over the investee.

- IFRS 11 - Joint arrangements

  IFRS 11 changes the approach to analysing joint agreements and defines two single types of joint agreement: joint operations and joint ventures.

- IFRS 12 -Disclosures of interests in other entities

This new standard is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in other entities, whether subsidiaries, joint arrangements, associates or unconsolidated 'structured entities'.

- IAS 27 - Consolidated and separate financial statements

  This standard has been revised so that in the wake of issuance of IFRS 10 it now only addresses an entity's separate financial statement requirements.

- IAS 28 - Investments in associates and joint ventures

  Parallel revision in conjunction with the issuance of IFRS 11 - Joint arrangements.

- Amendment of IAS 32, Financial instruments: Presentation - Offsetting financial assets and financial liabilities

  These amendments introduce a series of additional clarifications regarding the requirements for offsetting financial assets and liabilities for financial position statement purposes and are introduced in paragraph 42 of the amended IAS 32.

- Amendments to IAS 36 - Recoverable amount disclosures for non-financial assets

  The amended standard restricts the requirement to disclose the recoverable amounts of an asset or cash generating unit to periods in which the reporter either recognises an impairment loss or reverses an existing impairment provision, i.e., it eliminates the former disclosure requirement in periods in which no impairment charges were recognised or reversed.

- Amendments to IAS 39 - Novation of derivatives and continuation of hedge accounting

  These amendments determine the instances and criteria determining when a derivative novation does not require the discontinuation of hedge accounting.

- IFRIC 21 - Levies

  This interpretation stipulates that levies be recognised when the obligation arises.

3.3 Standards and interpretations issued but not yet effective

At the date of authorising the accompanying consolidated financial statements for issue, the most significant standards and interpretations published by the International Accounting Standard Board (IASB) but not yet effective, either because they have yet to be adopted by the European Union or because their date of effectiveness is subsequent to that of authorisation, are the following:

Standard	Contents	Effective for annual periods on or after
IFRS 9 - Financial instruments: Classification and measurement	Replacement of the financial asset and liability classification and measurement requirements prescribed by IAS 39	1 January 2018
IFRS 15 - Revenue from contracts with customers	Replaces prevailing IAS 18 and IAS 11 as well as the current interpretation of revenue	1 January 2017
Amendments to IAS 19 -Employee contribution to defined benefit plans	Subject to compliance with certain requirements, the amended wording will allow for the deduction of these contributions from service cost at the time they are paid in	1 July 2014
Amendments to IAS 16 / IAS 38 - Acceptable methods of depreciation and amortisation	These amendments clarify the fact that revenue-based depreciation methods are not permitted as they do not reflect the expected pattern of consumption of the future economic benefits embodied by an asset	1 January 2016
Amendments to IFRS 11 - Accounting for acquisitions of interests in joint operations	As amended, IFRS 11 requires the use of the acquisition method prescribed in 'IFRS 3 - Business combinations' when joint operations are businesses	1 January 2016
Amendments to IAS 16 and IAS 41 - Bearer plants	As amended, bearer plants will have to be carried at cost instead of fair value	1 January 2016
Amendments to IFRS 10 and IAS 28 - Sales or contributions of assets between an investor and its associate/joint venture	The gain or loss resulting from the sale or contribution of assets that constitute a business is recognised in full; that resulting from the sale or contribution of assets that do not constitute a business is recognised partially	1 January 2016

The Group is in the process of analysing what impact these new standards could have on its consolidated financial statements if adopted.

3.4 Key IFRS-related decisions

In presenting the consolidated financial statements and accompanying notes, the Group took the following decisions:

a. The presentation of the consolidated statement of financial position distinguishes between current and non-current amounts. The consolidated income statement is presented using the nature of expense method.

b. The Group has chosen to present its consolidated statement of cash flows using the indirect method.

3.5 Consolidation

Subsidiaries

'Subsidiaries' are investees over which the Parent has the power to exercise effective control; this power is presumed to exist, in general albeit not exclusively, when it owns, either directly or indirectly, at least 50% of the voting rights of the investee or, even if this percentage is lower, there are agreements with other investee shareholders that grant it control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are consolidated with those of the Parent using the full consolidation method. As a result, material inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation.

In the accompanying consolidated financial statements, all the companies comprising the consolidation scope are accounted for using the full consolidation method.

Associates

Associates are all entities over which the Parent has significant influence but not control or joint control. The power to exercise significant influence is usually associated with interests (held directly or indirectly) of 20% or more of an investee's voting rights.

Associates are accounted for using the equity method, i.e., at the carrying amount of the Group's share of the associate's equity, restated for any dividends received and other adjustments to equity.

Adjustments to conform with the Group's accounting policies

The consolidation of the entities comprising the consolidation scope was carried out on the basis of their respective separate financial statements, which are prepared under the Spanish General Accounting Plan for companies resident in Spain and local accounting standards for the foreign subsidiaries. The directors have made all the material adjustments needed to adapt these separate financial statements to IFRS and/or to align them with the Group's accounting policies as part of the consolidation process.

Changes in consolidation scope and in ownership interests

2014

In 2014 Celulosa de Asturias, S.A.U. absorbed its dormant subsidiary, Electricidad de Navia, S.L.U.

2013

In 2013 Norfor Maderas, S.A.U. merged into its sole shareholder, Norte Forestal, S.A.U.

3.6 Comparative information

The information provided in these financial statements in respect of 2013 is presented to enable a reader comparison with the equivalent 2014 figures.

3.7 Seasonal nature of the Group's transactions

Given the nature of the Group companies' business operations, its transactions are not cyclical or seasonal in nature. Specific seasonality disclosures are accordingly not provided in these financial statements.

Note, however, that the production of pulp and energy requires annual stoppages of between 10 and 15 days for maintenance purposes. The Group carried out these annual stoppages during the first half of 2014.

3.8 Changes in accounting estimates and policies and correction of fundamental errors

The impact of any change in accounting estimates is accounted for prospectively in the same income statement heading in which the previously estimated item of expense or income is recognised.

Meanwhile, changes in accounting policies and the correction of fundamental errors are accounted for as follows insofar as material: the accumulated impact at the beginning of the year is adjusted in reserves and the impact in the year of the restatement is recognised in profit or loss for the year. In these instances, the financial information for the comparative year presented alongside that corresponding to the reporting period is restated.

No significant changes in accounting estimates or policies or corrections of errors affect either the 2014 or the 2013 financial statements other than that indicated in note 8.7.

4. Accounting policies

The main accounting policies used to prepare the Group's consolidated financial statements, as provided in the International Financial Reporting Standards adopted by the European Union, are summarised below:

4.1 Intangible assets

Intangible assets are initially recognised at acquisition or production cost. Subsequent to initial recognition, they are measured at cost less accumulated amortisation and any impairment losses.

The Group's intangible assets have finite useful lives and are accordingly amortised on a straight-line basis over the best estimate of such useful life.

Research and development costs-

Research expenditure is recognised as an expense in the year it is incurred.

Development costs are capitalised when their cost is identifiable and the technical feasibility and financial profitability of the project can be demonstrated. Development costs that do not meet these criteria are recognised as an expense in the year in which they are incurred.

These costs are amortised on a straight-line basis over five years.

Computer software-

The Group recognises the costs incurred to acquire software and the associated user rights under this heading. Software maintenance costs are expensed currently.

Costs that are directly associated with the internal development of software are recognised as intangible assets insofar as their cost is clearly identifiable and it is deemed probable that the developments will generate economic benefits beyond one year.

Software is amortised using the straight-line method over a five-year period.

Greenhouse gas emission allowances for own use-

Emission allowances acquired are recognised as an intangible asset and are initially measured at their acquisition cost.

Emission allowances received free of charge under the emission allowance trading scheme in effect for 2013-2020 are recognised within intangible assets at their market value at the start of the year for which they are allocated (deemed cost), recognising deferred income in the form of a grant in the same amount as the balancing entry. As the corresponding tonnes of carbon are consumed, the deferred income is reclassified to Income Statement.

Emission allowances are not amortised as their carrying amount matches their residual value, so that their amortisation base is effectively zero. Emission allowances are, however, tested for impairment (note 4.2). The market value of emission allowances is calculated with reference to the price of the benchmark contract provided by the European Climate Exchange (ECX).

An expenditure is recognised under "Other operating expenses" in the income statement for emissions made during the year by means of a provision whose amount is calculated as a function of the tonnes of carbon emitted valued at: (i) their carrying amount in respect of allowances held at year-end; and (ii) the year-end trading price in respect of allowances not held at year-end.

When emission allowances are delivered to the authorities for the tonnage of carbon emitted, both the intangible asset and the corresponding provision are derecognised, with no impact on Income Statement.

4.2 <u>Property, plant and equipment</u>

These assets are recognised initially at acquisition or production cost and are subsequently carried net of accumulated depreciation and any impairment losses, applying the impairment criteria outlined later on in this note.

Asset extension, upgrade or improvement costs that represent an increase in productivity, capacity or efficiency or an extension of the useful life of assets are capitalised as an increase in the cost of the corresponding assets.

Preservation and maintenance expenses incurred during the year are recognised in the income statement. In addition, certain facilities require periodic inspections. In this respect, the parts requiring replacement at regular intervals that meet the criteria for recognition are recognised specifically and depreciated during the time remaining until the next repair inspection.

Capitalised costs for items of property, plant and equipment which require more than one year to ready for use – qualifying assets - include borrowing costs accrued prior to readying the assets for use when such expenses have been invoiced by the supplier or correspond to specific or generic borrowings or other external financing directly attributable to the acquisition or production of the asset. The interest rate used for this purpose is either that corresponding to the specific borrowings financing the asset or, if there is no such funding, the Group's average borrowing cost (note 19).

Own work performed by the Group on property, plant and equipment is recognised at production cost, which is external costs plus internal costs incurred in their development, mainly labour and other operating costs.

Other than land, which is deemed to have an indefinite useful life and is therefore not depreciated, the Group companies depreciate their property, plant and equipment using the straight-line method, distributing the cost of the assets over the following years of estimated useful life:

	Estimated years of useful life
Buildings	25-60
Plant and machinery	8-25
Fixtures, fittings, tools and equipment	5-12
Other items of PP&E	5-10

Land is recognised separately from the buildings or facilities that may reside on it and is deemed to have an indefinite useful life; accordingly it is not depreciated.

Investment in buildings built on land used under a concession arrangement is recognised under "Buildings". This cost, coupled with that corresponding to the rest of the permanent facilities located on the land held under concession, is depreciated over the shorter of the building's remaining useful life and the term of the concession agreement.

Similarly, investments in plant and equipment located on land owned by third parties may include the initially estimated costs of dismantling such assets and rehabilitating the asset sites, to the extent that the Group has incurred obligations in this respect subject to specific terms and conditions. Any such costs are recognised and measured in keeping with the rules for measuring provisions (note 4.12). Any subsequent changes in estimated dismantling costs as a result of changes in estimated cash flows and/or the discount rate applied increase or decreases the carrying amount of the corresponding asset in the year in which they arise, unless the correction in the liability exceeds such carrying amount, in which case the surplus is recognised as a gain in the income statement.

In light of the terms and conditions under which the concession for the use of the land on which the Pontevedra factory is located was granted and the length of the term for which the concession is expected to apply, management's estimates point to scantly material costs in this respect.

Items of property, plant and equipment funded by project finance

The ENCE Group has funded its investments in biomass-fuelled power generation assets using project finance arrangements.

This form of structured finance is used to fund projects that generate enough cash on a standalone basis as to provide the lenders with sufficient reassurance as to the repayment of their loans.

These assets are measured at the direct costs incurred, net of any income generated during testing, that can be directly attributed to their construction up until the asset is ready for its intended use; these costs include studies and plans, expropriations, restoration of affected services, construction work and facility and building oversight, administration and management, among others. The capitalised amounts also include the borrowings costs of specific financing expressly earmarked for acquisition of the asset and accrued until the asset is ready for use, including payments under cash flow hedges arranged to mitigate interest-rate risk on such borrowings.

Impairment of non-current assets

The Group reviews the carrying amounts of its property and equipment, biological assets, investment properties and intangible assets for indications of impairment every year.

Whenever it identifies indications of impairment, the Group proceeds to test its assets for impairment, restating them to their recoverable amount if this is determined to be below their carrying amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

In testing its assets for potential impairment, management analyses macroeconomic variables and the outlook for the sector, as gleaned from forecasts for supply and demand, regulatory changes, costs and the availability of the key raw materials, etc.

The procedure used by the Company's directors to test for impairment is as follows:

They calculate each cash-generating unit's recoverable amount, the cash-generating units (CGUs) being the Group's various pulp factories and power plants.

Each year, the Group prepares a business plan for each CGU which generally covers a five-year projection period. The business plan materialises in financial projections that are prepared by the Group's management on the basis of prior experience and best available estimates with respect to macroeconomic variables, planned capacity increases associated with new investments, expected changes in sales prices and the cost of the main raw materials, all of which underpinned by consensus market estimates, working capital trends and discount rates.

With the exception of projects financed on a non-recourse basis and biological assets, terminal value is calculated as a function of 'normalised' cash flow in the last year of the projection period, extrapolated at a rate of growth in perpetuity that ranges between 1% and 2% and is in no instance higher than estimated long-term growth for the market in which the Group operates. The cash flows used to calculate the terminal value factor in the maintenance capital expenditure required to ensure the business's continuity.

In the case of assets associated with projects funded on a non-recourse basis, for which cash flows during the construction and operating phases can be estimated with a certain amount of precision, the recoverable amount is calculated using estimated cash flows projected until the end of the asset's life. Accordingly, no terminal value is factored in. And for biological assets, projected cash flows encompass a productive cycle of up to 40 years and, again, no terminal value is factored in. The projections are based on known quantities, based on the project agreements, as well as key assumptions underpinned by specific studies compiled by production experts and estimates. They also reflect forecast macroeconomic variables such as core inflation, benchmark interest rates, etc. Sensitivity analyses are conducted to determine the impact of changes in all the key inputs that could have a significant impact on asset valuations.

To calculate value in use, the cash flows so estimated are discounted using a discount rate that represents the weighted average cost of capital, factoring in the cost of the liabilities and the business risks associated with the business being valued in the market in question. The discount rates applied in the pulp business range between 7% and 8.5%; in the power generation segment a discount rate equivalent to the yield on 10-year Spanish government bonds plus 300 basis points is used as the after-tax rate.

If the estimated recoverable amount of an asset is lower than its carrying amount, the latter is written down to the former by recognising the corresponding impairment loss in "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the income statement. After an impairment loss has been recognised, depreciation charges are calculated prospectively on the basis of the reduced carrying amount of the impaired asset.

When an impairment loss subsequently reverts, the carrying amount of the CGU is written up to its recoverable amount, so long as the restated carrying amount does not exceed the carrying amount that would have been recognised had no impairment loss been recognised in prior years. The reversal of an impairment loss is recognised in "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the income statement.

4.3 Investment property

"Investment property" in the accompanying statement of financial position includes the values, net of any accumulated depreciation, of the land and buildings held to earn rentals or for capital appreciation. These assets are not used in the Group's business operations or for administrative purposes.

Investment property is measured following the same criteria as are used to measure fixed assets of the same class, as outlined in "Property, plant and equipment" above.

4.4 Biological assets

The Group grows several species of trees, mainly eucalyptus, which are used as the raw material for producing pulp and energy. Against this backdrop, the trees in a forest plantation - or forest cover - are considered a biological asset. Forest land is measured in keeping with IAS 16, Property, plant and equipment and is recognised within the eponymous heading of the statement of financial position (note 8).

The Group has been valuing its biological assets at their historical cost (cost less accumulated depreciation less any accumulated impairment losses) in light of the difficulty in identifying active markets for these species in Spain. However, it has been able to test the validity of these values as a reliable proxy for fair value by means of discounted cash flow analysis, for example; the results of this exercise do not differ materially from the amounts recognised in the accompanying consolidated financial statements.

Investment in forest assets is measured by capitalising all the costs incurred directly in acquiring and developing them, including land rents, site cleaning and preparation costs, plantation costs, fertilisers and forest care and preservation expenses. In addition, because these assets take more than one year to ready for use, borrowing costs accrued until the time the trees are felled are capitalised. The interest rate used is the Group's average borrowing cost (note 19).

When the plantations are harvested, the value of the asset cover is reduced with a charge to "Biological assets – Depletion of forest reserve" along with the recognition of a corresponding expense under "Depletion of forest reserve" in the income statement at incurred production costs. The criteria for allocating costs to trees felled takes into consideration total costs incurred as of the date the wood is cut and the residual value of the plantation.

In addition, when forest cover comes to the end of its productive cycle, the amount of recognised forest cover net of accumulated depreciation/depletion is derecognised.

4.5 Leases

The Group holds certain assets under lease. All of the lease arrangements entered into by the Group have been classified as operating leases; based on the substance of the leases, none of the agreements transfers ownership of the leased assets nor the risks and rewards incidental to ownership.

Payments on operating leases are expensed in the income statement in the year in which they accrue.

4.6 Financial instruments

Financial assets

The Group's financial assets are classified into the following categories:

- Loans and receivables: trade credit and loans with fixed or determinable payments deriving from non-commercial transactions
- Available-for-sale financial assets: this category mainly includes equity interests in other companies and other financial assets that have not been classified within loans and receivables

No financial assets were reclassified between the above categories in either 2014 or 2013.

Initial recognition-

Financial assets are initially recognised at the fair value of the consideration delivered plus directly attributable transaction costs.

Subsequent measurement-

Loans and receivables are measured at amortised cost; interest accrued is recognised in the income statement using the corresponding effective interest rate.

The Group recognises impairment losses in the income statement when it believes there is a risk of non-payment on the basis of the age of the debts. This risk is evidenced primarily when the counterparty declares bankruptcy, the Group has taken legal action to seek payment or the counterparty is in arrears by more than six months.

Available-for-sale financial assets are measured at fair value. Gains and losses arising from changes in the fair value of these assets are recognised directly in equity until the asset is derecognised or considered structurally or permanently impaired, a development that triggers the reclassification of the cumulative gains or losses that had been recognised directly in equity to Income Statement.

Derecognition of financial assets -

Financial assets are derecognised when the contractual rights to the related cash flows have expired or when the risks and rewards incidental to ownership of the asset have been substantially transferred.

Against this backdrop, the Group derecognises discounted trade and other receivables insofar as all of the risks and rewards associated with these assets have been substantially transferred.

In contrast, the Group does not derecognise financial asset transfers in which it retains substantially all the risks and rewards of ownership, recognising instead a financial liability in the amount of any consideration received.

Financial liabilities

Financial liabilities are trade and other accounts payable by the Group deriving from the purchase of goods and services in its ordinary course of business and other liabilities that are not commercial in origin and that cannot be considered derivatives (bank borrowings, issued bonds, etc.).

Financial liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. They are subsequently measured at amortised cost. Bank borrowings, therefore, are recognised at the amount received net of direct issuance costs, which are considered an upfront payment for the provision of liquidity.

Trade and other current accounts payable are financial liabilities that do not explicitly accrue interest. They are carried at their face value insofar as the effect of not discounting them is not material.

Finance costs are recognised on an accrual basis in the income statement using the effective interest rate method. The cost of issuing these liabilities is recognised as finance cost applying the same effective interest rate method and is added to the carrying amount of the financial liability to the extent that they are not settled.

The Group derecognises financial liabilities when the related obligation is discharged or cancelled or expires.

Hedging instruments and derivatives

The Group's activities expose it to financial and market risks deriving from variability in the dollar/euro exchange rate, which affects its revenue as benchmark pulp prices are quoted internationally in dollars, other exchange rate fluctuations insofar as they affect currency-denominated sales and changes in the prices of pulp, fuel-oil, gas and electricity, whether bought or sold. The Group's financial liabilities also expose it to the risk of changes in interest rates. The Group uses derivative financial instruments to hedge these exposures.

They are recognised under "Derivative financial instruments" on the liability side of the consolidated statement of financial position if they present a negative balance and under "Current financial assets – Derivatives" on the asset side if they present a positive balance. The fair value of the various derivative financial instruments is calculating in keeping with the criteria outlined in note 4.7 - Fair value estimation.

Gains and losses resulting from fair value changes are recognised in the income statement, unless the derivative has been designated as a hedging instrument that is deemed highly effective, in which case they are recognised as follows:

1. Fair value hedges: the hedged item is measured at fair value, as is the hedging instrument, and the changes in the fair value of both the hedged item and the hedging instruments are recognised, net, in the same income statement heading.

2. Cash flow hedges: gains and losses arising on changes in the fair value of these derivatives are recognised in "Equity – Valuation adjustments". The cumulative net gain or loss deferred in this heading is recycled to profit or loss in conjunction with recognition in the income statement of the underlying hedged item, so that both effects set each other off.

For these instruments to qualify for hedge accounting they are designated as hedges from the outset and the hedging relationship is documented in detail. In addition, the Group tests the effectiveness of its hedges from inception to derecognition/discontinuation. Hedges are deemed effective if it is expected, prospectively, that the changes in the fair value or in the cash flows from the hedged item (attributable to the hedged risk) will be almost entirely offset by the changes in the fair value/cash flows of the hedging instrument and that, retrospectively, the gains or losses on the hedge have fluctuated within a range of 80% to 125% of gains or losses on the hedged item.

The portion of a hedge that is deemed ineffective is recognised in profit or loss immediately.

Hedge accounting is discontinued when a hedge ceases to be highly efficient. If hedge accounting is discontinued, the cumulative gain or loss on the hedging instrument that has been recognised directly in equity is retained in equity until the commitment or forecast transaction materialises, at which time it is reclassified to profit or loss. When a hedged commitment or forecast transaction is no longer expected to materialise, any net cumulative gain or loss that was recognised in equity is immediately reclassified to profit or loss.

Equity instruments

An equity instrument is a contract that evidences a residual interest in the Parent's assets after deducting all of its liabilities.

The equity instruments issued by the Parent are recognised in equity at the amount received net of any issuance costs.

Own shares acquired by the Parent are recognised at the amount of consideration given in exchange and are presented as a deduction from equity. The gains and losses resulting from the purchase, sale, issuance or cancellation of own equity instruments are recognised directly in equity and are not reclassified to profit or loss under any circumstances.

Distinction between current and non-current

In the accompanying statement of financial position, assets and liabilities are classified by maturity, i.e. as current if they mature within 12 months of the reporting date and as non-current if they mature in more than 12 months.

4.7 Fair value estimation

The fair value of financial instruments traded on active markets is based on market prices at each reporting date. A market in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis is an active market.

The fair value of financial instruments that are not traded on an active market is determined using a range of valuation techniques and assumptions that are based on the market conditions prevailing at each reporting date.

The valuation techniques used vary by instrument type. Management uses discounted cash flow analysis to value interest and exchange rate derivatives, the Monte Carlo model for the quanto basket stock options contained in certain remuneration schemes and the Barone-Adesi and Whaley model to value American options in stock option plans.

More specifically, the fair value calculations for each of the main financial instruments categories (note 12) are as follows:

- Interest-rate swaps are valued by discounting future payments in respect of the differences between the fixed and floating legs using implied interest rates gleaned from short-term rate curves and long-term swap rates.
- Forward currency contracts are valued using spot exchange rates and forward interest rate curves for the currency being hedged.
- Commodity (electricity futures market - OMIP) derivatives are measured in a similar manner, the inputs being futures prices for the underlying being hedged and the implied volatility of the options written.

In keeping with IFRS 13, since 1 January 2013, it has been necessary to include own credit risk when measuring financial liabilities at fair value, which in the case of the Group are exclusively derivatives. Application of this standard has had the effect of decreasing the value of the liability balance of interest-rate hedges by €1,217 thousand at 31 December 2014 (by €478 thousand at year-end 2013).

The fair value of the various derivative financial instruments is obtained using level 1 inputs in the case of electricity price commodity contracts, as these are referenced to quoted prices, and level 2 inputs according to the fair value hierarchy stipulated in IFRS 13 in all other instances, as they are benchmarked to observable variables other than quoted prices. There were no transfers between level 1 and level 2 valuations in the year ended 31 December 2014.

4.8 Inventories

Inventories of raw materials, finished products and work in progress are measured at acquisition or production cost. Production cost includes the cost of direct materials, the cost of any direct labour and general manufacturing overhead.

The Group values its inventories using the weighted average cost method.

The Group recognises impairment losses on its inventories in its income statement when their net realisable value falls below their carrying amount. Net realisable value is the estimated selling price less estimated costs of completion and the estimated costs necessary to market, distribute and sell the goods. These estimates also factor in the age of the inventories and turnover ratios. Inventory impairment charges are reversed whenever the originating circumstances dissipate.

4.9 Cash and cash equivalents

Cash includes cash on hand and deposits held at call with banks. "Other cash equivalents" include short-term, highly-liquid investments readily convertible into cash within a maximum of three months, the value of which is not subject to significant risks.

4.10 Current and deferred income tax

Income tax expense for the year comprises current and deferred tax.

Current tax is calculated by applying the tax laws enacted at each reporting date in the countries in which the Group companies operate to their profit before tax.

Deferred tax assets and liabilities arise due to differences between the carrying amounts of the assets and liabilities in the financial statements and their tax bases. They are recognised using the tax rates expected to apply when they are recovered or settled.

Income tax and changes in deferred tax assets and deferred tax liabilities that do not arise on business combinations are recognised in the income statement or in equity in the statement of financial position depending on where the gains or losses giving rise to their recognition were initially recognised. Variations in deferred taxes arising on business combinations that are not recognised upon change of control due to the lack of sufficient certainty as to their utilisation are recognised by reducing the carrying amount of any goodwill recognised in accounting for the business combination or following the above criterion if there is no goodwill.

Deferred tax assets are recognised for temporary differences, unused tax losses and unused tax credits only to the extent that it is probable that the consolidated entities will generate sufficient taxable profit in the future against which these assets can be utilised.

The deferred tax assets and liabilities recognised are reassessed at each reporting date in order to check that they still qualify for recognition and the appropriate adjustments are made on the basis of the outcome of the analyses performed.

The Parent and the rest of the Group subsidiaries with tax domicile in Spain in which the Parent holds an equity interest of 75% or more file their income tax returns under the consolidated tax regime provided for in Chapter VII of Title VIII of the Consolidated Text of the Spanish Corporate Income Tax Act.

4.11 Income and expense

Revenue is measured at the fair value of the consideration received or receivable in exchange for the goods delivered and services rendered in the ordinary course of the Group's activities, less discounts and amounts received but due to third parties, such as value added tax.

Revenue from the sale of goods is recognised when the goods have been delivered, the customer has accepted the sale and the risks and rewards of ownership of the goods have been transferred to the buyer. Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the reporting date, whenever the outcome of the transaction can be estimated reliably. Interest income recognised using the effective interest method, by reference to the principal outstanding and the applicable effective interest rate. Dividend income from equity investments is recognised when the shareholder's right to receive payment is established.

Expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets.

An expense is recognised immediately when an expenditure produces no future economic benefits or when future economic benefits do not qualify for recognition as an asset.

4.12 Provisions and contingencies

Provisions are recognised in the accompanying financial statements for present obligations, whether legal or constructive, arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits.

Provisions, including provisions for employee bonus payments, are measured at the present value of the best estimate of the expenditure required to settle or transfer the obligation using available information regarding the event and its consequences. The increase in the carrying amount of provisions due to the passage of time is recognised as borrowing cost as accrued.

Contingent liabilities are possible obligations with third parties and present obligations that are not recognised either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the financial statements, but are disclosed in the accompanying notes, unless the possibility of an outflow of resources embodying economic benefits is considered remote.

At year-end 2014, the Group was defendant in a series of ongoing court cases and claims. In the opinion of the Parent's directors, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant additional loss beyond the amounts provided at year-end.

4.13 Termination benefits

Under prevailing labour law, the Group is obliged to pay severance to employees that are discontinued under certain circumstances. Termination benefits that can be reasonably estimated are registered as an expense in the year in which the redundancy decision is taken.

The Group has recognised a provision in this respect of €2,116 thousand under "Trade and other payables – Payable to employees" in the statement of financial position at 31 December 2014; this provision covers obligations assumed under the employee-approved redundancy programme related to the discontinuation of pulp production at the industrial complex in Huelva (notes 5.1 and 24). The provision recorded under this heading at year-end 2013 in the amount of €1,724 thousand covered a voluntary redundancy scheme in force at all three pulp factories.

4.14 Environmental assets and liabilities

Environmental activities are those undertaken with the aim of preventing, mitigating or repairing damage caused to the environment.

Capital expenditure deriving from environmental activities is measured at cost and capitalised in the year incurred, following the measurement rules described in sections 4.1 and 4.2 of this note.

Environmental-protection expenses incurred are recognised in the income statement in the year incurred regardless of when the monetary/financial outflow occurs.

Provisions for probable or certain liabilities arising from lawsuits in process and pending settlements or obligations of an unspecified amount of an environmental nature that are not covered by insurance are recognised, if warranted, when the liability or payment/award obligation arises.

4.15 Post-employment obligations

Certain Group companies have committed to provide supplementary retirement or pension benefits in the form of survivor benefits for widows, orphans and surviving ascendants with the aim of topping up social security benefits for their employees and their close relatives, as follows:

1. Active employees

   Commitment to employees who remain in employment at year-end consisting of the contribution by the Group company and the employee of a pre-defined percentage of his or her pensionable salary to the "Joint Contribution Pension Plan" offered by the ENCE Group under the provisions of article 40 d) of Spain's Pension Plan and Pension Fund Regulations (defined contribution). This pension plan is part of the

SERVIRENTA II F.P. pension plan and has the following characteristics: 1) it provides retirement benefits as well as permanent disability or accidental death cover; and 2) ENCE commits to make a monthly contribution to external pension plans at certain percentages of its active employees' wages.

Certain Group executives are beneficiaries of an executive pension plan that complements the standard plan; the executive plan covers beneficiaries' retirement, permanent disability or accidental death. The Group makes defined contributions based on a percentage of plan holder salaries. The plan takes the form of collective insurance cover for pension obligations. These policies are held with an insurance provider. The executive (or his/her beneficiaries) becomes entitled to receive the plan benefits in the event of retirement, death or total permanent disability, and under certain other circumstances defined in the plan rules.

The cost of these plans, recognised under "Employee benefits expense" in the income statement, was €1,998 thousand in 2014 (2013: €1,960 thousand).

2. Retired employees

A group of former employees of Celulosas de Asturias, S.A. is entitled to benefits in the form of life and disability insurance. This commitment was externalised in 2014, entailing the payment of a single premium of €1,182 thousand.

4.16 Employee benefits

Share-based payments

At the Parent's Annual General Meeting of 30 March 2007, the Company's shareholders ratified a "Special Bonus Plan for Executives" for 2007–2011, which was updated at the Annual General Meeting of 22 June 2010 and renamed the "Long-term Bonus Plan of ENCE Energía y Celulosa S. A." for 2010-2015 (hereinafter, the Plan), the bonus plan currently in effect.

The purpose of the bonus plan is to encourage delivery of the targets set by the Board of Directors in 2010, 2011 and 2012. The maximum number of shares deliverable under the plan is 3,850,000 (representing 1.53% of share capital).

485,895 stock options have been granted in respect of 2010 and are pending exercise at a strike price of €2.44 per share, 753,225 in respect of 2011 at a strike price of €1.95 per share and 809,098 in respect of 2012 at a strike price of €2.28 per share.

These stock options can be exercised during the two years elapsing from their grant so long as:

1. The beneficiary continues to render services to the Group either under an employment contract or a business agreement, unless the service has been interrupted as a result of unfair dismissal; and
2. The Parent has a regular dividend policy at the exercise date.

In the wake of approval of the "Long-term Bonus Plan" for 2013-2015 (described in the next section), the chief executive officer (CEO) renounced the stock options to which he was entitled under the new bonus plan in respect of 2013, thereby reducing the maximum number of stock options that may be granted (initially set at 1,000,000) by one-third.

These stock options are cash-settled. Accordingly, the Group recognises a liability equivalent to the portion of services received at their fair value at each reporting date.

The fair value of the American options in the stock option plans was determined using the Barone-Adesi and Whaley method, a generally accepted method for valuing financial instruments of this kind. Using this valuation method, a gain of €572 thousand was accrued in this connection in 2014 (a loss of €465 thousand in 2013). The liability accrued at year-end stood at €53 thousand (€625 thousand at year-end 2013) (note 18).

Long-term bonus plan

The Parent's shareholders approved a "Long-term bonus plan for 2013-2015" at the Annual General Meeting of 21 March 2013.

This Plan is designed to orient the management team towards delivery of the targets set by the Board of Directors for the term of the scheme and to retain talent. The Plan beneficiaries are the CEO, the members of the Executive Committee and other key management personnel. A total of 52 people were beneficiaries of this Plan at year-end 2014.

The bonus payment contemplated consists of a percentage of average annual fixed remuneration in 2013-2015 (100% in the case of the CEO, 75% for the members of the Executive Committee and 50% for the other executives). Entitlement is tied to delivery of three equally-weighted objectives: (i) an absolute gain in the Parent's share price; (ii) a gain in the Parent's share price relative to a basket of pulp sector stocks; and (iii) an increase, relative to its market value as of 31 December 2012, in the Company's theoretical value determined by applying a multiple to average EBITDA in 2013-2015.

For each of these targets, the Plan establishes a threshold below which the target is deemed not delivered and another above which the beneficiary is granted 120% of the base case payment. Continued effective service as of 1 October 2016 is a prerequisite for entitlement to the bonus, with the exception of certain instances contemplated in the Plan rules.

The fair value of the portion of the Plan corresponding to targets tied to the Parent's share price performance, both in absolute terms and relative to a benchmark basket of comparable stocks, was determined using the Monte Carlo method for quanto basket options, a generally accepted method for valuing financial instruments of this kind. Elsewhere, the liability associated with the target of increasing the company's theoretical value was estimated assuming that this objective is met in full. Using these valuation methods, the expense accrued in this respect in 2014 was €70 thousand (€589 thousand in 2013), while the liability recognised at year-end stood at €659 thousand (note 18).

4.17 Grants

Non-repayable grants awarded to subsidise investment in productive assets are measured at the fair value of the amount awarded when all the conditions attaching to their grant have been met and are reclassified to profit or loss in the period and proportion in which depreciation expense on the related depreciable assets is recognised or, when appropriate, when the asset is derecognised or written down for impairment (grants related to assets).

Grants related to income are credited to the income statement at the time of grant unless they are granted to finance specific expenses, in which case they are deducted in reporting the related expense.

Government assistance taking the form of interest-free loans or loans at below-market rates, granted primarily to fund research and development work, is recognised at fair value within liabilities. The difference between the loan proceeds received and its fair value is recognised initially in "Grants" in the statement of financial position and is reclassified to the income statement as the assets financed by the loan are depreciated in the income statement.

4.18 Statement of cash flows

The consolidated statement of cash flows was prepared using the indirect method and the following definitions:

1. Cash flows: inflows and outflows of cash and cash equivalents, the latter understood as short-term, highly liquid investments which are subject to an insignificant risk of changes in value.

2. Operating activities: the principal revenue-producing activities of the Group and other activities that are not investing or financing activities.

3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Group.

4.19 Related-party transactions

The Group conducts all related-party transactions on an arm's length basis.

4.20 Foreign currency transactions and balances

The Group's financial statements are presented in euros, which is both its functional and presentation currency.

Translation of transactions and balances -

Credits and debits denominated in a currency other than the euro are translated to euros using the exchange rate prevailing at the transaction date; these amounts are adjusted at every reporting date, until they are cancelled, as function of exchange rate trends.

The exchange differences resulting from the collection and payment of loans and debts in currencies other than the euro and those deriving from the measurement of accounts receivable and payable denominated in foreign currency at closing exchange rates are recognised in profit or loss in the year in which they arise.

Translation of the financial statements of Group entities -

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into euros as follows: assets and liabilities are translated at the closing rate at each reporting date; equity items are translated at historical rates; and income and expenses are translated at average rates for the period in which they accrued. The resulting exchange differences are recognised in equity and are reclassified to profit or loss in the period in which the foreign operation is disposed of.

Long-term loans granted by the Parent to other Group companies and denominated in a currency other than the euro are considered net investments in a foreign operation and any resulting exchange differences are accordingly recognised in equity.

4.21 Non-current assets held for sale and discontinued operations

The Group classifies a non-current asset (or disposal group) as held for sale when its carrying amount is to be recovered principally through a sale transaction insofar as a sale is considered highly probable and the asset is available for immediate sale in its present condition.

These assets (or disposal groups) are measured at the lower of their carrying amount or their estimated sale price less the estimated costs necessary to make the sale. Depreciation of these assets ceases as soon as they are classified as held for sale.

Management tests that their carrying amount does not exceed their fair value less costs to sell every year. If this occurs, any required impairment losses are recognised in "Net gain/(loss) on assets classified as non-current assets held for sale" in the income statement.

Non-current assets held for sale are presented in the accompanying statement of financial position as follows: the assets are presented in a single line item called "Non-current assets held for sale", while the related liabilities are similarly presented in a single line item called "Liabilities associated with non-current assets held for sale".

In addition, the Group classifies any component (cash-generating units or groups of cash-generating units) that either represents a separate major line of business or geographical area of operations, has been sold or otherwise disposed of or qualifies for classification as held for sale.

The after-tax results of discontinued operations are presented in a single line item in the income statement called "Profit for the year from discontinued operations".

4.22 Segment reporting

An operating segment is any significant business activity from which the Group may earn revenue and incur expenses, whose operating results are reviewed regularly by the Board of Directors and senior management and for which discrete and reliable financial information is available.

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee and the Board of Directors.

4.23 Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary equity holders of the Parent by the weighted average number of ordinary Parent shares outstanding during the period (not including the average number of Parent shares held as treasury stock by the Group companies).

Diluted earnings per share, meanwhile, is calculated by dividing the profit or loss attributable to ordinary equity holders of the Parent, adjusted for the effects of all dilutive potential ordinary shares, by the weighted average number of ordinary Parent shares outstanding during the period, increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. To this end, management assumes that conversion takes place at the beginning of the period or when the dilutive potential ordinary shares are issued in the event of issuance during the year. Because the Parent has no dilutive potential ordinary shares, basic and diluted earnings per share coincide in 2014 and 2013.

5. Critical accounting estimates and judgements

The preparation of the 2014 consolidated financial statements in accordance with EU-IFRS requires the use of assumptions and estimates that affect the amounts of related assets, liabilities, revenues, income and expenses recognised and the corresponding disclosures. The accounting policies and transactions that incorporate management assumptions and estimates that are material in respect of the accompanying consolidated financial statements are:

- The asset impairment charges associated with the discontinuation of pulp production at the Huelva plant
- The impact of changes in the Spanish energy sector regulatory framework
- Calculation of income tax and the recoverable amount of deferred tax assets (note 21)
- The assumptions used to calculate certain obligations to employees (notes 4.16 and 18)
- The fair value of certain assets, principally financial instruments (notes 4.6, 4.7 and 12)
- The useful lives of fixed and intangible assets (notes 4.1 and 4.2)
- Calculation of the provisions recognised to cover liabilities arising under lawsuits in progress and bad debt (notes 4.6, 4.8, 4.12 and 18)

Some of these accounting policies require management to exercise judgement in selecting the best assumptions for arriving at these estimates. These assumptions and estimates are based on historical experience, the advice of expert consultants, forecasts and other circumstances and expectations at year-end.

By their very nature, these judgements are subject to a high degree of intrinsic uncertainty, which is why actual results could differ materially from the estimates and assumptions used. At the date of authorising these consolidated financial statements for issue, these estimates are not expected to change significantly; accordingly, no significant adjustments to the carrying amounts of the assets and liabilities recognised at 31 December 2014 are foreseen.

Although these estimates were made on the basis of the best information available at each year-end regarding the facts analysed, future events could make it necessary to revise these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with IAS 8, recognising the effects of the change in estimates in the related consolidated income statement. The most important accounting policies applied by the Group are described in greater detail in note 4.

5.1 Impact of the discontinuation of pulp production at the Huelva plant

The lack of competitiveness of the industrial complex in Huelva caused by the impact of the regulatory reforms undertaken in the Spanish energy sector, drastically reducing premiums for the co-generation of power using lignin to well below the levels received by our European peers, as well as technical obsolescence and the structural scarcity of eucalyptus wood in the vicinity of the complex, forced ENCE to announce, on 4 September 2014, its decision to specialise in clean energy generation at the Huelva complex and to cease the production of pulp. The factory's workers approved the related transformation plan on 20 October 2014.

The decision to cease production has triggered the need to recognise certain asset impairment charges: specifically €746 thousand against intangible assets related to the rights to operate certain quarries (note 7); €44,744 thousand against industrial equipment (note 8.6); €20,949 thousand against biological assets located in Huelva (note 9.3); and €6,027 thousand against spare parts held in inventory (note 13). In addition, the Group has recognised €16,498 thousand euros of provisions to cover estimated costs under contractual obligations (note 18). Elsewhere, the estimated cost of the negotiated layoffs, which include Huelva factory workers and corporate staff, has been provisioned at €20,395 thousand (note 24).

5.2 Impact of changes in the Spanish energy sector regulatory framework

Since 1 January 2013, the Spanish government has passed a series of laws and regulations which have had the effect of modifying the remuneration and tax regime applicable to the generation of energy from renewable sources, including generation and co-generation facilities fuelled by biomass. Section 22 details the highlights of these legislative developments.

Application of this reform initiative was rounded out on 20 June 2014 with the publication of Ministerial Order IET/1045/2014 (16 June 2014) enacting the standard facility remuneration parameters applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste, with retroactive effect to 14 July 2013, the date on which Royal Decree-Law 9/2013 took effect.

In the interim, the regulator had been settling payment for energy sales under the outgoing regime, Royal Decree 661/2007 (25 May 2007), so that the retroactive application of this regime implies the requirement to return settlements accrued in 2014 of €10,809 thousand and settlements accrued in 2013 of €13,150 thousand; €7,080 thousand of this balance was recognised as a deduction from revenue from energy sales in the Group's 2013 financial statements so that the remainder in respect of 2013 and the balance accrued in 2014 has been deducted from the revenue from energy sales recognised in 2014 (notes 18 and 22).

In addition, the new Spanish regulatory framework implies the application of the same regime to energy crops as forestry and agricultural biomass for remuneration purposes and establishes a cap on the amount of output eligible for remuneration premiums of 80%-90% of the plants' nominal annual capacity.

The ENCE Group had invested significantly in energy crops as part of its growth strategy for its biomass power generation business under the regime afforded by Royal Decree-Law 661/2007 (25 May 2007), which enacted the regime applicable to renewable energy or the so-called 'special' regime. The regulatory changes introduced in the Spanish energy sector between 2013 and 2014 have been made without any consideration whatsoever for compensating developers for these heavy investments, triggering the need to write down the investments in energy crops and other assets for impairment by €63,705 thousand (notes 7, 8, 9 and 18); of this balance, a charge of €26,885 thousand was recognised in 2013, and the remaining €36,820 thousand has been recognised in the accompanying 2014 financial statements.

6. Risk factors

With the assistance of the senior management team, the Board of Directors defines the Group's risk management policies as a function of the risk factors to which it is exposed, establishing internal control systems designed to keep the probability and impact of occurrence of the risk events so defined within established risk tolerance levels.

The internal audit department verifies that the risk management principles and policies defined by the Board of Directors are properly implemented and oversees due compliance with the internal control systems in place throughout the organisation.

Below is a description of the main financial risk factors to which the Group is exposed and the corresponding mitigating policies and controls in place:

6.1 Market risk

Pulp prices

BEKP prices are formed in an active market. The trend in pulp prices is a significant driver of the Group's revenue and profitability. Changes in pulp prices affect the cash flows generated by pulp sales.

In addition, pulp prices tend to be markedly cyclical in nature and have exhibited substantial volatility in recent years. Price trends are primarily dictated by shifts in supply and demand and the financial situation of the various sector players.

To mitigate this risk, in recent years the Group has invested significantly in increasing its productivity and enhancing the quality of the products it sells. Management also continually monitors the scope for using derivatives to hedge pulp prices on future sales (note 12).

A 5% change in international pulp prices in euros would have an impact on Group revenue of approximately 3.6%.

Supply of wood

Eucalyptus wood is the main raw material used in making pulp and its price can fluctuate as a result of changes in the balance of supply and demand in the regions in which the factories are located.

The risk of a shortfall in supply in the regions in which the Group's factories are located is managed mainly by means of inventory management, by diversifying supply sources and by purchasing from alternative international markets, usually at higher logistics costs.

In parallel, the Group seeks to maximise its products' value-added by increasing the use of certified wood, which is somewhat more expensive, among other measures.

A 5% increase in the price per cubic metre of eucalyptus timber for use in the productive process would decrease operating income by approximately €9 million.

Energy sector regulations

The generation of energy from renewable sources is a regulated business, which means the revenue it generates is conditioned by the tariffs set by the Spanish government.

In recent years the Spanish government has passed a series of laws designed to reduce the so-called tariff deficit in the electricity system; these laws have had the effect of reducing the Group's revenue and profits (notes 5.1 and 22).

A 5% change in the tariffs that determine the revenue generated by the energy business would have an impact on Group revenue of approximately 1.2%.

Environmental regulations

Environmental regulations in the European Union have focused in recent years on tightening restrictions on wastewater discharges, greenhouse gas emissions, etc. Future changes in environmental regulations could result in higher expenditure to comply with new requirements.

Concession agreement in Pontevedra

The term of the concession for the use of the land on which the Group's pulp factory in Pontevedra is located was amended by the Spanish Coastal Act (Law 22/1988 of 28 July 1988), which established a maximum concession term from enactment of the Act of 30 years, i.e., until 29 July 2018. However, effectiveness of Spanish Law 2/2013 (29 May 2013) provides for the extension of this concession insofar as certain conditions are met (notes 8.4 and 18.3).

The assets located on land held under concession are currently depreciated over the shorter of their remaining useful life and the term of the concession agreement. An increase in the concession term would accordingly reduce the depreciation charge forecast for 2014 by approximately €8.5 million.

Exchange rate risk

Although the Group generates most of its sales in Europe, revenue from pulp sales is affected by the USD/EUR exchange rate as sales prices are linked to benchmark international pulp prices quoted in USD/tonne. Since most of the Group's cost structure is denominated in euros, changes in the rate of exchange with the dollar result in significant earnings volatility.

To mitigate this risk, the Group's risk management policy contemplates the possibility, depending on the Group's financial position and investment plans, the outlook for exchange rates medium term and the returns implied by the various rate scenarios modelled, of locking in exchange rates in addition to measures taken to hedge pulp prices; accordingly management continually monitors the scope for using currency derivatives to hedge future sales (note 12).

If the dollar were to appreciate against the euro by 5%, the Group's revenue before hedges would increase by approximately 3.6%.

6.2 Credit risk

Credit risk arises when a counterparty breaches its contractual obligations. Specifically, the Group's exposure to credit risk therefore arises from the balances pending collection from customers and other debtors presented in "Trade and other receivables", the derivatives written and the balances on deposit with financial institutions, shown in "Current financial assets" and "Cash and cash equivalents" in the statement of financial position.

Trade and other receivables

This risk has been largely externalised in the pulp business by means of a credit insurance policy that covers, depending on the country in which the customer is located, between 80% and 90% of balances receivable. This insurance policy assigns credit limits according to the creditworthiness of the customer and covers virtually all of the Group's pulp sales.

The revenue generated by the energy business stems from the electricity system which is ultimately backed by the Spanish state.

The Group recognises a provision for impairment of receivables past due that present indications of impairment and all balances outstanding by more than 6-12 months to the extent not covered by the credit insurance policy.

Financial assets

To mitigate the credit risk posed by financial investments, the Group stipulates that counterparties must be banks with high credit ratings and establishes maximum investment/underwriting limits that are reviewed periodically.

6.3 Liquidity and capital risk

Adverse conditions in the debt and capital markets could make it hard or impossible for the Group to raise the funding needed in the course of its business operations or to execute its business plan.

This is one of the risk factors monitored most closely by the ENCE Group. To mitigate this risk, it has established a series of key financial targets: 1) guaranteed business continuity in any pulp price scenario; 2) support for the growth plans in the various business segments by means of a solid capital structure and adequate liquidity level; and 3) a limit on leverage such that net debt does not exceed 2.5x recurring EBITDA, the latter derived using mid-cycle pulp prices and based on the current business profile, while continuing to tap the capital markets to capitalise on attractive windows of opportunity and continue to diversify the Group's sources of financing.

The ENCE Group uses three main sources of external financing:

- Non-recourse project finance, which until now has been used to fund renewable energy projects (note 19). The debt repayment schedule for each of these structured loans is determined on the basis of each business's capacity to generate cash flows, subject to buffers that vary depending on cash flow visibility at the various businesses/projects. These structures allow the Group to avail of sufficiently long-term funding, thereby significantly mitigating liquidity risk.

- Long-term corporate financing earmarked to funding operations and business development at acceptable costs and terms; this financing is obtained from banks and raised on the capital markets.

- Working capital financing at the corporate level. The Company centralises the cash surpluses of all the companies in order to distribute them depending on the Group's needs, securing working capital facilities from the banks as required.

  This approach entails the proactive management and maintenance of credit lines and other sources of financing (factoring and reverse factoring, etc.) to cover forecast cash requirements and diversify liquidity sources.

The Group's Finance Department draws up a financial plan annually that addresses all financing needs and how they are to be met. Funding needs for the most significant cash requirements, such as forecast capital expenditure, debt repayments and working capital requirements, as warranted, are identified sufficiently in advance.

There are also policies establishing the maximum amount of equity that can be committed to projects under development before the associated long-term financing has been arranged.

The contractual maturity analysis in respect of financial liabilities referred to in IFRS 7 is provided in notes 11 and 19 below.

6.4 <u>Interest rate risk</u>

Fluctuations in the interest rates earned and borne by the Group's financial assets and financial liabilities expose it to adverse impacts on its profits and cash flows.

The goal of the Group's interest rate risk management policy is to achieve a balanced capital structure that minimises its cost of debt over the medium-long term while reducing related earnings volatility.

The Group actively manages its exposure to the interest rate risk deriving from borrowings taken out at floating rates. As a general rule, it hedges 70%-80% of its floating-rate non-recourse borrowings by arranging options and/or swaps. Moreover, the Group's corporate debt carries fixed rates, thereby minimising interest rate risk (note 19).

7. Intangible assets

The reconciliation of the carrying amounts of the various components of intangible assets and accumulated amortisation in 2014 and 2013 is as follows:

2014 (thousands of euros)	Balance at 01/01/2014	Additions/ charges	Derecognitions/ decreases	Transfers (note 8)	Balance at 31/12/2014
Computer software	14,623	1,972	(7,142)	847	10,300
Emission allowances	13,886	649	(8,751)	-	5,784
Prepayments	3,472	2,048	-	(1,098)	4,422
Other intangible assets (*)	13,976	43	-	413	14,432
Total cost	**45,957**	**4,712**	**(15.893)**	**162**	**34,938**
Computer software	(14,010)	(391)	7,142	(122)	(7,381)
Other intangible assets (*)	(10,037)	(222)	-	-	(10,259)
Total amortisation	**(24,047)**	**(613)**	**7,142**	**(122)**	**(17,640)**
Other intangible assets	(2,853)	(747)	-	-	(3,600)
Total impairment	**(2,853)**	**(747)**	**-**	**-**	**(3,600)**
Total	**19,057**				**13,698**

(*) Mainly includes development expenses

2013 (thousands of euros)	Balance at 01/01/2013	Additions/ charges	Derecognitions/ decreases	Transfers (note 8)	Balance at 31/12/2013
Computer software	14,358	419	(154)	-	14,623
Emission allowances	16,021	883	(3,018)	-	13,886
Prepayments	-	3,264	-	208	3,472
Other intangible assets (*)	14,204	-	(228)	-	13,976
Total cost	**44.583**	**4,566**	**(3.400)**	**208**	**45,957**
Computer software	(13,964)	(235)	189	-	(14,010)
Other intangible assets (*)	(9,063)	(1,202)	228	-	(10,037)
Total amortisation	**(23,027)**	**(1.437)**	**417**	-	**(24,047)**
Other intangible assets	-	(2,853)	-	-	(2,853)
Total impairment	-	**(2,853)**	-	-	**(2,853)**
Total	**21,556**				**19,057**

(*) Mainly includes development expenses

7.1 Computer software

The ENCE Group is executing a plan to transform its IT systems based on an SAP platform that will be the management information tool supporting the reporting and control business processes from 2015. The investment incurred to date in this respect amounts to €6,198 thousand (year-end 2013: €3,472 thousand) out of a total estimated investment of €9 million.

7.2 Emission allowances

The reconciliation of the opening and year-end Group-owned carbon allowance balances for 2014 and 2013 is provided in the next table:

	2014		2013	
	Number of allowances	Thousands of euros	Number of allowances	Thousands of euros
Opening balance	**732,244**	**13,886**	1,071,804	16,021
Allocations (note 17)	137,473	649	152,130	944
Delivered (*)	(493,476)	(8,751)	(491,690)	(3,079)
Closing balance	**376,241**	**5,784**	**732,244**	**13,886**

(*) Corresponds to the allowances used during the previous year

In November 2013, the Spanish Parliament approved the New National Allocation Plan under which it will allocate emission allowances free of charge in 2013-2020. The new plan upholds the criteria adopted by Decision 2011/278/EU of the European Commission. Under the Plan, the Group received allowances equivalent to 137,473 tonnes of carbon emissions, valued at €649 thousand, in 2014.

"Non-current provisions" on the liability side of the consolidated statement of financial position includes €5,081 thousand in this respect at 31 December 2014 (€8,715 thousand at year-end 2013) corresponding to the liability derived from the consumption of 343,097 tonnes of carbon in 2014 (491,924 tonnes in 2013) (note 18).

The Group has contractually committed to the forward purchase of allowances covering a total of 601,000 tonnes: 401,000 tonnes at a price of €15.69/tonne exercisable in December 2015 and 200,000 tonnes at €15.79/tonne exercisable in December 2016. The aim is to cover the Group's future consumption of emission allowances.

As a result of the decision to cease pulp production at the Huelva factory (note 5.1), which includes the stoppage of a 50-MW gas co-generation plant, the Group's heaviest consumer of carbon allowances, it is estimated that part of the allowance purchases committed to, approximately 288 thousand allowances, will not be consumed under the current 2013-2020 Plan, to which end these allowances have been valued at market value; this has entailed the recognition of a €2,423 thousand euro provision within "Non-current provisions" on the accompanying consolidated statement of financial position (note 18).

7.3 Other intangible assets

In 2012 the Group acquired certain companies related to the ENCE Group by common shareholders, a series of intangible assets consisting of techniques, experiences and know-how for use in boosting the productivity of energy crops and in-vitro reproduction of eucalyptus plants and a clone of the Populus Deltoides species. The acquisition price implied a fixed payment of approximately €3.5 million and an additional deferred payment of €3 million contingent upon delivery of a series of conditions, which have not been and are not expected to be met. These assets were written down in 2013 by means of the recognition of an impairment charge of €2,853 thousand (note 5.2).

This agreement also granted the buyer a call option over certain power generation projects under development by the sellers in the event the moratorium imposed by Royal Decree-Law 1/2012 is lifted.

In addition, the carrying amount of the rights to operate certain quarries in Huelva, previously carried at €746 thousand, were written down in full in 2014 (note 5.1).

7.4 Fully amortised assets

At 31 December 2014 there were fully-amortised intangible assets still in use with an original cost of €13,273 thousand (year-end 2013: €16,735 thousand), mainly development expenses and computer software.

8. Property, plant and equipment

The reconciliation of the carrying amounts of the various components of property, plant and equipment and accumulated depreciation in 2014 and 2013 is as follows:

2014

Thousands of euros	Balance at 01/01/2014	Additions/ charges	Derecognitions/ decreases	Transfer to available for sale (note 28)	Transfers	Balance at 31/12/2014
Forest land	117,434	70	-	(34,367)	412	83,549
Other land	8,600	126	-	-	(625)	8,101
Buildings	139,012	20	(3,725)	(6,175)	(34,150)	94,982
Plant and machinery	1,208,226	13,693	(59,968)	(288,601)	140,983	1,014,333
Other assets	37,676	1,105	(7,094)	(14,081)	1,103	18,709
Prepayments and PP&E in progress	90,392	30,363	(5)	-	(107,083)	13,667
Cost	**1,601,340**	**45,377**	**(70,792)**	**(343,224)**	**640**	**1,233,341**
Buildings	(84,950)	(4,673)	3,708	2,228	27,354	(56,333)
Plant and machinery	(694,637)	(51,787)	58,894	212,283	9,831	(465,416)
Other assets	(22,339)	(2,296)	7,076	6,104	(37,767)	(49,222)
Depreciation	**(801,926)**	**(58,756)**	**69,678**	**220,615**	**(582)**	**(570,971)**
Land and buildings	(2,005)	(603)	-	-	20	(2,588)
Plant and machinery	(18,434)	(49,954)	3,399	51,952	(1,169)	(14,206)
Other assets	(2,729)	-	-	-	1,149	(1,580)
Impairment	**(23,168)**	**(50,557)**	**3,399**	**51,952**	**-**	**(18,374)**
Total	**776,246**					**643,996**

2013

Thousands of euros	Balance at 01/01/2013	Additions/ charges	Derecognitions/ decreases	Transfers (note 7)	Balance at 31/12/2013
Forest land	125,270	-	(7,836)	-	117,434
Other land	6,372	30	(2)	2,200	8,600
Buildings	138,186	-	(34)	860	139,012
Plant and machinery	1,032,987	1,373	(6,075)	179,941	1,208,226
Other assets	32,607	4,418	(1,085)	1,736	37,676
Prepayments and PP&E in progress	189,817	85,696	(176)	(184,945)	90,392
Cost	**1,525,239**	**91,517**	**(15.208)**	**(208)**	**1,601,340**
Buildings	(80,986)	(4,074)	90	20	(84,950)
Plant and machinery	(644,201)	(54,009)	3,599	(26)	(694,637)
Other assets	(19,821)	(3,522)	998	6	(22,339)
Depreciation	**(745,008)**	**(61,605)**	**4,687**	**-**	**(801,926)**
Land and buildings	(2,005)	-	-	-	(2,005)
Plant and machinery	(3,864)	(15,476)	906	-	(18,434)
Other assets	(183)	(2,546)	-	-	(2,729)
Impairment	**(6,052)**	**(18,022)**	**906**	**-**	**(23,168)**
Total	**774,179**				**776,246**

8.1 Additions

The Group invested at all its facilities with a view to making its pulp production processes more efficient, boosting power generation and making them more environmentally friendly. This capital expenditure breaks down as follows by facility:

	Thousands of euros	
	2014	2013
Navia	16,193	14,062
Huelva (*)	5,464	19,241
Huelva – 50-MW plant	102	4,028
Pontevedra	11,911	9,473
Mérida – 20-MW plant	11,521	44,669
Other	186	44
	45,377	**91.517**

(*) Capital expenditure in 2014 mainly includes the materialisation of investment commitments assumed in 2013 and the investments made in the first half of 2014.

The Group began to operate a 50-megawatt renewable energy power plant fuelled by biomass in Huelva on 1 February 2013. Total investment in this project, net of the income deriving from power generated during the testing phase, was €134.6 million in the power plant, which was financed by a syndicate of banks under a project finance loan (note 19), and €7.7 million in the biomass processing plant.

The Group began to operate a 20-megawatt renewable energy power plant fuelled by biomass in Mérida on 15 September 2014. Total investment in this project, net of the income deriving from power generated during the testing phase, was €76.7 million in the power plant, which was financed in part by a syndicate of banks under a project finance loan (note 19).

The Group capitalised borrowing costs incurred in 2014 in the amount of €1,504 thousand derived mainly from the debt taken on to finance the projects (€2,460 thousand in 2013). These capitalised borrowing costs are presented in the consolidated income statement as a reduction in "Other finance costs".

In addition, the Group has contractually committed to capital expenditure at its factories at year-end, most of which will be incurred in 2015, of €7,672 thousand.

8.2 Derecognitions

The Group, through its subsidiary Iberflorestal, S.A., closed the sale of forest assets it owned outright in Portugal, specifically 2,608 hectares of forest land with eucalyptus plantations, for €10,829 thousand on 17 December 2013. This transaction generated a loss of €2,834 thousand, which was recognised in "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the 2013 consolidated income statement. This transaction also encompassed an agreement with the buyer under which the Group will purchase the wood produced from the land mass sold for the next 20 years at market prices and also manage the plantation for the same period.

8.3 Fully depreciated assets

The breakdown at year-end of the original cost of fully-depreciated items of property, plant and equipment still in use is shown in the next table:

Thousands of euros	2014	2013
Buildings	66,146	42,587
Machinery	227,922	410,442
Tools	945	682
Furniture and fittings	1,988	3,266
Other	1,525	49,303
	298,526	**506,280**

8.4 Public-domain concession arrangement

The concession for the use of the public-domain coastal land on which the Pontevedra factory sits was granted to the Company by Ministerial Order on 13 June 1958.

The concession deed did not establish a finite concession term. Subsequently, the Coastal Act of 1988 (Law 22/1988 of 28 July) stipulated that the holder of concessions granted prior to effectiveness of this Act, therefore applying to the Company's concession in Pontevedra, would be deemed granted for a maximum term of 30 years from enactment of the Coastal Act. This Coastal Act came into effect on 29 July 1988, which means that under that piece of legislation, the concession would terminate on 29 July 2018.

Subsequently, Law 2/2013, of 29 May 2013, on coastal protection and sustainability and amending the Coastal Act, and the General Coast Regulations enacted by means of Royal Decree 876/2014 (10 October

2014) have established the scope for extending concessions for the use of public-domain coastal land granted under the former regulation, therefore applying to ENCE's concession in Pontevedra, for up to 50 years from when the extension request is filed, insofar as the concession is used to perform an economic activity that is not related to the hospitality business.

The processing of this application has been suspended by legal injunction until the administrative case regarding the expiry of this concession, initiated by the Ministry of Agriculture, Food and the Environment in carrying out the Supreme Court sentence of 11 July 2014, has been resolved (note 18).

8.5 Asset revaluations

The Group restated all its forest land to fair value as of 1 January 2004, the date of transition to IFRS-EU. This value was determined by independent expert appraisers. As permitted under IFRS, these revalued amounts were considered deemed cost. The gain on the revaluation, net of the corresponding deferred tax liability of €19,317 thousand (€23,184 thousand at 31 December 2013), amounts to €58,015 thousand at year-end (€54,149 thousand at 31 December 2013) and is included in "Valuation adjustments" in equity. That fair value benchmark has been used as deemed cost in subsequent years.

8.6 Impairment

The decision to cease pulp production at the Huelva industrial complex has meant that some of its industrial assets are no longer used for productive purposes. As a result, an internationally renowned expert was engaged to help the Group appraise the various affected assets; as a result of this exercise, their recoverable amount has been estimated at €34,632 thousand, implying the recognition of an impairment loss of €44,744 thousand (note 5.1).

In addition, management has recognised impairment losses of €4,049 thousand against items of property, plant and equipment, specifically investments in irrigation equipment installed in estates in which energy crops are grown (€4,475 thousand in 2013). Elsewhere, the Group had recognised impairment losses of €2,110 thousand against capitalised costs incurred to develop new biomass-fuelled power generation facilities in 2013 (notes 5.2 and 18).

8.7 Insurance cover and other disclosures

It is Group policy to take out the insurance policies necessary to cover the potential risks to which the various items of property, plant, and equipment are exposed. The Parent's directors believe that the coverage provided by these policies at 31 December 2014 is sufficient.

The Group has re-estimated the useful life of its power generation plants fuelled with biomass in the wake of the regulatory changes introduced as a result of the reforms to the energy sector regulatory framework in Spain (notes 5.2 and 22), increasing it from 14 to 25 years. This change in estimate has had the effect of decreasing depreciation charges in 2014 by approximately €5 million.

The Group does not have material assets located outside of Spain.

9. Biological assets

"Biological assets" exclusively comprises the Group's forest cover; the forest land owned by the Group is presented under "Property, plant and equipment - Forest land". This balance breaks down as follows:

Thousands of euros	31/12/2014	31/12/2013
Cover earmarked for pulp	85,234	116,381
Cover earmarked for energy crops	4,618	37,248
Cover earmarked for other uses	395	516
	90.247	**154,145**

The movement in this heading 2014 and 2013:

	Thousands of euros					
2014	Balance at 01/01/2014	Additions/ (charges)	Disposals	Transfers	Transfer to available for sale (note 28)	Balance at 31/12/2014
Earmarked for pulp & other uses:						
Forest cover	151,927	5,086	(2,076)	(2,075)	(1,933)	150,929
Depletion of forest reserve	(32,221)	(7,354)	1,749	3,407	200	(34,219)
Provision for impairment	(2,809)	(28,272)	-	-	-	(31,081)
	116,897	**(30,540)**	**(327)**	**1,332**	**(1,733)**	**85,629**
Earmarked for energy crops:						
Forest cover	55,972	5,464	(12,738)	2,075	(3,310)	47,463
Depletion of forest reserve	(6,505)	(2,302)	11,175	(3,407)	175	(864)
Provision for impairment	(12,219)	(31,055)	1,293	-	-	(41,981)
	37,248	**(27,893)**	**(270)**	**(1,332)**	**(3,135)**	**4,618**
	154,145					**90,247**

	Thousands of euros				
2013	Balance at 01/01/2013	Additions/ (charges)	Disposals	Derecognitions	Balance at 31/12/2013
Earmarked for pulp & other uses:					
Forest cover	221,067	10,516	(8,125)	(71,531)	151,927
Depletion of forest reserve	(92,267)	(11,553)	68	71,531	(32,221)
Provision for impairment	(2,464)	(1,001)	656	-	(2,809)
	126,336	**(2,038)**	**(7,401)**	**-**	**116,897**
Earmarked for energy crops:					
Forest cover	47,475	7,442	1,081	(26)	55,972
Depletion of forest reserve	(2,853)	(3,652)	(26)	26	(6,505)
Provision for impairment	-	(12,219)	-	-	(12,219)
	44,622	**(8,429)**	**1,055**	**-**	**37,248**
	170,958				**154,145**

In 2014 the Group planted 93.5 hectares of land (2013: 580 hectares) and carried out forest preservation and protection work encompassing 6,632.7 hectares (2013: 33,578 hectares).

9.1 Breakdown of forest cover

An analysis of the Group's forest cover at year-end 2014 and 2013 is provided below:

2014	Spain & Portugal			
	Pulp		Energy crops	
Age (years)	Productive hectares	Carrying amount in € '000	Productive hectares	Carrying amount in € '000
> 17	1712	1,328	816	-
14 - 16	2,429	5,692	1,084	200
11 - 13	4,660	15,419	32	78
8 - 10	12,174	41,637	1,852	6,941
4 - 7	16,080	40,375	3,233	10,215
0 - 3	13,358	11,864	9,713	29,165
Impairment of biological assets	-	(31,081)	-	(41,981)
Deferred expenses	-	395	-	-
	50,413	**85,629**	**16,730**	**4,618**

(*) A portion of the biological assets earmarked for use as "Energy crops" is the result of a change in the use of plantations originally earmarked for making pulp.

2013	Spain & Portugal			
	Pulp		Energy crops	
Age (years)	Productive hectares	Carrying amount in € '000	Productive hectares	Carrying amount in € '000
> 17	394	1,092	-	-
14 - 16	1,124	4,256	31	67
11 - 13	6,723	17,060	1,652	397
8 - 10	11,498	35,025	1,422	5,455
4 - 7	18,397	43,810	3,427	11,192
0 - 3	14,145	17,829	10,180	32,356
Impairment of biological assets	-	(2,809)	-	(12,219)
Deferred expenses	-	634	-	-
	52,281	**116,897**	**16,712**	**37,248**

(*) A portion of the biological assets earmarked for use as "Energy crops" is the result of a change in the use of plantations originally earmarked for making pulp.

9.2 Additions to forest cover

In 2014 the Group capitalised forest plantation, preservation and silviculture services received in the amount of €9,913 thousand (€16,407 thousand in 2013).

The Group capitalised €1,716 thousand of borrowing costs in forest cover in 2014 (€2,020 thousand in 2013); this addition is accounted for in the consolidated income statement as a reduction in "Other finance costs".

9.3 Impairment

In 2014 the Group recognised impairment losses on its biological assets of €59,327 thousand. Of this sum, €27,860 thousand was caused by the impairment of energy crops due to the change in applicable remuneration under the new regulatory framework.

These energy crops were being developed to cater to the supply needs of biomass-fuelled power generation facilities. By affording energy crops the same status as forestry and agricultural waste for remuneration purposes (notes 5.2 and 18), these crops are no longer profitable, which is why the Group has decided to exit this business activity in an orderly fashion.

In parallel, the decision to cease pulp production in Huelva has required identifying an alternative use for the Group's forestry assets in southern Spain; this timber will now be sold to third parties, an alternative that could imply additional costs (mainly transportation), or used as biomass for power generation purposes, an option that gives these assets a low net realisable value. These assets have been tested for impairment using the methodology and assumptions outlined in note 4.2, assuming for each section of forest the most profitable option for the Group; this exercise yielded a net realisable value that was €20,949 thousand below the carrying amount of these assets. In addition, an impairment loss of €8,956 thousand has been recognised against forest assets in northern Spain.

10. Leases

At year-end 2014, the Group's future minimum payments under non-cancellable leases, without factoring in costs to be reimbursed by the lessor, inflation-related adjustments or contractually-agreed rent increases, are as follows:

Thousands of euros	31/12/2014	31/12/2013
Less than one year	2,280	4,356
Between one and five years	6,709	14,849
Later than five years	11,886	24,892
	20,875	**44,097**

There are also lease agreements at certain estates on which energy crops have been developed under which committed expenditure amounts to €18,124 thousand. The Group is working on the termination of these agreements and expects to have concluded the related negotiations in 2016 (note 18).

At year-end 2014, the Group was leasing 22,414 hectares of forest assets earmarked for the production of biological assets (27,071 hectares at year-end 2013). The average term of these lease agreements is 30 years.

11. Financial instruments by category – Fair value

The Group's financial instruments mainly include deposits, trade and other receivables, derivatives and loans. The table below reconciles the Group's financial instruments by category and the consolidated statement of financial position headings:

2014 Thousands of euros	Loans and receivables / payables	Trading derivatives	Hedging derivatives	Held-to-maturity investments	Total at 31/12/2014
Available-for-sale financial assets	-	-	-	-	-
Derivative financial instruments	-	-	999	-	999
Financial accounts receivable	-	-	-	8,513	8,513
Trade and other receivables	110,178	-	-	-	110,178
Cash and cash equivalents	73,428	-	-	-	73,428
Total financial assets	**183,606**	**-**	**999**	**8,513**	**193,118**
Non-recourse borrowings	106,446	-	-	-	106,446
Recourse borrowings	250,007	-	-	-	250,007
Derivative financial instruments	-	4,280	11,196	-	15,476
Trade and other payables	165,069	-	-	-	165,069
Other financial liabilities	9,871	-	-	-	9,871
Total financial liabilities	**531,393**	**4,280**	**11,196**	**-**	**546,869**

2013 Thousands of euros	Loans and receivables / payables	Trading derivatives	Hedging derivatives	Held-to-maturity investments	Total at 31/12/2013
Available-for-sale financial assets	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-
Financial accounts receivable	-	-	-	55,876	55,876
Trade and other receivables	132,956	-	-	-	132,956
Cash and cash equivalents	103,391	-	-	-	103,391
Total financial assets	**236,347**	**-**	**-**	**55,876**	**292,223**
Non-recourse borrowings	102,917	-	-	-	102,917
Recourse borrowings	248,945	-	-	-	248,945
Derivative financial instruments	-	4,296	7,631	-	11,927
Trade and other payables	208,536	-	-	-	208,536
Other financial liabilities	10,508	-	-	-	10,508
Total financial liabilities	**570,906**	**4,296**	**7,631**	**-**	**582,833**

The financial assets and liabilities measured at fair value are mostly derivative financial instruments. They are valued using different quoted price variables that are observable, either directly, or indirectly using valuation techniques.

12. Derivative financial instruments

In keeping with the risk management policy outlined in note 6, the Group analyses the arrangement of financial instruments to hedge the risks deriving from fluctuations in interest rates, exchange rates, pulp and energy prices, gas prices, fuel-oil prices and the cost of the electricity used in its productive processes.

Among the financial instruments used to hedge interest-rate risk, interest rate swaps are the most common. The Group mainly uses swaps and futures contracts to hedge changes in exchange rates and the prices of pulp and certain energy products.

The Group classifies its derivatives into three categories:

1. Cash flow hedges: those designed to hedge variability in cash flows such as interest payments, payments and collections in foreign currency, etc.

2. Fair value hedges: those designed to hedge the fair value of the assets and liabilities recognised on the consolidated statement of financial position.

3. Other derivatives: those that have not been designated as hedges or do not qualify for hedge accounting.

The breakdown of this consolidated statement of financial position heading at 31 December 2014 and 2013 (showing the fair value of the derivatives at year-end), is provided in the next table:

	Current assets		Non-current liabilities		Current liabilities	
Thousands of euros	2014	2013	2014	2013	2014	2013
Cash flow hedges:						
Energy sale hedges	999	-	-	-	-	-
IRS - 50-MW project finance facility	-	-	5,677	4,705	2,280	2,276
IRS - 20-MW project finance facility	-	-	2,426	37	813	613
	999	-	8,103	4,742	3,093	2,889
Trading derivatives:						
Equity swap	-	-	-	2,651	4,280	1,645
Total	**999**	-	**8,103**	**7,393**	**7,373**	**4,534**

All of the financial instruments arranged have been valued subsequent to initial recognition by reference to observable market data, either directly (i.e., prices), or indirectly (i.e. inputs derived from prices).

A fair value loss of €2,860 thousand on derivatives designated as hedging instruments was reclassified to profit or loss in 2014 (a gain of €8,271 thousand in 2013).

12.1 Energy sale hedges:

The Group is exposed to fluctuations in the prices of certain energy products that are used in its productive processes and can have a significant impact on its production costs. This risk is partially hedged by commodity swaps.

In 2014, the Group arranged commodity swaps to cover the sale of its power output to the national electricity system, the main characteristics of which are shown below:

Maturity	Amount (MWh)	Price range in euros
1H14	61,920	35.60 - 44.70
2H14	160,560	49.48 - 50.92
1H15	276,480	43.38 - 47.18
2H15	194,400	48.85 - 51.59

These instruments presented a positive fair value of €999 thousand at year-end 2014; this gain is recognised in "Current assets – derivatives" in the consolidated statement of financial position with a balancing entry, net of the corresponding tax effect, in "Equity – Valuation adjustments".

A fair value gain of €39 thousand on energy sale hedges was reclassified to profit or loss in 2014 (note 16.8).

Based on the contractual terms of the instruments outstanding at 31 December 2014, a 10% increase in electricity sales prices would translate into a loss of €2,252 thousand in the 2015 consolidated income statement. In contrast, a 10% drop in electricity sales prices would result in a gain of the same magnitude in 2015.

12.2 Interest rate swaps:

The Group actively manages its exposure to the interest rate risk deriving from borrowings taken out at floating rates (note 6).

The interest rate derivatives arranged by the Group and outstanding at year-end 2014 and 2013 are shown below:

31 December 2014

	Fair	Notional principal amounts at year-end:						
Thousands of euros	value	2015	2016	2017	2018	2019	2020	2021
IRS - 50-MW project finance facility	7,957	66,965	60,750	54,043	47,074	40,109	-	-
IRS - 20-MW project finance facility	3,239	43,472	40,508	37,456	34,301	31,023	27,688	24,248

31 December 2013

Thousands of euros	Fair value	Notional principal amounts at year-end: 2014	2015	2016	2017	2018	2019	2020	2021
IRS - 50-MW project finance facility	6,981	72,403	66,965	60,750	54,043	47,074	40,109	-	-
IRS - 20-MW project finance facility	650	41,853	43,472	40,508	37,456	34,301	31,023	27,688	24,248

The table below provides the maturity analysis for the Group's interest rate derivatives at 31 December 2014. It is prepared on the basis of undiscounted cash flows.

	Thousands of euros		
	3 months - 1 year	1 - 5 years	Over 5 years
IRS - 50-MW project finance facility	2,087	5,917	-
IRS - 20-MW project finance facility	712	2,319	240

The interest rate swaps associated with the project finance loans funding the 50-MW project in Huelva and the 20-MW project in Mérida qualify as accounting hedges and proved 100% effective when tested.

In 2014 the Group reclassified a net loss of €2,898 thousand to profit and loss in connection with changes in the fair value of its interest-rate cash flow hedges (2013: a net loss of €3,830 thousand) (note 16).

Based on the contractual terms of the instruments outstanding at 31 December 2014, a 10% increase in the Euribor forward interest rate curve would translate into a gain of €18 thousand in the 2015 consolidated income statement. In contrast, a 10% decline in the Euribor interest rate curve would result in a loss of the same magnitude in 2015.

12.3 Equity swap:

On 25 October 2007, the Parent arranged an equity swap with Bankia, as required under the terms of the Special Bonus Plan signed on that same date.

The aforementioned equity swap was written over a total of 5,100,000 Company shares at a base price of €4.11 per share. The equity swap carried interest at 12-month Euribor plus a spread of 0.05%, settled annually. It was initially repayable on 30 June 2012.

This instrument does not qualify for hedge accounting, so that changes in its fair value are recognised in profit or loss as they arise. The fair value of the equity swap is calculated using the discounted cash flows resulting from the equity portion (the present value of the dividends plus the share price at the end of the period less €4.11) and the discounted cash flows implied by the interest accruals.

The Parent amended the instrument on 28 June 2012 to adapt it to the "Long-term Bonus Plan of ENCE, Energía y Celulosa, S.A. for 2010-15". (note 4.16) This amendment, which affected a nominal amount of 3,850,000 shares, had the effect of extending the maturity of the swap to 15 March 2013 in respect of 1,025,000 shares, to 15 March 2014 for another 1,025,000 shares and to 15 March 2015 for the remaining 1,800,000 shares, establishing an interest rate of 6-month Euribor plus 230 basis points.

The equity swap presented a negative fair value of €4,280 thousand at 31 December 2014 (a negative €4,296 thousand at year-end 2013). This balance is recognised in the "Financial derivative instrument" headings within current and non-current liabilities on the accompanying consolidated statement of financial position.

The Group recognised a loss of €1,326 thousand in the consolidated income statement in respect of the change in the fair value of this instrument in 2014 (2013: a gain of €2,809 thousand).

In January 2015 Bankia sold the remaining shares under the equity swap contact in the market at an average price of approximately €2.30 per share, thereby yielding an estimated settlement value for the equity swap in March 2015 of €3,240 thousand.

13. Inventories

The breakdown of the Group's inventories at 31 December 2014 and 2013 is as follows:

Thousands of euros	31/12/2014	31/12/2013
Wood	19,965	38,536
Other raw materials	2,389	2,665
Spare parts	21,649	20,425
Construction in progress	-	552
Work in progress	-	441
Finished goods	10,641	20,345
Prepayments to suppliers	2,186	1,445
Impairment (*)	(18,911)	(13,420)
	37,919	**70,989**

There are no restrictions on title to inventories.

It is Group policy to take out the insurance policies necessary to cover the potential risks to which its inventories are exposed and management believes that its coverage at year-end is adequate.

The inventory impairment charges are related to slow-moving inventories and finished products at the Group's factory in Huelva where production cost is higher than forecast net realisable value. The change in "Inventories - impairment" in 2014 includes a provision of €6,027 thousand to cover the estimated impairment in the value of the spare parts inventoried at the Huelva industrial complex.

The Group has contractually agreed with suppliers to acquire 3,268 thousand tonnes of forest waste for power generation.

14. Trade and other receivables

The breakdown at year-end of "Trade and other receivables" in the consolidated statement of financial position is as follows:

Thousands of euros	31/12/2014	31/12/2013
Trade receivables:		
Pulp	58,788	88,219
Energy	37,357	17,613
Other items	5,614	8,417
Other receivables	893	3,202
Receivable from employees	44	79
Provision for impairment of trade receivables	(2,265)	(3,166)
	100,431	**114,364**

The regulatory changes introduced in the Spanish energy sector have included, among other measures, the obligation on the part of all parties receiving remuneration from the system operator to finance the electricity tariff deficit. The Group's share of financing of this deficit pending collection at 31 December 2014 amounts to €15,744 thousand.

"Trade receivables" in the table above includes €1,352 thousand past due but not impaired and not covered by credit insurance policies (note 6) at 31 December 2014 (€2,433 thousand at year-end 2013). A significant portion of these balances are due from public bodies.

The average credit period on pulp sales ranges between 50 and 60 days. The fair value of pulp sales receivable does not differ significantly from their carrying amount.

The year-end statement of financial position includes €5,395 thousand of accounts receivable denominated in US dollars (year-end 2013: €19,564 thousand).

The Group has drawn down €38,035 thousand under several factoring agreements deemed non-recourse, as all the risks intrinsic to monetisation of the underlying receivables have been transferred, with an aggregate limit of €58,000 thousand at 31 December 2014 (€30,530 thousand and €83,000 thousand, respectively, at 31 December 2013). The Group pays interest equivalent to 3-month Euribor plus a spread ranging between 1.5 and 2.5% on the receivables discounted under these agreements.

15. Trade and other payables

The breakdown at year-end of "Trade and other payables" on the liability side of the consolidated statement of financial position is as follows:

Thousands of euros	31/12/2014	31/12/2013
Trade payables	139,559	179,578
Payable to fixed asset suppliers	8,916	8,466
Employee benefits payable	7,851	9,135
	156,326	**197,179**

The average payment period on goods and services purchased ranges between 65 and 75 days. The fair value of trade payables does not differ significantly from their carrying amount.

The Group has drawn down €49,621 thousand under non-recourse reverse confirming agreements with several banks with an aggregate limit of €107,000 thousand at year-end 2014 (€63,860 thousand and €114,000 thousand, respectively, at 31 December 2013).

The year-end statement of financial position includes €277 thousand of accounts payable denominated in US dollars (year-end 2013: €4,867 thousand).

Spanish Law 15/2010 (5 July 2010) on addressing non-payment of commercial transactions stipulates certain disclosure requirements in the notes to the annual financial statements on transaction settlement performance. Against this backdrop, the table below details the trade payables settled in 2014 and 2013 and the amounts outstanding at year-end (excluding intra-group transactions and payments to fixed asset suppliers):

	2014		2013	
	Thousands of euros	%	Thousands of euros	%
Within the legally-mandated maximum term	600,383	88%	438,160	87%
Other	79,825	12%	77,271	13%
Total payments during the year	680,208	100%	515,431	100%
Weighted average term of past due payments (days)	124.6	-	95.18	-
Trade payables past due by more than the legally-mandated maximum term at the close	25,585	-	10,127	-

16. Equity

16.1 Share capital

The share capital of ENCE Energía y Celulosa, S.A. at 31 December 2014 was represented by 250,272,500 fully subscribed and paid bearer shares, each with a par value of €0.90.

Based on the notifications received by the Parent, its shareholders structure at year-end 2014 and 2013 was as follows:

Percentage interest	31/12/2014	31/12/2013
Retos Operativos XXI, S.L.	26.5	25.6
Alcor Holding, S.A.	6.2	19.8
Liberbank, S.A.	-	6.3
La Fuente Salada, S.L.	5.4	5.0
Asúa Inversiones, S.L.	5.2	5.0
Amber Capital UK LLP	4.4	-
Norges Bank Investment Management	3.6	-
Treasury shares	1.2	2.9
Free float	47.5	35.4
Total	**100.0**	**100.0**

The Company's shares are represented by book entries and are officially listed on the Spanish stock exchanges and traded on the continuous market. All of its shares confer equal voting and dividend rights.

16.2 Legal reserve

In accordance with the Consolidated Text of the Spanish Corporate Enterprises Act, 10% of profits must be transferred to the legal reserve each year until it represents at least 20% of share capital.

The legal reserve may be used to increase capital in an amount equal to the portion of the balance that exceeds 10% of capital after the increase. Otherwise, until it exceeds 20% of share capital and provided there are no sufficient available reserves, the legal reserve may only be used to offset losses.

16.3 Share premium

The Consolidated Text of the Spanish Corporate Enterprises Act expressly permits the use of the share premium account balance to increase capital and provides no specific limitation with respect to the availability of this reserve.

16.4 Reserves in fully-consolidated companies

The next table breaks down "Equity – Reserves in fully-consolidated companies" by company at 31 December 2014 and 2013:

Thousands of euros	31/12/2014	31/12/2013
Celulosas de Asturias, S.A.U.	100,827	67,786
Celulosa Energía, S.A.U.	33,062	34,104
Norte Forestal, S.A.U.	15,317	16,751
Silvasur Agroforestal, S.A.U.	5,903	9,975
Iberflorestal, S.A.U.	262	2,377
Ibersilva, S.A.U.	(18,085)	(17,391)
Eucalipto de Pontevedra, S.A.U.	(3,952)	(2,039)
Electricidad de Navia Asturias, S.L.U.	2,795	2,793
Maderas Aserradas del Litoral, S.A.	(5,400)	(5,291)
Zona Franca M'Bopicuá, S.A.	2,883	2,894
Las Pléyades, S.A. (SAFI)	2,047	1,969
Sierras Calmas, S.A.	5,424	5,037
ENCE Energia, S.L.U.	(20,791)	(1,340)
ENCE Energía Huelva, S.L.U.	(5,662)	(2,198)
Consolidation and other adjustments	8,652	10,995
	123,282	**126,422**

The balance of reserves in consolidated companies that is restricted at year-end stood at €12,992 thousand (year-end 2013: €15,079 thousand) and corresponds mainly to the legal reserves endowed by the various Group companies.

16.5 Dividends

The shareholders of ENCE Energía y Celulosa, S.A. ratified the payment of a €7,452 thousand dividend from 2013 profit at the Annual General Meeting of 30 June 2014 (corresponding to a gross payment of €0.03 per ENCE Energía y Celulosa, S.A. share carrying dividend rights outstanding as of the payment date) as well as a cash dividend of €11,924 thousand with a charge against unrestricted reserves (corresponding to a gross payment of €0.05 per ENCE Energía y Celulosa, S.A. share carrying dividend rights). This dividend was paid on 11 July 2014.

Complementing the cash dividend, at that same Annual General Meeting of ENCE Energía y Celulosa, S.A., the shareholders also approved the payment of a in-kind dividend equivalent to the distribution of a portion of the share premium account by means of the delivery of treasury shares of the Parent in the proportion of one share for every 32 outstanding, so that the Company delivered 7,557,391 own shares with a market value at the resolution date of €14,372 thousand and an average acquisition cost of €19,893 thousand.

16.6 Earnings per share

The earnings per share calculations (which coincide with diluted earnings per share) are shown below:

Earnings per share	2014	2013
Group profit/(loss) attributable to owners of the parent (€ 000)	(140,909)	4,311
Ordinary shares outstanding at 1 January	250,272,500	250,272,500
Ordinary shares outstanding at 31 December	250,272,500	250,272,500
Weighted average ordinary shares	250,272,500	250,272,500
Basic earnings per share (euros)	**(0.56)**	**0.02**
Diluted earnings per share (euros)	**(0.56)**	**0.02**

16.7 Parent Company shares

The reconciliation of "Own shares - parent company shares" at the beginning and end of 2014 and 2013 is as follows:

	2014		2013	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	7,250,507	19,762	18,743,383	37,213
Purchases	3,297,886	6,063	10,389,476	26,509
In-kind dividend payment	(7,557,391)	(19,893)	(9,192,292)	(18,481)
Sales	(70,339)	(188)	(12,690,060)	(25,479)
Closing balance	**2,920,663**	**5,744**	**7,250,507**	**19,762**

The own shares held by the Company at 31 December 2014 represent 1.2% of its share capital (2.9% at year-end 2013) and are carried at €2,629 thousand (€6,526 thousand at 31 December 2013). These shares were acquired at an average price of €1.97 per share. The own shares held by the Parent are held for market trading purposes. Against this backdrop, 1,500,000 treasury shares were sold in January 2015.

16.8 Valuation adjustments

"Valuation adjustments" within equity includes the impact of the changes in the fair value of the Group's hedging derivatives (note 12) and the reserve generated by recognising the Group's forest land at market value as of 1 January 2004 (note 8) in the amount of €54,149 thousand. The latter reserve is freely distributable.

The breakdown of the changes in the fair value of the hedging derivatives in 2014 and 2013 is shown below:

	2014			2013		
Thousands of euros	Fair value	Tax effect	Adjustment in equity	Fair value	Tax effect	Adjustment in equity
Interest rate swap - Recourse borrowings:						
Opening balance	-	-	-	(1,075)	(323)	(752)
Reclassified to profit/loss	-	-	-	1,075	323	752
Closing balance	-	-	-	-	-	-
Interest rate swap – 50 MW project finance facility:						
Opening balance	(6,981)	(2,094)	(4,887)	(10,499)	(3,150)	(7,349)
Reclassified to profit/loss	2,334	700	1,634	2,409	723	1,686
Other changes in value	(3,310)	(993)	(2,317)	1,109	333	776
Tax adjustment	-	(398)	(398)	-	-	-
Closing balance	(7,957)	(2,785)	(5,968)	(6,981)	(2,094)	(4,887)
Interest rate swap – 20 MW project finance facility:						
Opening balance	(651)	(196)	(455)	(1,848)	(555)	(1,293)
Reclassified to profit/loss	564	169	395	346	104	242
Other changes in value	(3,153)	(946)	(2,207)	851	255	596
Tax adjustment	-	(162)	(162)	-	-	-
Closing balance	(3,240)	(1,135)	(2,429)	(651)	(196)	(455)
Foreign exchange hedges:						
Opening balance	-	-	-	10,721	3,217	7,504
Reclassified to profit/ loss	-	-	-	(12,102)	(3,630)	(8,472)
Other changes in value	-	-	-	1,381	413	968
Closing balance	-	-	-	-	-	-
Energy sale hedges:						
Reclassified to profit/ loss	(39)	(12)	(27)	-	-	-
Other changes in value	1,038	311	727	-	-	-
Tax adjustment	-	50	50	-	-	-
Closing balance	999	349	750	-	-	-
	(10,198)	**(3,570)**	**(7,648)**	**(7,632)**	**(2,292)**	**(5,340)**

17. Grants

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2014 and 2013 is as follows:

Thousands of euros	Subsidised loans (note 20)	Grants relating to assets	Emission allowances (note 7)	Total
Balance at 01/01/2013	**1,312**	**10,894**	**7,870**	**20,076**
Additions, new grants (*)	394	115	-	509
Emission allowances allocated for 2013	-	-	944	944
Reclassified to profit or loss	(337)	(953)	(5,030)	(6,320)
Balance at 31/12/2013	**1,369**	**10,056**	**3,784**	**15,209**
Additions, new grants (*)	-	860	-	860
Emission allowances allocated for 2014	-	-	649	649
Reclassified to profit or loss	(326)	(927)	(4,433)	(5,686)
Balance at 31/12/2014	**1,043**	**9,989**	**-**	**11,032**

(*) Net of expenses incurred in obtaining them

The Group has been granted non-repayable grants by several public bodies that are intended to finance investments earmarked to enhancing the productive structure which generate substantial amounts of jobs, as well as encouraging energy savings and efficiency.

In addition, the Group has been extended interest-free loans and loans at rates that are significantly below market rates with terms of up to 10 years. These loans finance projects undertaken by the Group to expand and upgrade the productive capacity of its pulp plants as well as the Group's research and development work.

The difference between market rates and the subsidised rate as per the loan agreement is considered a grant and is recycled to the consolidated income statement over the life of the loans on a systematic financial basis (note 20).

18. Provisions, guarantees and contingent liabilities

18.1 Non-current provisions

The reconciliation of the movements in "Non-current provisions" and "Current provisions" in accompanying consolidated balance sheet in 2014 and 2013:

2014	Thousands of euros Balance at 01/01/2014	Additions/ (charges)	Derecognitions or decreases	Transfers	Balance at 31/12/2014
Non-current:					
Costs of unwinding lease agreements over land for energy and other crops (note 5.2)	7,125	10,401	(3,002)	(14,524)	-
Employee commitments (notes 4.16)	2,175	-	(1,463)		712
Emission allowances (note 7)	8,715	5,117	(8,751)	-	5,081
Discontinuation of pulp production in Huelva (notes 5.1 & 7)	-	3,917	-	-	3,917
Other	490	1,047	(100)		1,437
	18,505	**20,482**	**(13,316)**	**(14,524)**	**11,147**
Current:					
Costs of unwinding lease agreements over land for energy and other crops (note 5.2)	-	-	(4,626)	14,524	9,898
Discontinuation of pulp production in Huelva (note 5.1)	-	12,581	(2,759)	-	9,822
Revenue provision under RD 9/2013 (note 22)	7,080	16,879	-	(23,959)	-
	7,080	**29,460**	**(8,885)**	**(9,435)**	**19,720**

2013	Thousands of euros Balance at 01/01/2013	Additions/ (charges)	Derecognitions or decreases	Balance at 31/12/2013
Non-current:				
Galicia Sanitation Agreement	5,357	-	(5,357)	-
Pontevedra Inlet Discharge Royalty	3,140	-	(3,140)	-
VAT Inspection, Germany 2002-2008	67	-	(67)	-
Costs of unwinding lease agreements over land for energy and other crops (note 9)	-	7,125	-	7,125
Employee commitments (notes 4.15 & 4.16)	1,165	1,054	(44)	2,175
Emission allowances (note 7)	3,015	8,715	(3,015)	8,715
Other	514	207	(231)	490
	13,258	**17,101**	**(11,854)**	**18,505**
Current:				
Revenue provision under RD 9/2013 (note 22)	-	7,080	-	7,080
	-	**7,080**	-	**7,080**

"Emission allowances" reflects the expenses associated with greenhouse gas emissions used during the period, with a charge to "Other operating expenses" in the consolidated income statement (note 25).

As indicated in note 5.2, in June 2014 the Spanish government completed its energy sector reforms, the remuneration changes introduced taking retroactive effect to 14 July 2013. In the interim period, the regulator had been settling payment for energy sales under the outgoing regime, Royal Decree 661/2007 (25 May), so that the retroactive application of the new regime has entailed, among other things, the need to return settlements received: €7,080 thousand recognised in the 2013 financial statements and €16,879 thousand recognised in the 2014 financial statements (of which €6,070 thousand corresponds to 2013 accruals). The amount pending repayment at 31 December 2014 is €8,368 thousand; this balance has been recognised as a deduction from "Trade and other receivables" in the accompanying statement of financial position.

In addition, the above regulatory changes have the effect of applying the same treatment to energy crops as to forestry and agricultural waste for remuneration purposes, despite the latter's lower value-added and cost, triggering the need to write down most of the value assigned to the energy crops developed to cater to the supply needs of biomass-fuelled power generation facilities (note 9) and shaping management's decision to make an orderly exit from this business activity. Management has estimated that the cost the Group will incur to unwind the lease agreements and compensation agreements with forest suppliers as a result of the abandonment of the estates on which the energy crops were grown, including those itemised in note 27, recognised with a charge against profit and loss in 2014 and yet to be incurred at year-end, amount to €4,911 thousand. In addition, management has written down the value of the irrigation equipment installed to water the energy crops in the process of being abandoned (note 8).

Elsewhere, the Group has recognised provisions of €16,498 thousand (note 5.1) to cover the contractual obligations assumed following the decision to cease pulp production at the Huelva industrial complex.

In 2013, the Group settled the last of its water discharge royalty payments to "Aguas de Galicia" in respect of 2004 --2007, paying €3,140 thousand, and reversed the provision associated with the "Galicia Sanitation Agreement" as the related obligation had prescribed.

18.2 Guarantees extended to third parties

At 31 December 2014, several financial institutions had extended the various Group companies guarantees, mainly performance bonds related to business operations, for an aggregate amount of approximately €45,418 thousand, of which €28,968 thousand is accounted for by guarantees of a financial nature (€45,508 thousand at 31 December 2013).

The Board of Directors does not expect the amounts guaranteed or the guarantees extended to result in material liabilities for the Group.

18.3 Contingent assets and liabilities

At year-end 2014, the Group is party to legal claims and controversies arising in the ordinary course of its business. The most significant claims are detailed below. Management estimates that none of these, either individually or on aggregate, will have a material adverse impact on the consolidated financial statements:

Changes in the Spanish energy sector regulatory framework

On 14 and 31 July 2014, several Group companies exercised their right to seek damages from the Spanish state, specifically seeking an award of €52,069 thousand for damages caused by the retroactive application of the new regulatory regime applicable to the generation of power using biomass obtained from energy crops. The claim has been presented as an open-ended claim and the award sought will be increased to reflect the costs the ENCE Group will incur in dismantling energy crop estates and unwinding leases at the estates on which the energy crops are being grown.

In addition, on 30 July 2014 a challenge was lodged before appeal court three of the Supreme Court against Royal Decree 413/2014 (6 June 2014), regulating the production of electric power by means of renewable sources, co-generation and waste, and Ministerial Order IET/1045/2014 (16 June 2014), enacting the standard facility remuneration parameters applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste.

By means of the appropriate Supreme Court channel, the Spanish Ministry of Industry has been petitioned to complete the case paperwork so that ENCE can formerly present a lawsuit seeking acknowledgement within the new regulatory regime of the real cost of lignin, the fuel used in the Group's existing co-generation plants integrated within its pulp operations and, by extension, an update of the remuneration parameters in order to reflect these real costs. Management estimates that lignin costs per MWh produced are €40-€60 higher than the cost contemplated in the current regulations, which translates into an impact at the Pontevedra and Navia industrial complexes in the range of €20,000 - €30,000 thousand in annual revenue terms.

Tax contingencies

The Spanish tax authorities concluded several tax inspections encompassing the Parent and several Group companies during the first half of 2013. These inspections affected the income tax filings made between 2007 and 2009, VAT filings and withholdings in 2008 and 2009, the so-called special electricity tax from 2008 until 2010, and trade tax for 2009-2012.

The income tax assessments for 2007-2009, seeking a settlement in respect of unpaid taxes and late-interest payment of €6,730 thousand (in the opinion of the inspection team, the Group is not subject to a fine under this assessment) have been signed under protest; of this balance, just €3,616 thousand would result in an outflow of cash.

Pontevedra public-domain concession

Sentences handed down by the National High Court (Chamber for Contentious Administrative Proceedings) on 19 May 2011 and 19 April 2013 ordered the state to initiate proceedings to investigate the expiry of the Pontevedra concession on the grounds alleged by an environmental association. The first of these sentences was upheld by the Supreme Court on 11 July 2014.

Note that all of these rulings order the state to initiate concession expiration hearings but do not pre-judge the existence of otherwise of the grounds for expiry pleaded by the plaintiff.

Carrying out this sentence, the Ministry for Agriculture, Food and the Environment has initiated the case as required and heard two rounds of pleas by ENCE demonstrating the lack of legal grounds for declaring the concession expired.

19. Borrowings and cash and cash equivalents

The breakdown of the Group's borrowings at 31 December 2014 and 2013 is as follows:

	2014		2013	
	Current	Non-current	Current	Non-current
High-yield bond	-	250,000	-	250,000
Loans and credit facilities	400	300	400	700
50-MW project finance facility	6,660	71,809	5,544	78,469
20-MW project finance facility	1,953	28,580	188	22,312
Arrangement fees (*)	(495)	(10,640)	(503)	(12,544)
Accrued interest payable and other	7,886	-	7,296	-
	16,404	**340,049**	**12,925**	**338,937**

(*) High-yield bond of €7,911 thousand at 31 December 2014 (€9,321 thousand at year-end 2013); 50-MW project finance facility: €1,876 thousand at 31 December 2014 (€2,220 thousand at year-end 2013); 20-MW project finance facility: €1,348 thousand at 31 December 2014 (€1,506 thousand at year-end 2013).

The breakdown of borrowings at 31 December 2014 and 2013 corresponding to loans, credit facilities and discounting facilities, classified by their respective maturities, is as follows:

Year-end 2014 (thousands of euros)	Limit	Drawn down	Due in 2015	2016	2017	2018	Beyond
High-yield bond	250,000	250,000	-	-	-	-	250,000
Revolving credit facility	90,000	-	-	-	-	-	-
50-MW project finance facility	101,309	78,469	6,660	7,288	7,762	7,878	48,881
20-MW project finance facility	60,692	30,533	1,953	2,077	2,075	2,205	22,223
Other loans	700	700	400	300	-	-	-
Accrued interest payable and other	-	7,886	7,886	-	-	-	-
Arrangement fees	-	(11,135)	(495)	(2,090)	(2,132)	(2,181)	(4,237)
	502,701	356,453	16,404	7,575	7,705	7,902	316,867

Year-end 2013 (thousands of euros)	Limit	Drawn down	Due in 2014	2015	2016	2017	Beyond
High-yield bond	250,000	250,000	-	-	-	-	250,000
Revolving credit facility	90,000	-	-	-	-	-	-
50-MW project finance facility	101,309	84,013	5,544	6,660	7,288	7,762	56,759
20-MW project finance facility	60,692	22,500	188	1,427	1,518	1,517	17,850
Other loans	1,100	1,100	400	400	300	-	-
Accrued interest payable and other	-	7,296	7,296	-	-	-	-
Arrangement fees	-	(13,047)	(503)	(1,997)	(2,090)	(2,132)	(6,325)
	503,101	351,862	12,925	6,490	7,016	7,147	318,284

19.1 Bond issue and revolving credit facility

On 1 February 2013, ENCE Energía y Celulosa, S.A. closed the placement of a €250 million bond issue with qualified institutional investors under Rule 144A and Regulation S of the US Securities Act of 1933, as amended. The issue was carried out under New York state law and the bonds are traded on the Luxembourg Euro MTF exchange.

The bonds fall due on 15 February 2020 and accrue a fixed annual coupon, payable six-monthly, of 7.25%. The bonds are guaranteed, mainly, by pledges over the shares of the Group's main operating companies (Celulosas de Asturias, S.A., Celulosa Energía, S.A., Norte Forestal, S.A. and Silvasur Agroforestal, S.A.) and pledges over the accounts receivable, bank accounts and intra-group loans. The bonds imply certain disclosure requirements and restrictions on the payment of dividends and arrangement of additional borrowings in the event of failure to comply with certain financial ratios that are customary in deals of this nature. The projects that have arranged project finance facilities to fund the development of biomass power generation projects did not extend any guarantees under the scope of this bond issue. The transaction costs amounted to approximately €10 million.

Under the scope of this issue, two credit ratings agencies issued an opinion on the creditworthiness of the Group as a whole and of its bond issue. The current issuer and issue credit ratings assigned by Standard&Poors and Moody's are BB-/BB- and Ba3/B1, respectively.

Also under the scope of this issue, a revolving €90 million credit facility was arranged with a syndicate of prestigious Spanish and international banks. This facility accrues interest at a rate benchmarked to Euribor and matures in 2018. It was fully drawn down at 31 December 2014. This agreement is governed by English and Welsh legislation.

19.2 50-MW Huelva project finance facility

On 21 June 2011, the Group and a syndicate of seven banks entered into a project finance loan agreement to finance the construction of a biomass-fuelled power generation plant (note 8). The loan was initially granted for €101,309 thousand, of which €85,256 thousand has been drawn down to date. Loan repayments began on 22 June 2013 and the facility is scheduled for full repayment by 22 December 2022. It accrues interest at a floating rate indexed to Euribor plus a spread ranging between 3.25% and 3.75%, depending on the loan repayment instalment. The commissions paid in 2011 to arrange this facility totalled €3,483 thousand.

The main collateral securing this loan is a pledge over the shares of ENCE Energía Huelva, S.L.U. and its current and future assets and credit claims. In turn, ENCE Energía y Celulosa, S.A. presented a series of guarantees in respect of a range of matters, including crop plantation and stocks for the plant's supply in the future, the date of commissioning and the tariff applicable to the facility's output at the time of commissioning and the plant's operating and availability performance. These guarantees are in turn partially covered by the guarantees extended to ENCE Energía y Celulosa, S.A. by the facility contractor.

This loan similarly includes certain obligations, mainly related to the disclosure of specific business and financial information, compliance with certain financial ratios determined on the basis of the annual financial statements of ENCE Energía Huelva, S.L.U., the requirement to maintain a specific volume of biomass stock on hand or at least felled, the earmarking of 50% of surplus cash to early repayment of the loan until 50% has been repaid and, subsequently, 25% of surplus cash until 65% of the loan has been so repaid. The covenants similarly impose certain restrictions, mainly on the distribution of dividends and the raising of new financing.

In order to hedge the risk deriving from this floating-rate financing facility, the Group wrote interest-rate hedges with a notional amount equivalent to 75% of the estimated drawdowns to be made throughout the term of the loan at a fixed rate of 3.5% with six of the project financiers (note 12).

19.3 20-MW Merida project finance facility

On 1 August 2012, the Group and a syndicate of three banks entered into a project finance loan agreement to finance the construction of a biomass-fuelled power generation plant (note 8). The loan was initially granted for €60,692 thousand, of which €30,790 thousand has been drawn down to date. Loan repayments began on 15 December 2014 and the facility is scheduled for full repayment by 15 June 2027. It accrues interest at a floating rate indexed to Euribor plus a spread ranging between 3.5% and 4.0%, depending on the loan repayment instalment. The commissions paid in 2012 to arrange this facility totalled €1,656 thousand.

The main collateral securing this loan is a pledge over the shares of ENCE Energía Extremadura, S.L.U. and its current and future assets and credit claims as well as a mortgage promise over the biomass plant. In turn, ENCE Energía y Celulosa, S.A. presented a series of guarantees in respect of a range of matters: crop plantation and stocks for the plant's supply in the future; the date of commissioning and the tariff applicable to the facility's output at the time of commissioning, cost overruns and the plant's operating and availability performance. These guarantees are in turn partially covered by the guarantees extended to ENCE Energía y Celulosa, S.A. by the facility contractor.

This loan similarly includes certain obligations, mainly related to the disclosure of specific business and financial information, compliance with certain financial ratios determined on the basis of the annual financial statements of ENCE Energía Extremadura, S.L.U., the requirement to maintain a specific volume of biomass stock on hand or at least felled and the earmarking of between 30% and 50% of surplus cash generated annually to early repayment of the loan depending on the number of years elapsing from its arrangement. The covenants similarly impose certain restrictions, mainly on the distribution of dividends and the raising of new financing.

In order to hedge the risk deriving from this floating-rate financing facility, the Group wrote interest-rate hedges with a notional amount equivalent to 75% of the estimated drawdowns to be made throughout the term of the loan at a fixed rate of 2% with the project financiers (note 12).

19.4 Regulatory changes in the energy sector

Recent regulatory changes in the energy business could have an adverse effect on the amounts of the project finance facilities arranged to fund the 50-MW Huelva and 20-MW Mérida facilities because these amounts are calculated on the basis of estimated cash flows once the facilities are in operation and also as a result of the existence of certain obligations assumed under the financing agreements, including the obligations made with respect to the availability of specific energy crops; these obligations need to be modified as part of the talks underway with the banks in order to adapt them for the recently enacted tariff framework.

The lenders' estimates of the combined impact of application of Law 15/2012 of 27 December 2012, on fiscal measures towards energy sustainability, and Royal Decree-Law 2/2013 of 1 February 2013, on urgent electricity system and financial sector measures, prompted them to propose reducing the amount of project financing available for the Mérida 20-MW and Huelva 50-MW projects by €20 million and €29 million, respectively. These estimates was made during the first half of 2013 and therefore do not factor in Royal Decree 413/2014, of 6 June 2014, regulating the production of electric power by means of renewable sources, co-generation and waste, which took effect on 11 June 2014, or Ministerial Order IET/1045/2014, of 16 June 2014, approving the remuneration parameters for standard facilities applicable to certain facilities that generate power by means of renewable sources of energy, co-generation and waste, published on 20 June 2014.

At present, the Group is in talks with the banks that provided the Huleva 50-MW and Mérida 50-MW project finance facilities with a view to adapting the size of the facilities to the above-mentioned regulatory changes. It is estimated that the amounts and maturities of these facilities recognised in the accompanying consolidated financial statements will remain unchanged as a result of the aforementioned negotiations, in light of the fact that the amounts drawn down to date are substantially lower than the amounts granted, among other considerations.

On 30 December 2014, the banks that provided these facilities expressly manifested that it is not their intention to seek early repayment of the loans extended or to declare the loans due as a result of the breach, forced by the regulatory changes in the Spanish energy sector, of certain covenants in the loan agreements related to the energy crop business. This waiver is valid until 31 December 2015.

19.5 Cash and cash equivalents

"Cash and cash equivalents" includes the Group's cash on hand and short term bank deposits with original maturities of three months or less. The carrying amount of these assets approximates their fair value. These assets earned an average rate of 1.07% in 2014 (1.57% in 2013). A portion of this cash - €15,651 thousand - may only be used to service debt under the Huelva and Mérida project finance facilities.

The year-end 2014 statement of financial position includes €2,667 thousand of cash denominated in US dollars (year-end 2013: €31,164 thousand).

19.6 Other financial assets

This heading mainly includes deposits set up to guarantee obligations assumed in writing certain derivative financial instruments (note 12), as well as those deriving under the agreements entered into for the future purchase of emission allowances (note 7). €45,000 thousand of fixed-term deposits matured in April 2014 (average rate earned: 2.39%).

20. Other financial liabilities

The amount recognised in the accompanying consolidated statement of financial position corresponds primarily to loans extended at below-market rates and sometimes even interest-free (note 17).

The breakdown by maturity at year-end 2014 and 2013 is as follows:

Thousands of euros	2014	2013

2014	0	1,962
2015	1,858	1,501
2016	1,280	1,243
2017	1,279	1,204
2018	1,288	1,204
2019 and beyond	5,210	4,763
Unwinding of discount (note 17)	(1,043)	(1,369)
	9,871	**10,508**

21. Tax matters

The balances receivable from and payable to the tax authorities at year-end 2014 and 2013 are shown below:

	Thousands of euros			
	31 December 2014		31 December 2013	
	Taxes receivable	Taxes payable	Taxes receivable	Taxes payable
Non-current:				
Deferred tax assets	81,588	-	35,557	-
Deferred tax liabilities	-	21,948	-	27,663
Total	**81,588**	**21,948**	**35,557**	**27,663**
Current:				
Income tax receivable and VAT payable	8,492	1,942	17,506	2,548
Current tax on profits for the year	303	94	8,204	39
Tax in respect of prior years (*)	11,631	-	-	-
Electricity tax (note 22)	876	3,039	496	3,912
Sundry taxes receivable from and payable to the tax authorities	379	3,668	590	4,858
Total	**21.681**	**8.743**	**26,796**	**11.357**

(*) Collected from the tax authorities in February 2015

21.1 Regimes applied and tax groups

Group companies resident in Spain for tax purposes:

For income tax purposes, ENCE Energía y Celulosa, S.A. files its tax returns under the consolidated tax regime provided for in Chapter VII of Title VIII of the Consolidated Text of the Spanish Corporate Income Tax Act, as the parent of Tax Group 149/02, created in 2002. Application of this regime, on a perpetual basis unless expressly waived, means that the various companies included in this tax group (see below) do not file their taxes individually:

- Celulosas de Asturias, S.A.U.
- ENCE Investigación y Desarrollo, S.A.U.

- Celulosa Energía, S.A.U.
- Silvasur Agroforestal, S.A.U.
- Norte Forestal, S.A.U.
- Ibersilva, S.A.U.
- ENCE Energía, S.L.U. and subsidiaries

The statutory income tax rate is 30%.

Group companies resident in Uruguay and Portugal for tax purposes:

For income tax purposes, the Group companies located in Uruguay pay income tax under the general tax on income from economic activities regime at a statutory rate of 25% of accounting income adjusted for applicable prevailing deductions, with the exception of Las Pléyades, S.A., which pays tax under the special financial investment companies tax regime at a rate of 0.3% of equity.

Group company Iberflorestal, S.A., meanwhile, pays income tax under the general Portuguese corporate income tax regime at a statutory rate of 23%.

Tax consolidation group

Taxable income is not determined on the basis of the Group's consolidated accounting profit but rather the individual taxable incomes of the companies comprising the tax group, determined in accordance with their respective individual tax regimes. To this end, the individual taxable income of the Group companies with tax residence in Spain is aggregated to arrive at the taxable income of Tax Group No. 149/02; tax losses deriving from non-resident companies cannot be offset for this purpose.

Regulatory changes

Spanish tax legislation was amended in 2013. The new applicable tax legislation includes Law 14/2013, of 27 September 2013, in support of entrepreneurs and their international expansion, and Law 16/2013, of 29 October 2013, establishing certain environmental tax-related measures and other tax and financial measures enacted by means of the 2014 Budget Act (Law 22/2013 of 23 December 2013).

One of the amendments introduced is a temporary reduction, applicable in 2013-2015, in the ability to offset unused tax losses accredited in prior years to 25% of taxable income. In addition, the ability to accelerate the depreciation of new assets has been eliminated and a cap imposed on the deductibility of finance costs. Impairment losses on portfolio valuations are no longer deductible for tax purposes and losses arising from permanent establishments located abroad can no longer be utilised for offset.

Elsewhere, on 28 November 2014, Law 27/2014 (27 November 2014) was published in the Spanish Official State Journal; this piece of legislation will take effect from 1 January 2015 and apply, generally, to tax years beginning on or after that date.

This new set of tax regulations, which imply an overhaul of the tax system in Spain on account of the scale and magnitude of the changes, includes the following amendments, among others: the general statutory rate will decrease to 28% in 2015 and to 25% in 2016; the caps on the ability to utilise tax losses have been set at 25% of taxable income in 2015, 60% in 2016 and 70% from 2017; introduction of a new tax break, the capitalisation reserve, which will have the effect of reducing taxable income by up to 10% if certain requirements are met; elimination of the ability to deduct impairment losses on property, plant and equipment and intangible assets for tax purposes; elimination of the internal double taxation deduction, which is being replaced by an exemption mechanism which also applies to the sale of investments; introduction of an enhanced tax treatment for related-party transactions; and increased limits on the ability to deduct interest expense.

21.2 Reconciliation of accounting profit/(loss) to taxable income/(tax loss)

The reconciliation of accounting profit/(loss) to taxable income/(tax loss) in 2014 and 2013 is provided below:

Thousands of euros	2014	2013
Accounting profit (profit/loss before tax) (*)	(195,304)	5,566
Permanent differences:		
Arising in profit or loss	(1,397)	811
Arising in equity	(71)	-
Temporary differences:		
Arising during the year	67,182	37,170
Arising in prior years	(8,113)	(3,336)
Arising from reclassifications from equity		(344)
Consolidation adjustments	(817)	(526)
Utilisation of tax losses	(929)	(10,493)
Taxable income / (tax loss)	**(139,449)**	**28,848**

(*) Generated entirely from continuing operations

The permanent differences arising in profit or loss correspond to expenses accrued for accounting purposes that cannot be deducted for tax purposes.

The temporary differences arise from the recognition of income and expense in different periods due to differences between prevailing accounting and tax legislation. A breakdown of these differences by nature is provided in section 21.4.

21.3 Reconciliation of accounting profit and tax expense

The reconciliation of accounting profit/(loss) to tax income/(tax expense) in 2014 and 2013 is provided below:

Thousands of euros	2014	2013
Accounting profit (profit/loss before tax)	(195,304)	5,566
Permanent differences arising in profit or loss	(1,397)	811
Elimination of the accounting profit of non-resident companies	-	2,647
Consolidation adjustments and eliminations	-	(1,045)
Taxable income / (tax loss)	**(196,701)**	**7,979**
Tax payable / (receivable) before adjustments	**(59,022)**	**2,394**
Deductions and adjustments in respect of prior years	(5,779)	(1,032)
Impact of the change in tax rate	10,406	-
Tax effect of non-resident companies	-	(107)
Tax expense /(income)	**(54,395)**	**1,255**

The breakdown of tax expense / (income) in 2014 and 2013:

Thousands of euros	2014	2013
Current tax and other movements	(47,080)	11,350
Deferred tax	(17,721)	(10,095)
Impact of the change in tax rate	10,406	-
Tax expense /(income)	**(54,395)**	**1,255**

21.4 Recognised deferred tax assets and liabilities

The reconciliation of the related consolidated statement of financial position headings at the beginning and end of 2014 and 2013 is as follows:

Deferred tax assets

	Thousands of euros					
2014	Balance at 01/01/2014	Increases	Decreases	Transfers/ restatements	Change in tax rate	Balance at 31/12/2014
Deferred tax assets recognised in profit or loss:						
Non-current asset depreciation	5,729	5,288	(111)	-	(1,818)	9,088
Non-current asset impairment	2,268	9,499	(77)	(1,094)	(1,766)	8,830
Provisions	3,897	2,338	(1,981)	(340)	(652)	3,262
Employee commitments	1,330	102	(445)	10	(166)	831
Current-asset impairment	580	2,118	-	(579)	(353)	1,766
Non-resident companies	347	128	335	338	-	1,148
Consolidation adjustments	(47)	-	(6)	(2)	-	(55)
Unused tax losses	19,161	40,546	(1,137)	585	(9,198)	49,957
Unused tax credits	-	-	-	4,588	(765)	3,823
	33,265	**60,019**	**(3,422)**	**3,506**	**(14,718)**	**78,650**
Deferred tax assets recognised in equity:						
Hedging instruments (notes 12 and 16)	2,292	507		452	(313)	2,938
Total	**35,557**	**60,526**	**(3,422)**	**3,958**	**(15,031)**	**81,588**

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2013	Balance at 01/01/2013	Increases	Decreases	Balance at 31/12/2013
	Thousands of euros			
Deferred tax assets recognised in profit or loss:				
Fixed-asset depreciation	231	5,612	(114)	5,729
Non-current asset impairment	448	2,080	(260)	2,268
Provisions	2,180	2,421	(704)	3,897
Employee commitments	1,174	499	(343)	1,330
Current-asset impairment	441	247	(108)	580
Non-resident companies	168	238	(59)	347
Consolidation adjustments	(50)	3	-	(47)
Unused tax losses	21,963	346	(3,148)	19,161
	26,555	**11,446**	**(4,736)**	**33,265**
Deferred tax assets recognised in equity:				
Hedging instruments (notes 12 and 16)	4,025	-	(1,733)	2,292
Total	**30,580**	**11,450**	**(6,469)**	**35,557**

Management has recognised deferred tax assets in the statement of financial position as it believes it is probable that they will be realised. In making this judgement, management factored in the outlook for the Group's earnings, based on internal projections which are updated to reflect the most recent business trends at the Group, as well as the tax rate expected to apply at the time of their realisation, to this end factoring in the corporate tax rate changes introduced by Law 27/2014 (27 November 2014), which is currently estimated at 28% in 2015 and 25% from 2016.

As provided in Spanish legislation, unused tax losses generated during a given year can be offset against taxable income generated by the consolidated Tax Group No. 149/02 in successive years, as they do not prescribe.

Deferred tax liabilities

2014	Balance at 01/01/2014	Increases	Decreases	Transfers/ restatements	Change in tax rate	Balance at 31/12/2014
	Thousands of euros					
Deferred tax liabilities recognised in profit or loss:						
Accelerated depreciation	2,658	-	(226)	-	(405)	2,027
Other	1,780	797	(2,687)	357	(42)	205
	4,438	**797**	**(2,913)**	**357**	**(447)**	**2,232**
Deferred tax liabilities recognised in equity:						
Revaluation of forest land (note 16) (*)	23,184	-	-	-	(3,865)	19,319
Hedging instruments (notes 12 and 16)	-	467	-	-	(78)	389
Consolidation and other adjustments	11	-	(6)	5	(2)	8
	23,195	**467**	**(6)**	**5**	**(3,945)**	**19,716**
Total	**27,633**	**1,264**	**(2,919)**	**362**	**(4,392)**	**21,948**

(*) The adjustment for the change in tax rate is recognised in profit and loss

2013	Thousands of euros			
	Balance at 01/01/2013	Increases	Decreases	Balance at 31/12/2013
Deferred tax liabilities recognised in profit or loss:				
Accelerated depreciation	2,884	-	(226)	2,658
Other	2,137	-	(357)	1,780
	5,021	-	**(583)**	**4,438**
Deferred tax liabilities recognised in equity:				
Revaluation of forest land (note 16)	23,498	-	(314)	23,184
Hedging instruments (notes 12 and 16)	3,216	414	(3,630)	-
Consolidation and other adjustments	10	-	1	11
	26,724	**414**	**(3,943)**	23,195
Total	**31,745**	**414**	**(4,526)**	**27,633**

21.5 Unrecognised deferred tax assets

The Group did not recognise certain deferred tax assets in 2014 and 2013, mainly corresponding to tax losses generated in Uruguay, in the amount of €4 million, as these companies' business volumes are currently at low levels.

21.6 Years open to inspection and tax inspections

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the inspection period in effect in each tax jurisdiction has prescribed (four years in Spain and Portugal and five years in Uruguay). The directors believe that the tax contingencies that could arise from the investigations underway and from any review of the returns still open to inspection, if any, will not have a material impact on the accompanying financial statements.

22. Revenue

The breakdown of Group revenue by business in 2014 and 2013 is as follows:

Thousands of euros	2014	2013
Revenue from pulp sales	501,997	611,400
Revenue from energy sales	171,851	233,739
Revenue from sales of wood and forestry services	19,768	7,997
Impact on revenue of retroactive application of regulatory changes (note 18)	(6,070)	-
	687,546	**853,136**

In 2014 the Group sold 1,137,146 tonnes of pulp and 1,494,319 megawatt-hours of electric energy (1,270,095 tonnes of pulp and 1,895,540 MWh in 2013).

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22.1 *Geographic revenue split*

Virtually all of revenue from energy sales is generated in Spain. The breakdown of revenue from pulp sales by geographic market is as follows:

Percentage of pulp sales	2014	2013
Germany	23.2	19.4
Italy	16.4	20.2
Spain	15.6	14.9
France	9.8	11.4
Austria	6.0	5.6
Turkey	4.5	4.2
Poland	3.7	4.2
Netherlands	3.2	2.7
Slovenia	3.2	3.0
Greece	3.2	2.9
UK	3.1	2.7
Other	8.1	8.8
	100	**100**

A single customer accounts for 10.5% of the Group's revenue from pulp sales.

22.2 *Foreign currency transactions*

In 2014 the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €126,447 thousand (2013: €180,503 thousand).

22.3 *Energy sector regulation*

This section attempts to summarise the most noteworthy highlights of prevailing energy sector regulations in Spain, as applicable to the business activities of the ENCE Group:

Law 24/2013 (26 November), the Electricity Sector Act, replacing Law 54/1997 (27 November).

This piece of legislation introduces the governing principle of ensuring the economic and financial sustainability of the electricity system, limiting the so-called tariff deficit; it abandons the former distinction between the 'ordinary', or conventional, and 'special', or renewable, regimes, introducing a single set of regulations, without prejudice to unique considerations potentially requiring regulation; and it establishes a remuneration regime applicable to electricity generated from renewable sources, co-generation and waste based on the pool prices fetched by these facilities in the market, topped up by specific regulated remuneration designed to enable these technologies to compete with the other generation technologies on an even footing.

The new remuneration premiums will be incremental to the remuneration obtained by selling electricity in the market and will be made up of an amount per unit of installed capacity covering, as warranted, investment costs that cannot be recouped in the market and an operations supplement covering the difference between operating costs and market prices, as required.

The principle underpinning this remuneration regime is that of a 'reasonable return on investment', defined as the yield on 10-year Spanish sovereign bonds plus a spread, initially set at 300 basis points; it will be calculated on the basis of a standard facility, over the course of its regulated useful life and assuming operation by an efficient and well-managed undertaking, all of which factoring in: 1) standard revenue from the sale of electricity at market or pool prices; 2) standard operating costs; and 3) standard upfront investment metrics.

The new regime establishes regulatory periods of six years and stub periods of three years. Every three years there is scope for changing the remuneration parameters related to pool price forecasts, factoring in any deviations arising during the stub period in question. Every six years the authorities can change the standard facility parameters other than the amount of initial investment and the facilities' regulatory useful lives, which will remain unchanged throughout. The regime also envisages changing the interest rate for remuneration purposes every six years, albeit only prospectively.

The standard investment supplements for new facilities will be determined by means of a competitive tender process.

This new remuneration regime applies retroactively from July 2013, the date on which Royal Decree-Law 9/2013 took effect.

The new regulations also stipulate that any tariff deficit arising in the Spanish electricity system must be funded proportionately by the various parties that collect remuneration based on the revenue collected by the power distributors or by the system operator. This funding may not exceed 2% of initially estimated revenue for the year in question or 5% of actual estimated revenue for the year.

Law 15/2012 (27 December 2012) on fiscal measures for energy system sustainability

This piece of legislation introduces, with effect from 1 January 2013, several tax modifications that affect the Group's business, specifically creating a levy on the value of electric energy sold, which affects the entire energy sector, equivalent to 7% of revenue from generation activities. This legislation has also had the effect of amending the tax rates levied on natural gas and eliminating the exemptions formerly in place for energy products used to produce electric energy and in co-generation processes.

Royal Decrees

On 27 January 2012, the Spanish Cabinet passed Royal Decree-Law 1/2012 which had the effect of temporarily suspending the procedure for pre-qualifying new renewable capacity for remuneration premiums thereby eliminating other financial incentives formerly awarded to power generation facilities that use co-generation, renewable energy sources or waste that were not included in the register of pre-qualified facilities at time this legislation came into effect.

Royal Decree-Law 2/2013 of 1 February 2013, on urgent electricity system and financial sector measures, mandated that all remuneration calculation formulae benchmarked to headline CPI be revised going forward on the basis of consumer price inflation excluding energy and unprocessed foods at constant tax rates and eliminated the 'pool-plus-premium' remuneration regime so that renewable facilities could only be remunerated at the regulated tariff going forward.

Royal Decree 413/2014 (6 June 2014) was published on 10 June, regulating the production of electric power by means of renewable sources, co-generation and waste, establishing the methodology underpinning the specific remuneration regime applicable to facilities that fail to cover their costs by enough of a margin to enable them to compete with the rest of the generation technologies in the market on an even footing, thereby generating a reasonable return based on benchmark facilities for each affected class of technology. This decree also stipulates the publication of an enacting order by the Spanish Ministry for Industry, Energy and Tourism to specify the methodology for classifying standard facilities by technology, installed capacity, age or using any other segmentation criteria deemed necessary for the purpose of applying the new remuneration regime. Against this backdrop, Ministerial Order IET/1045/2014 (16 June 2014) was published on 20 June, enacting the the standard facility remuneration parameters applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste applicable for the first regulatory stub period which ends on 31 December 2016 and defining the 'standard facility' categories which encompass every single generation facility in existence in Spain.

23. Cost of sales

Consumption of raw materials and other consumables in 2014 and 2013 breaks down as follows:

Thousands of euros	2014	2013
Purchases	319,559	372,663
Change in raw materials, goods held for resale and other inventories	15,769	3,207
Other external expenses	44,119	51,966
	379,447	**427,836**

This heading mainly includes the cost of the wood, chemical products, fuels and other variable costs incurred in the pulp production process.

24. Employee benefits expense

The breakdown of the employee benefits expense incurred in 2014 and 2013 is provided below:

Thousands of euros	2014	2013
Wages and salaries	51,103	57,135
Social security	13,377	13,620
Pension contributions and other social benefits	3,242	3,281
	67,722	**74,036**
Termination benefits (note 5.1)	19,815	5,369
Long-term remuneration plans	(502)	1,054
	87,035	**80,459**

The process of restructuring the industrial complex in Huelva initiated during the third quarter of the year and the transformation of this facility into a renewable energy power-generation unit, due to the decision to discontinue pulp production, as agreed with the workers' representatives on 19 October 2014, has implied workforce restructuring at the Huelva operating centre and at the office facilities in both Huelva and Madrid. This process has entailed collective redundancy measures which have reduced the workforce by 226, of which 168 left the company in 2015 with the remainder due to leave its employment over the course of 2015. The estimated cost of the related termination benefits is €20,395 thousand.

The average headcount in 2014 and 2013:

	Average headcount during the year					
	2014			2013		
Job category	Men	Women	Total	Men	Women	Total
Executives	7	1	8	7	1	8
Individual job contracts	211	63	274	217	61	278
Collective bargaining agreement	541	76	617	570	85	655
Temporary workers	74	28	102	84	23	107
	833	**168**	**1,001**	**878**	**170**	**1,048**

The number of employees with a disability stood at 12 at year-end 2014 (15 at year-end 2013).

The breakdown of the year-end headcount by job category and gender:

	Year-end headcount					
	2014			2013		
Job category	Men	Women	Total	Men	Women	Total
Executives	6	1	7	7	1	8
Individual job contracts	192	55	247	210	61	271
Collective bargaining agreement	439	63	502	561	85	646
Temporary workers	55	27	82	61	24	85
	692	**146**	**838**	**839**	**171**	**1,010**

The Board of Directors was made up of 13 directors at 31 December 2014, 12 of whom men (12 members at year-end 2013, 11 of whom men).

25. Other operating expenses

The breakdown of this consolidated income statement heading in 2014 and 2013 was as follows:

Thousands of euros	2014	2013
External services	169,885	187,614
Use of emission allowances (note 18)	5,117	8,715
Taxes other than income tax and other management charges	3,819	4,624
Electricity generation levy (note 22)	12,091	16,274
Change in impairment provisions for inventories and bad debt	3,463	5,783
Impact of regulatory changes on energy business	8,921	5,228
Impact of the closure of the Huelva factory (note 18)	18,246	-
Other non-recurring charges (*)	6,057	11,770
Total	**227.599**	**240,008**

(*) Mainly includes €3,231 in respect of timber inventory restatements (€6,543 thousand in 2013).

The breakdown of "External services" in the consolidated income statement in 2014 and 2013:

Thousands of euros	2014	2013
Transport, freight and business expenses	52,123	57,862
Utilities	48,672	58,963
Repairs and upkeep	24,913	21,460
Rent and fees	6,171	7,599
Insurance premiums	5,176	5,347
Independent professional services	7,644	8,977
Banking and similar services	1,715	2,241
Advertising, publicity and public relations	740	1,129
Research and development costs (*)	253	514
Other services	22,478	23,522
Total	**169.885**	**187,614**

25.1 Audit fees

The fees paid for account auditing and other services to the Group's auditor and entities related to the latter in 2014 and 2013 are shown in the next table:

	Thousands of euros	
	2014	2013
Audit services	135	157
Other services	77	196

26. Finance costs

The breakdown of this consolidated income statement heading in 2014 and 2013 was as follows:

Thousands of euros	2014	2013
Bonds	18,126	16,615
Syndicated loan	-	656
Project finance facilities	4,095	3,949
Credit, factoring and reverse factoring lines	1,627	2,924
Financing arrangement fees recognised in profit or loss	4,200	6,192
Capitalised borrowing costs (notes 8 and 9)	(3,220)	(4,480)
Other (note 9)	(21)	1,897
	24.807	27,753
Derivatives:		
Settlement of the project finance interest-rate swap	3,028	2,755
Settlement of interest under the equity swap	197	254
	3,225	3,009
	28,032	**30,762**

27. Related-party transactions

The Company entered into the following transactions with related parties in 2014 and 2013:

Related party	Nature of the transaction	Thousands of euros	
		2014	2013
Liberbank, S.A.	Interest and banking fees and commissions	-	19
Agroluan, S.L.	Services received	182	212
Grupo Foresta	Biomass	1,000	526
Grupo Foresta	Interest receivable	(22)	-

These transactions were arranged on an arm's length basis.

28. Non-current assets held for sale

The Group classifies a non-current asset (or disposal group) as held for sale when its carrying amount is to be recovered principally through a sale transaction insofar as a sale within the next 12 months is considered highly probable. These assets are measured at the lower of their carrying amount and fair value less costs to sell.

The breakdown of "Non-current assets held for sale" at 31 December 2014 is as follows:

	Thousands of euros
NON-CURRENT ASSETS	
Property, plant and equipment	**70,657**
Cost	343,224
Depreciation	(220,615)
Provision for impairment	(51,952)
Biological assets	**4,867**
Forest cover	5,243
Depletion of forest reserve	(376)
Investment property	**1,855**
TOTAL ASSETS	**77,379**

The Group has begun the process of selling the industrial assets located in Huelva which have fallen idle as a result of the decision to cease pulp production at this facility (note 5.1). The estimated realisable value of these assets totals €34,632 thousand (note 8.6).

In addition, the Group is exiting the forest management business in southern Spain in an orderly fashion; these assets are related to energy crops, with watering entitlements, encompassing approximately 2,000 hectares of irrigated land and an addition 1,000 hectares of adjacent non-irrigated land. The carrying amount of the land and corresponding forest cover is €33,955 thousand and €4,867 thousand, respectively. Its realisable value, estimated on the basis of firm offers for part of this land, is in the range of €40-€60 million.

Elsewhere, the Group has taken several measures to sell properties located in Pontevedra that are not used in its core business activities. The carrying amount of these assets is €3,925 thousand, in line with their estimated net realisable value.

29. Operating segments

The Group has defined the following reporting segments for which it has full and independent financial information that is reviewed regularly by senior management in order to evaluate their performance and for decision-making purposes:

- Pulp & Energy. The co-generation of electric power is intrinsic to the pulp-making business via use of the parts of the wood that cannot be transformed into pulp, essentially lignin and biomass, as fuel.

  The power co-generation and generation plants are closely intertwined with the pulp manufacturing factories in which they are integrated and it is not possible to obtain reliable independent financial information for each part, which is why senior management evaluates this segment's performance as a whole.

- Biomass Energy Projects. Leveraging the know-how built up in the forestry sector, the Group is developing power generation projects fuelled by biomass. The main assets included in this operating segment are the power generation facilities and the energy crops.

- Pulp Forest Assets. This operating segment essentially includes the forest crops and forest areas that are later used as raw materials in the pulp production process.

- Forest Services & Other. This segment includes residual business activities carried out by the Group, including forest services provided to third parties, etc.

29.1 Operating segment reporting

The table below details the earnings performance by operating segment in 2014 and 2013, based on the management information reviewed regularly by senior management:

2014 Income statement	Thousands of euros Pulp & Energy	Biomass Energy Projects	Pulp Forest Assets	Forest Services & Other	Subtotal	Elimination of inter-segment transactions	Total
Revenue:							
From third parties	615,376	52,402	18,309	1,459	687,546	-	687,546
Inter-segment revenue	1,878	5,620	57,313	56	64,867	(64,867)	-
Total revenue	**617,254**	**58,022**	**75,622**	**1,515**	**752,413**	**(64,867)**	**687,546**
Earnings:							
Other operating income and expense	(671,928)	(44,645)	(96,652)	(2,875)	(816,100)	65,887	(750,213)
EBITDA	**(54,674)**	**13,377**	**(21,030)**	**(1,360)**	**(63,687)**	**1,020**	**(62,667)**
Depreciation and depletion of forest reserves for the year	(52,188)	(8,704)	(8,608)	(117)	(69,617)	480	(69,137)
Impairment triggered by energy sector reform	-	(36,820)	-	-	(36,820)		(36,820)
Operating profit/(loss)	**(106,862)**	**(32,147)**	**(29,638)**	**(1,477)**	**(170,124)**	**1,500**	**(168,624)**
Finance income	23,393	379	(117)	44	23,699	(22,634)	1,065
Finance costs	(30,981)	(12,092)	(8,677)	(242)	(51,992)	22,634	(29,358)
Exchange differences	1,954	-	(459)	117	1,612	-	1,612
Tax	29,562	10,940	13,988	(905)	53,585	811	54,396
Profit / (loss) for the year	**(82,934)**	**(32,920)**	**(24,903)**	**(2,463)**	**(143,220)**	**2,311**	**(140,909)**
Additions to non-current assets (*)	37,734	17,170	5,086	-	59,990	-	59,990
Accumulated depreciation and depletion of forest reserves	(563,772)	(18,870)	(56,776)	(1,360)	(640,778)	17,084	(623,694)
Provision and impairment charges	(3,931)	(53,185)	(25,237)	(3,385)	(85,738)	(9,298)	(95,036)

(*) Does not include emission allowances

2014 Statement of financial position	Thousands of euros Pulp & Energy	Biomass Energy Projects	Pulp Forest Assets	Forest Services & Other	Subtotal	Elimination of inter-segment transactions	Total (a)
Assets							
Non-current	702,657	196,481	174,061	107	1,073,306	(322,409)	750,897
Current	272,489	37,768	57,697	4,011	371,965	(50,293)	321,671
Total assets (a)	**975,146**	**234,249**	**231,758**	**4,118**	**1,445,271**	**(372,702)**	**1,072,568**
Liabilities:							
Non-current	280,425	250,508	123,383	5,113	659,429	(281,612)	377,817
Current	218,476	29,876	8,917	3,791	261,060	(49,597)	211,463
Total liabilities (a)	**498,901**	**280,384**	**132,300**	**8,904**	**920,489**	**(331,209)**	**589,280**

(a) Does not include either equity or deferred tax assets/liabilities

2013 Income statement	Pulp & Energy	Biomass Energy Projects	Pulp Forest Assets	Forest Services & Other	Subtotal	Elimination of inter-segment transactions	Total
	Thousands of euros						
Revenue:							
From third parties	792,905	52,234	6,649	1,348	853,136	-	853,136
Inter-segment revenue	1,201	9,746	82,735	1,024	94,706	(94,706)	-
Total revenue	**794,106**	**61,980**	**89,384**	**2,372**	**947,842**	**(94,706)**	**853,136**
Other operating income and expense	(675,354)	(45,013)	(79,030)	(1,242)	(800,639)	93,155	(707,484)
EBITDA	**118,752**	**16,967**	**10,354**	**1,130**	**147,203**	**(1,551)**	**145,652**
Depreciation and depletion of forest reserves for the year	(51,062)	(18,526)	(9,479)	(898)	(79,965)	1,628	(78,337)
Impairment charges recognised for draft legislation/ministerial order (note 5)	(7,842)	(24,146)	(656)	(2,853)	(35,497)	-	(35,497)
Operating profit/(loss)	**59,848**	**(25,705)**	**219**	**(2,621)**	**31,741**	**77**	**31,818**
Finance income	18,193	584	(571)	17	18,223	(16,184)	2,039
Finance costs	(23,356)	(11,709)	(9,081)	(970)	(45,116)	16,184	(28,932)
Exchange differences	(594)	-	1,313	(78)	641	-	641
Tax	(15,198)	10,168	2,838	937	(1,255)	-	(1,255)
Profit / (loss) for the year	**38,893**	**(26,662)**	**(5,282)**	**(2,715)**	**4,234**	**77**	**4,311**
Additions to non-current assets (*)	48,545	54,097	10,516	0	113,158		113,158
Accumulated depreciation and depletion of forest reserves	(822,357)	(38,476)	(45,279)	(6,129)	(912,241)	4,583	(907,658)
Provision and impairment charges	(14,625)	(17,021)	(3,018)	(3,853)	(38,517)	(2,532)	(41,049)

(*) Does not include emission allowances

2013 Statement of financial position	Pulp & Energy	Biomass Energy Projects	Pulp Forest Assets	Forest Services & Other	Subtotal	Elimination of inter-segment transactions	Total (a)
	Thousands of euros						
Assets							
Non-current	808,119	228,736	244,695	1,944	1,283,494	(329,161)	954,333
Current	325,019	28,248	49,662	10,349	413,278	(40,909)	372,369
Total assets (a)	**1,133,138**	**256,984**	**294,357**	**12,293**	**1,696,772**	**(370,070)**	**1,326,702**
Liabilities:							
Non-current	288,171	233,520	132,748	5,432	659,871	(271,281)	388,590
Current	215,656	23,546	27,741	9,701	276,644	(40,908)	235,736
Total liabilities (a)	**503,827**	**257,066**	**160,489**	**15,133**	**936,515**	**(312,189)**	**624,326**

(a) Does not include either equity or deferred tax assets/liabilities

29.2 Disclosures by productive plant

To complement the operating segment disclosures, the table below provides profit and loss disclosures by pulp and energy production facility:

2014	Pontevedra factory	Huelva factory (a)	Navia factory	Corporate (c)	Other (b)	Subtotal	Eliminations	Total
	Thousands of euros							
Business metrics:								
Pulp output (ADt)	405,887	235,216	474,708	-	-	1,115,811	-	1,115,811
Energy output (MWh)	210,514	423,168	524,482	-	461,327	1,619,491	-	1,619,491
Continuing operations:								
Revenue	203,005	157,567	366,989	19	138,251	865,831	(178,286)	687,545
Gain (loss) on hedging transactions	-	6	24	-	10	40	-	40
Changes in inventory of finished goods and work in progress	(3,457)	(4,967)	(1,722)	-	(528)	(10,674)	528	(10,146)
Cost of sales	(119,463)	(116,089)	(238,010)	-	(82,264)	(555,826)	176,379	(379,447)
Gross profit	**80,085**	**36,517**	**127,281**	**19**	**55,469**	**299,371**	**(1,379)**	**297,992**
Employee benefit expense	(19,164)	(36,590)	(18,880)	(10,046)	(2,355)	(87,035)	-	(87,035)
Depreciation/amortisation charge	(15,527)	(10,990)	(24,052)	(936)	(8,013)	(59,518)	40	(59,478)
Depletion of forestry reserve	-	-	-	-	(10,530)	(10,530)	875	(9,655)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	(238)	(40,741)	(829)	(955)	(60,018)	(102,781)	1,604	(101,177)
Other operating expenses	(47,259)	(65,107)	(60,610)	(4,609)	(26,068)	(203,653)	(5,618)	(209,271)
Fixed costs passed on	(4,550)	(2,944)	(5,707)	13,201	-	-	-	-
Operating profit/(loss)	**(6,653)**	**(119,855)**	**17,203**	**(3,326)**	**(51,515)**	**(164,146)**	**(4,478)**	**(168,624)**

(a) Includes the energy business activities carried out by Celulosa Energía, S.A. at the Huelva industrial complex.

(b) Includes the forestry and energy crop activities, the 50-MW Huelva and the 20-MW Mérida plants, companies that are virtually inactive (Ibersilva, S.A.) and the Group's subsidiaries in Uruguay.

(c) The allocation by productive facility of the finance income and expense incurred by the Group, other than the interest expense associated with the project financing structures funding the new biomass power generation projects, in proportion to output in terms of tonnage, would have the effect of increasing expenditure at the Pontevedra, Huelva and Navia plants by €7,114 thousand, €4,123 thousand and €8,321 thousand, respectively.

The allocation to the productive facilities of these finance costs would result in operating losses at the Pontevedra and Huelva plants of €13,767 thousand and €123,978 thousand, respectively, and an operating profit at the Navia plant of €8,882 thousand.

2013	Pontevedra factory	Huelva factory (a)	Navia factory	Corporate (c)	Other (b)	Subtotal	Eliminations	Total
	Thousands of euros							
Business metrics:								
Pulp output (ADt)	417,252	375,859	476,984	-	-	1,270,095	-	1,270,095
Energy output (MWh)	214,322	814,230	525,042	-	-	1,553,594	-	1,553,594
Continuing operations:								
Revenue	229,340	278,363	395,744	143	153,200	1,056,790	(203,654)	853,136
Gain (loss) on hedging transactions	-	-	-	12,102	-	12,102	-	12,102
Changes in inventory of finished goods and work in progress	1,787	(2,064)	3,025	-	(1,304)	1,444	674	2,118
Cost of sales	(125,675)	(173,505)	(234,427)	-	(98,764)	(632,371)	204,534	(427,837)
Gross profit	**105,452**	**102,794**	**164,342**	**12,245**	**53,132**	**437,965**	**1,554**	**439,519**
Employee benefit expense	(20,843)	(20,348)	(20,362)	(15,526)	(2,326)	(79,405)	-	(79,405)
Depreciation/amortisation charge	(13,915)	(12,176)	(23,280)	(552)	(13,240)	(63,163)	30	(63,133)
Depletion of forestry reserve	-	0	-	-	(19,758)	(19,758)	4,553	(15,205)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	(287)	(12,366)	140	(1,736)	(21,690)	(35,939)	(1,577)	(37,516)
Other operating expenses	(53,245)	(59,201)	(63,280)	(7,241)	(24,318)	(207,285)	(5,157)	(212,442)
Operating profit/(loss)	**17,162**	**(1,297)**	**57,560**	**(12,810)**	**(28,200)**	**32,415**	**(597)**	**31,818**

(a) Includes the energy business activities carried out by Celulosa Energía, S.A. at the Huelva industrial complex.

(b) Includes the forestry and energy crop activities, the 50-MW Huelva plant and the Mérida energy plant under construction, companies that are virtually inactive (Ibersilva, S.A.) and the Group's subsidiaries in Uruguay.

(c) The allocation by productive facility of the corporate costs incurred at the Group level, in proportion to output in terms of tonnage, would have the effect of increasing expenditure at the Pontevedra, Huelva and Navia plants by €4,208 thousand, €3,791 thousand and €4,811 thousand, respectively.

Likewise, the allocation by productive facility of the finance income and expense incurred by the Group, other than the interest expense associated with the project financing structures funding the new biomass power generation projects, likewise in proportion to output in terms of tonnage, would have the effect of increasing expenditure at the Pontevedra, Huelva and Navia plants by €7,567 thousand, €6,817 thousand and €8,651 thousand, respectively.

The allocation to the productive facilities of the corporate overhead and finance costs would result in an operating profit at the Pontevedra plant of €5,387 thousand, an operating loss at the Huelva plant of €11,905 thousand and an operating profit at the Navia facility of €44,098 thousand.

30. Director and key management personnel pay and other benefits

The table below sets out the amounts recognised by the Parent in 2014 and 2013 in respect of remuneration accrued by its directors for discharging the duties intrinsic to their membership of the Board of Directors:

		Thousands of euros		
2014 - Director	Class of director	Fixed remuneration	Per diems & other	Total
Juan Luis Arregui Ciarsolo (*)	Proprietary	129	87	216
Retos Operativos XXI, S.L.	Proprietary	39	37	76
José Manuel Serra Peris	Independent	17	45	62
Pedro Barato Triguero	Independent	39	33	72
Fernando Abril-Martorell Hernández	External	39	67	106
José Guillermo Zubía Guinea	Independent	39	67	106
José Carlos de Álamo Jiménez	Independent	39	33	72
Pascual Fernández Martínez	Proprietary	39	45	84
Isabel Tocino Biscarolasaga	Independent	39	29	68
Javier Echenique Landiribar	Proprietary	39	53	92
Gustavo Matías Clavero	Independent	39	41	80
Víctor de Urrutia Vallejo	Proprietary	25	19	44
Mendibea 2002, S.L.	Proprietary	25	18	43
		547	**574**	**1,121**

		Thousands of euros		
2013 - Director	Class of director	Fixed remuneration	Per diems & other	Total
Juan Luis Arregui Ciarsolo	Executive	124	78	202
Retos Operativos XXI, S.L.	Proprietary	34	35	69
José Manuel Serra Peris	Independent	34	57	91
Pedro Barato Triguero	Independent	34	31	65
Fernando Abril-Martorell Hernández	External	34	51	85
Gustavo Matías Clavero	Independent	34	35	69
José Guillermo Zubía Guinea	Independent	34	50	84
Norteña Patrimonial, S.L.	Proprietary	34	23	57
José Carlos de Álamo Jiménez	Independent	34	31	65
Pascual Fernández Martínez	Proprietary	34	41	75
Isabel Tocino Biscarolasaga	Independent	25	18	43
Javier Echenique Landiribar	Proprietary	34	45	79
		489	**495**	**984**

In addition, in 2014 the Parent recognised €2,396 thousand in respect of all items of remuneration accrued by the members of its Executive Committee, including that paid for chief executive duties carried out by Ignacio de Colmenares y Brunet under a service provision agreement (2013: €2,905 thousand). The members that stepped down from the Executive Committee received €1,205 thousand in wages and severance pay.

The directors performing executive duties and the key management personnel received a total of 555,697 options over shares of ENCE Energía y Celulosa, S.A. in 2013 on the terms established in the "Long-term Bonus Plan of ENCE, Energía y Celulosa, S.A. for 2010-15" (note 4) as part of their performance-based pay.

The composition of the Board of Directors of ENCE Energía y Celulosa, S.A. changed as follows in 2014: Victor Urrutia Vallejo and Mendibea 2002, S.L., the latter represented physically by José Ignacio Comenge Sánchez-Real, joined the board as proprietary directors, while José Manuel Serra Peris stepped down. Meanwhile, Juan Luis Arregui Ciarsolo ceased to perform executive duties in 2014.

The list of key management personnel in 2014 is as follows:

Name	Position
Ignacio de Colmenares y Brunet	Chief Executive Officer
Jaime Argüelles Álvarez	Pulp and Energy Operations Officer
Javier Arregui Abendivar	Forestry Officer
Alvaro Eza Bernaola	Procurements Officer
María José Zueras Saludas (*)	Corporate Resources Officer
Alfredo Avello de la Peña (**)	Chief Finance Officer
Luis Carlos Martínez Martín	Communication and Institutional Relations Officer

(*) Assumed the General Secretary duties formerly performed by Guillermo Medina Ors on 25 November 2014

(**) Assumed this position on 25 November 2014, replacing Diego Maus Lizariturry

The Parent has not extended its directors any advances or loans.

The Parent has no pension or alternative insurance related obligations to its directors. However, the Chief Executive Officer, by virtue of his service agreement, participates in certain company benefits, which are included in the corresponding pension contributions and payments.

Note that, as per the notifications provided in this respect by the members of the Board of Directors, no direct or indirect conflicts of interest arose during the reporting period on the part of the directors or their related parties vis-a-vis the interests of the Company, as defined in article 229 of Spain's Corporate Enterprises Act.

31. Environmental disclosures

ENCE Energía y Celulosa has three factories located in Huelva, Navia and Pontevedra, each of which holds the corresponding integrated environmental permit for the pursuit of its industrial activity and the generation of electricity from biomass. Production of pulp ceased at the Huelva factory on 9 October 2014. The factory was restarted on 24 October, transformed into a power-generating facility using biomass.

As part of the Total Quality Management model, processes are carried out in keeping with management excellence, articulated around three cornerstones:

- Managing improvement
- Managing processes
- Managing everyday activities

This management model is based on a continuous improvement approach with a focus on maximising efficiency and competitiveness by addressing matters related to quality, health and safety, environmental protection and pollution prevention as one. Against this backdrop, the Group has established targets with a clear environmental focus aimed specifically at:

- Reducing odour pollution
- Improving the quality of wastewater
- Boosting energy efficiency
- Reducing the consumption of raw materials
- Cutting waste generation
- Reducing noise levels

In addition, an integrated management system is being implemented at the factory level in compliance with the following standards:

- UNE-EN-ISO 9001 (quality management)
- UNE-EN-ISO 14001 (environmental management)
- OHSAS 18001 (workplace health and safety management)

This integrated system is certified by an accredited organism that audits it annually. The overriding goal of the system is to ensure that all of ENCE's activities are carried out under the scope of the management policy set by senior management and the Group's defined strategic targets are met. The management system is articulated around processes that are identified and evaluated in order to facilitate control tasks and their continual improvement.

The three factories also participate in the Community eco-management and audit scheme (EMAS) governed by Regulation (EC) No. 1221/2009. Validation of the environmental statement enables the continued participation of all three factories in this scheme, each of which was the first in their respective regions to assume this demanding voluntary commitment which only a limited number of companies uphold today.

At ENCE, environmental management policy is based on compliance with prevailing legislation establishing the requirements which all pulp production related activities must comply with. These requirements include the corresponding integrated environmental permit which defines the environmental criteria for operating an industrial facility. The goal is to prevent, or at least minimise, and control the impact of business operations on air, water and soil contamination with a view to protecting the environment as a whole.

To this end the permit sets emission limits for each facility based on best available techniques as well as surveillance plans in respect of all significant environmental parameters.

Under the scope of the TQM model, the Group is developing the operating standards needed to optimally control and manage potential environmental fallout. In fact, the results obtained, which are a testimony to the effectiveness of this management model, certify due compliance with applicable legislation.

These achievements are the result of the commitment of all the people working at ENCE and the investment effort undertaken in recent years, underpinned by the best available techniques (BAT) and best environmental practices (BEP) defined in the sector BREF (Best Available Techniques in the Pulp and Paper Industry 2014) recently approved by the European Parliament's ENVI Committee.

Huelva Operations Centre

The Huelva factory was marked by the definitive discontinuation of pulp production on 9 October 2014, on which date the facility was stopped. Subsequently, on 24 October, the facility was re-opened, albeit only re-starting the biomass-fuelled 40-MW and 50-MW power generation plants.

However, until October 2014, as part of the commitment to reducing odour pollution, the effort to reduce this form of contamination was ongoing and resulted in an 84% year-on-year reduction in the first three quarters of the year. In fact, in 9M14 this factory only emitted one-third of the odour pollution targeted for all of 2014.

In 2014, ENCE took over management of the 50-MW power generation plant fuelled from biomass at the Huelva factory. The purpose of this plant, which is the largest biomass project in Europe, is to harness the energy potential of biomass in order to reduce the consumption of fossil fuels.

As for the quality of wastewater, the main readings tracking the quality of the effluents discharged, such as total organic carbon (TOC) and suspended solids, fell with respect to 2013 levels.

In terms of waste generation and management, the treatment of sand and ash from the biomass furnace as sub-products or secondary raw materials for another process has reincorporated their management into the cement activity. As a result, all of the sand generated and 25% of the ash produced in the biomass furnace's precipitator have been reused.

Total environmental capital expenditure at the Huelva factory amounted to €5 thousand in 2014.

Navia Operations Centre

Process control was enhanced at the Navia factory in 2014, underpinned by operational fine-tuning brought about by the continuous improvements implied by advanced implementation of the TQM model and investment in key equipment for the pulp processing process, such as a new wash press. The improvements made at this stage of the process, which in 2013 had proved a bottleneck, have enabled the facility to tackle new and more efficient operating standards at this juncture, which is now 5% more efficient, as well as generating lower volumes of organic matter in wastewater.

In terms of the environmental impact, 2014 was marked by a substantial improvement in the quality of the plant's wastewater thanks to consolidation and fine-tuning of operations at the new biological treatment facility which delivered a 67% reduction in wastewater chemical oxygen demand readings, an 81% reduction in biochemical oxygen demand readings and a 50% reduction in organochlorine compounds.

This further improvement in the quality of the plant's wastewater reinforces the factory's environmental record and performance, qualifying it for the European Community eco-management and audit scheme (EMAS) and underpinning the prestigious Nordic Swan green seal for its pulp, guaranteeing that this ENCE factory complies with stringent environmental protection criteria.

The Navia factory continued to make progress on its odour impact elimination project. Odour, measured in terms of the number of minutes in channelled sources, has been slashed by 96% since the project started in 2011.

As part of the programme for implementing the best available odorous gas treatment technology, the Group invested in a new facility for concentrating these gases so that they can be newly transformed into fuel, apt for 100%-safe combustion, for the recovery furnace; this has had the added benefit of reducing the alternative fuel requirement, specifically the need to inject lignin, at this combustion point by 36%.

In addition, the plant's operations benefitted from the recent switch in lime kiln fuel from from fuel-oil to natural gas. This project translated into operational and environmental improvements, such as a reduction of 84% in direct SO2 emissions and of 18% in particle and indirect emissions (by reducing fuel-oil cistern traffic), a reduction in the generation of waste associated with kiln maintenance tasks and greater energy efficiency.

Environmental capital expenditure at the Navia factory totalled €858 thousand in 2014.

Pontevedra Operations Centre

The Pontevedra factory similarly continued to make progress on its odour impact elimination project. Odour at this plant, measured in terms of the number of minutes in channelled sources, has been slashed by 97% since the project started in 2010.

An olfactometry study was performed to assess the level of odour at this factory and the progress made since the last study in 2012. The results of this study, which was compiled by Labaqua, an ENAC-accredited provider, were validated by Professor Manuel Bao of Santiago University. The study concludes that the odour emission rate has fallen by 61% since the 2012 study was performed.

Management of the visual impact of the Pontevedra Operations Centre remains a top priority, to which end the Group continues to execute the project for the elimination of steam plumes. The fog from the Flakt dryer and the F2 pulp dryer has been eliminated, as has the fog emanating from the water in the vacuum pumps. The fog generated by purging at the CR and CBIO condensers, which used to come out of the top of both furnaces, and the plumes from the mixing tank have also been eliminated.

Enhanced energy efficiency is another of this facility's priority targets. Management therefore took advantage of the annual stoppage to implement a number of initiatives, including the installation of frequency inverters in the primary air supply and in the induced drafts of the biomass furnace as well as high-performance agitators and variators in the washing, oxygen and bleaching section. This effort has decreased consumption by 4% on average.

Wastewater discharges, meanwhile, fell year-on-year. For example, chemical oxygen demand fell to a record low reading of 4.47 kg/tAD, well below the low end of the benchmark range (7kg/tAD) proposed in the recently published pulp and paper sector Best Available Techniques References (BREF). These results reaffirm the Pontevedra factory as a European benchmark in terms of the quality of its effluents.

Elsewhere, an environmental reliability plan was deployed in 2014, under which the Group has committed to invest €2.1 million; the plan is designed to prevent air emissions from the recovery furnace in the event of incidents.

In total the Group committed to environmental capital expenditure of €4.5 million, including the above-mentioned plan, over the course of 2014.

Lastly, like the Navia factory, the Pontevedra facility also obtained the Nordic Swan seal. This official Scandinavian ecolabel was created in 1989 by the Nordic Council of Ministers representing Sweden, Denmark, Finland, Iceland and Norway, with the aim of making a positive contribution to sustainable consumption. The goal of this ecolabel is to help consumers take purchasing decisions that respect environmental sustainability, particularly by the citizens of the above-mentioned countries, although the prestige earned has made this certificate one of the most important in the world.

Environmental capital expenditure at the Pontevedra factory totalled €1,164 thousand in 2014.

Forestry

ENCE maintained its position as benchmark player in the forestry sector in 2014 through its holding companies and its forest supply management activities, which are framed by stringent sustainability criteria.

This approach, which is fully integrated into the Group's operations, has materialised in a specific policy articulated around the priority goals of ensuring forest asset longevity, minimising impacts, preserving structural and specific diversity, fostering multiple uses for goods and services, stimulating ongoing innovation, extending forestry in rural areas out of principle, actively engaging with stakeholders and promoting forest certification. These principles have shaped overall activities in relation to productive forests as well as the conservation and preservation areas and, albeit in a different way, underpin and endorse the universe of activities focused on the non-owned forest segment.

Another milestone in the Group's forestry policy was the approval, following a public consultation process, of its Best Environmental Practices Manual, which, together with the procedural files, aims to instil sustainability principles in hands-on fieldwork.

Consolidation of these policies has permitted, framed by responsible management and sustainability criteria, the production of close to 150,000 m^3 of timber, coupled with total investment of close to €2.5 million in owned forest assets, including the generation of almost €1 million in rents and royalties and €837,000 of forestry care work to guarantee longevity and sustained yields. These figures consolidate ENCE's forestry management effort as a source of rental income, intangible environmental benefits and, on the timber production front, as most of it boasts dual certification, an effective contributor to the Group's strategy of making pulp that caters 100% to market needs and demands.

From a technical standpoint, the key milestones in 2014 were:

- Development of an end-to-end management model designed to make full use of the tree (wood and residual biomass)
- Adaptation to state energy regulations and the decision to discontinue the energy crop business line
- Start of drafting the paperwork for the orderly abandonment of forest tracts in Huelva
- Performance of the second LiDAR flight for forest inventory purposes in southern Spain
- Re-cataloguing of forest land in southern Spain to orient its production towards supplying the Huelva plant with biomass

On the purely environmental front, it is worth highlighting investments of up to €350,000 in fire and pest control efforts, as well as ongoing biodiversity awareness initiatives. To this end, meetings were held with external experts (including the University of Huelva) in order to continue the process of inventorying and classifying forest land with high conservation value. Note in this respect that of the 83,163 hectares managed by the company, a total of 17,637 hectares correspond to protected land subject to specific monitoring activities designed to safeguard its natural heritage and prevent unwanted impacts, thereby guaranteeing its sustainability.

ENCE remains the benchmark in terms of forest certification in Spain and Portugal. The acreage certified as sustainably forested increased in 2014 to 57,864 hectares under the PEFC seal and 35,591 hectares under the FSC seal, implying growth of almost 9,000 hectares. ENCE's objective is to have all of its forest assets double-certified within four years. Beyond the scope of its owned assets, in 2014 ENCE advanced on its work to foster FSC certification by facilitating full development of the certificated timber market and providing access for small and large land owners to this market at very competitive costs. The challenge lying ahead in the years to come will be to consolidate the dual-certification culture for which ENCE's assets serve as the exemplary benchmark.

In 2014 the last outstanding GFS (Spanish sustainable forestry seal) certificates were integrated so that there is now a single timber traceability certificate for the entire productive process, from forest to pulp sales, for both PEFC- and FSC-certified forests. All certificates in the forestry business relating to sustainability, quality and environmental protection are now fully integrated.

A large part of the Group's efforts in the forestry arena were focused on forest expansion work. ENCE's commitment to the sector translates into the sharing of its know-how in the areas of forest research, plant production, forest cover management, pest control and forest certification.

In addition to the substantial economic activity deriving from the purchase of standing timber and wood supplies (representing 95% of the total of just over three million cubic metres of supply in Spain), it is worth highlighting the efforts made to invigorate the sector, which translate into training talks, pest control facilitation agreements, seminars and round table events with interested parties, encouragement of forestry cataloguing efforts and the development of forest certification. On this front it is worth highlighting milestones such as the association with

Aspapel to fight the eucalyptus snout beetle in Cantabria; the "Forum for the Sustainability of the Eucalyptus Tree in Andalusia" conference; the taskforces set up with different governments to promote the cataloguing rules adapted for the reality of the eucalyptus; extension of the policy of supporting and stimulating forest certification, with 14,000 hectares of eucalyptus plantations other than those managed by the company certified by year-end 2014, moving the entire sector towards the highest management standards recognised in the marketplace. The thrust of the external activity in 2014 was largely concentrated on the biomass front, supplying the power plants with over 860,000 tonnes for almost €40 million.

Similarly extending and furthering its traceability policy, ENCE continued to implement and develop its due diligence system and to provide support for small and medium sized sector businesses. Training sessions were also provided to ENCE staff, while the Group also collaborated with sector training initiatives, even organising working sessions with external companies to facilitate the adoption of legal requirements such as the need to register with the regional government of Galicia's registry of forest companies.

All of these initiatives, beyond the mere purchase of timber, help to strengthen the eucalyptus sector and reinforce its articulating structures and competitiveness.

Lastly, in terms of occupational health and safety, the Group renewed all its OHSAS certifications in respect of all its forest equipment.

ENCE Energía y Celulosa, S.A. and subsidiaries

Group Management Report for the year ended 31 December 2014

Organisational structure

Except for matters reserved for approval by the shareholders in general meeting, the Board of Directors is the highest decision-making body of ENCE Energía y Celulosa, S.A. (the "Company"). The Board's policy is to delegate the management of the Company in its executive team and to concentrate its activities on its general supervisory role, without prejudice to the duties that cannot be so delegated, such as approval of the Company's general strategies, investing and financing policies and the remuneration policy applicable to the directors and most senior officers. The Board's actions are guided at all times by the criteria of maximising the value of the Company in the interest of its shareholders.

The Board is entitled to delegate duties falling under its purview in committees made up of directors and/or chief executive officer(s), albeit exercising due oversight over these bodies and setting the guidelines under which they should operate.

The Board is made up of executive, proprietary, external and independent directors, in line with corporate governance regulations and best practices. The Board is currently supported by an Executive Committee (in which it has delegated all of the powers that can be delegated) and three advisory committees tasked with providing it with information, advice and proposals on the matters falling under their respective remits: the Audit Committee, the Appointments and Remuneration Committee and the Forest Policy and Regulatory Advisory Committee.

The Company has a Chief Executive Officer (CEO) who is responsible for the Company's everyday management. He is supported in this work by the Management Committee, which comprises the Company's senior management, specifically the heads of the various business units and corporate departments: the Pulp and Energy Operations Officer, the Forestry Officer, the Procurements Officer, the Chief Finance Officer, the Corporate Resources Officer and the Communication and Institutional Relations Officer. These officers report directly to the Company's CEO, who sets the guiding lines of initiative within each officer's area of responsibility.

The Company is the parent of a group of companies (the "Group"), whose management is fully integrated and centralised within the former, as the scope of the specific duties assigned to the Company's executive team extends to all the Group companies. In this respect, the Company singly manages all of the companies within its Group.

Business activity

ENCE has articulated its activities around two core businesses: pulp production and the generation of power from renewable sources.

ENCE is Europe's largest producer of BHKP pulp from eucalyptus trees. It currently has annual production capacity of 0.94 million tonnes between its factories in Navia and Pontevedra. In 2014, a year in which the Huelva plant operated for part of the year, pulp production totalled 1,115,000 tonnes, down 12% from 2013 (1,270,000), shaped by the decision taken on 19 October to cease pulp production and power co-generation activities in Huelva. This strategic decision was triggered by the heavy losses generated at this facility in the wake of the sharp cuts in co-generation premiums recently imposed by the Spanish government.

78% (by sales volume) of its eucalyptus pulp was exported to Europe (the European market accounted for 94% of sales volume factoring in Spain), the world's largest pulp market and a net importer. ENCE commands 16% of the European market in terms of eucalyptus pulp sales.

Integrated within the pulp business, with installed capacity of 113 MW, ENCE co-generates and generates renewable energy from timber waste that is not used in the pulp manufacturing process, i.e., the lignin and forest waste that cannot be used as inputs.

ENCE also has a significant power generation business, which is independent of the pulp manufacturing process; this activity consists of the generation of power from renewable sources consisting of forest and agricultural biomass. Installed capacity in this business unit stands at 110 MW in the wake of the commissioning of the newest plant in Mérida (capacity: 20 MW). This second core business line comprises this new plant and the two plants in Huelva, one of 50 MW which was commissioned in 2013, and another of 40 MW, currently independent but formerly part of the Huelva pulp manufacturing operations.

The two businesses, the production of pulp and generation of electricity, leverage our solid positioning in the Spanish forestry market, which guarantees the supply of timber and biomass, primarily from third party sources, essential to the long-term sustainability of our business.

Our management strategy is focused on the development of a competitive pulp business, tapping the opportunity for cash flow generation and protecting the company's financial situation from cyclical volatility, while pursuing active growth in biomass power generation.

In 2011 we presented our total quality management programme, which is designed to boost operating efficiency, balance maintenance capital expenditure requirements at our facilities and drive significant improvements in productivity levels and capacity utilisation rates. This programme has delivered significant cost reductions at the company in recent years. In 2014 the Group also rolled out a €17m capex programme designed to lower cash costs at the Pontevedra and Navi plants by making them more competitive.

The revenue derived from the generation of power has been steadily increasing in recent years to account for close to 24% of total revenue in 2014, enabling us to enhance our cost competitiveness in the pulp manufacturing business and inject stability and long-term visibility into our ability to generate cash. This strategy has been reinforced by the construction of independent biomass power generation stations plants in Huelva and Mérida; the construction and financial risks associated with these projects were reduced by means of turnkey arrangements and project finance facilities with terms of over 10 years. However, the successive regulatory changes introduced since 2012 with a view to reducing the regulated costs of the renewable regime (and, by extension, the tariff deficit) have largely eliminated the positive margin contributed by these plants to the pulp factories' costs, prompting the Group to paralyse diversification into this class of assets in Spain.

In the forestry sector, our timber and biomass supply management model is underpinned by continually improving forest management techniques, the diversification of sources of supply towards small land owners and enhancement of the value chain (from standing timber to collection and transportation) with a view to bringing down overall costs and guaranteeing the sustainability of our wood supplies. In addition, the Group has been gradually selling its owned forest assets, retaining management of those located in the vicinity of its pulp plants.

Without considering the expansion programmes, maintenance capex has been steady at close to €40m per annum between 2007 and 2013. In the wake of the Huelva closure, the ongoing capex requirement will drop to under €30m due to the reduction in industrial and forestry assets. The Group's finance policy can be described as conservative, characterised by a commitment to maintaining a low leverage ratio and adequate liquidity levels, a strategy deemed consistent with the cyclicality intrinsic to the pulp business and designed to ensure the company's long-term financial sustainability. This policy is articulated around a maximum tolerated leverage ratio - measured in terms of net debt to recurring mid-cycle EBITDA - of 2.5x.

Business performance and financial results

Business environment and outlook

The economic recovery initiated in 2013 extended throughout 2014. The global economy grew by 3.3%, in line with the 2013 performance, albeit evidencing a different pattern by region. The improvement came in the developed world thanks to more robust growth in the US (+1.8% vs. +1.3% in 2013) and recovery in the eurozone, which shook off recession (+0.8% vs. -0.5% in 2013). This improvement was offset by the slowdown in emerging economies. This slowdown was softer in the case of China (+7.4% vs. +7.8% in 2013) and more pronounced in Brazil, where growth stagnated (+0.1% vs. +2.5% in 2013). The outlook for 2015 is for higher global growth (+3.5%), extending the regional pattern observed last year, with the developed economies expected to register growth of 2.4% and growth in the emerging economies slowing to 4.3%. On the bright side, the US economy is expected to grow by 3.6%, enabling the Fed to start to roll back its stimulus measures. On the down side: Russia (GDP: -3%e), whose exposure to oil will cause the economy to take a hit in the wake of the correction in oil prices towards the $50/bbl mark during the last quarter of 2014.

On the flip side of the coin, growth in the eurozone is expected to increase to 1.2% thanks to this same phenomenon (dependence on oil imports) as well as implementation of growth-friendly measures by the ECB, having announced a €60 billion asset buyback plan in January 2015. This measure comes on the heels of other liquidity facilities deployed in the eurozone (LTRO, TLTRO) and is consistent with the low-inflation environment.

Against this backdrop, the Spanish economy is expected to register GDP growth in excess of 2%, outperforming the European average. The reforms implemented in recent years have made Spain's economy more competitive, boosted exports and improved the public finances, all of which has drawn the attention of foreign investors. Meanwhile, the recapitalisation efforts by Spain's banks coupled with ultra-low market rates are alleviating the credit crunch. It is worth noting that Spain was one of just a few economies (alongside the US) to see its forecasts revised upwards by the IMF in its last quarterly review.

On the currency front, the euro depreciated significantly against the dollar last year, in keeping with the relative shifts in US and eurozone central bank policy and strong economic readings stateside. By year-end the exchange rate had weakened by 11% to $1.22/€. The outlook is for further depreciation, with current forecasts pointing to a year-end exchange 2015 rate of $1.13/€.

Against this backdrop, pulp prices have started to rally once again, having bottomed out at $724/tonne in September. The prospect of higher supply in the wake of the start-up of the Maranhao project in Brazil (Suzano's 1.3 million tonne plant began to operate in December 2013) and the Montes del Plata project in Uruguay (this 1.5 million tonne joint venture owned by Stora Enso and Arauco was finally commissioned in June after multiple setbacks) exerted downward pressure on prices, which continued to drop from year-end 2013 levels of $780/t in the initial months of last year. The expectation that prices would fall as these plants ramped up production prompted a slump in demand which did not begin to revert until the middle of the year. By region, demand firmed by 0.2% in the US and contracted by 0.5% in Europe, while Chinese demand rose by 3.4%, albeit below the trendline of recent years (PPPC). The drop in inventories, coupled with a recovery in demand, limited anticipated growth in supply 2015 and the announced closure of ENCE's plant in Huelva combined to drive prices higher in the last quarter to end the year at close to $750/t.

Lastly, the electricity business was penalised by application of Royal Decree 413/2014 of 6 June 2014 which establishes the regulatory framework for power generated by means of renewable sources, cogeneration and waste, and Ministerial Order IET/1045/2014 of 16 July 2014, which establishes the remuneration parameters for these technologies, both with retroactive effect to 14 July 2013. The new regulatory framework as it applies to the company's energy generation business changes in three key respects: (i) it eliminates the former specific tariff for energy crops which will now be remunerated in the same way as forest and agricultural waste; (ii) it introduces a cap on the number of hours to which a renewable generation plant is entitled to premium remuneration, equivalent to nominal annual availability of 6,500 hours; and (iii) it reduces the premiums paid for the generation of electricity from biomass and gas, specifically the premium corresponding to co-generation using black liquor, a by-product of the pulp production process. The recurring impact of the regulatory changes passed in 2013 and 2014 is estimated at €59m, including the taxes levied on electricity sales, the cost of consuming fossil fuels and the elimination of the efficiency and reactive energy supplements.

Business overview and financial results

2014 was another challenging year for the ENCE Group in terms of earnings as a result of the intense uncertainty created by the continual delays in approving the new regulatory framework for renewable energy sources and co-generation, with retroactive effect from July 2013. The first draft of the regulatory framework was published in February 2014, evidencing the fact that in an environment of low pool prices such as that witnessed between January and April 2014, the addition of the proposed premiums to the pool prices would not allow the less efficient facilities to cover operating costs. The new framework was ultimately approved in the middle of June.

Group revenue decreased by 19% from 2013 levels to €678.5m. Revenue from pulp sales amounted to €502.0m, down 18% year-on-year, driven by lower volumes and prices. Sales volumes (in tonnes) fell by 10% as a result of greater plant instability, stoppages to enable investments designed to boost cost efficiency and on account of strikes and the discontinuation of production in Huelva. The net sales price in euros decreased by 8%, driven mainly by a 6% drop in dollar prices.

Revenue from electricity sales fell 27% as a result of lower sales volumes and the reduction in prices in the wake of passage of the new regulatory regime. Sales volumes in this segment (GWh) totalled 1,494 GWh in 2014, down 20% year-on-year. The low pool prices prevailing until May and the discontinuation of business activities in Huelva had the effect of reducing output at the natural gas co-generation and biomass generation facilities by 51% and 12%, respectively. The impact on power generation was partially offset by the start-up of production in Merida in April 2014. Revenue per MWh declined by 7% as a result of lower generation premiums and the drop in pool prices compared to the feed-in-tariff prevailing in 1H13. Noteworthy factors driving the reduction in premiums include the loss of remuneration top-up entitlements, reduced premiums for output from co-generation, the categorisation of energy crops as forest waste for remuneration purposes and the cap on the number of operating hours entitled to remuneration premiums.

In the forestry business, revenue doubled to €20m, driven by growth in sales of timber to third parties.

The loss at the EBIT level was €168.6m, compared to an operating profit of €31.8m in 2013. In addition to the drop in revenue from pulp and energy sales, profitability was affected by the impairment charges recognised on assets associated with the energy crop plantations in the wake of the regulatory changes and the provisions recognised in connection with the decision to discontinue pulp production in Huelva (after-tax impact of over €80m).

Capital expenditure amounted to €60m, with just 18% earmarked to investment in biological assets for reforestation and improvement to forest assets earmarked for pulp production, having paralysed investment in energy crops and taken the decision to discontinue pulp production in Huelva. Industrial capex totalled €45.4m, €11.5m of which went to construction of the 20-MW Merida plant, while €28.1m was earmarked to investment in efficiency improvements at the factories in northern Spain.

Group equity stood at €543.0m at 31 December 2014 (vs. €710.3m at year-end 2013), equivalent to 47% of total assets. The decline in equity is mainly attributable to the asset impairment charges generated by the decision to cease pulp production in Huelva.

The Company has rolled out a cost-cutting and efficiency upgrade plan which is enabling it to fully offset the impact of the regulatory changes. This plan covers 2014, 2015 and 2016 and contemplates investment of €123m; it is expected to drive EBITDA to €77m in 2016.

In the research and development arena, the Group continued to make progress on its programmes for improving the genetic make-up and performance of the eucalyptus for pulp production purposes, for innovating and enhancing pulp-making processes and products, for the mechanical transformation of timber and new product engineering, these assets being recognised within consolidated intangible assets.

Environmental disclosures

The most important matters of an environmental nature – the environmental protection goals, the policy that defines the Group's environmental management strategy, the resources at its disposition for delivering these objectives, the environmental management systems and how they work and the regulatory framework governing these policies – are detailed in note 32 to the accompanying annual financial statements.

Human resources

Recruitment

The hiring process is a priority component of the Group's human resources management and the criteria underpinning its recruiting process are divided into different phases. The first phase is to define the job description and the essential requirements for the position. Later, during the job interview, mutual commitments are established in keeping with the company's values. During the subsequent hiring phase, specifically through the induction training programme, the new hires learn about the organisation and its values and principles as well as receiving initial job training. The final stage of the selection process entails on-the-job monitoring. Job performance and team/company commitment and engagement are assessed by means of follow-up interviews.

The merit-based hiring process is based on objective criteria such as the acquisition of technical and management skills and alignment with ENCE's values.

The ENCE Talent Programme, a work placement initiative, was rolled out in 2014. Under this programme, which is part of the organisation's community commitment, the Company has pledged to generate job and career development opportunities for 45 youths in phase one of its implementation.

Workplace climate/motivation

Management believes it is important to know what ENCE's employees think and their level of satisfaction at the Company in order to design new initiatives and adapt them to their expectations and needs.

The workplace climate survey is designed to understand the level of employee commitment in each of the Company's markets and departments, to track trends in sentiment and to design action plans on the basis of the feedback received with the aim of boosting employee satisfaction.

This survey was conducted for the last time in 2012. The best-rated attributes included Organisation (degree of engagement and connection with the Company), Commitment with the Company (clarity in respect of the organisational structure and job responsibilities and assessment of the resources available for job performance) and Immediate boss (communication, acknowledgement, accessibility, delegation, etc.).

A number of initiatives were rolled out in 2014 with a view to enhancing employee performance and motivation; these include the *Skills Development Programme*, *Working Breakfasts with Management* and the *Annual Merit Awards* which reward employees for outstanding commitment to ENCE's values.

Workplace safety

Employee safety and health in the workplace is one of ENCE's strategic human resource management priorities. The goal is to foster cultural change that results in safer operations and processes.

This cultural change is based on the following principles:

- Integration of workplace safety into daily activities and all operations under the slogan, "safety is the top priority"
- Leading by example and the palpable commitment of management
- Systematic evaluation of safety-related risks and behaviours as the first step in preventing accidents
- Systematic evaluation of safety-related risks and behaviours as the first step in preventing accidents
- Correction of all unsafe actions taking a "zero tolerance" approach
- Investment in ongoing employee safety training programmes
- Selection of safety-certified suppliers and subcontractors combined with monitoring of ongoing compliance with Ence's safety rules
- Devotion of time to safety, taking the approach that safety is the responsibility of each and every employee and cannot be shirked.
- Incorporation of safety and ergonomics principles at the drawing board phase
- Provision of the resources and means for eliminating sources of risk
- Rollout of safety tools at all levels of the organisation

A preventative culture entails individual and collective attitudes and skills and behaviour patterns that affect and influence workplace health safety and, therefore, drive prevention. The Group has a series of Workplace Safety Observations that help ensure consistent safety attitudes and behaviours by identifying safe and unsafe practices, correcting the latter and communicating them firm-wide. There are also Standard Operating Procedures to establish how to correctly perform tasks and prevent mistakes or unsafe practices. Workplace safety inspections and audits are also carried out regularly.

The main accident risks at ENCE include falls (same-level or from an elevation), collisions with objects and contact with chemical substances. In 2014 ENCE developed a safety-awareness programme for all users of power saws that do work for the Company. The programme was structured around five unbreakable rules designed to guarantee safe tool use. The forest contractor managers also took part in a series of bi-monthly meetings on workplace safety.

ENCE has an OHSAS 18001-certified occupational health and safety management system that enables it to reduce accident rates and increase productivity, comply with health and safety legislation and foster a culture of safety by integrating prevention into the company's overall system and getting all employees engaged in the quest to continually improve the firm's health and safety record.

Training

The overriding goal of the professional training programme is to encourage personal and professional development at all levels with a view to improving employee integration in the Company and employee commitment to the organisation's strategic goals. The various training initiatives can be classified into the following areas:

- Health and safety: these training initiatives are designed to encourage safe work practices and to integrate safety at all levels of the organisation.

- The TQM model and management tools: here the idea is to orient management around the customer with a view to increasing customer satisfaction and delivering continual improvement in the Company's quest for ever more efficient operations and more refined management tool utilisation capabilities.

- Environmental management: the aim of these initiatives is to raise employee awareness of the need to care for and respect the environment and to use limited resources responsibly.

- Management skills: the goal pursued with these initiatives is to move the firm's management and work style towards more cooperative models, promoting innovation and a results-oriented culture, fostering a climate of trust and encouraging professional and personal development.

- Technical skills: the purpose of these courses is to equip workers with process and technology related skills specific to their trade or area of expertise and the knowledge they need to develop in their respective professions (hydraulics and pneumatics, mechanical, instrument, process knowledge and skills, etc.).

Health and safety, quality management and environmental management training is provided continually at all levels of the Company. Management skills training is targeted at individuals holding key positions and professionals who manage teams as well as people singled out for career development programmes. Technical training is mainly targeted at process operators.

Aggregate training hours totalled 20,856 in 2014, which translates into an average of 20.84 training hours per employee, up 65% from 2013.

Diversity

The Equality Plan promotes effective application of the principle of non-discrimination between men and women, guaranteeing the same job and career development opportunities for both genders at all levels of the organisation. Although ENCE belongs to a sector in which female representation has traditionally been low, at year-end 2014, over 17% of the workforce was female. As part of its policy for preventing harassment, ENCE has pledged it will prevent, avoid, remedy and discipline potential instances of harassment as part of its non-negotiable commitment to guaranteeing the dignity, integrity and non-discriminatory treatment of all employees and equal opportunities for all. The Group's remuneration policy is likewise designed to guarantee non-discrimination in pay, compensating employees competitively based on market criteria and a variable component based on objective job performance evaluation informed by equality and efficiency criteria.

Management-employee relations

The following collective bargaining agreements were negotiated and executed in 2014: the collective bargaining agreement at the Pontevedra work centre (effective: 2014 - 2016); the collective bargaining agreement at the office centre in Pontevedra (2014 - 2016); the collective bargaining agreement at the Madrid head office (2014 - 2016); and the Asturias pulp workers collective bargaining agreement (2014 - 2017).

In the last quarter of 2014, ENCE Energía y Celulosa, SA was obliged initiate a restructuring process in conjunction with the discontinuation of pulp operations in Huelva, as well as the re-sizing of its head offices (in Huelva and Madrid), to bring resources at all of these facilities in line with the volume of work and activities performed by the organisation, the current market paradigm and the outlook for the future.

This process entailed the initiation of a restructuring programme encompassing collective redundancy measures, substantial changes to working conditions, geographic mobility initiatives and the temporary suspension of employment contracts.

The legal grounds dictating the need to take these measures were economic, productive, organisational and technical in nature, as expounded to the workers' representatives throughout the negotiation and consultancy period, which began on 19 September 2014. The unions were duly provided with all the documentation substantiating the situation and the measures planned by the Company (including expert reports). The process concluded on 19 October 2014 with an agreement with the workers' legal representatives; this agreement was subsequently ratified by the workers' assemblies at the various affected work centres.

Liquidity

Net cash flows from operating activities totalled €10m in 2014, compared to €176m in 2013, impacted by lower pulp prices, lower electricity sales and the losses generated in Huelva until its pulp operations were shut down as a result of the co-generation premium cuts. The comparison is also affected by the significant reduction in the working capital requirement in 2013 (cash inflow), compared to working capital stability in 2014. The 2014 figures are also adversely affected by a €6M correction to revenue in respect of 2013 sales in the wake of retroactive application of the new tariffs (increase in trade and other payables in 2014), the gradual repayment of premiums collected until June 2014 under the former remuneration regime and application of a coefficient by the energy regulator in 2014 under which it is settling remuneration in proportion to the difference between electricity system receipts and payments.

figures in €M	2014	2013	Δ%
Consolidated profit/(loss) for the period before tax	**(85.9)**	**5.6**	**n.s.**
Depreciation and amortisation charge	67.9	78.3	(13%)
Finance income/costs	28.4	26.7	7%
Increase / decrease other deferred income/costs	24.6	56.6	(57%)
Adjustments of profit for the year-	**120.9**	**161.6**	**(25%)**
Trade and other receivables	13.9	29.8	(53%)
Current financial and other assets	2.4	(2.9)	n.s.
Trade and other payables	(41.9)	4.7	n.s.
Inventories	24.5	10.4	136%
Changes in working capital-	**(1.2)**	**41.9**	**n.s.**
Interest paid / received	(24.1)	(16.0)	51%
Income tax recovered (paid)	(0.2)	(17.1)	(99%)
Other cash flows from operating activities-	**(24.3)**	**(33.1)**	**(27%)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**9.5**	**175.9**	**(95%)**

Cash flows used in investing activities amounted to €60m in 2014, compared to €48m in 2013 (having collected the proceeds from the sale of its assets in Uruguay in March of that year). Capital expenditure was 47% lower year-on-year in 2014 due to the reduced level of investment in biomass projects, more than offsetting the €17m invested in efficiency measures during the maintenance stoppages carried out at the Navia and Pontevedra facilities.

figures in €M	2014	2013	Δ%
Property, plant and equipment	(55.7)	(112.8)	(51%)
Intangible assets	(4.1)	(0.9)	361%
Other financial assets	(0.0)	1.3	n.s.
Investments	**(59.8)**	**(112.4)**	**(47%)**
Disposals	**0.1**	**64.4**	**(100%)**
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(59.8)**	**(48.0)**	**25%**

Cash inflows from financing activities amounted to €20m in 2014, compared to an outflow of €65m in 2013, reflecting the maturity of a €45m investment in 12-month deposits in 2Q13 using the proceeds from the Uruguay disposal. The proceeds from the €250m of bonds placed on the market in January 2013 were used to repay existing debt so that gross corporate debt was largely flat year-on-year.

figures in €M	2014	2013	Δ%
Proceeds from and payments for equity instruments	**(5.9)**	**1.0**	**n.s.**
Bonds and other marketable securities (net)	-	239.5	(100%)
Increase/(decrease) in bank borrowings (net)	1.1	(232.1)	n.s.
Other financial liabilities	(0.5)	(11.9)	(96%)
Proceeds from and repayments of financial liabilities	**0.6**	**(4.5)**	**n.s.**
Dividends and payments on other equity instruments	**(19.4)**	**(16.2)**	**20%**
Translation differences	**0.0**	**(0.0)**	**n.s.**
Fixed-term deposit	45.0	(45.0)	n.s.
Other cash received from (used in) financing activities	**45.0**	**(45.0)**	**n.s.**
NET CASH FLOWS FROM FINANCING ACTIVITIES	**20.4**	**(64.7)**	**n.s.**

In all, the Group's cash balance narrowed by €30m to €73m in 2014; this figure rises to €82m factoring in short-term financial investments.

figures in €M	2014	2013	Δ%
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(30.0)**	**63.2**	**n.s.**

Key risks and sources of uncertainty

To ensure compliance and the effectiveness of the mitigating actions taken, ENCE monitors and controls the company's compliance-related risks on an ongoing basis by assigning specific roles and responsibilities to ENCE's risk management officers in this respect:

The risk management officers are tasked with executing the related action plans and controls in order to mitigate the risks identified within their respective purviews.

Throughout the year the Internal Audit function closely monitors the level of progress on executing the risk mitigation plans and is responsible for providing the Audit Committee with regular updates on these matters.

The Audit Committee is in charge of proposing the risk mitigation plans (risk controls and action plans) assigned to the various identified risks to the Board of Directors. It also conducts periodic oversight of the level of execution of the various action plans and the effectiveness of the controls put in place with a view to managing the risks to which the organisation is exposed.

Lastly, the Board of Directors is responsible for ensuring the integrity and overseeing the correct working of ENCE's risk management system, monitoring to this end both the risks identified and the controls and action plans agreed to manage the threats to delivery of the Company's strategic objectives.

This general *modus operandi* ensures that all those participating in executing, reporting, monitoring, controlling and supervising the risk management measures taken are duly coordinated.

ENCE's risk management system, which has been fully implemented within the organisation and operational since 2011, takes into consideration the possible threats to delivery of the strategic objectives of all of the

ENCE Group's businesses (pulp, energy and forestry) as well as other activities undertaken by the organisation's various support areas.

This system encompasses the entire ENCE Group, understood as each and every one of the companies in which Energía y Celulosa, S.A. holds, directly or indirectly, a majority shareholding, a majority of the voting rights or in which it has appointed or has the power to appoint the majority of the members of their boards of directors, giving it effective control over the investee.

The risk management system is designed to identify, assess, prioritise, address and monitor situations that pose a threat to the Company's activities and objectives. The system contemplates threats to the various types of objectives established by the organisation. Specifically it refers to objectives classified as:

› Strategic
› Operational
› Financial Information and Reporting
› Compliance

The risks addressed by the risk management model are in turn classified as follows:

› Environmental Risks
› Risks associated with Decision-Making Information
› Financial Risks
› Organisational Risks
› Operational Risks

The chief risks to delivery of the organisation's fundamental objectives and the associated response plans for mitigating their potential impact are detailed in this section:

Objective: Financial discipline

In complex economic environments, such as that in which ENCE does business and operates, demands in terms of business profitability and development tend to increase. Against this backdrop, ENCE is aware of the need to implement financial discipline so that it is capable of maintaining the ability to finance potential investments within reasonable leverage thresholds. Delivery of this objective is exposed to the following risk factors:

a) PULP PRICE VOLATILITY

Pulp prices are formed in an active market. Trends in pulp prices have a significant influence on ENCE's revenue and profits. Global pulp prices have been volatile in recent years, fluctuating significantly over short periods of time, as a result of continual imbalances between supply and demand in the pulp and paper industries. A significant decline in the price of one or more pulp products could have an adverse impact on the organisation's revenue, cash flows and net profit.

The main mitigating measure in place is ENCE's Global Risk Committee (Derivatives Committee) which is tasked with continually monitoring the pulp market on account of its highly cyclical nature. This Committee is in constant contact with financial entities with the aim of arranging, as appropriate, the pertinent financial hedges and/or futures in order to mitigate potential fallout from pulp price volatility.

b) EXCHANGE RATE VOLATILITY

Revenue from the sale of pulp is exposed to the trend in the dollar/euro exchange rate. Insofar as the Company's cost structure is denominated in euros, potential changes in the rate of exchange between the two currencies can have an adverse effect on revenue.

The Global Risk Committee, also the main body tasked with controlling this risk factor, monitors the currency markets and the trend in the dollar/euro exchange rate periodically in order to arrange hedges and/or futures in order to mitigate the potential impact of exchange rate volatility.

c) INTEREST RATE VOLATILITY

Some of the Company's debt accrues interest at floating rates, generally benchmarked to market rates. Any upward movement in interest rates could drive an increase in the Company's financing costs in respect of the debt benchmarked to floating rates and increase the cost of refinancing existing debt and/or issuing new debt.

The goal of the Group's interest rate risk management policy is to achieve a balanced capital structure that minimises its cost of debt over the medium and long term while reducing related earnings volatility.

Exposure to interest rate variability has been reduced by referencing the most important loan agreements to fixed rates of interest. For the rest of its investments/floating-rate financing, the Group either arranges hedges in the derivative markets or hedges open positions upfront when the financing is arranged at the behest of the banks.

d) TRADE CREDIT RISK, PULP BUSINESS

In the pulp market is it possible that the odd customer, due to the adverse performance of its own business, could delay or fail to make payments on the terms agreed on orders fulfilled by ENCE.

ENCE transfers this risk to a third party by means of a credit insurance policy, which has been renewed until 31 December 2015, that covers, depending on the country in which the customer is located, between 80% and 90% of balances receivable. This insurance policy assigns credit limits according to the creditworthiness of the customer and covers virtually all of the Group's pulp sales. Under the policy, pulp customer-specific credit limits cannot be overstepped.

Elsewhere, to mitigate the credit risk posed by financial investments, the Group stipulates that counterparties must be banks with high credit ratings and establishes maximum investment/underwriting limits that are reviewed periodically.

e) LIQUIDITY AND CAPITAL RISK

Adverse conditions in the debt and capital markets could make it hard or impossible for the Group to raise the funding needed in the course of its business operations or to execute its business plan.

This is one of the risk factors monitored most closely by the ENCE Group. To mitigate this risk, it has established a series of key financial targets: 1) guaranteed business continuity in any pulp price scenario; 2) support for the growth plans in the various business segments by means of a solid capital structure and adequate liquidity level; and 3) a limit on leverage such that net debt does not exceed 2.5x recurring EBITDA, the latter derived using mid-cycle pulp prices and based on the current business profile, while continuing to tap the capital markets to capitalise on attractive windows of opportunity and continue to diversify the Group's sources of financing.

The ENCE Group uses two main sources of external financing:

- Non-recourse project finance, which until now has been used to fund renewable energy projects. The debt repayment schedule for each of these structured loans is determined on the basis of each business's capacity to generate cash flows, subject to buffers that vary depending on cash flow visibility at the various businesses/projects. These structures allow the Group to avail of sufficiently long-term funding, thereby significantly mitigating liquidity risk.
- Corporate financing, used to finance all other activities. ENCE Energía y Celulosa S.A. centralises the cash surpluses of all the companies in order to distribute them depending on the Group's needs, raising funding from the banks and capital markets as required.

  This approach entails the proactive management and maintenance of credit lines and other sources of financing (factoring and reverse factoring, etc.) to cover forecast cash requirements and diversify liquidity sources.

The Corporate Finance Department draws up a financial plan annually that covers all financing needs and how they are to be met. Funds are obtained with a sufficient time buffer for the most significant cash requirements such as forecast capital expenditure, debt repayments and working capital requirements, as warranted.

There are also policies establishing the maximum amount of equity that can be committed to projects under development before the associated long-term financing has been arranged.

Under the scope of this financing policy, the Group has repaid the corporate debt originally due in 2014 ahead of maturity. Specifically, on 1 February 2013, the Parent placed a €250 million bond issue with qualified institutional investors. The proceeds from these bonds, due 2020, were primarily used to repay the syndicated loan then outstanding.

f) REGULATORY CHANGES, INCLUDING TAX REGULATIONS

In light of the reforms undertaken by the Spanish government in recent years, it is feasible that the authorities will make further changes to current tax regulations that could directly affect ENCE and its earnings, such as corporate and/personal income tax changes or reforms.

To mitigate this risk, ENCE has a team of advisors and experts who, together with the Company's in-house tax experts, have drafted internal rules for tax compliance and guidelines for minimising exposure to risk in this respect. However, because this is an exogenous risk factor over which ENCE has little influence, the teams follow the main tax-related developments closely in order to be ready to react whenever they may materialise.

Objective: Enhancing the Company's Productive Capacity

ENCE uses the most environmentally-friendly technology possible in all its production processes and attempts to continually improve its processes in order to boost its competitive positioning and the quality of its products. However, the Group's maintenance, refurbishment and investment plans could affect the correct operation, performance and/or useful lives of its pulp-making machinery and equipment and its three productive facilities.

In order to manage the risk factors falling under the umbrella of this strategic objective, management works to reduce the relative age of its machinery, equipment and facilities by means of three specific lines of initiative: (i) revision of the public works supporting its facilities, disposing of idle equipment; (ii) new investments to address any areas for improvement detected; and (iii) the design of maintenance programmes to guarantee efficient production.

Objective: Decommoditisation of the Pulp Produced by ENCE

ENCE attempts to differentiate its products from those of its competitors while building a globally recognised brand in parallel. Here the main risks include the risk of not being able to stock the products its customers are looking for or not being able to meet customers' expectations in terms of quality.

The Group also attempts to maximise its products' added-value by using certified timber. However, it is difficult to find wood that is certified in accordance with the Forest Stewardship Council (FSC) standard.

The strategy adopted to satisfy customers' needs is to reduce risk by means of a customer complaints/claims management system. As well as reinforcing the Technical Assistance Department, the Group has shored up its salesforce in number and in terms of skills with a view to identifying customers' specific needs in order to factor them into the Company's current product range.

With respect to the availability of FSC-certified wood, ENCE mitigates this risk by means of adequate control over supplier management and articulation within ENCE of a sustainability department focused on helping third parties to get their timber certified.

Objective: Minimisation of Cash Cost

In the volatile environment in which ENCE does business, given the intrinsic characteristics of its businesses and the prevailing economic crisis, the Company has set itself the priority of making its operations more efficient by minimising its cash cost.

Several situations could threaten delivery of this objective: upward movements in the cost of acquiring chemicals, fuel, gas or industrial supplies, transportation costs, strike action, the economic fallout from environmental regulations and technological developments on the part of its competitors. Meanwhile, the price of timber can also fluctuate as a result of changes in the balance of supply and demand in the regions in which the factories are located.

The Group attempts to mitigate the risk of price changes by having the Procurements Department periodically monitor the performance of its main suppliers with a view to taking the corresponding action (search for alternative products and additions to the pool of suppliers) in the event of significant incidents. The risk of a shortfall in wood supply in the regions in which the Group's factories are located is managed mainly by means of reliance on alternative markets, usually at higher logistics costs.

To mitigate the risk of third-party strikes that could affect ENCE, the Group has drawn up supplier communication plans that anticipate these situations so as to enable timely identification of alternatives. A specific joint management-work policy has been defined to address the risk of strike action by carriers.

The primary measure taken to reduce the potential cost of specific environmental regulations is to remain in ongoing contact and dialogue with the main stakeholders (mainly the various government offices and sector/environmental associations) with a view to ensuring adequate oversight of the Group's environmental permits and the corresponding paperwork.

Lastly, in order to control the risk of technological development by competitors, management closely follows what its rivals are doing on the technology front, learning about emerging technologies and production process improvements with a view to assessing their suitability/feasibility in respect of the Company. ENCE's technical experts likewise work continually on alternatives for incorporation into its productive processes with a view to further differentiating its product from that of its competitors.

Objective: Increasing ENCE's Market Share

One of ENCE's priorities is to increase the market share commanded by its pulp products, namely to sell higher volumes of pulp to a greater number of customers. However, certain developments could threaten delivery of this objective, such as a contraction in demand for its products and shifting market preferences.

The Strategy Department contributes to development of the Marketing Plan in order to design the plans for increasing the Group's presence and enhancing its positioning in the European market which materialise in initiatives for increasing the customer base in order to reduce attendant risk.

In parallel, management continually monitors market trends in respect of pulp preferences. In addition, the production and sales teams work closely with ENCE's customers to ensure that the pulp it sells meets or surpasses their needs.

Objective: Streamlining of Post-Production Logistics

Once the product is ready, it is crucial to deliver it to the end customer as cost-effectively as possible and on the contractual terms established in the related sales agreements. Two specific situations could threaten delivery of this objective: stockouts and shipping costs.

To minimise this risk, the business unit reviews the production, sales and logistics plans as a whole in order identify potential shortfalls and devote the resources needed to address them. Sales and end product stock levels are also monitored by means of the corresponding scorecards and supervision of trends in key production and logistics variables.

As for shipping costs, ENCE's strategy is the bear the cost of any variation in shipping costs with respect to quotes provided.

Objective: Minimisation of the Impact of our Operations on the Environment

Generally speaking, ENCE's pulp business is carried out in industrial facilities in which a number of different raw materials and pieces of machinery and equipment interact in a manner that generates risks that are intrinsic to all industrial activities.

ENCE is firmly committed to minimising all risky activities that could have adverse ramifications for its natural surroundings, the environment or the communities in which it does business. The main threats to delivery of this objective include potential accidental emissions of contaminating particles, possible accidental spills and potential noise pollution as a result of its industrial activities.

The Company is strategically committed to reducing the environmental impact of its business operations. In 2014 the Group continued to invest to make its facilities more environmentally-friendly.

Objective: Optimisation of Forest Asset Costs

The main risk to delivery of this objective relates to the limitations placed on forestry and industrial activity. The various levels of government could impose forest policy limits by phasing out eucalyptus plantations in favour of more productive species. As a result, new legislation and/or restrictions could hinder or impede new plantation work or limit the growth in forest area given over to the eucalyptus species under new contracts with forest owners.

The risk-mitigation strategy adopted in this respect is to remain in continual contact with the various levels of government and maintain open lines of communication with the related institutions and other core stakeholders.

Objective: Business Continuity

One of ENCE's key objectives is that of maintaining its business operations and availing of all the measures needed to guarantee the continuity of these operations and all supporting activities. Generally speaking, the main threats in this respect include natural catastrophes and disasters, adverse meteorological conditions (drought, frost, etc.), unexpected geological conditions and other factors of a physical nature, fires, floods or any other emergency situation that could affect ENCE's productive and storage facilities.

Because of the diverse range of risks in this arena, ENCE takes individual actions to address each risk factor with a view to preventing them from materialising and/or mitigating their impact in the event they do: fire safety training, insurance policies, preventative inspections, surveillance and control of business operations and a corporate policy for controlling the main pests to which the Group's biological assets are exposed.

More specifically, ENCE's factor in Pontevedra is built on an area of land used subject to a government concession arrangement granted under article 66 of Spain's 1988 Coastal Act. The concession term ends in 2018. The inability to renew this concession could have a material adverse effect on the Company's operations.

The key measure taken in this respect has been to apply to have the concession extended, as provided for in Law 2/2013 on coastal protection and sustainability, which had the effect of amending the Coastal Act, requesting the maximum extension allowed under this new legislation, namely 75 years from when the extension application is filed. ENCE is in ongoing contact with the authorities involved and is pursuing the corresponding legal actions in parallel.

The assets located on land held under concession are currently depreciated over the shorter of their remaining useful life and the term of the concession agreement. An increase in the concession term would accordingly reduce the depreciation charge forecast for 2014 by approximately €8.5 million.

Objective: Guaranteeing Worklife Quality and Workplace Health and Safety

ENCE is aware of the importance of providing a workplace that guarantees the best conditions in terms of occupational health and safety, inspired by stringent compliance with prevailing legislation in Spain. Certain situations could pose a threat to delivery of this objective as some jobs come with intrinsic risks, with the attendant health or safety ramifications for the employees performing them.

To minimise this risk the Group has accident prevention plans predicated on safety training, the maintenance of integrated health and safety management systems and certification to benchmark standards such as ISO, OSHAS and FSC. There are also contingency plans for certain specific situations.

Going forward the plan is to continue to implement the accident prevention plans, including an action plan for preventing/reducing accidents, mainly through employee training initiatives and adequate oversight of the plans' effectiveness and any associated new requirements. Lastly, there are plans to roll out overall equipment effectiveness (OEE) initiatives.

Objective: Regulatory and Reporting Compliance

The new pulp and paper sector Best Available Techniques References (BREF) documents are expected to take effect in 2017. Adopters have one more year for full adaptation to the new regulations. It is expected that the new BREF requirements will be more stringent in terms of production and emissions in light of the type of process, geographic location and local environmental conditions, triggering the need for new investments and control systems.

The strategy employed to tackle this risk factor is two-fold. Firstly, ENCE staff members have engaged with the government, key sector associations and other stakeholders and participated in establishing the definitive standard requirements so that all the players' views could be taken into account.

In parallel, the most important investments required to adapt to the new regulations are reflected in the organisation's current Industrial Investment Plan.

Objective: Tax Risk Control

The Audit Committee monitors the Company's tax-related risks with a view to assisting the Board with its task of determining tax risk management and control policy.

Events after the reporting date

No events have occurred between the reporting date and the date of authorising these consolidated financial statements for issue that have not been disclosed therein.

R&D activities

The ENCE Group continued to reinforce its R&D effort on two main lines of initiative in 2014: (i) eking out continual improvements in the pulp production process; and (ii) optimising the energy harnessed from forest crops.

The Group is also continually represented at different public and private institutions and forums that encourage cooperation among the major technology developers. The future thrust of the R&D effort is largely determined by these initiatives.

The most important R&D projects undertaken in 2014 included, in the forestry arena, the "Study of the productive potential of Eucalyptus hybrids using ferti-irrigation, water rationalisation methods and sap analysis". On the industrial front the following projects stood out: "Study of the impact of the main continuous kraft cooking variables on the performance and quality of pulp"; "Generation of fertilisers from gypsum"; the CASCATBEL project developed together with another 20 research partners with the goal of deriving second-generation biofuel from lignocellulosic biomass at the laboratory and at the pilot plant levels; "Analysis of pitch issues at pulp production plants"; and "Controlling the effects of odour perception at kraft pulp production plants".

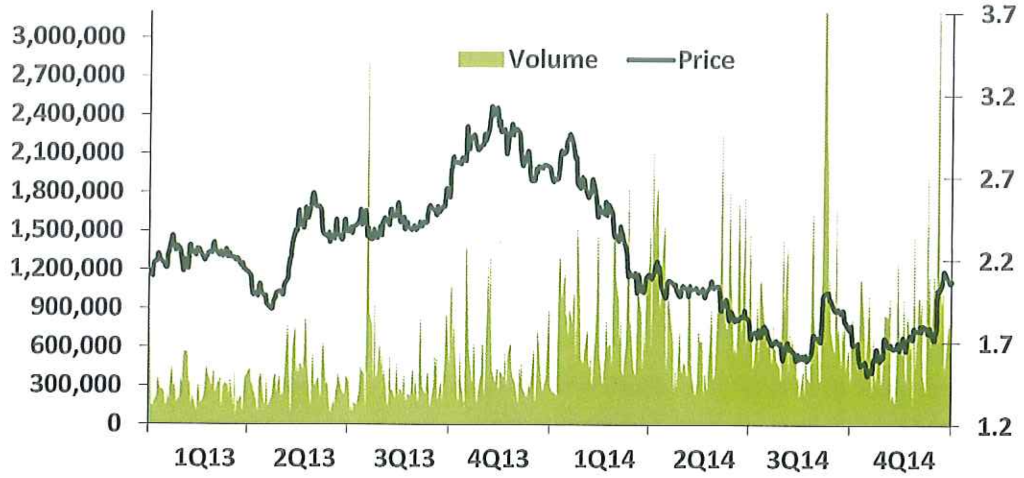
Purchase-sale of own shares

The disclosures regarding the acquisition and sale of own shares in 2014 are provided in note 16.7 to the accompanying condensed consolidated financial statements.

Other information

Share price information

ENCE's share price corrected by -24% in 2014, underperforming the Spanish and European stock markets by -28% and -25%, respectively.



Source: Thomson Reuters

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Average daily volume (shares)	283,963	347,171	446,481	508,964	808,674	878,515	829,628	790,434
Ence performance	0%	11%	9%	6%	(23%)	(13%)	(3%)	17%
Ibex 35 performance	(3%)	(2%)	18%	8%	4%	6%	(1%)	(5%)
Eurostoxx performance	(0%)	(1%)	11%	7%	2%	1%	(0%)	(2%)

Note: Ence's share price performance has been adjusted for the €0.07 per share dividend paid on 3 April 2013 and the €0.08 per share dividend paid on 11 July 2014; it has not been adjusted for the in-kind dividend paid on 11 April 2013, which had the effect of increasing the total shareholder return by 4%, and the in-kind dividend paid on 21 July 2014, which had the effect of increasing the total shareholder return by 3%.

ENCE's shares are part of the IBEX Medium Cap, the IBEX Top Dividend and FTSE4Good Ibex indices.

Dividend policy

The Group's policy has been to pay out 40% of consolidated profit in dividends.

Credit ratings management

In addition to having its shares publicly traded, in January 2013 the Company issued €250m of 7.25% bonds due 2020.

Corporate Rating

	Current Rating	Outlook	Last review
Moody's	Ba3	Negative	21/11/2014
Standard & Poor's	BB-	Negative	20/11/2014

Issue Rating

	Current Rating	Last review
Moody's	B1	21/11/2014
Standard & Poor's	BB-	20/11/2014

At year-end, the bonds were trading at close to 105% of par. From time to time ENCE may buy back its bonds on the secondary market. Any such buyback activity would be carried out on the basis of analysis of all relevant factors, including the bonds' quoted price and the Group's liquidity position, and in compliance with all applicable legal requirements.

Corporate governance

The Annual Corporate Governance Report is part of the Group Management Report and can be downloaded from the securities market regulator's website (www.cnmv.es).