ENCE Energía y Celulosa, S.A. and subsidiaries

Consolidated financial statements for 2013 prepared under the International Financial Reporting Standards adopted by the European Union, the Group Management Report and the Audit Report

(Translation of financial statements originally issued in Spanish and prepared in accordance with IFRS. In the event of a discrepancy, the Spanish-language version prevails.)

Consolidated financial statements for 2013

(Translation of financial statements originally issued in Spanish and prepared in accordance with IFRS. In the event of a discrepancy, the Spanish-language version prevails.)

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AUDITOR'S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

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

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

We have audited the consolidated annual accounts of ENCE Energía y Celulosa, S.A. (the "Company") and its subsidiaries (the "Group"), consisting of the consolidated balance sheet at 31 December 2013, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As explained in Note 3.1 the Directors of the Company are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2013 present fairly, in all material respects, the consolidated financial position of ENCE Energía y Celulosa, S.A. and its subsidiaries at 31 December 2013 and the consolidated results of its operations and the consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

Without qualifying our audit opinion, we draw the attention to what is described in Note 5.1 of the accompanying consolidated annual accounts, which states that in July 2013, the Royal Decree-Law 9/2013 of July 12th, by which the remuneration regime system of the power generation facilities fuelled by renewable sources of energy has been modified, and in February 2014, the CNMC ("Comisión Nacional de los Mercados y de la Competencia") has submitted a drafted Ministerial Order developed by the regulations contained in the aforementioned Royal Decree-Law, and sets the new compensation parameters for such electric power facilities from July 14th, 2013 onwards. Even though at the date of preparation of these consolidated annual accounts this Ministerial Order among other policy developments are pending of approval, they have been considered by the Group when estimating their impacts on the consolidated statement of financial position and the consolidated income statement in these consolidated annual accounts at December 31st, 2013. Once the final approval of this regulation is in force, the final impacts on the Group's financial information, which could differ from those recorded in the accompanying consolidated annual accounts, will be known then.

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The accompanying consolidated Directors' Report for 2013 contains the explanations which the Directors of ENCE Energía y Celulosa, S.A. consider appropriate regarding the Group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated Directors' Report is in agreement with that of the consolidated annual accounts for 2013. Our work as auditors is limited to checking the consolidated Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the accounting records of ENCE Energía y Celulosa, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Mar Gallardo
Partner

27 March 2014

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2013 AND 2012

Thousands of euros	Note	At 31 Dec 2013	At 31 Dec 2012
NON-CURRENT ASSETS:			
Intangible assets	7	19,057	21,556
Property, plant and equipment	8	776,246	774,179
Investment properties	4	1,967	2,078
Biological assets	9	154,145	170,958
Other financial assets	19	2,918	4,144
Deferred tax assets	21	35,557	30,580
		989,890	**1,003,495**
CURRENT ASSETS:			
Non-current assets held for sale	28	-	59,345
Inventories	13	70,989	87,575
Trade and other receivables	14	114,364	138,580
Receivable from public authorities	21	18,592	28,626
Income tax receivable from the tax authorities	21	8,204	1,031
Current financial assets:			
Derivatives	12	-	10,721
Other financial assets	19	55,876	7,575
Cash and cash equivalents	19	103,391	40,205
Other current assets		953	896
		372,369	**374,554**
TOTAL ASSETS		**1,362,259**	**1,378,049**
EQUITY:			
Share capital	16	225,245	225,245
Share premium	16	210,037	230,221
Parent company reserves	16	117,458	99,916
Reserves in fully-consolidated companies	16	126,422	112,543
Valuation adjustments	16	48,807	52,992
Profit/(loss) for the year attributable to owners of the parent		4,311	43,031
Translation differences	4	(2,218)	(2,011)
Own shares - parent company shares	16	(19,762)	(37,213)
Equity attributable to owners of the parent		**710,300**	**724,724**
TOTAL EQUITY		**710,300**	**724,724**
NON-CURRENT LIABILITIES:			
Bonds and other marketable securities	19	240,679	-
Bank borrowings	19	98,258	309,632
Grants	17	15,209	20,076
Derivative financial instruments	12	7,393	16,627
Other financial liabilities	20	8,546	9,291
Deferred income tax liabilities	21	27,633	31,745
Non-current provisions	18	18,505	13,258
		416,223	**400,629**
CURRENT LIABILITIES:			
Bank borrowings	19	12,925	24,108
Derivative financial instruments	12	4,534	14,886
Other financial liabilities	20	1,962	1,562
Trade and other payables	15	197,179	201,902
Income tax payable to the tax authorities	21	39	1,313
Other payables to public authorities	21	11,318	8,472
Other current liabilities		699	453
Current provisions	18 & 22	7,080	-
		235,736	**252,696**
TOTAL EQUITY AND LIABILITIES		**1,362,259**	**1,378,049**

The accompanying notes 1 to 32 are an integral part of the consolidated statement of financial position at 31 December 2013

(Translation of financial statements originally issued in Spanish and prepared in accordance with IFRS. In the event of a discrepancy, the Spanish-language version prevails.)

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR YEAR ENDS 2013 AND 2012

Thousands of euros	Note	Year ended 2013	Year ended 2012
Continuing operations:			
Revenue	22	853,136	827,578
Gain (loss) on hedging transactions	12	12,102	(27,567)
Changes in inventory of finished goods and work in progress		2,117	831
Cost of sales	23	(427,836)	(408,048)
GROSS PROFIT		**439,519**	**392,794**
Own work capitalised	8 & 9	14,757	24,183
Other income		7,543	2,267
Government grants taken to income	17	6,320	4,280
Employee benefit expense	24	(80,459)	(82,262)
Depreciation and amortisation charges	7 & 8	(63,133)	(54,262)
Depletion of forest reserve	9	(15,205)	(9,110)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	5, 7, 8, 9 & 18	(37,516)	6,329
Other operating expenses	25	(240,008)	(201,953)
OPERATING PROFIT		**31,818**	**82,266**
Finance income		2,039	747
Change in fair value of financial instruments	12	1,830	6,799
Other finance costs	26	(30,762)	(24,371)
Exchange differences		641	(1,803)
NET FINANCE COST		**(26,252)**	**(18,628)**
Net gain/(loss) on assets classified as non-current assets held for sale		-	(660)
PROFIT BEFORE TAX		**5,566**	**62,978**
Income tax	21.3	(1,255)	(19,947)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**4,311**	**43,031**
PROFIT FOR THE YEAR	27	**4,311**	**43,031**
Earnings per share:			
Basic	13	**0.02**	**0.16**
Diluted	13	**0.02**	**0.16**

Accompanying notes 1 to 32 are an integral part of the consolidated 2013 income statement

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR-ENDS 2013 AND 2012

Thousands of euros	Note	Year ended 2013	Year ended 2012
CONSOLIDATED PROFIT FOR THE YEAR (I)	**16**	**4,311**	**43,031**
Income and expense recognised directly in equity:			
Cash flow hedges (*)		3,340	(2,527)
Translation differences (*)		(207)	(1,420)
Tax effect		(1,001)	758
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY (II)	**16**	**2,132**	**(3,189)**
Amounts transferred to the consolidated income statement			
- Cash flow hedges (*)		(8,271)	30,920
- Other adjustments (*)		-	(54)
- Tax effect		2,479	(9,260)
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS (III)	**16**	**(5,792)**	**21,606**
TOTAL COMPREHENSIVE INCOME (EXPENSE) (I+II+III)		**651**	**61,448**

Accompanying notes 1 to 32 are an integral part of the consolidated 2013 statement of comprehensive income

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

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR-ENDS 2013 AND 2012

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

2012 (thousands of euros)	Balance at 1/1/2012	Total recognised income/ (expense)	Issuance / (cancellation) of equity	Appropriation of prior-year profit/(loss)	Dividends	Trading in own shares	Distribution of own shares	Balance at 31/12/2012
Share capital	232,212	-	(6,967)	-	-	-	-	225,245
Share premium	254,328	-	-	-	(14,484)	-	(9,623)	230,221
Legal reserve	39,766	-	-	3,110	-	-	-	42,876
Other parent company reserves	66,864	-	(9,861)	27,993	(23,203)	(356)	(4,397)	57,040
Reserves in fully-consolidated companies	102,454	-	-	10,089	-	-	-	112,543
Translation differences	(591)	(1,420)	-	-	-	-	-	(2,011)
Own shares	(49,217)	-	16,828	-	21,173	(40,017)	14,020	(37,213)
Valuation adjustments	33,155	19,837	-	-	-	-	-	52,992
Profit/(loss) for the year attributable to owners of the parent	41,192	43,031	-	(41,192)	-	-	-	43,031
	720,163	61,448	-	-	(16,514)	(40,373)	-	724,724

Accompanying notes 1 to 32 are an integral part of the consolidated 2013 statement of changes in equity

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR-ENDS 2013 AND 2012

Thousands of euros	Year ended 2013	Year ended 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated profit/(loss) for the year before tax	5,566	62,978
Adjustments for:		
Depreciation	61,696	53,284
Depletion of forest reserve	15,205	9,110
Amortisation	1,437	978
Changes in provisions and other deferred expense (net)	21,962	3,679
Changes in impairment charges and gains/(losses) on disposals of non-current assets	35,890	(2,975)
Finance income	(2,039)	(747)
Finance costs	28,699	18,044
Government grants taken to income	(1,290)	(1,243)
	161,560	80,130
Changes in working capital:		
Trade and other receivables	29,791	(24,047)
Financial and other current assets	(2,939)	18,184
Trade payables, other payables and other liabilities	4,657	(13,775)
Inventories	10,359	18,314
	41,868	**(1,324)**
Other cash flows from operating activities:		
- Interest paid	(18,048)	(21,542)
- Interest received	2,038	747
- Income tax received (paid)	(17,120)	(9,416)
	(33,130)	**(30,211)**
Net cash generated from operating activities (I)	**175,864**	**111,573**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments:		
Property, plant and equipment and biological assets	(112,844)	(104,387)
Intangible assets	(893)	(16,052)
Other financial assets	1,347	(173)
	(112,390)	**(120,612)**
Disposals:		
Property, plant and equipment and biological assets	64,397	361
Other financial assets	0	161
	64,397	**522**
Net cash used in investing activities (II)	**(47,993)**	**(120,090)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from and payments for equity instruments		
Buyback of own equity instruments	(26,505)	(41,693)
Disposal of own equity instruments	27,506	1,309
	1,001	**(40,384)**
Proceeds from and repayments of financial liabilities:		
Proceeds from issuance of bonds and other marketable securities, net of issuance costs	239,454	-
Increase (decrease) in bank borrowings, net of issuance costs	(232,101)	37,428
Repayment of other borrowings and cancellation of derivatives	(11,965)	(3,276)
Grants received	115	-
	(4,497)	**34,152**
Dividends and payments on other equity instruments		
Dividends	(16,155)	(16,514)
	(16,155)	**(16,514)**
Translation differences	(34)	(161)
Other cash received from (paid on) financing activities		
Fixed-term deposits	(45,000)	-
	(45,000)	-
Net cash used in financing activities (III)	**(64,685)**	**(22,907)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)	**63,186**	**(31,424)**
Cash and cash equivalents at beginning of year	40,205	71,629
Cash and cash equivalents at end of year	103,391	40,205

Accompanying notes 1 to 32 are an integral part of the consolidated 2013 statement of cash flows

(Translation of financial statements originally issued in Spanish and prepared in accordance with IFRS. In the event of a discrepancy, the Spanish-language version prevails.)

Notes to the consolidated 2013 financial statements

(Translation of financial statements originally issued in Spanish and prepared in accordance with IFRS. In the event of a discrepancy, the Spanish-language version prevails.)

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ENCE Energía y Celulosa, S.A. and subsidiaries

Notes to the 2013 consolidated financial statements

1. Group information

Ence Energía y Celulosa, S.A. (hereinafter "ENCE", the "Company" or the "Parent") was incorporated in 1968. Its registered office is located at Paseo de la Castellana, 35 in Madrid. It formerly went by the name of Empresa Nacional de Celulosas, S.A. until 1999 and Grupo Empresarial ENCE, S.A. until 2012.

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

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

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

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

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

The Group's core business is the production of bleached eucalyptus kraft pulp (BEKP) from eucalyptus timber by means of elementary chlorine free (ECF) and totally chlorine free (TCF) bleaching sequences. To carry out this business, the Group has three factories in Spain, specifically in the provinces of Asturias, Pontevedra and Huelva, with combined capacity of approximately 1.3 million tonnes per annum.

To complement its core business, the Group uses the wood that cannot be transformed into pulp, essentially lignin and biomass, along with other fuels, to generate electric power. The Group's aggregate nominal installed power generation capacity is approximately 280 megawatts (MW), divided between seven facilities.

In addition, the Group leverages the know-how built up in the forestry sector and in developing quick-rotation energy crops to develop power generation projects fuelled by biomass derived from energy crops and forestry/agricultural waste. Against this backdrop, it commissioned a plant in Huelva with installed capacity of 50 MW in February 2013 and is in the process of building a 20-MW facility in Mérida that is expected to begin to operate during the third quarter of 2014.

In order to lock in the timber supplies needed for the pulp manufacturing process and to meet the power generation plants' biomass requirements, the Group manages 88,266 hectares of forested land in Spain and Portugal, 49,062 hectares of which it owns.

The land under management includes 2,608 hectares located in Portugal that the Group sold in 2013, having entered into an agreement with the buyer covering the purchase by the Ence Group, at market prices, of the wood produced from the land sold for a terms of 20 years.

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

2. Group companies

The following subsidiaries, 100% directly or indirectly owned by the Parent, are fully consolidated in the accompanying 2013 consolidated financial statements:

2013

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

(a) Financial statements audited by PwC

(b) Financial statements for the year ended 31 December 2013 in respect of which PwC has conducted a limited review

(c) Equivalent amounts in euros translated at closing exchange rate

2012

			Thousands of euros		
			Investee equity		
Company	Registered office	Business activity	Share capital	Share premium and reserves	Profit (loss) for the year
Subsidiaries:					
Celulosa Energía, S.A.U. (a)	Ctra Madrid-Huelva Km. 630. (Huelva)	Generation and sale of electric energy	3,756	18,928	5,225
Celulosas de Asturias, S.A.U. (a)	Armental s/n Navia (Asturias)	Generation and sale of pulp and electric energy	37,863	24,243	47,360
Silvasur Agroforestal, S.A.U. (a)	Avda de Andalucía s/n. (Huelva)	Forest land management	39,666	181	(6,238)
Ibersilva, S.A.U. (a)	Avda de Alemania, 9 (Huelva)	Forestry services	10,000	(9,700)	668
Norte Forestal, S.A.U. (a)	Marisma del Lourizán s/n (Pontevedra)	Forest land management	2,464	21,370	(661)
Norfor Maderas, S.A.U.	Marisma del Lourizán s/n (Pontevedra)	Forest land management	601	479	-
Ence Investigación y Desarrollo, S.A.U.	Pontecaldelas (Pontevedra)	Research into and development of new materials, products and processes	1,208	(664)	(52)
Iberflorestal, S.A.U. (a)	Lisbon (Portugal)	Purchase-sale of wood	55	2,205	174
Las Pléyades, S.A. (SAFI) (b) (c)	Montevideo (Uruguay)	Export of wood	2	2,686	(127)
Maderas Aserradas del Litoral, S.A. (b) (c)	Montevideo (Uruguay)	Inactive	5,551	(3,845)	(167)
Sierras Calmas, S.A. (b) (c)	Montevideo (Uruguay)	Forest management	1,538	10,199	(2,888)
Ence Energía S.L.U. (a)	Paseo de la Castellana, 35 (Madrid)	Generation and sale of electric energy	7,506	29,139	(536)
Ence Energía Huelva, S.L.U. (a)	Paseo de la Castellana, 35 (Madrid)	Generation and sale of electric energy	6,757	26,358	(1,541)
Ence Energía Extremadura, S.L.U. (a)	Paseo de la Castellana, 35 (Madrid)	Generation and sale of electric energy	735	2,927	(119)

(a) Financial statements audited by PwC
(b) Financial statements for year-end 2012 in respect of which PwC has conducted a limited review
(c) Equivalent amounts in euros translated at closing exchange rate

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

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

3. Basis of preparation and consolidation

3.1 Basis of preparation

The 2013 consolidated financial statements have been prepared from the accounting records and annual financial statements of the Parent and Group companies. They were prepared in accordance with the prevailing financial reporting framework, specifically the International Financial Reporting Standards (IFRS) adopted by the European Union, as provided for in Regulation (EC) No. 1606/2002 of the European Parliament and Spanish Law 62/2003 (30 December 2003) on tax, administrative and corporate measures, to give a true and fair view of the Group's financial position at 31 December 2013 and of its financial performance and cash flows for the year then ended.

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

The Group's consolidated financial statements for 2013, which have been authorised for issue by the Parent's directors, will be submitted for shareholder approval at the Annual General Meeting at which they are expected to be ratified without modification. The Group's consolidated financial statements for 2012 were approved at the Annual General Meeting held by the Parent on 21 March 2013.

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

3.2 New and amended standards taking effect in 2013

The following new and amended standards took effect in 2013 and were applied in preparing the accompanying consolidated financial statements:

- Amendment to IAS 1, *Presentation of other comprehensive income*

  This amendment has changed the presentation of the items presented in 'other comprehensive income' on the basis of whether or not they are potentially reclassifiable to profit or loss subsequently.

- Amendment to IAS 12, *Income tax – Deferred tax on investment properties*

  This amendment introduces an exception to the principles in existing IAS 12 by introducing the presumption that an investment property measured at fair value is recovered entirely through sale; this exception affects the deferred taxes related with the investment properties carried by the Group at fair value in keeping with the fair value model provided for in IAS 40, *Investment property*.

- Amendment of IAS 19, *Employee benefits*

The main change introduced by the amended IAS 19 relates to the accounting treatment of defined benefit plans by eliminating the 'corridor approach' which had formerly enabled the deferral of a certain amount of actuarial gains and losses. From 1 January 2013, all actuarial gains and losses are recognised when they arise in 'other comprehensive income'. In addition, the interest cost and expected return on plan assets are replaced by a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The amended standard also introduces changes to how benefit costs are presented.

- IFRS 13, *Fair value measurement*

  The new definition of the fair value of a liability given in IFRS 13, based on the transfer of the liability being measured to a market participant, confirms that an entity's own credit risk needs to be reflected in the fair value measurement of its liabilities. Consistent with the definition of the fair value of a liability formerly provided in IAS 39, *Financial instruments*, the Group had taken the approach of not including the impact of own credit risk in valuing these instruments.

  Accordingly, from 1 January 2013, it is necessary to include own credit risk when measuring financial liabilities at fair value, which in the case of the Group are only derivatives. As prescribed in IFRS 13, the impact of the first-time application of this standard is reflected prospectively in the income statement together with the rest of changes in the fair value of its derivatives.

  Note 4.7 outlines the assumptions and methodology used to measure the Group's derivatives in general and the own credit risk aspects in particular.

- Amendment of IFRS 7, *Financial instruments*: Disclosures - Offsetting financial assets and financial liabilities

  This amendment introduces new specific disclosure requirements when financial assets and financial liabilities are offset and for other instruments subject to an enforceable master netting agreement.

3.3 <u>Standards and interpretations issued but not yet effective</u>

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

Standard	Content	Effective for annual periods beginning on or after
IFRS 9, *Financial instruments:* Classification and measurement	Replacement of the financial asset and liability classification and measurement requirements prescribed by IAS 39	1 January 2015
IFRS 10, *Consolidated financial statements* (published in May 2011)	Replacement of current consolidation requirements under IAS 27	1 January 2014
IFRS 11, *Joint arrangement* (published in May 2011)	Replacement of IAS 31 with respect to joint ventures	1 January 2014
IFRS 12, *Disclosures of interests in other entities* (published in May 2011)	Single standard establishing disclosure requirements in respect of all forms of interests in other entities, including subsidiaries, joint arrangements and off-balance sheet vehicles	1 January 2014
IAS 27 (revised), *Separate financial statements* (published in May 2011)	Revision of this standard which, in the wake of IFRS 10, will only encompass an entity's separate financial statements	1 January 2014
IAS 28 (revised), *Investments in associates and joint ventures* (published in May 2011)	Parallel revision in conjunction with the issuance of IFRS 11, *Joint arrangements*	1 January 2014
Amendment of IAS 32, *Financial instruments: Presentation - Offsetting financial assets and financial liabilities*	Additional clarification on the rules for offsetting financial assets and liabilities	1 January 2014

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

3.4 Key IFRS-related decisions

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

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

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

3.5 Consolidation

Subsidiaries

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

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

Whenever the Parent acquires a subsidiary, it calculates the fair value of the acquiree's assets, liabilities and contingent liabilities at the acquisition date, the date on which it takes control, in accordance with IFRS 3, *Business combinations*. Any excess of the cost of acquisition over the fair value of the identifiable net assets is recognised as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets, the resulting gain is recognised directly in the income statement.

The results of subsidiaries acquired during the year are fully consolidated from the acquisition date until year-end. In parallel, the results of any subsidiaries disposed of during the year are consolidated only from the beginning of the year until the disposal date.

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

Associates

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

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

Adjustments to conform with the Group's accounting policies

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

Changes in consolidation scope and in ownership interests

2013

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

2012

Ence Energía Extremadura, S.L.U. was added to the consolidation scope in 2012. This company was incorporated in 2009 and began to build a 20-megawatt electric power plant in 2012.

3.6 Comparative information

The information provided in these financial statements in respect of 2012 is presented to enable a reader comparison with the equivalent 2013 figures.

3.7 Seasonal nature of the Group's transactions

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

Note, however, that the production of pulp and energy requires annual stoppages of between 10 and 15 days for maintenance purposes. The Group carried out these annual stoppages during the first half of 2013.

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

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

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

No significant changes in accounting estimates or policies or corrections of errors affect either the 2013 or the 2012 financial statements.

4. Measurement rules

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

4.1 Intangible assets

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

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

Research and development costs:

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

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

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

Computer software:

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

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

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

Greenhouse gas emission allowances for own use:

Every year the Group obtains carbon allowances free of charge under the so-called National Allocation Plan.

These allowances are recognized upon allocation under "Intangible assets – Greenhouse gas emission allowances" at their market value. In parallel, the Group recognises a non-repayable grant in the same amount; this grant is recycled to "Government grants taken to income" in the consolidated income statement as the subsidised allowances are used. Elsewhere, allowances acquired on the market are recognized as an asset at their acquisition cost.

The expense associated with the consumption during the year of allowances, measured at the amount at which they were granted if the Group holds such allowances or otherwise measured using the best estimate of the cost to be incurred to cover the allowance shortfall, are recognised when used under "Non-current provisions" in the consolidated statement of financial position, with a charge to "Other operating expenses".

The provision so recognised and the intangible assets recognised upon receipt of the allowances are derecognised when the allowances are returned to the carbon allowance managing body (allowances equivalent to the emissions made during the year have to be delivered during the first nine months of the following year).

Subsequent to initial recognition, carbon allowances are measured at cost less any accumulated impairment losses (they are not amortised).

4.2 Property, plant and equipment

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

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

Preservation and maintenance expenses incurred during the year are recognised in the consolidated income statement.

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

Own work performed by the Group on property, plant and equipment is recognised at production cost (external costs plus in-house costs, determined on the basis of in-house warehouse material consumption and manufacturing costs allocated using hourly throughput rates similar to those used for inventory valuation purposes).

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

	Estimated years of useful life
Buildings	25-60
Plant and equipment	8-20
Fixtures, fittings, tools and equipment	11
Other tangible assets	5-10

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

Similarly, investments in plant and equipment located on land owned by third parties include the initially estimated costs of dismantling such assets and rehabilitating the asset sites; these costs are recognised and measured in keeping with the criteria for measuring provisions (note 4.12). In light of the length of time until the concession for the use of the land on which the Pontevedra plant is located is expected to terminate, management estimates that these costs will not be material.

Items of property, plant and equipment funded by project finance

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

This form of structured finance is used to fund projects that generate sufficient cash on a standalone basis as to provide the lenders with sufficient reassurance as to the repayment of their loans. This form of non-recourse financing tends to be secured by pledges over the developer's shares and the future cash flows to be generated by the project itself and typically imposes restrictions on the use of the project assets and subordinates the payment of interest and dividends to shareholders to compliance with certain financial ratios.

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

Impairment of intangible assets and property, plant and equipment

At each reporting date, the Group reviews the carrying amounts of its property and equipment, biological assets, investment properties and intangible assets for indications of impairment.

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

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

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

They calculate each cash-generating unit's recoverable amount, the cash-generating units (CGUs) being the Group's various pulp factories and power plants. The transfer prices in place are designed to enable the recovery of the value of the forestry assets allocated to guarantee supply to the various CGUs.

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

With the exception of projects financed on a non-recourse basis, terminal value is calculated as a function of 'normalised' cash flow in the last year of the projection period, extrapolated at a rate of growth in perpetuity that ranges between 0% and 2% and is in no instance higher than estimated long-term growth for the market in which the Group operates. The cash flows used to calculate the terminal value factor in the maintenance capital expenditure required to ensure the business's continuity.

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

To calculate value in use, the cash flows so estimated are discounted using a discount rate that represents the weighted average cost of capital, factoring in the cost of the liabilities and the business risks associated with the business being valued in the market in question. The discount rates applied in the pulp business range between 7.5% and 9%; in the power generation segment a discount rate equivalent to the yield on 10-year Spanish government bonds plus 300 basis points is used.

If the estimated recoverable amount of an asset is lower than its carrying amount, the latter is written down to the former by recognising the corresponding impairment loss in the consolidated income statement, unless the asset in question is carried at a revalued amount, in which case the impairment loss is treated as a reduction in the corresponding revaluation reserve.

When an impairment loss subsequently reverts, the carrying amount of the CGU is written up to its recoverable amount, so long as the restated carrying amount does not exceed the carrying amount that would have been recognised had no impairment loss been recognised in prior years. The reversal of an impairment loss is recognised in the income statement.

4.3 Investment properties

"Investment property" in the accompanying consolidated statement of financial position includes the values, net of any accumulated depreciation, of the land and buildings held to earn rentals or for capital appreciation.

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

4.4 Biological assets

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

At present there is neither an active market in these species in Spain nor any valid information that would enable the estimation of their fair value. Moreover, in light of the average length of time required for forest cover to mature, cycles of between two and four rotations that can be as long as 40 years, and the impact of the various inputs affecting using discounted cash flow valuation methodology, it is not possible to reliably determine the fair value of these assets using this method. As a result, the Group has decided to value its forest cover using the historical cost approach (cost less accumulated depreciation less any accumulated impairment losses). It performs sensitivity analysis on the value of these assets using certain indicators and acquisition multiples, the result of which ratifies the validity of the criteria currently in use.

Investment in forest assets is measured by capitalising all the costs incurred directly in acquiring and developing them, including land rents, site cleaning and preparation costs, plantation costs, fertilisers and forest care and preservation expenses. The Group also capitalises a variable and individually determined percentage of the carrying amount of the forest cover as borrowing costs, up to the limit of their estimated realisable value. The interest rate used is the Group's average borrowing cost (note 19).

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

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

4.5 Leases

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

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

4.6 Financial instruments

Financial assets

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

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

No financial assets were reclassified between the above categories in either 2013 or 2012.

Initial recognition -

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

Subsequent measurement -

Loans and receivables are measured at amortised cost. The Group recognises impairment losses in the consolidated income statement when it believes there is a risk of non-payment on the basis of the age of the debts.

An impairment provision is recognised for trade receivables when there is objective evidence (filing for creditor protection, court claims, payment arrears of over six months, etc.) that the Group may not be able to collect all amounts due.

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

Derecognition of financial assets -

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

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

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

Financial liabilities

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

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

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

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

Hedging instruments and derivatives:

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

Derivatives are initially recognised at their acquisition cost and are subsequently re-measured to fair value. They are recognised under "Derivative financial instruments" on the liability side of the consolidated statement of financial position if they present a negative balance and under "Current financial assets – Derivatives" on the asset side if they present a positive balance. Gains and losses resulting from fair value changes are recognised in the consolidated income statement, unless the derivative has been designated as a hedging instrument that is deemed highly effective, in which case they are recognised as follows:

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

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

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

80% to 125% of gains or losses on the hedged item. The portion of a hedge that is deemed ineffective is recognised in profit or loss immediately.

The fair value of the various derivative financial instruments is calculated by discounting expected cash flows to present value, factoring in conditions in the spot and futures markets at the calculation date. All of the methods used are generally accepted by the financial analyst community.

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

Equity instruments

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

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

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

Distinction between current and non-current

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

4.7 Fair value estimation

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

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

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

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

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

As indicated in note 3, from 1 January 2013, it is necessary to include own credit risk when measuring financial liabilities at fair value, which in the case of the Group are only derivatives. As prescribed in IFRS 13, the impact of the first-time application of this standard is reflected prospectively in the income statement together with the other changes in the fair value of its derivatives; this change has had the effect of decreasing the value of the liability balance of interest-rate hedges by €478 thousand at 31 December 2013.

The fair value of the various derivative financial instruments is obtained using level 2 inputs according to the fair value hierarchy stipulated in IFRS 13, as they are benchmarked to observable variables other than quoted prices. There were no transfers between level 1 and level 2 valuations in the year ended 31 December 2013.

4.8 Inventories

Inventories of raw materials, finished products and work in progress are measured at the lower of acquisition cost, production cost or market value.

Production cost includes the cost of direct materials, the cost of any direct labour and general manufacturing overhead.

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

Net realisable value is the estimated selling price less estimated costs of completion and the estimated costs necessary to market, distribute and sell the goods. The Group recognises the necessary impairment losses in the consolidated income statement when the net realisable value of its inventories falls below their acquisition or production cost. These estimates also factor in the age of the inventories and turnover ratios.

4.9 Cash and cash equivalents

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

4.10 Current and deferred income tax

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

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

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

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

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

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

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

4.11 Income and expense

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the profit or economic benefits embodied by the transaction will flow to the Group and it can be reliably measured. Revenue is recognised net of value added tax and discounts.

Revenue from the sale of goods is recognised when the goods have been delivered, the customer has accepted the sale and the risks and rewards of ownership of the goods have been transferred to the buyer.

Dividend income is recognised when the shareholder's right to receive it is established.

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

Expenses incurred in exchange for the receipt of goods or services are recognised when these goods or services are received.

Expenses are recognized as soon as they are incurred whenever an outflow does not generate future economic benefits and when the requirements for capitalisation are not met.

4.12 Provisions and contingencies

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

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

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

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

At year-end 2013, the Group was defendant in a series of ongoing court cases and claims. In the opinion of the Parent's directors, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2013.

4.13 Termination benefits

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

The Group has recognised a provision in this respect of €1,724 thousand, which is presented in "Trade and other payables – Payable to employees" in the consolidated statement of financial position at 31 December 2013 (€1,369 thousand at year-end 2012) to cover the severance packages contemplated at the reporting date.

4.14 Environmental assets and liabilities

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

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

Environmental-protection expenses incurred are recognised in the consolidated income statement in the year incurred regardless of when the monetary/financial outflow occurs (note 32).

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

4.15 Post-employment obligations

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

1. Active employees

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

In addition, the Group and its employees contribute jointly (50/50) to an insurance policy that provides cover in the event of permanent and full disability or death of the beneficiary. These policies cover at least 35 months' pay.

2. Retired employees

A group of former employees of Celulosas de Asturias, S.A. is entitled to benefits in the form of life and disability insurance. The Group has recognised a provision of €961 thousand for this commitment under "Non-current provisions" on the consolidated statement of financial position at 31 December 2013.

4.16 Employee benefits

Share-based payments

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

The Plan is designed to encourage delivery of the targets set by the Board of Directors for 2010, 2011 and 2012. As many as 3,850,000 stock options, representing 1.53% of share capital, may be granted under the Plan.

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

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

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

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

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

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

€160 thousand). The liability accrued at year-end stood at €625 thousand (€160 thousand at year-end 2012) (note 18).

Long-term bonus plan

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

This Plan is designed to orient the management team towards delivery of the targets set by the Board of Directors for the term of the scheme and to retain talent. The Plan beneficiaries are the CEO, the members of the Executive Committee and other key management personnel. A total of 51 people were beneficiaries of this Plan at year-end 2013.

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

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

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

4.17 Grants

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

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

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

4.18 Consolidated statement of cash flows

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

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

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

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

4. Financing activities: activities that result in changes in the size and composition of equity and borrowings that are not operating activities.

4.19 Related-party transactions

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

4.20 Foreign currency transactions and balances

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

Translation of transactions and balances -

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

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

Translation of the financial statements of Group entities -

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

Long-term loans granted by the Parent to branches or consolidated entities whose functional currency is different from that of the Group are considered net investments in a foreign operation and any resulting exchange differences are accordingly recognised in equity.

4.21 Non-current assets held for sale and discontinued operations

The Group classifies a non-current asset (or disposal group) as held for sale when their carrying amount is to be recovered principally through a sale transaction insofar as a sale is considered highly probable.

These assets (or disposal groups) are measured at the lower of their carrying amount or their estimated sale price less the estimated costs necessary to make the sale. Depreciation of these assets ceases as soon as they are classified as held for sale; however they are tested for impairment at the date of each statement of financial position to make sure their carrying amount does not exceed their fair value less costs to sell. Any required impairment losses are recognised in "Net gain/(loss) on assets classified as non-current assets held for sale" in the consolidated income statement.

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

A discontinued operation is any component of the Group that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, among other conditions.

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

4.22 Segment reporting

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

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

4.23 Earnings per share

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

Diluted earnings per share, meanwhile, is calculated by dividing the profit or loss attributable to ordinary equity holders of the Parent, adjusted for the effects of all dilutive potential ordinary shares, by the weighted average number of ordinary Parent shares outstanding during the period, increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. To this end, management assumes that conversion takes place at the beginning of the period or when the dilutive potential ordinary shares are issued in the event of issuance during the year. Because the Parent has no dilutive potential ordinary shares, basic and diluted earnings per share coincide in 2013 and 2012.

5. Accounting estimates and judgements

The preparation of the 2013 consolidated financial statements in accordance with EU-IFRS requires the use of assumptions and estimates that affect the amounts of related assets, liabilities, revenues, income and expenses recognised and the corresponding disclosures. Actual results may differ from estimated results.

The accounting policies that incorporate management assumptions and estimates that are material in respect of the accompanying consolidated financial statements are:

- The impact of changes in the Spanish energy sector's regulatory framework.
- Calculation of income tax and the recoverable amount of deferred tax assets.
- The assumptions used to calculate certain obligations to employees (notes 4.16 and 18).
- The fair value of certain assets, principally financial instruments (notes 4.6, 4.7 and 12).
- The useful lives of fixed and intangible assets (notes 4.1 and 4.2).
- Calculation of the provisions recognised to cover liabilities arising under lawsuits in progress and bad debt (notes 4.6, 4.8, 4.12 and 18).
- The availability and maturity of the project finance for the Huelva 50 MW and Mérida 20 MW projects (note 19.5).

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

By their very nature, these judgements are subject to a high degree of intrinsic uncertainty, which is why actual results could differ materially from the estimates and assumptions used. At the date of authorising these consolidated financial statements for issue, these estimates are not expected to change significantly; accordingly, no significant adjustments to the carrying amounts of the assets and liabilities recognised at 31 December 2013 are foreseen.

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

5.1 Impact of changes in the Spanish energy sector regulatory framework

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

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

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

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

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

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

The accompanying consolidated financial statements reflect the impact of these regulatory changes. Specifically, the Group has recognised expense in respect of (i) the levy on the value of electricity output equivalent to 7% of the revenue obtained from the generation of electricity, in the amount of €16.3 million (this expense is recognised in "Other operating expenses – New electricity generation levy" in the 2013 consolidated income statement) and (ii) the special tax associated with the purchase of natural gas, in the amount of €2.2 million (recognised in "Cost of sales" in the 2013 consolidated income statement). In addition, the new legislation has the effect of eliminating, with effect from 14 July 2013, the remuneration derived from the efficiency and reactive energy supplements; this has had the effect of decreasing revenue with respect to that envisaged under the outgoing remuneration regime by €11.4 million, net of the related electricity generation levy.

In July 2013, the Spanish Ministry of Industry, Energy and Tourism began to draft legislation "regulating the production of electric power from renewable sources, co-generation and waste"; this legislation is currently pending approval. When passed, it will stipulate the rules for calculating the remuneration applicable to renewable energy power generation facilities with retroactive effect from 14 July 2013. In a step towards enacting this new regime, the Ministry sent the energy regulatory body (the CNMC for its acronym in Spanish) its proposed Order "approving the remuneration parameters for standard facilities applicable to certain power generation facilities fuelled by renewable sources of energy, co-generation and waste" on 3 February 2014. This proposal amends the current premium regime and, among other consequences, puts energy crops and forest/agricultural waste in the same category for remuneration purposes, limits the amount of a plant's energy output entitled to premiums to 80%-90% of nominal annual availability and ceases to consider the lignin generated in the pulp production process as biomass entitled to premium remuneration. As provided in Royal Decree-Law 9/2013, of 12 July 2013, these enacting regulations will take effect retroactively from 14 July 2013.

Note in respect of the abovementioned renewable regime legislation, including the ministerial order defining the related remuneration metrics, that these standards are not currently in effect; rather they are proposals or drafts, subject to parliamentary processing. The Group has legitimate and reasonable expectations that the pleas presented will ultimately result in the amendment of the proposed regulations that result in a shift in bias towards its business interests and a more favourable remuneration regime than is currently proposed for its power co-generation facilities and businesses. Management has estimated the quantitative impact of the application of these regulations; as a result, the Group has recognised a provision of €6,584 thousand, net of the associated electricity generation levy, by reducing revenue from energy sales (note 22), and another in the amount of €35,498 thousand in the form of impairment charges on energy crops and other assets (notes 7, 8, 9 & 18).

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

Regardless, the Group reserves the right to undertake as many courses of action as it deems appropriate in order to uphold its legitimate interests and rights, including the right to sue for damages, depending on the definitive impact of the legislation and ministerial orders ultimately enacted.

5.2 Income tax and the recoverable amount of deferred tax assets

The calculation of income tax requires the interpretation of the tax legislation applicable to each Group company. Several factors, related mainly, but not exclusively, to changes in tax laws and changes in the interpretation of tax laws already in force, require the use of estimates by Group management. As a result, among other things, of the different interpretations to which prevailing tax legislation lends itself, additional tax contingencies or liabilities may arise in the event of a tax inspection by the corresponding tax authorities.

The ability to utilise the deferred tax assets before the end of the prescribed term of 18 years is assessed when they are recognised and subsequently at each reporting date, factoring the Group's earnings outlook as per its current business plans. In re-assessing its tax assets, management considers the potential reversal of deferred tax liabilities, projected taxable income and tax planning strategy. This assessment is underpinned by internal projections which are updated to reflect the most recent business trends affecting the Group.

6. Risk factors

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

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

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

6.1 Market risk

Pulp prices

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

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

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

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

Supply of wood

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

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

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

A 5% increase in the price per cubic metre of eucalyptus timber for use in the productive process would decrease operating income by approximately €13 million.

Energy sector regulations

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

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

A 5% change in the tariffs that determine the revenue generated by the energy business would have an impact on Group revenue of approximately 1%.

Environmental regulations

In recent years, environmental regulations in the European Union have had the effect of increasing restrictions on the emission of wastewater and greenhouse gases etc. Future changes in environmental regulations could result in higher expenditure to comply with new requirements.

Concession agreement in Pontevedra

As indicated in note 8.4, the term of the concession for the use of the land on which the Group's pulp factory in Pontevedra is located was amended by the Spanish Coastal Act (Law 22/1988 of 28 July 1988), which established a maximum concession term from enactment of the Act of 30 years, i.e., until 29 July 2018.

On 30 May 2013, the Spanish government published Law 2/2013, on coastal protection and sustainability, which had the effect of amending the Coastal Act. Among other amendments, this new regulation contemplates the possibility of extending concessions for the use of public-domain coastal land granted under the former regulation, which therefore applies to the Group's concession in Pontevedra, for up to 75 years from when the extension request is filed. Under the scope of this new legal framework, the Company filed to have its concession extended by the maximum legally-permitted term on 8 November 2013.

The assets located on land held under concession are currently depreciated over the shorter of their remaining useful life or the term of the concession agreement. An increase in the concession term would accordingly reduce the depreciation charge forecast for 2014 by approximately €7.5 million.

Exchange rate risk

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

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

A 5% appreciation in the dollar against the euro would increase the Group's revenue before hedges by approximately 3.6%.

6.2 Credit risk

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

Trade and other receivables

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

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

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

Financial assets

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

6.3 Liquidity and capital risk

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

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

The Ence Group uses three main sources of external financing:

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

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

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

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

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

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

Under the scope of this financing policy, the Group has already repaid the corporate debt originally due in 2014. On 1 February 2013, the Parent closed the placement of a €250 million bond issue with qualified institutional investors. The proceeds from these bonds, due 2020, were primarily used to repay the syndicated loan then outstanding (note 19).

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

6.4 Interest rate risk

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

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

The Group actively manages its exposure to the interest rate risk deriving from borrowings taken out at floating rates. As a general rule, it hedges 70%-80% of its floating-rate non-recourse borrowings by arranging options and/or swaps. Moreover, the culmination of the refinancing of the Group's corporate debt, referred to above, which carried fixed rates, has had the effect of mitigating interest rate risk (note 19).

7. Intangible assets

The reconciliation of the carrying amounts of the various components of intangible assets and accumulated amortisation in 2013 and 2012 is as follows:

2013

Thousands of euros	Balance at 01/01/2013	Additions/ (charges)	Derecognitions or decreases	Transfers (note 8)	Balance at 31/12/2013
Computer software	14,358	419	(154)	-	14,623
Emission allowances	16,021	883	(3,018)	-	13,886
Prepayments	-	3,264	-	208	3,472
Other intangible assets (*)	14,204	-	(228)	-	13,976
Total cost	**44,583**	**4,566**	**(3,400)**	**208**	**45,957**
Computer software	(13,964)	(235)	189	-	(14,010)
Other intangible assets (*)	(9,063)	(1,202)	228	-	(10,037)
Total amortisation	**(23,027)**	**(1,437)**	**417**	-	**(24,047)**
Other intangible assets	-	(2,853)	-	-	(2,853)
Total impairment	-	**(2,853)**	-	-	**(2,853)**
Total	**21,556**				**19,057**

(*) Mainly includes development expenses

2012 Thousands of euros	Balance at 01/01/2012	Additions/ charges	Derecognitions or decreases	Exchange differences	Transfers from held for sale (note 28)	Balance at 31/12/2012
Computer software	14,361	-	(110)	(3)	110	14,358
Emission allowances	5,253	16,598	(5,830)	-	-	16,021
Other intangible assets (*)	10,405	3,570	(1,192)	1	1,420	14,204
Total cost	**30,019**	**20,168**	**(7,132)**	**(2)**	**1,530**	**44,583**
Computer software	(13,744)	(221)	110	1	(110)	(13,964)
Other intangible assets (*)	(8,148)	(756)	1,192	-	(1,351)	(9,063)
Total amortisation	**(21,892)**	**(977)**	**1,302**	**1**	**(1,461)**	**(23,027)**
Total	**8,127**					**21,556**

(*) Mainly includes development expenses

7.1 Computer software

The Group has started work on a plan to transform its IT systems based on an SAP platform that will be the management information tool supporting the reporting and control business processes from 2015. The investment incurred to date amounts to €3,472 thousand out of total estimated investment of €9 million.

7.2 Emission allowances

The reconciliation of the opening and year-end Group-owned carbon allowance balances for 2013 and 2012 is provided in the next table:

	2013		2012	
	Number of allowances	Thousands of euros	Number of allowances	Thousands of euros
Opening balance	1,071,804	16,021	379,849	5,253
Allocations (note 17)	152,130	944	657,970	4,112
Purchases	-	-	506,202	12,486
Delivered (*)	(491,690)	(3,079)	(472,217)	(5,831)
Closing balance	**732,244**	**13,886**	**1,071,804**	**16,021**

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

In November 2013, the Spanish Parliament approved the New National Allocation Plan under which it will allocate emission allowances free of charge in 2013-2020. The new plan upholds the criteria adopted by Decision 2011/278/EU of the European Commission.

"Non-current provisions" on the liability side of the consolidated statement of financial position includes €8,715 thousand in this respect at 31 December 2013 (€3,015 thousand at year-end 2012), corresponding to the liability derived from the consumption of 491,924 tonnes of carbon in 2013 (491,690 tonnes in 2012) (note 18).

The Group has contractually committed to the forward purchase of allowances covering a total of 601,000 tonnes: 200,000 tonnes at a price of €15.52/tonne exercisable in December 2014 and 401,000 tonnes at €15.69/tonne exercisable in December 2015. The aim is to cover the Group's future consumption of emission allowances.

7.3 Other intangible assets

In 2012 the Group acquired from Foresta Capital, S.L. and Foresta Mantenimiento Plantaciones, S.L., companies related by common shareholders (note 31), a series of intangible assets consisting of techniques, experiences and know-how for use in boosting the productivity of energy crops and in-vitro reproduction of eucalyptus plants and a clone of the *Populus Deltoides* species. The acquisition price agreed implied an fixed upfront payment of €3.5 million and an additional deferred payment of €3 million contingent upon delivery of a series of conditions, among which (i) the lifting of the moratorium on the remuneration regime as it applies to power generated from biomass introduced by Royal Decree-Law 1/2012; and (ii) investment in power plants outside Spain with capacity of at least 70 MW. This agreement also grants the buyer a call option, exercisable within six months of the lifting of the above moratorium at the market value of the assets at the acquisition date, over certain power generation projects under development by the sellers. These assets were written down for impairment in 2013 (note 5.1).

7.4 Fully amortised assets

At 31 December 2013 there were fully-amortised intangible assets still in use with an original cost of €16,735 thousand (year-end 2012: €16,711 thousand).

8. Property, plant and equipment

The reconciliation of the carrying amounts of the various components of property, plant and equipment and accumulated depreciation in 2013 and 2012 is as follows:

2013

Thousands of euros	Balance at 01/01/2013	Additions/ (charges)	Derecognitions or decreases	Transfers (note 7)	Balance at 31/12/2013
Forest land	125,270	-	(7,836)	-	117,434
Other land	6,372	30	(2)	2,200	8,600
Buildings	138,186	-	(34)	860	139,012
Plant and machinery	1,032,987	1,373	(6,075)	179,941	1,208,226
Other PP&E	32,607	4,418	(1,085)	1,736	37,676
Prepayments and PP&E in progress	189,817	85,696	(176)	(184,945)	90,392
Cost	**1,525,239**	**91,517**	**(15,208)**	**(208)**	**1,601,340**
Buildings	(80,986)	(4,074)	90	20	(84,950)
Plant and machinery	(644,201)	(54,009)	3,599	(26)	(694,637)
Other PP&E	(19,821)	(3,522)	998	6	(22,339)
Depreciation	**(745,008)**	**(61,585)**	**4,667**	**-**	**(801,926)**
Land and buildings	(2,005)	-	-	-	(2,005)
Plant and machinery	(3,864)	(15,476)	906	-	(18,434)
Other PP&E	(183)	(2,546)	-	-	(2,729)
Impairment	**(6,052)**	**(18,022)**	**906**	**-**	**(23,168)**
Total	**774,179**				**776,246**

2012

Thousands of euros	Balance at 01/01/2012	Additions/ (charges)	Derecognitions or decreases	Transfers	Exchange differences	Transfers to/from held for sale (note 28)	Balance at 31/12/2012
Forest land	154,317	4	(69)	-	(560)	(28,422)	125,270
Other land	6,377	250	-	-	(4)	(251)	6,372
Buildings	138,977	51	(2)	2,300	(60)	(3,080)	138,186
Plant and machinery	1,020,297	592	(3,422)	14,602	(70)	988	1,032,987
Other PP&E	30,652	600	(1,186)	1,494	(21)	1,068	32,607
Prepayments and PP&E in progress	123,380	85,401	(433)	(18,396)	(3)	(132)	189,817
Cost	**1,474,000**	**86,898**	**(5,112)**	**-**	**(718)**	**(29,829)**	**1,525,239**
Buildings	(77,854)	(4,041)	2	13	14	880	(80,986)
Plant and machinery	(596,277)	(47,496)	657	(37)	50	(1,098)	(644,201)
Other PP&E	(18,570)	(1,627)	1,167	24	3	(818)	(19,821)
Depreciation	**(692,701)**	**(53,164)**	**1,826**	**-**	**67**	**(1,036)**	**(745,008)**
Land and buildings	(4,984)	(21)	3,000	-	-	-	(2,005)
Plant and machinery	(6,173)	(164)	4,005	-	-	(1,532)	(3,864)
Other PP&E	-	(183)	-	-	-	-	(183)
Impairment	**(11,157)**	**(368)**	**7,005**	**-**	**-**	**(1,532)**	**(6,052)**
Total	**770,142**						**774,179**

8.1 <u>Additions</u>

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

	Thousands of euros	
	2013	2012
Navia	14,062	6,212
Huelva	19,241	14,262
Huelva – 50 MW plant	4,028	38,407
Pontevedra	9,473	4,347
Mérida – 20 MW plant	44,669	20,513
Other (*)	44	3,157
	91,517	**86,898**

(*) Includes mainly investments in irrigation systems at its energy crop plantations and energy project development costs

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

Through Ence Energía Extremadura, S.L.U., on 1 August 2012 the Group signed an EPC contract for the construction of a 20-megawatt renewable energy power plant fuelled by biomass in Huelva. This plant will be located in Badajoz (Spain) and is expected to be commissioned during the third quarter of 2014. Investment in this project is expected to total €80.7 million, of which €60.7 million at most will be financed by a syndicate of banks in the form of a project finance arrangement (note 19). Accumulated investment in this facility stood at €65.1 million at 31 December 2013.

The Group capitalised €2,460 thousand of borrowing costs incurred during the year, generated mainly by the project finance loans (€5,670 thousand at 31 December 2012); this balance is presented in the consolidated income statement as a deduction from "Other finance costs".

In addition, the Group has contractually committed to capital expenditure at year-end 2013, most of which will be incurred in 2014, of €7,662 thousand.

8.2 Derecognitions

The Group, through its subsidiary Iberflorestal, S.A., closed the sale of forest assets it owned outright in Portugal, specifically 2,608 hectares of forest land with eucalyptus plantations, for €10,829 thousand on 17 December 2013. This transaction generated a loss of €2,834 thousand, which is recognised in "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the consolidated income statement.

This transaction also encompasses an agreement with the buyer under which the Group will purchase the wood produced from the land mass sold for the next 20 years at market prices and also manage the plantation for the same period.

8.3 Fully depreciated assets

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

Thousands of euros	2013	2012
Buildings	42,587	42,066
Machinery	410,442	397,860
Tools	682	396
Furniture and fittings	3,266	1,559
Other	49,303	10,935
	506,280	**452,816**

8.4 Public-domain concession arrangement

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

The concession deed did not establish a finite concession term. However, the Coastal Act of 1988 later stipulated that the holder of concessions granted prior to effectiveness of the said Act, therefore applying to the Company's concession in Pontevedra, would be deemed granted for a maximum term of 30 years from enactment of the Coastal Act. The Coastal Act came into effect on 29 July 1988, which means that under that piece of legislation, the concession would terminate on 29 July 2018. However, on 30 May 2013, the Spanish government published Law 2/2013, on coastal protection and sustainability, in the Official State Journal. This new law had the effect of amending the Coastal Act. Among other amendments to the Coastal Act, Law 2/2013 contemplates the possibility of extending concessions for the use of public-domain coastal land granted under the former regulation, therefore applying to the concession in Pontevedra, for up to 75 year from when the extension request is filed. Under the scope of this new legal framework, the Company filed to have its concession extended by the competent authorities for the maximum legally-permitted term on 8 November 2013. The carrying amount of the assets located on this concession land was €67,063 thousand at 31 December 2013 (€71,865 thousand at year-end 2012).

8.5 Asset revaluations

The Group restated all its forest land to fair value as of 1 January 2004, the date of transition to IFRS-EU. This value was determined by independent expert appraisers. As permitted under IFRS, these revalued amounts were considered deemed cost. The gain on the revaluation, net of the corresponding deferred tax liability of €23,184 thousand (€23,498 thousand at 31 December 2012), amounts to €54,149 thousand (€54,882 thousand at 31 December 2012) and is included in "Valuation adjustments" in equity. That fair value benchmark has been used as deemed cost in subsequent years.

Elsewhere, the Group has decided not to avail of the one-time asset revaluation option provided for under Spanish Law 16/2012 of 27 December, 2012, enacting a range of fiscal measures designed to further consolidate the public finances and shore up economic activity.

8.6 Impairment

As indicated in note 4.2, whenever there are indications of impairment, the Group proceeds to test whether the recoverable amount of its assets has fallen below their carrying amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

The Group faces regulatory uncertainty as a result of the processing, underway, of draft legislation "regulating the production of electric power from renewable sources, co-generation and waste", which established the rules for calculating the remuneration applicable to renewable energy power generation facilities with retroactive effect from 14 July 2013 and the draft Order "approving the remuneration parameters for standard facilities applicable to certain power generation facilities fuelled by renewable sources of energy, co-generation and waste", which proposes amendments to the prevailing premium regime (note 5).

In the wake of these proposals, management has tested the Group's various cash-generating units that stand to be affected by the abovementioned regulatory developments for impairment and run sensitivity analysis, particularly with respect to the key business inputs, in order to make sure that the potential impacts on valuations are not greater than the assets' carrying amounts under any scenario. As a result of this exercise, the Group has recognised potential impairment losses of €5,732 thousand on certain assets. This charge is recognised in "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the accompanying 2013 consolidated income statement.

Note that if the draft regulations and ministerial order enacting the remuneration parameters are ultimately approved as currently worded, depending on the trend in pulp costs and prices, the recoverable amount of the Group's pulp production and power generation plant in Huelva would approximate its carrying amount, which at 31 December 2013 stood at €122 million. As a result, approval of the above legislation as currently drafted would increase the risk of having to recognise an impairment loss on this asset and would also condition its viability going forward.

In addition, management has recognised impairment losses of (i) €4,475 thousand on investments in irrigation equipment installed in estates in which energy crops are grown and (ii) €2,110 thousand against capitalised costs incurred to develop new biomass-fuelled power generation facilities, both of which affect "Property, plant and equipment".

8.7 Insurance policy and other disclosures

It is Group policy to take out the insurance policies necessary to cover the potential risks to which the various items of property, plant, and equipment are exposed. The Parent's directors believe that the coverage provided by these policies at year-end 2013 is sufficient.

Assets with a carrying amount of €21,585 were located outside of Spain at 31 December 2013 (€90,912 thousand at year-end 2012).

9. Biological assets

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

Thousands of euros	31/12/2013	31/12/2012
Cover earmarked for pulp	116,381	125,655
Cover earmarked for energy crops	37,248	44,622
Cover earmarked for other uses	516	681
	154,145	**170,958**

The movement in this heading 2013 and 2012:

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

2012	Thousands of euros Balance at 01/01/2012	Additions/ (charges)	Transfers	Exchange differences	Transfers to available-for-sale (note 28)	Balance at 31/12/2012
Earmarked for pulp & other uses:						
Forest cover	236,480	11,264	(111)	(483)	(26,083)	221,067
Depletion of forest reserve	(91,690)	(6,268)	-	109	5,582	(92,267)
Impairment	(570)	(533)	(1,361)	-	-	(2,464)
	144,220	**4,463**	**(1,472)**	**(374)**	**(20,501)**	**126,336**
Earmarked for energy crops:						
Forest cover	36,907	11,267	(699)	-	-	47,475
Depletion of forest reserve	(14)	(2,839)	-	-	-	(2,853)
Impairment	(527)	-	527	-	-	-
	36,366	**9,678**	**(172)**	**-**	**-**	**44,622**
	180,586					**170,958**

In 2013 the Group planted 580 hectares of land (2012: 4,452 hectares) and carried out forest preservation and protection work encompassing 33,578 hectares (2012: 47,125 hectares).

9.1 Breakdown of forest cover

An analysis of the Group's forest cover at year-end 2013 and 2012 is provided below:

2013

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

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

2012

	Spain & Portugal			
	Pulp		Energy crops	
Age (years)	Productive hectares	Carrying amount (€ 000)	Productive hectares	Carrying amount (€ 000)
>17	1,010	1,490	-	-
14 - 16	819	2,443	22	32
11 - 13	5,142	17,457	1,526	3,115
8 - 10	8,173	22,010	559	623
4 - 7	20,836	58,272	4,928	14,854
0 - 3	15,443	26,125	9,481	25,437
Impairment of biological assets	-	(2,464)	-	-
Deferred expenses	-	1,003	-	561
	51,423	**126,336**	**16,516**	**44,622**

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

9.2 Additions to forest cover

In 2013 the Group capitalised forest plantation, preservation and silviculture services received in the amount of €16,407 thousand (€21,042 thousand in 2012).

The Group capitalised €2,020 thousand of borrowing costs in forest cover in 2013 (€1,489 thousand in 2012); this addition is accounted for in the consolidated income statement as a reduction in "Other finance costs".

9.3 Impairment

The Group faces regulatory uncertainty as a result of the processing, underway, of draft legislation "regulating the production of electric power from renewable sources, co-generation and waste", which establishes the rules for calculating the remuneration applicable to renewable energy power generation facilities with retroactive effect from 14 July 2013 and the draft "Order approving the remuneration parameters for standard facilities applicable to certain power generation facilities fuelled by renewable sources of energy, CHP and waste" which proposes amendments to the prevailing premium regime (note 5).

The estimated future profitability of certain energy crop plantations earmarked for power generation projects in the event that the draft ministerial order enacting the remuneration parameters is passed as currently worded would not permit the generation of a reasonable return. Accordingly, the Group has recognised a related impairment loss of €12,219 thousand plus an additional €7,125 thousand provision to cover the costs of dismantling these plantations and terminating the lease agreements on the forest estates as well as other costs that would have to be incurred (note 18).

10. Leases

At year-end 2013, the Group's future minimum payments under non-cancellable leases, without factoring in costs to be reimbursed by the lessor, inflation-related adjustments or contractually-agreed rent increases, are as follows:

Thousands of euros	31/12/2013	31/12/2012
Less than one year	5,886	5,371
Between one and five years	22,503	21,610
Later than five years	34,076	29,194
	62,465	**56,175**

At year-end 2013, the Group was leasing 27,071 hectares of forest assets earmarked for the production of biological assets (28,256 hectares at year-end 2012). The average term of these lease agreements is 30 years.

11. Financial instruments by category – Fair value

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

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

Thousands of euros	Loans and receivables / payables	Trading derivatives	Hedging derivatives	Held-to-maturity investments	Available-for-sale	Total at 31/12/2012
Available-for-sale financial assets	-	-	-	-	59,345	59,345
Derivative financial instruments	-	-	10,721	-	-	10,721
Financial accounts receivable	-	-		7,575	-	7,575
Trade and other receivables	168,237	-	-	-	-	168,237
Cash and cash equivalents	40,205	-	-	-	-	40,205
Total financial assets	**208,442**	**-**	**10,721**	**7,575**	**59,345**	**286,083**
Non-recourse borrowings	96,155	-	-	-	-	96,155
Recourse borrowings	237,585	-	-	-	-	237,585
Derivative financial instruments	-	9,002	22,511	-	-	31,513
Trade and other payables	211,687	-	-	-	-	211,687
Other financial liabilities	10,853	-	-	-	-	10,853
Total financial liabilities	**556,280**	**9,002**	**22,511**	**-**	**-**	**587,793**

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

12. Derivative financial instruments

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

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

The Group classifies its derivatives into three categories:

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

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

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

The breakdown of this consolidated statement of financial position heading at 31 December 2013 and 2012 (showing the fair value of the derivatives at year-end), is provided in the next table:

	Current assets		Non-current liabilities		Current liabilities	
Thousands of euros	2013	2012	2013	2012	2013	2012
Cash flow hedges:						
Foreign exchange hedges	-	10,721	-	-	-	-
IRS – Recourse borrowings	-	-	-	-	-	10,164
IRS – 50-MW project finance facility	-	-	4,705	8,134	2,276	2,365
IRS – 20-MW project finance facility	-	-	37	1,518	613	330
	-	10,721	4,742	9,652	2,889	12,859
Trading derivatives:						
Equity swap	-	-	2,651	6,975	1,645	2,027
Total	**-**	**10,721**	**7,393**	**16,627**	**4,534**	**14,886**

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

The derivatives classified as "Trading derivatives" are derivative financial instruments that, despite being arranged to hedge some form of market risk, do not qualify for hedge accounting under prevailing accounting rules, for which the underlying has been sold or for which hedge accounting has been discontinued.

A gain of €8,272 thousand on derivatives designated as hedging instruments was reclassified to profit or loss in 2013 (a loss of €30,920 thousand in 2012).

12.1 Foreign exchange hedges

To hedge the Group's exposure to fluctuations in the dollar/euro exchange rate, which have a significant impact on pulp sales prices and on a material portion of the Group's purchases, the Parent sold US dollars under forward agreements in 2012 in order to hedge its net exposure to future income referenced to that currency.

These hedges' notional amount at 31 December 2012 was USD222 million. The average exchange rate locked in was USD/EUR 1.24 and the contracts were due settlement 2013. These contracts qualified for hedge accounting. and proved 100% effective when tested.

These instruments presented a positive fair value of €10,721 thousand at year-end 2012; this gain was recognised in "Current assets – derivatives" in the consolidated statement of financial position with a balancing entry, net of the corresponding tax effect, in "Equity – Valuation adjustments".

At 31 December 2013, the Group did not have any foreign exchange hedges outstanding.

"Change in fair value of financial instruments" in the accompanying 2013 consolidated income statement includes a €12,102 thousand gain on hedges settled during the year (compared to a loss of €26,381 thousand in 2012).

12.2 Interest rate swaps:

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

The interest rate derivatives arranged by the Group and outstanding at year-end 2013 and 2012 are shown below:

2013

	Fair	Notional principal amounts at year-end					
Thousands of euros	value	2014	2015	2016	2017	2018	2019
IRS – 50-MW project finance facility	6,981	74,874	69,933	63,997	57,502	50,584	43,563
IRS – 20-MW project finance facility	650	34,334	44,908	42,036	38,981	35,928	32,685

2012

Thousands of euros	Fair value	Notional principal amounts at year-end						
		2013	2014	2015	2016	2017	2018	2019
IRS – Recourse borrowings	10,164	194,498	-	-	-	-	-	-
IRS – 50-MW project finance facility	10,499	75,982	74,874	69,933	63,997	57,502	50,584	43,563
IRS – 20-MW project finance facility	1,848	15,628	34,334	44,908	42,036	38,981	35,928	32,685

The table below provides the maturity analysis at 31 December 2013 of the Group's interest rate derivatives on the basis of undiscounted cash flows:

	Thousands of euros		
	3 months - 1 year	1 – 5 years	Over 5 years
IRS – 50-MW project finance facility	2,153	4,964	-
IRS – 20-MW project finance facility	567	659	(664)

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

In 2013 the Group reclassified a net loss of €3,830 thousand in the income statement in connection with changes in the fair value of its interest-rate cash flow hedges (2012: a net loss of €3,352 thousand) (note 16).

On 29 May 2008, the Parent arranged an interest rate swap that was designated as a hedge of approximately 60% of its corporate or recourse borrowings drawn down at the time. These borrowings were substantially restructured in 2009 so that the swap ceased to qualify for hedge accounting from 16 October 2009. The changes in the fair value of this instrument were recognised directly in profit and loss from this date. The fair value of the financial instrument when hedge accounting was discontinued was left in equity and was reclassified to the income statement as interest expense on the hedged item (the syndicated loan) was accrued.

On 1 February 2013, the Parent issued €250 million of corporate bonds (note 19). As a result of this new financing arrangement, the Parent cancelled the syndicated loan drawn down at that time as well as the associated interest rate swap, generating a loss of €96 thousand due to the change in the fair value of the instrument in 2013 until it was cancelled. Meanwhile, the fair value of the hedging instrument recognised in Group equity and associated with the hedged item that had not been cancelled, in the amount of €1,075 thousand (before the related tax effect) was reclassified to profit and loss in 2013. "Change in the fair value of financial instruments" in the 2013 consolidated income statement reflects both these effects.

Based on the contractual terms of the instruments outstanding at 31 December 2013, a 10% increase in the Euribor interest rate curve would translate into a gain of €47 thousand in the 2014 consolidated income statement. In contrast, a 10% decline in the Euribor interest rate curve would result in a loss of the same magnitude in 2014.

12.3 Equity swap:

On 25 October 2007, the Parent arranged an equity swap with Bankia, as required under the terms of the Special Bonus Plan signed on that same date. This contract was terminated on 18 June 2008 and a new one was executed on similar terms, albeit adapting the exercise price to reflect the Company's share price performance. The agreement was amended again on 14 October 2010 in order to adapt it to the changes made to the Long-term Bonus Plan (note 4.16).

The aforementioned equity swap was written over a total of 5,100,000 Company shares at a base price of €4.11 per share. The equity swap carried interest at 12-month Euribor plus a spread of 0.05%, settled annually. It was initially repayable on 30 June 2012. There is no related share buyback agreement. The agreement expressly states that the shares will never revert to the Group and that in the event of surplus shares at the end of the 5-year period, Bankia will sell them directly in the market, so that these shares cannot be considered treasury shares under any circumstances.

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

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

The equity swap presented a negative fair value of €4,296 thousand at 31 December 2013 (a negative €9,002 thousand at year-end 2012). This balance is recognised in the "Financial derivative instrument" headings within current and non-current liabilities on the accompanying consolidated statement of financial position. The Group recognised a gain of €2,809 thousand in the consolidated income statement in respect of the increase in the fair value of this instrument in 2013 (2012: a gain of €160 thousand).

A 10% gain in the Company's share price would translate into a gain of €753 thousand in the 2014 consolidated income statement. In contrast, a 10% share price correction would result in a loss of the same magnitude in 2014.

13. Inventories

The breakdown of the Group's inventories at 31 December 2013 and 2012 is as follows:

Thousands of euros	31/12/2013	31/12/2012
Wood	38,536	48,555
Other raw materials	2,665	3,995
Spare parts	20,425	23,878
Construction in progress	552	1,383
Work in progress	441	441
Finished goods	20,345	17,597
Prepayments to suppliers	1,445	1,069
Impairment (*)	(13,420)	(9,343)
	70,989	**87,575**

(*) On account primarily of slow-moving inventory items and the net realisable value of finished products

There are no restrictions on the title of the inventories. It is Group policy to take out the insurance policies necessary to cover the potential risks to which its inventories are exposed and management believes that its coverage at year-end is adequate.

The Group has committed at year-end to acquire 298 thousand tonnes of eucalyptus for pulp production and 2,571 thousand tonnes of forest waste for power generation under contracts with suppliers and agreements with producer associations.

14. Trade and other receivables

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

Thousands of euros	31/12/2013	31/12/2012
Trade receivables	114,249	138,339
Other receivables	3,202	4,854
Receivable from employees	79	16
Provision for impairment of trade receivables	(3,166)	(4,629)
	114,364	**138,580**

"Trade receivables" in the table above includes €2,433 thousand past due but not impaired and not covered by credit insurance policies (note 6) at 31 December 2013 (€2,710 thousand at year-end 2012). A significant portion of these balances are due from public bodies.

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

The year-end 2013 balance sheet includes €19,564 thousand of accounts receivable denominated in US dollars (year-end 2012: €27,549 thousand).

The Group has drawn down €30,530 thousand under several factoring agreements deemed non-recourse, as all the risks intrinsic to monetisation of the underlying receivables have been transferred, with an aggregate limit of €83,000 thousand at year-end 2013 (€33,520 thousand and €85,000 thousand, respectively, at 31 December 2012). The Group pays interest equivalent to 3-month Euribor plus a spread ranging between 1.5 and 2.5% on the receivables discounted under these agreements.

15. Trade and other payables

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

Thousands of euros	31/12/2013	31/12/2012
Trade payables	179,578	177,479
Fixed asset suppliers	8,466	16,088
Employee benefits payable	9,135	8,335
	197,179	**201,902**

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

The Group has drawn down €63,860 thousand under non-recourse reverse factoring agreements with several banks with an aggregate limit of €114,000 thousand at year-end 2013 (€62,806 thousand and €83,500 thousand, respectively, at 31 December 2012).

The year-end 2013 balance sheet includes €4,867 thousand of accounts payable denominated in US dollars (year-end 2012: €6,512 thousand).

Spanish Law 15/2010 (5 July 2010) on addressing non-payment of commercial transactions stipulates certain disclosure requirements in the notes to the annual financial statements on transaction settlement performance. Against this backdrop, the table below details the trade payables settled in 2013 and 2012 and the amounts outstanding at year-end (excluding intra-group transactions and payments to fixed asset suppliers):

	2013		2012	
	Thousands of euros	%	Thousands of euros	%
Within the legally-mandated maximum term	438,160	87%	469,013	94%
Other	77,271	13%	56,274	6%
Total payments during the year	515,431	100%	525,287	100%
Weighted average term of past due payments (days)	95.18	-	32.95	-
Trade payables past due by more than the legally-mandated maximum term at the close	10,127	-	6,179	-

16. Equity

16.1 Share capital

The share capital of ENCE Energía y Celulosa, S.A. at 31 December 2013 was represented by 250,272,500 fully subscribed and paid bearer shares, each with a par value of €0.90.

Based on the notifications received by the Parent, its shareholders structure at year-end 2013 and 2012 was as follows:

Percentage interest	31/12/2013	31/12/2012
Retos Operativos XXI, S.L.	25.6	24.5
Alcor Holding, S.A.	19.8	21.9
Liberbank, S.A. (*)	6.3	6.9
La Fuente Salada, S.L.	5.0	-
Asúa Inversiones, S.L.	5.0	-
Treasury shares	2.9	7.5
Free float	35.4	39.2
Total	**100.0**	**100.0**

(*) Liberbank, S.A. sold its shareholding in January 2014. Amber Capital UK LLP acquired a 4.02% interest in the Company from Liberbank, S.A.

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

16.2 Legal reserve

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

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

16.3 Share premium

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

16.4 Reserves in fully-consolidated companies

The next table breaks down "Equity – Reserves in fully-consolidated companies" by company at 31 December 2013 and 2012:

Thousands of euros	31/12/2013	31/12/2012
Celulosas de Asturias, S.A.U.	67,786	45,426
Celulosa Energía, S.A.U.	34,104	43,879
Norte Forestal, S.A.U.	16,751	17,054
Silvasur Agroforestal, S.A.U.	9,975	8,516
Iberflorestal, S.A.U.	2,377	2,204
Ibersilva, S.A.U.	(17,391)	(18,059)
Eucalipto de Pontevedra, S.A.U.	(2,039)	(1,987)
Electricidad de Navia Asturias, S.L.U.	2,793	2,839
Maderas Aserradas del Litoral, S.A.	(5,291)	(2,721)
Zona Franca M'Bopicuá, S.A.	2,894	2,895
Las Pléyades, S.A. (SAFI)	1,969	2,026
Sierras Calmas, S.A.	5,037	5,627
Ence Energia, S.L.U.	(1,340)	(803)
Ence Energía Huelva, S.L.U.	(2,198)	(658)
Consolidation and other adjustments	10,995	6,305
	126,422	**112,543**

The balance of reserves in consolidated companies that is restricted at year-end stood at €15,079 thousand (year-end 2012: €14,979 thousand) and corresponds mainly to the legal reserves endowed by the various Group companies.

16.5 Dividends

The shareholders of Ence Energía y Celulosa, S.A. ratified the payment of a €16,154 thousand dividend at the Annual General Meeting of 21 March 2013 (corresponding to a gross payment of €0.07 per Ence Energía y Celulosa, S.A. share carrying dividend rights outstanding as of the payment date). This dividend was paid on 3 April 2013.

At that same general meeting the shareholders also approved the payment of a in-kind dividend consisting of the distribution of a portion of the share premium account by means of the delivery of treasury shares of the Parent in the proportion of one share for every 25 outstanding: as a result, the Company gave away 9,192,292 own shares with a market value at the payment date of €20,184 thousand and an average acquisition cost of €18,481 thousand.

16.6 Earnings per share

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

Earnings per share	2013	2012
Group profit/(loss) attributable to owners of the parent (€ 000)	4,311	43,031
Ordinary shares outstanding at 1 January	250,272,500	258,012,890
Ordinary shares outstanding at 31 December	250,272,500	250,272,500
Weighted average ordinary shares	250,272,500	254,629,113
Basic earnings per share (euros)	**0.02**	**0.16**
Diluted earnings per share (euros)	**0.02**	**0.16**

16.7 Parent Company shares

The reconciliation of "Own shares - parent company shares" at the beginning and end of 2013 and 2012 is as follows:

	2013		2012	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	18,743,383	37,213	20,211,000	49,217
Purchases	10,389,476	26,509	22,538,848	41,596
In-kind dividend payment	(9,192,292)	(18,481)	(15,554,852)	(35,193)
Cancellation	-	-	(7,740,390)	(16,828)
Sales	(12,690,060)	(25,479)	(711,223)	(1,579)
Closing balance	**7,250,507**	**19,762**	**18,743,383**	**37,213**

The most significant sale transaction took place on 13 June 2013, with the sale of 12,513,625 own shares, representing a 5% equity interest in the Company, to Asúa Inversiones, S.L. and Fuente Salada, S.L. for a total of €27,405 thousand. The €2,279 thousand gain generated by this transaction was recognised directly in equity in "Parent company reserves" in the 2013 consolidated statement of financial position.

The own shares held by the Company at 31 December 2013 represent 2.9% of its share capital (7.5% at year-end 2012) and are carried at €6,526 thousand (€16,869 thousand at 31 December 2012). These shares were acquired at an average price of €2.726 per share. The Group plans to hold these shares as treasury stock until such time as the Board of Directors determines the best use for them in order to maximise shareholder value creation.

16.8 Valuation adjustments

"Valuation adjustments" within equity includes the impact of the changes in the fair value of the Group's hedging derivatives (note 12) and the reserve generated by recognising the Group's forest land at market value as of 1 January 2004 (note 8). The latter reserve is freely distributable. The breakdown of the changes in the fair value of the hedging derivatives in 2013 and 2012 is shown below:

Thousands of euros	2013 Fair value	2013 Tax effect	2013 Adjustment in equity	2012 Fair value	2012 Tax effect	2012 Adjustment in equity
Interest rate swap - Recourse borrowings:						
Opening balance	(1,075)	(323)	(752)	(3,120)	(937)	(2,183)
Reclassified to profit or loss	1,075	323	752	2,045	614	1,431
Other changes in value	-	-	-	-	-	-
Closing balance	-	-	-	(1,075)	(323)	(752)
Interest rate swap – 50 MW project finance facility:						
Opening balance	(10,499)	(3,150)	(7,349)	(6,615)	(1,985)	(4,630)
Reclassified to profit or loss	2,409	723	1,686	1,291	387	904
Other changes in value	1,109	333	776	(5,175)	(1,552)	(3,623)
Closing balance	(6,981)	(2,094)	(4,887)	(10,499)	(3,150)	(7,349)
Interest rate swap – 20 MW project finance facility:						
Opening balance	(1,848)	(555)	(1,293)	-	-	-
Reclassified to profit or loss	346	104	242	16	4	12
Other changes in value	851	255	596	(1,864)	(559)	(1,305)
Closing balance	(651)	(196)	(455)	(1,848)	(555)	(1,293)
Foreign exchange hedges:						
Opening balance	10,721	3,217	7,504	(22,226)	(6,667)	(15,559)
Reclassified to profit or loss	(12,102)	(3,630)	(8,472)	26,381	7,914	18,467
Other changes in value	1,381	413	968	6,566	1,970	4,596
Closing balance	-	-	-	10,721	3,217	7,504
Pulp price hedges:						
Opening balance	-	-	-	867	260	607
Reclassified to profit or loss	-	-	-	1,187	356	831
Other changes in value	-	-	-	(2,054)	(616)	(1,438)
Closing balance	-	-	-	-	-	-
	(7,632)	**(2,292)**	**(5,340)**	**(2,701)**	**(811)**	**(1,890)**

17. Grants

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2013 and 2012 is as follows:

Thousands of euros	Subsidised loans (note 20)	Grants relating to assets	Emission allowances (note 7)	Total
Balance at 01/01/2012	**1,648**	**11,801**	**6,795**	**20,244**
Emission allowances allocated for 2012	-	-	4,112	4,112
Reclassified to profit or loss	(336)	(907)	(3,037)	(4,280)
Balance at 31/12/2012	**1,312**	**10,894**	**7,870**	**20,076**
Additions, new grants (*)	394	115	-	509
Emission allowances allocated for 2013	-	-	944	944
Reclassified to profit or loss	(337)	(953)	(5,030)	(6,320)
Balance at 31/12/2013	**1,369**	**10,056**	**3,784**	**15,209**

(*) Net of expenses incurred in obtaining them

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

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

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

18. Provisions, guarantees and contingent liabilities

18.1 Non-current provisions

The reconciliation of the movements in "Non-current provisions" and "Current provisions" in accompanying consolidated balance sheet in 2013 and 2012:

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

2012	Thousands of euros			
	Balance at 01/01/2012	Additions/ (charges)	Derecognitions or decreases	Balance at 31/12/2012
Non-current:				
Galicia Sanitation Agreement	5,357	-	-	5,357
Pontevedra Inlet Discharge Royalty	6,565	714	(4,139)	3,140
VAT Inspection, Germany 2002-2008	2,898	-	(2,831)	67
Employee commitments (notes 4.15 & 4.16)	1,005	160	-	1,165
Emission allowances (note 7)	5,845	3,029	(5,859)	3,015
Other	1,515	-	(1,001)	514
	23,185	**3,903**	**(13,830)**	**13,258**

In 2013, the Group settled the last of its water discharge royalty payments to "Aguas de Galicia" in respect of 2004 – 2007, paying €3,140 thousand (€4,053 thousand in 2012) and reversed the provision associated with the "Galicia Sanitation Agreement" as the related obligation had prescribed.

In 2011 the German tax authorities completed their inspection of how the Group calculated value-added tax (VAT) on its business operations in Germany between 2002 and 2008. As a result of the inspection, the German authority handed down assessments (without fines), seeking payment of €12,692 thousand plus interest of €2,829 thousand, which was settled in 2012. All of the VAT paid to the authorities has been paid back by the Group's customers between 2012 and 2013.

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

18.2 Guarantees extended to third parties

At 31 December 2013, several financial institutions had extended the various Group companies guarantees, mainly performance bonds related to business operations, for an aggregate amount of approximately €45,508 thousand, of which €28,016 thousand is accounted for by guarantees of a financial nature (€50,497 thousand at 31 December 2012).

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

18.3 Contingent liabilities

At year-end 2013, the Group is party, variously as defendant and plaintiff, to legal claims and controversies arising in the ordinary course of its business.

The most significant claims are detailed below. Management estimates that none of these, either individually or on aggregate, will have a material adverse impact on the consolidated financial statements:

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

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

- Ence has appealed the sentences handed down by the Appellate Court on 19 May 2011 and 19 April 2013 regarding lawsuits seeking the termination of the concession for the use of public-domain coastal land in Pontevedra due to alleged breaches of the terms of the concession, before the Supreme Court. Although both Appellate Court rulings partially uphold the lawsuits, neither addresses the legal substance of the matter; they therefore do not rule on any breach of the terms of the concession by ENCE, as the plaintiffs are claiming. Both Appellate Court sentences simply order the government to open proceedings into both cases seeking the end of the term of the concession and legal injunctions on activities and the use and exploitation of the facilities. Nor do the sentences pre-judge the outcome of the cases in question, which would have to be processed under full administrative proceedings, as warranted; the ultimate outcome of any such proceedings would be appealable in the jurisdiction of the administrative courts. Both sentences have likewise been appealed by the General State Administration. The sentences appealed cannot be enforced while the appeals are being heard. In addition, the town council of Pontevedra and an association have challenged the ruling by the Regional Government of Galicia of 21 December 2011 agreeing the renewal of the Pontevedra facility's Integrated Environmental Permit before the Galicia High Court. The grounds for challenging the ruling are similar to those put forward in previous cases against the same permit that were rules in favour of Ence.

19. Borrowings and cash and cash equivalents

The breakdown of the Group's borrowings at 31 December 2013 and 2012 is as follows:

	2013		2012	
	Current	Non-current	Current	Non-current
High-yield bond	-	250,000	-	-
Loans and credit facilities	400	700	24,588	214,579
50-MW project finance facility	5,544	78,469	1,477	83,779
20-MW project finance facility	188	22,312	-	15,000
Arrangement fees (*)	(503)	(12,544)	(2,477)	(3,726)
Accrued interest payable and other	7,296	-	520	-
	12,925	**338,937**	**24,108**	**309,632**

(*) High-yield bond: €9,321 thousand at 31 December 2013. Corporate financing: €1,987 thousand at 31 December 2012. 50-MW project finance facility: €2,220 thousand and €2,560 thousand at year-end 2013 and 2012, respectively. 20-MW project finance facility: €1,506 thousand and €1,656 thousand at year-end 2013 and 2012, respectively.

The breakdown of borrowings at 31 December 2013 and 2012 corresponding to loans, credit facilities and discounting facilities, classified by their respective maturities, is as follows:

			Due in				
2013 (thousands of euros)	Limit	Drawn down	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

			Due in				
2012 (thousands of euros)	Limit	Drawn down	2013	2014	2015	2016	Beyond
Loans and credit facilities	302,011	239,167	24,588	212,391	615	524	1,049
50-MW project finance facility	101,309	85,256	1,477	5,310	6,660	7,288	64,521
20-MW project finance facility	60,692	15,000	-	125	952	1,012	12,911
Accrued interest payable and other	-	520	520	-	-	-	-
Arrangement fees	-	(6,203)	(2,477)	(503)	(495)	(471)	(2,257)
	464,012	333,740	24,108	217,323	7,732	8,353	76,224

The credit facilities and loans (excluding the syndicated loan, bonds and non-recourse financing) accrued interest at an average rate of 2.60% in 2013 (2013: 4.20%2).

19.1 Bond issue and revolving credit facility

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

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

Under the scope of this issue, two credit ratings agencies issued an opinion on the creditworthiness of the Group as a whole and of its bond issue. Standard & Poor's assigned an issuer rating and issue rating of BB, while Moody's assigned ratings of Ba3 and B1, respectively.

Also under the scope of this issue, a revolving €90 million credit facility was arranged with a syndicate of prestigious Spanish and international banks. This facility accrues interest a rate benchmarked to Euribor and matures in 2018. It was fully drawn down at 31 December 2013. This agreement is governed by English and Welsh legislation.

The proceeds raised were used to repay the amounts outstanding (including accrued interest outstanding) on the syndicated loan arranged by the Group in 2010 in the amount of €229,410 thousand (see the next section), loans and credit facilities, including interest accrued and outstanding, of €2,913 thousand and the interest-rate swap written to hedge the Group's corporate financing in the amount of €10,068 thousand (note 12).

19.2 Syndicated loan

On 14 October 2010, in a single act, a syndicated loan was arranged for a maximum, after repayment of bilateral financing agreements, of €176,393 thousand and the previously existing syndicated loan was amended such that the amount drawn down stood at €121,229 thousand.

This loan accrued interest at a variable rate of interest indexed to Euribor plus a spread of 300 basis points. It was originally due repayment on 14 January 2014 and was secured by pledges over the shares of certain Group subsidiaries and a mortgage promise over the Group's factory in Navia. The loan included standard financial covenants and obligations.

As a result of the abovementioned bond issue, the principal outstanding under this loan was cancelled on 1 February 2013 in the amount of €229,410 thousand, including accrued interest outstanding.

19.3 50-MW Huelva project finance facility

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

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

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

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

19.4 20-MW Merida project finance facility

On 1 August 2012, the Group and a syndicate of three banks entered into a project finance loan agreement to finance the construction of a biomass-fuelled power generation plant (note 8). The loan was initially granted for €60,692 thousand, of which €22,500 thousand has been drawn down to date. The Group will begin to repay this facility on 15 December 2014; the facility falls due on 15 June 2027. It accrues interest at a floating rate indexed to Euribor plus a spread ranging between 3.5% and 4.0%, depending on the loan repayment instalment. The commissions paid in 2012 to arrange this facility totalled €1,656 thousand.

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

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

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

19.5 Regulatory changes in the energy sector

The Huelva 50-MW and Mérida 20-MW financing agreements include clauses that have the effect of reducing the amount of financing available as a function of the impact on revenue from the sale of electricity contemplated in the project projections (base case scenario) as a result of changes in the tariff and sector regulations, respectively. As a result, regulatory changes affecting the energy business can have an adverse impact on the amount of project finance available under both loan agreements.

Against this backdrop, in calculating the combined impact of application of Law 15/2012 of 27 December 2012, on fiscal measures towards energy sustainability, and Royal Decree-Law 2/2013 of 1 February 2013, on urgent electricity system and financial sector measures, the banks proposed reducing the amount of project financing available for the Merida 20-MW and Huelva 50-MW projects by €20 million and €29 million, respectively.

Talks are underway to recalibrate the base case scenario in order to adapt the amount of funding available at both projects to the foreseeable impact of these regulatory changes. However, these negotiations have been paralysed by the regulatory uncertainty triggered by Royal Decree-Law 9/2013, of 12 July, adopting urgent measures aimed at guaranteeing the financial stability of the electricity system (note 5). No new drawdowns can be made under these loans until this negotiation process concludes, except for an additional €8 million drawdown that has been authorised at the Merida 20-MW project.

In addition, the Huelva 50-MW project finance facility stipulated the obligation to continually earmark, from 1 January 2014, a total of 17,434 hectares of plantations to the project, requiring the Group to repay 40% of the maximum amount of the loan granted, net of any repayments made to date, immediately in the event of breach of this requirement. Because of the regulatory uncertainty prevailing in the last year, this commitment has not been met.

The Group's management has analysed the reasonableness of the assumptions used by the banks, mainly in respect of trends in costs, underlying CPI and the outcome of the measures in the course of implementation with a view to making the facilities more efficient, along with the contractual terms of the loan agreements and the negotiations pending and considers there are motives to conclude that the amount of financing that will ultimately be made available as a result of the regulatory changes implemented, and as a result of other regulatory changes being drafted, will not be less than the sums drawn down at 31 December 2013.

19.6 Cash and cash equivalents

"Cash and cash equivalents" includes the Group's cash on hand and short term bank deposits with original maturities of three months or less. The carrying amount of these assets approximates their fair value. These assets earned an average rate of 1.57% in 2013 (1.42% in 2012).

The year-end 2013 balance sheet includes €31,164 thousand of cash denominated in US dollars (year-end 2012: €3,697 thousand).

19.7 Other financial assets

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

20. Other financial liabilities

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

The breakdown by maturity at year-end 2013 and 2012 is as follows:

Thousands of euros	2013	2012
2013	-	1,562
2014	1,962	1,423
2015	1,501	1,403
2016	1,243	1,149
2017	1,204	1,124
2018 and beyond	5,967	5,504
Unwinding of discount (note 17)	(1,369)	(1,312)
	10,508	**10,853**

21. Tax matters

The balances receivable from and payable to the tax authorities at year-end 2013 and 2012 are shown below:

	Thousands of Euros			
	31 December 2013		31 December 2012	
	Taxes receivable	Taxes payable	Taxes receivable	Taxes payable
Non-current				
Deferred tax assets	35,557	-	30,580	-
Deferred tax liabilities	-	27,663	-	31,745
Total	**35,557**	**27,663**	**30,580**	**31,745**
Current:				
Income tax receivable and VAT payable	17,506	2,548	27,262	2,576
Current tax on profits for the year	8,204	39	1,031	1,313
Electricity tax (note 22)	496	3,912	-	-
Sundry taxes receivable from and payable to the tax authorities	590	4,858	1,364	5,896
Total	**26,796**	**11,357**	**29,657**	**9,785**

21.1 Regimes applied and tax groups

Group companies resident in Spain for tax purposes:

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

- Celulosas de Asturias, S.A.U.
- Celulosa Energía, S.A.U.
- Silvasur Agroforestal, S.A.
- Norte Forestal, S.A.
- Ibersilva, S.A.U.
- Norfor Maderas S.A.U.
- Ence Investigación y Desarrollo, S.A.U.
- Electricidad de Navia Asturias, S.L.U.
- Ence Energía, S.L.U. and subsidiaries
- Enersilva, S.L.U.

The statutory income tax rate is 30%.

Group companies resident in Uruguay for tax purposes:

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

Group companies resident in Portugal for tax purposes:

For income tax purposes, Group company Iberflorestal, S.A. pays income tax under the general Portuguese corporate income tax regime at a statutory rate of 25%.

Tax consolidation group

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

Regulatory changes

Spanish tax legislation was amended in 2013 and 2012. Some of the new applicable tax legislation includes Law 14/2013, of 27 September 2013, in support of entrepreneurs and their international expansion; Law 16/2013, of 29 October 2013, establishing certain environmental tax-related measures and other tax and financial measures enacted by means of the 2014 Budget Act (Law 22/2013 of 23 December 2013) and Royal Decree-Laws 12/2012 and 20/2012.

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

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

The reconciliation of accounting profit/(loss) to taxable income/(tax loss) in 2013 and 2012 is set forth below:

Thousands of euros	2013	2012
Accounting profit (profit/loss before tax) (*)	5,566	62,978
Permanent differences:		
Arising in profit or loss	811	516
Temporary differences:		
Arising during the year	37,170	2,395
Arising in prior years	(3,336)	(11,545)
Arising from reclassifications from equity	(344)	(41)
Consolidation adjustments	(526)	1,225
Utilisation of tax losses	(10,493)	(13,826)
Taxable income / (tax loss)	**28,848**	**41,702**

(*) Generated entirely from continuing operations

Permanent differences arising in profit or loss

The permanent differences arising in profit or loss correspond to expenses accrued for accounting purposes that cannot be deducted for tax purposes (gratuities, fines, etc.).

Temporary differences

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

21.3 Reconciliation of accounting profit and tax expense

The reconciliation of accounting profit/(loss) to taxable income/(tax loss) in 2013 and 2012 is provided below:

Thousands of euros	2013	2012
Accounting profit (profit before tax)	5,566	62,978
Permanent differences arising in profit or loss	811	516
Elimination of the accounting profit of non-resident companies	2,647	730
Consolidation adjustments and eliminations	(1,045)	272
Taxable income / (tax loss)	**7,979**	**64,496**
Tax payable / (receivable) before adjustments	**2,394**	**19,349**
Deductions and adjustments in respect of prior years	(1,032)	(1,399)
Tax effect of non-resident companies	(107)	1,997
Tax expense /(income)	**1,255**	**19,947**

The breakdown of tax expense / (income) in 2013 and 2012:

Thousands of euros	2013	2012
Current tax and other movements	11,350	15,867
Deferred tax	(10,095)	4,080
	1,255	**19,947**

21.4 Recognised deferred tax assets and liabilities

The reconciliation of the related consolidated statement of financial position headings at the beginning and end of 2013 and 2012 is as follows:

Deferred tax assets

2013

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

2012

	Thousands of euros				
	Balance at 01/01/2012	Increases	Decreases	Transfers	Balance at 31/12/2012
Deferred tax assets recognised in profit or loss:					
Fixed-asset depreciation	461	-	(230)	-	231
Fixed-asset impairment	323	404	(279)	-	448
Provisions	4,459	400	(212)	(2,467)	2,180
Current-asset impairment	1,375	424	(2,335)	977	441
Employee commitments	-	90	(407)	1,491	1,174
Non-resident companies	2,214	415	(2,462)	1	168
Consolidation adjustments	58	-	(106)	(2)	(50)
Unused tax losses	27,371	-	(5,408)	-	21,963
Unused tax credits	-	415	(415)	-	-
	36,261	**2,148**	**(11,854)**	**-**	**26,555**
Deferred tax liabilities recognised in equity:					
Hedging instruments	9,328	2,372	(7,675)	-	4,025
Total	**45,589**	**4,520**	**(19,529)**	**-**	**30,580**

The deferred tax assets have been recognized in the consolidated statement of financial position due to the directors' belief, based on the best estimate of the profits of the companies comprising the consolidated Tax Group, that it is highly probable that future taxable profit will be available against which the tax assets can be utilised within the prescribed term.

The unused tax losses recognised as tax assets were generated in 2009. As provided in Spanish legislation, the unused tax losses generated during a given year can be offset against taxable income generated by the consolidated Tax Group No. 149/02 during the 18 fiscal years successively following the year of generation.

Deferred tax liabilities

2013

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

2012

	Thousands of euros				
	Balance at 01/01/2012	Increases	Decreases	Transfers	Balance at 31/12/2012
Deferred tax liabilities recognised in profit or loss:					
Accelerated depreciation	3,106	32	(254)	-	2,884
Other	2,100	67	(63)	33	2,137
	5,206	99	(317)	33	5,021
Deferred tax liabilities recognised in equity:					
Revaluation of forest land (note 16)	23,509	-	(11)	-	23,498
Hedging instruments (notes 12 and 16)	-	3,216	-	-	3,216
Consolidation and other adjustments	(426)	499	(30)	(33)	10
	23,083	3,715	(41)	(33)	26,724
	28,289	**3,814**	**(358)**	**-**	**31,745**

21.5 Unrecognised deferred tax assets

The Group did not recognise certain deferred tax assets in 2013 and 2012, mainly corresponding to tax losses generated in Uruguay in the amounts of €4,098 and €2,412 thousand, respectively, as these companies' business volumes are currently at low levels.

21.6 Years open to inspection and tax inspections

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

22. Revenue

The breakdown of Group revenue by business in 2013 and 2012 is as follows:

Thousands of euros	2013	2012
Revenue from pulp sales	611,400	596,954
Revenue from energy sales	233,739	208,371
Revenue from sales of wood and forestry services	7,997	22,253
	853,136	**827,578**

In 2013 the Group sold 1,270,095 tonnes of pulp and 1,895,540 megawatt-hours of electric energy (1,248,805 tonnes of pulp and 1,542,773 MWh in 2012).

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

Percentage of pulp sales	2013	2012
Italy	20.2	17.1
Germany	19.4	21.6
Spain	14.9	13.0
France	11.4	9.4
Austria	5.6	6.9
Turkey	4.2	3.7
Poland	4.2	3.6
Slovenia	3.0	2.5
Greece	2.9	1.7
Netherlands	2.7	2.5
United Kingdom	2.7	2.3
Sweden	1.3	3.5
Switzerland	1.2	1.9
China	1.2	4.2
Portugal	1.2	1.0
Other	3.9	5.1
	100	**100**

A single customer accounts for 11% of the Group's revenue from pulp sales.

22.1 *Foreign currency transactions*

In 2013 the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €180,503 thousand (2012: €186,430 thousand).

22.2 Regulatory changes in the energy sector

The Group faces regulatory uncertainty as a result of the processing, underway, of draft legislation "regulating the production of electric power from renewable sources, co-generation and waste", which establishes the rules for calculating the remuneration applicable to renewable energy power generation facilities with retroactive effect from 14 July 2013 and the draft "Order approving the remuneration parameters for standard facilities applicable to certain power generation facilities fuelled by renewable sources of energy, CHP and waste" which proposes amendments to the prevailing premium regime (note 5).

Management has estimated the impact of application of this piece of legislation on its recognised revenue since retroactive effectiveness on 14 July 2013 by recognising a provision of €7,080 thousand. This is gross of the corresponding reduction of €496 thousand in the electricity generation levy, which is recognised under "Current provisions" in the accompanying consolidated statement of financial position (note 18).

23. Cost of sales

Consumption of raw materials and other consumables in 2013 and 2012 breaks down as follows:

Thousands of euros	2013	2012
Purchases	372,663	336,182
Change in raw material, goods held for resale and other inventories	3,207	16,666
Other external expenses	51,966	55,200
	427,836	**408,048**

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

24. Employee benefit expense

The breakdown of the employee benefit expense incurred in 2013 and 2012 is provided below:

Thousands of euros	2013	2012
Wages and salaries	57,135	59,999
Social security	13,620	13,936
Pension contributions and other social benefits	3,281	3,472
	74,036	**77,407**
Termination benefits	5,369	4,695
Long-term remuneration plans	1,054	160
	80,459	**82,262**

The Group has reached an agreement with the workers' representatives at its three pulp production plants under which its headcount will be reduced by 67 under a negotiated redundancy package.

The average headcount in 2013 and 2012:

	Average headcount during the year					
	2013			2012		
Job category	Men	Women	Total	Men	Women	Total
Executives	7	1	8	6	1	7
Individual job contracts	217	61	278	220	56	276
Collective bargaining agreement	570	85	655	654	103	757
Temporary workers	84	23	107	202	28	230
	878	**170**	**1,048**	**1,082**	**188**	**1,270**

The number of employees with a disability stood at 15 at year-end 2013 (16 at year-end 2012).

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

	Year-end headcount					
	2013			2012		
Job category	Men	Women	Total	Men	Women	Total
Executives	7	1	8	6	1	7
Individual job contracts	210	61	271	236	65	301
Collective bargaining agreement	561	85	646	590	92	682
Temporary workers	61	24	85	67	16	83
	839	**171**	**1,010**	**899**	**174**	**1.073**

The Board of Directors was made up of 12 directors at both year-ends, 11 of which men.

25. Other operating expenses

The breakdown of this consolidated income statement heading in 2013 and 2012 was as follows:

Thousands of euros	Thousands of euros 2013	2012
External services	187,614	187,277
Use of emission allowances (note 18)	8,715	3,029
Taxes other than income tax and other management charges	4,624	6,721
New electricity generation levy (note 5)	16,274	-
Change in impairment provisions for inventories and bad debt	5,783	(1,400)
Other non-recurring charges (*)	16,998	6,326
Total	**240,008**	**201,953**

(*) This heading primarily includes €5,228 thousand corresponding to the estimated cost of terminating estate lease agreements (note 9) and €6,543 thousand in respect of timber inventory restatements

The breakdown of "External services" in the consolidated income statement in 2013 and 2012:

Thousands of euros	2013	2012
Transport, freight and business expenses	57,862	60,399
Utilities	58,963	60,750
Repairs and upkeep	21,460	16,476
Rent and fees	7,599	7,714
Insurance premiums	5,347	5,293
Independent professional services	8,977	6,942
Banking and similar services	2,241	2,537
Advertising, publicity and public relations	1,129	1,008
Research and development costs (*)	514	100
Other services	23,522	26,058
	187,614	**187,277**

(*) In addition, seven professionals work on the Group's R&D efforts on a full-time basis

25.1 Audit fees

Those fees paid in 2013 and 2012 related to the Financial Statements audit services plus other services carried out either by the Group`s auditor or by an entity related to the Group's auditor in terms of control or shared business and/or ownership are shown in the next table:

	Thousands of Euros 2013	2012
Audit services	157	197
Other services	196	120

26. Finance costs

The breakdown of this consolidated income statement heading in 2013 and 2012 was as follows:

Thousands of euros	2013	2012
Bonds	16,615	-
Syndicated loan	656	8,657
Project finance facilities	3,949	3,044
Credit, factoring and reverse factoring lines	2,924	1,936
Financing arrangement fees recognised in profit and loss	6,192	4,886
Capitalised borrowing costs	(4,480)	(7,159)
Other (note 9)	1,897	108
	27,753	11,472
Derivatives:		
Settlement of the project finance interest-rate swap	2,755	1,307
Settlement of the equity swap	254	485
	3,009	1,792
Settlement of the corporate financing interest-rate swap	-	11,107
	30,762	**24,371**

27. Earnings by Group company

The contribution in 2013 and 2012 to consolidated profit (loss) by each of the companies included in the consolidation scope is as follows:

Thousands of euros	2013	2012
ENCE Energía y Celulosa, S.A. (*)	5,934	(2,721)
Celulosas de Asturias, S.A.U.	33,040	47,360
Celulosa Energía, S.A.U.	(1,043)	5,226
Norte Forestal, S.A.U.	(1,433)	(784)
Silvasur Agroforestal, S.A.U.	(4,072)	1,459
Iberflorestal, S.A.U.	(2,115)	174
Ibersilva, S.A.U.	(694)	668
Ence Investigación y Desarrollo, S.L.U.	(1,913)	(52)
Maderas Aserradas del Litoral, S.A.	(109)	(2,570)
Sierras Calmas, S.A.	386	(590)
Ence Energía, S.L.U	(19,452)	(536)
Ence Energía Huelva, S.L.U	(3,464)	(1,541)
Ence Energía Extremadura, S.L.U	(821)	(119)
Consolidation adjustments and other companies	67	(2,943)
Total	**4,311**	**43,031**

(*) In addition, in 2013 the Parent received €30,005 thousand of dividends from subsidiaries (2012: €40,000 thousand) and recognised provisions on investments in subsidiaries of €28,859 thousand (2012: €7,354 thousand)

28. Non-current assets held for sale

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

The Parent agreed the sale of its forest assets in Uruguay on 15 December 2012. The assets sold comprised 27,780 hectares of forest land planted with eucalyptus in south-eastern Uruguay and the equipment for felling and chopping the wood. The sale of these assets closed during the first half of 2013.

The assets were sold for €60 million and the transaction generated a loss of approximately €1 million.

The breakdown of "Non-current assets held for sale" at 31 December 2012, measured at fair value, was as follows:

	Thousands of Euros
NON-CURRENT ASSETS	58,360
Property, plant and equipment	36,364
Biological assets	21,996
CURRENT ASSETS	985
Inventories	985
TOTAL ASSETS	**59,345**

These assets had been, for the most part, classified in the "Forest management" segment (note 29).

29. Operating segments

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

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

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

- Biomass Energy Projects. Leveraging the know-how built up in the forestry sector and in developing quick-rotation energy crops, the Group is developing power generation projects fuelled by biomass.

  This main assets included in this operating segment are the power generation facilities and the energy crops, which are typically allocated to each project and help guarantee each project's supply.

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

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

29.1 <u>Operating segment reporting</u>

The table below details the earnings performance by operating segment in 2013 and 2012, based on the management information reviewed regularly by senior management:

2013

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

Additions to non-current assets (*)	48,545	54,097	10,516	0	113,158		113,158
Accumulated depreciation and depletion of forest reserves	(822,357)	(38,476)	(45,279)	(6,129)	(912,241)	4,583	(907,658)
Provision and impairment charges	(14,625)	(17,021)	(3,018)	(3,853)	(38,517)	(2,532)	(41,049)

(*) Does not include emission allowances

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

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

2012

Income statement	Thousands of euros						
	Pulp & Energy	Biomass Energy Projects	Pulp Forest Assets	Forest Services & Other	Subtotal	Elimination of inter-segment transactions	Total
Revenue:							
From third parties	794,511	10,814	8,709	13,544	827,578	-	827,578
Inter-segment revenue	1,890	7,318	113,828	6,978	130,014	(130,014)	-
Total revenue	**796,401**	**18,132**	**122,537**	**20,522**	**957,592**	**(130,014)**	**827,578**
Other operating income and expense	(662,754)	(15,863)	(112,149)	(18,425)	(809,191)	127,251	(681,940)
EBITDA	**133,647**	**2,269**	**10,388**	**2,097**	**148,401**	**(2,763)**	**145,638**
Depreciation and depletion of forest reserves for the year	(52,351)	(2,926)	(7,526)	(569)	(63,372)	-	(63,372)
Operating profit/(loss)	**81,296**	**(657)**	**2,862**	**1,528**	**85,029**	**(2,763)**	**82,266**
Finance income	8,971	93	18	63	9,145	(8,398)	747
Finance costs	(18,492)	(2,572)	(4,085)	(821)	(25,970)	8,398	(17,572)
Exchange differences	(2,273)	-	531	(61)	(1,803)	-	(1,803)
Net gain/(loss) on non-current assets held for sale	(251)	-	1,953	(2,362)	(660)	-	(660)
Tax	(19,429)	942	(1,164)	(296)	(19,947)	-	(19,947)
Profit (loss) for the year	**49,822**	**(2,194)**	**115**	**(1,949)**	**45,794**	**(2,763)**	**43,031**
Additions to non-current assets (*)	26,870	72,035	9,524	4,044	112,473	-	112,473
Accumulated depreciation and depletion of forest reserves	(758,753)	(3,053)	(104,347)	(7,315)	(873,468)	-	(873,468)
Provision and impairment charges	(2,063)	-	(2,716)	(1,737)	(6,516)	(2,000)	(8,516)

(*) Does not include emission allowances

Statement of financial position	Thousands of euros						
	Pulp & Energy	Biomass Energy Projects	Pulp Forest Assets	Forest Services & Other	Subtotal	Elimination of inter-segment transactions	Total (a)
Assets							
Non-current	870,325	207,872	242,842	9,394	1,330,433	(357,518)	972,915
Current	358,217	36,661	111,799	18,141	524,818	(150,264)	374,554
Total assets (a)	**1,228,542**	**244,533**	**354,641**	**27,535**	**1,855,251**	**(507,782)**	**1,347,469**
Liabilities:							
Non-current	269,223	194,488	165,939	9,496	639,146	(270,262)	368,884
Current	326,546	28,601	29,568	18,243	402,958	(150,264)	252,694
Total liabilities (a)	**595,769**	**223,089**	**195,507**	**27,739**	**1,042,104**	**(420,526)**	**621,578**

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

29.2 Disclosures by productive plant

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

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

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

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

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

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

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

2012	Thousands of euros Pontevedra factory	Huelva factory (a)	Navia factory	Corporate (c)	Other (b)	Subtotal	Eliminations	Total
Business metrics:								
Pulp output (ADt)	406,722	357,008	485,906	-	-	1,249,636	-	1,249,636
Energy output (MWh)	229,353	814,995	514,571	-	-	1,558,919	-	1,558,919
Continuing operations:								
Revenue	230,229	270,668	400,034	197	162,102	1,063,230	(235,652)	827,578
Gain (loss) on hedging transactions	-	-	-	(27,567)	-	(27,567)	-	(27,567)
Changes in inventory of finished goods and work in progress	264	1,895	(1,838)	-	(12,444)	(12,123)	12,954	831
Cost of sales	(121,381)	(172,059)	(218,692)	(1,934)	(112,403)	(626,469)	218,422	(408,047)
Gross profit	**109,112**	**100,504**	**179,504**	**(29,304)**	**37,255**	**397,071**	**(4,276)**	**392,795**
Employee benefit expense	(20,491)	(20,623)	(19,300)	(11,613)	(10,075)	(82,102)	-	(82,102)
Depreciation/amortisation charge	(12,800)	(12,789)	(22,786)	(3,128)	(2,758)	(54,261)	-	(54,261)
Depletion of forestry reserve	-	-	-	-	(9,110)	(9,110)	-	(9,110)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	321	2,963	134	2,051	731	6,200	129	6,329
Other operating expenses	(45,905)	(45,013)	(58,543)	(10,447)	(13,044)	(172,952)	1,567	(171,385)
Operating profit/(loss)	**30,237**	**25,042**	**79,009**	**(52,441)**	**2,999**	**84,846**	**(2,580)**	**82,266**

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

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

(c) The allocation by productive facility of the corporate costs incurred at the Group level, in proportion to output in terms of tonnage, would have the effect of increasing expenditure at the Pontevedra, Huelva and Navia plants by €17,068 thousand, €14,982 thousand and €20,391 thousand, respectively.

Likewise, the allocation by productive facility of the finance income and expense incurred by the Group, other than the interest expense associated with the project financing structures funding the new biomass power generation projects, likewise in proportion to output in terms of tonnage, would have the effect of increasing expenditure at the Pontevedra, Huelva and Navia plants by €7,046 thousand, €6,185 thousand and €8,418 thousand, respectively.

The allocation to the productive facilities of the corporate overhead and finance costs would result in an operating profit at the Pontevedra, Huelva and Navia plants of €6,123 thousand, €3,875 thousand and €50,200 thousand, respectively.

30. Director and key management personnel pay and other benefits

The table below sets out the amounts recognised by the Parent in 2013 and 2012 in respect of remuneration accrued by its directors for discharging the duties intrinsic to their membership of the Board of Directors:

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

		Thousands of euros		
2012 - Director	Class of director	Fixed remuneration	Attendance fees & other	Total
Juan Luis Arregui Ciarsolo	Executive	124	77	201
Retos Operativos XXI, S.L.	Proprietary	34	30	64
José Manuel Serra Peris	Independent	34	42	76
Pedro Barato Triguero	Independent	34	22	56
Fernando Abril-Martorell Hernández	External	34	46	80
Gustavo Matías Clavero	Independent	34	32	66
José Guillermo Zubía Guinea	Independent	34	53	87
Norteña Patrimonial, S.L.	Proprietary	34	14	48
Pedro José López Jiménez (a)	Proprietary	34	24	58
José Carlos de Álamo Jiménez	Independent	34	26	60
Pascual Fernández Martínez	Proprietary	34	36	70
Javier Echenique Landiribar	Proprietary	34	44	78
		498	**446**	**944**

(a) Stepped down from the board in 2012

In addition, in 2013 the Parent recognised €2,905 thousand in respect of all items of remuneration accrued by the members of its Executive Committee, including that paid for chief executive duties under a service provision agreement (2012: €3,366 thousand). The members that stepped down from the Executive Committee received €334 thousand in wages and severance pay.

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

The list of key management personnel in 2013 is as follows:

Name	Position
Ignacio de Colmenares y Brunet	Chief Executive Officer
Jaime Argüelles Álvarez	Director of Pulp and Energy Operations
Javier Arregui Abendivar	Director of Forestry
Alvaro Eza Bernaola	Director of Procurements
María José Zueras Saludas	Director of Human Capital
Diego Maus Lizariturry	Director of Finance and Corporate Development
Luis Carlos Martínez Martín	Director of Communication and Institutional Relations
Guillermo Medina Ors	General Secretary

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

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

As part of the transparency disclosures required under article 229 of the Corporate Enterprises Act, it is hereby noted that at 31 December 2013, the members of the Company's Board of Directors have reported that (i) they do not hold any equity interests in any other company with the same, similar or complementary corporate purpose as that of the Company; and (ii) have not performed and are not currently discharging any professional duty, as independent professionals or as employees, at companies whose corporate purpose is identical, similar or complementary to that of the Company, except as follows:

(a) Javier Arregui Ciarsolo and Fernando Abril-Martorell Hernández hold indirect ownership interests of 90% and 4.97%, respectively, in Foresta Capital, S.L.; (b) Javier Arregui Ciarsolo owns an indirect 0.577% shareholding in Iberdrola, S.A.; and (c) at 31 December 2013, Norteña Patrimonial, a member that resigned from the Company's Board on 28 January 2014, was also a member of the board of Hidroeléctrica del Cantábrico, S.A.; moreover other companies in this director's group held ownership interests in or were represented on the governing bodies of other companies with the same, similar or complementary corporate purpose as that of the Company. Specifically, at 31 December 2013, the Liberbank Group, to which Norteña Patrimonial, S.L. belongs, has direct or indirect ownership interests in and board representation at the following companies: EDP Energías de Portugal, S.A. (3.17% and board representation); Eléctrica de Sierra de San Pedro, S.A. (20% and board representation), Electra de Montanchez, S.A. (20% and board representation), Electra de Malvana, S.A. (20% and board representation), Ecoiberia Solar, S.L. (100% and board representation), Hidroeléctrica del Cantábrico, S.A. (0.13% and board representation), Grupo Naturener, S.A. (2,40%), Socpe des Quinze Mines S.A.R.L. (51%), Socpe Le Mee S.A.R.L. (51%), Socpe Petite Piede S.A.R.L. (51%), Socpe Sauvageons S.A.R.L. (51%) and Viacavaincos de Energía, S.A. (100% and board representation).

31. Related-party transactions

At 31 December 2012, the Group had secured several sources of financing (all of which on an arm's length basis) with related parties as follows:

Year	Carrying amount (thousands of euros)	Currency	Interest rate	Maturity
2012	6,155	Euro	Euribor + 3%	2014

The Company entered into the following transactions with related parties in 2013 and 2012:

Related party	Nature of the transaction	Thousands of euros	
		2013	2012
Liberbank, S.A.	Interest and banking fees and commissions	19	255
Fidalser, S.L.	Share purchases	-	25,246
Agroluan, S.L.	Services received	212	-
Grupo Foresta	Biomass / acquisition of intangible assets	526	3,566

On 20 December 2012 the Group entered into a service agreement with Agroluan, S.L. with a view to ensuring the correct implementation of the R&D technology acquired during the year (note 7). The agreement contemplated annual remuneration of €200 thousand.

32. Environmental disclosures

The Ence Group has three factories located in Huelva, Navia and Pontevedra, each of which holds the corresponding integrated environmental permit for the pursuit of its industrial activity and the generation of electricity from biomass.

Likewise, and also in keeping with prevailing environmental legislation, the factories forming part of the Pulp and Energy operating segment hold the corresponding greenhouse gas emission permits. As verified by AENOR and Lloyd's, emissions in 2012 did not exceed the allowances allocated; indeed the Group generated a surplus that will be used during the 2013-2020 greenhouse gas allowance trading period.

In November 2013, the Spanish Parliament approved the allocation of emission allowances free of charge for 2013-2020. The new plan upholds the criteria adopted by Decision 2011/278/EU of the European Commission.

At Ence, processes are carried out under the Total Quality Management model and predicated on keeping with management excellence; they are articulated around three cornerstones: managing improvement; managing processes; and managing everyday activities.

Against this backdrop, the Group has established improvement targets with a clear environmental focus aimed specifically at:

- Reducing odour pollution

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

In addition, the Group is in the process of implementing an integrated management system at the factory level that meets the UNE-EN-ISO 9001 standard in terms of quality management, the UNE-EN-ISO 14001 standard in terms of environmental management and the OHSAS 18001 standard in terms of workplace health and safety.

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

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

Ence's environmental management policy is based on compliance with prevailing legislation establishing the requirements with which all pulp production related activities must comply.

The integrated environmental permit, defined in Spanish Law 16/2002 on the integrated prevention and control of pollution, establishes the environmental requirements for operating an industrial facility. The goal is to prevent, or at least minimise, and control air, water and soil contamination with a view to protecting the environment as a whole.

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

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

These results are the result of the commitment of all the people working at Ence and the investment effort undertaken in recent years, underpinned by the best environmental practices (BEP) defined in the sector BREF (Best Available Techniques in the Pulp and Paper Industry 2001).

Huelva Operations Centre

As part of the Group's commitment to reducing odour contamination from its business activities, the initiatives undertaken last year continued to drive this metric lower, specifically resulting in a 42% improvement over that already achieved last year.

The readings for the key indicators used to measure the quality of effluents discharged, namely total organic carbon (TOC) and suspended solids remain in line with those registered last year, except for a slight increase in the wastewater flow thanks to the introduction of new water-consuming units at the Operations Centre.

As for waste management, the amendment of the integrated environmental permit has the effect of declassifying certain process waste products such as sand and gypsum from the biomass boiler and gypsum from the heat recovery boiler; these products are now considered subproducts or secondary raw materials. Against this backdrop, waste management work focused on the management of these products as part of the cement activity. As a result, the Group ended the year managing 30% of the volume of one of the main waste products generated by the productive process as a secondary raw material in cement mixing. In addition, a number of initiatives translated into an improvement in the dryness of the sludge from the waste treatment unit.

Overall, total waste generation was reduced by 24% year-on-year.

The Group prepared its soil report in 2013, demonstrating that it has not surpassed the corresponding benchmarks, and presented it to the competent authority.

In terms of environmental investment, within the €13.2 million of capital committed in 2013, the most significant investment from an environmental protection standpoint was the substitution of gas for fuel-oil as the fuel powering the lime kilns.

Also, during the second half of the year the Group introduced process improvements in the new wood cutting and chopping plant; as a result, this process is now more energy efficient and makes better use of the biomass generated.

Navia Operations Centre

At the Navia factory, the pulp and energy production productivity gains were consolidated and its processes made more efficient in 2013. These results were achieved by means of continual improvement on the environmental management front thanks to the rollout of significant environmental enhancement initiatives.

The most significant environmental investment made at the Navia Operations Centre was the extension work at the effluent treatment facility: the start-up of this facility in the second half of 2013, which entailed investment of €12 million, improved the quality of the plant's wastewater which now registers benchmark readings by European standards.

In addition to the biological treatment plant, during the second half of 2013 the Group managed to improve the quality of this centre's wastewater by enhancing the evaporation process by reducing the organic load of the condensates generated and further improving facility incident control measures, which materialised in a revised version of the emergency plan.

During the first half of 2013 the Group delivered a very important milestone in terms of reducing odour pollution at Navia thanks to implementation of a project to optimise the evaporator process and change the technology used to treat odorous gases which are no longer oxidised in the lime kiln facility but rather in the plant's heat recovery boilers, thereby rendering operations more efficient and effective. This has significantly reduced emissions in the kiln area which has resulted in a reduction in odour in the vicinity.

In December 2013 testing began on the introduction of natural gas to fuel the lime kilns instead of fuel-oil. This project will translate into operational and environmental improvements such as a reduction in direct and indirect emissions (by reducing fuel-oil cistern traffic), a reduction in the generation of waste associated with kiln maintenance tasks and greater energy efficiency.

Lastly, in terms of noise pollution, in 2013 the Group continued its sound-proofing work, focusing its efforts on the cooling towers within the energy generation process.

The Navia factory delivered improved readings in respect of the significant environmental impacts of the pulp production activity as part of its ongoing aim of reaching European standards of excellence.

Pontevedra Operations Centre

Work continued at the Pontevedra Operations Centre on the project initiated in 2009, in collaboration with Santiago University, to eliminate odorous emissions. With a 'zero odour' target in sight, the facility invested €1.67 million to collect gases produced by washing and bleaching pulp for burning in the heat recovery boiler, in a system for burning biological sludge in the heat recovery boiler and in another system for eliminating odour leakage by installing hydraulic tank seals. Since this initiative was set in motion, the facility has delivered a 96% reduction in odour pollution.

Management of the visual impact of the Pontevedra Operations Centre has become a top priority. To this end the Group has designed a project to eliminate the steam plumes in the cooling towers by replacing the current towers with 'anti-plume' hybrid towers. Hydraulic seals have also been installed to minimise steam vents into the air, and the scrubber plume that gathered the fog from the washing filters has been eliminated. Lastly the project to eliminate the dissolving plume in the recovery boiler was completed. These investments implied a capital commitment of €1.97 million.

The Group also organised a project calling for ideas for the enhanced visual integration of the factory with the aim of finding architectural solutions for better blending the facility into the surrounding landscape. One hundred and two projects were submitted. The winner was a project titled "Own matter" which was presented by Marta Orta and Carlos Trullenque, architects from Valencia.

In terms of wastewater, the results in 2013 were in line with those achieved in prior years, a performance that continues to position the Pontevedra factory as a European benchmark in terms of the quality of its effluents.

Lastly, on the emissions front, work was undertaken to reduce particle emissions, to which end work was performed on the electrofilter in the biomass furnace and on the precipitator in the heat recovery furnace for a combined investment of €0.53 million.

In addition, an entity accredited by ENAC certified all the monitors measuring emissions under the international UNE-EN-14181 standard.

Forestry

In 2013 the Group continued to carry out its forestry activities through is forest asset management companies (Silvasur Agroforestal, Norte Forestal and Iberflorestal). These activities include initiatives and investments designed to manage, monitor and maintain the productive forest assets (site preparation work, forestation and reforestation, fertilisation, sapling selection, pest and fire control, as well as other forest-related investments). It is worth highlighting the work performed to manage non-productive assets for preservation or biodiversity protection purposes. Specifically, the Group intensified its classification work (ecosystems, unique characteristics and habitats) in conjunction with its regular forest asset management and monitoring work.

The purely environmental initiatives focused on the reduction of risks for all classes of forest assets and the reinforcement of intrinsic values such as biodiversity protection, the fostering of ecological corridors and improvements in soil conservation. In general terms, all the initiatives undertaken in respect of forest land and its cover are aimed at delivering a more balanced carbon cycle, reinforcing the nitrogen fixation effect of forest ecosystems, and making a positive contribution to mitigating the impact of climate change.

In 2013 the Group integrated the forest certifications held by its Spanish forest management companies into a single sustainable forest management certificate for each of the certification regimes, PEFC and FSC.

On the forest management front, significant progress was made in terms of FSC® certification. Over the course of 2013 the certificates of Silvasur Agroforestal and Norte Forestal were unified into a single certificate, while the area managed and certified under this seal was increased by 750 hectares, thereby culminating the process initiated one year earlier. The Group has pledged to certify all its forest assets under the FSC standard within no more than three years.

Forest certification focuses on analysis of the predominantly forestry activities, guaranteeing that they not only protect the environment but are developed under a broad framework of sustainability and efficiency, attesting to the fact that a certified entity's forests are managed sustainably and responsibly, thereby helping to increase consumer confidence in forest products. This commitment was reinforced in 2013 when senior management approved the Group's "Sustainability Governing Principles". These principles have been published on the corporate website in a public display of its responsible forest management pledge. Management also began work on drafting a new "Best Environmental Practices Manual" which, following consultation with the main stakeholders in the fourth quarter of 2013, will be approved by management and introduced during the first quarter of 2014.

In terms of forestry activities beyond the scope of the Group's owned forest assets, these focused on the direct acquisition of wood from forest owners in a way that seeks to bring the external forest sector in line with the Group's in-house practices and principles, by associating the wood purchase activity with an intense training effort and the provision of information to forest owners and associations on forest management matters, the use of enhanced species, pest control, forest certification, etc.

One of the most noteworthy initiatives in this arena was the support provided to the Forest Property initiative (*Propriedad Forestal*) for the creation and certification of certified forest management groups, such that by means of financing, grants, the sharing of know-how and the provision of technical support, a number of FSC certification groups have been set up (three in Cantabria and another in southern Spain). These actions serve to shake up the sector, foster the availability of certified wood at owner-affordable prices and invigorate the Cantabria certified wood market.

The encouragement of external forestry management resulted in a nearly 10% increase in the volume of third-party wood supplied to the factory, thereby making the necessary contribution to maintenance of the custody chain certificates (PEFC and FSC) and even expanding their scope by adding new intermediary expanses. Iberflorestal, the Group's Portuguese subsidiary, engaged mainly in the sale of wood, retains its individual certification.

On the traceability front, it is worth noting Ence's adoption and implementation of a due diligence system to comply with European regulations governing the legal provenance of traded wood. The system has implied, among other initiatives, the fresh certification of all suppliers that act as agents under the EU timber trade regulations and better documentation of the origin of all the wood supplied to the Group's factories. In order to boost compliance with these regulations at the sector level, a number of training and information events were organised at Ence's initiative for suppliers, owners, consultants and other stakeholders.

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

ENCE Energía y Celulosa, S.A. and subsidiaries

Group Management Report for the year ended 31 December 2013

Organisational structure

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

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

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

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

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

Business activity

ENCE is the largest producer of BHKP in Europe, with a strategic focus on eucalyptus pulp. The Group has installed annual capacity of 1.34 million tonnes divided between factories in Huelva, Navia and Pontevedra. In 2013 the Group produced 1,270,000 tonnes, implying a capacity utilisation rate of 95%. Seventy-seven per cent (by volume) of its eucalyptus pulp was exported to Europe (the European market accounted for 92% of sales volume factoring in Spain), the world's largest pulp market and a net importer of product. The Group commands 15% of the European market. The renewable energy and co-generation business is also substantial, with installed capacity at year-end 2013 of approximately 280 MW (not including the 20 MW biomass plant under construction in Merida) and total energy sales last year of 1,896 GWh. Our vertically integrated pulp-energy production business model leverages our solid positioning in the Spanish and Portuguese forestry market in terms of forest plantations under management and crops for the production of timber and cultivated biomass, on the one hand, and securing timber supply from third party sources, essential to the sustainability of our business, on the other.

In the forestry sector, our timber and biomass supply management model is underpinned by continually improving forest management techniques, the diversification of sources of supply (with a strategic focus on forest owners) and enhancement of the value chain (from standing timber to collection and transportation) with a view to bringing down overall costs and guaranteeing the sustainability and security of our wood supplies. We also have a forestry consultancy, although we are gradually withdrawing from this business.

The Group's financial policy can be termed conservative. It is characterised by a commitment to maintaining low leverage coupled with ample liquidity. This strategy dovetails with the cyclical nature of the pulp business and is designed to support the Group's financial robustness in the long term. This policy is articulated around a maximum tolerated leverage ratio (measured in terms of net debt to mid-cycle EBITDA) of 2.5x, including non-recourse project finance.

Excluding the growth programmes, our maintenance capex (including investment in pulp facilities, the energy businesses and forestry activities for the production of timber for internal supply purposes) has held steady at close to €40m a year.

Business performance and financial results

Business environment and outlook

The macroeconomic outlook improved significantly in 2013, particularly in the second half. Concerns regarding Europe's peripheral economies' ability to meet their deficit targets continued to weigh on expectations during the first half. The application of austerity measures at a time of macroeconomic weakness had the effect of pushing back the economic recovery, raising questions regarding the effectiveness of the measures taken and governments' ability to resolve the situation. This situation sparked significant political instability in countries such as Italy and Portugal.

However, optimism found its way back to the financial markets during the second half. The gradual improvement in economic readings in the US and signs of macroeconomic stabilisation in Europe after years of crisis and budget cuts fuelled a sharp equity rally and a reduction in sovereign debt risk premiums. Part of this recovery was attributable to an inflow of investors attracted by asset prices that had fallen to compelling valuations, coupled with the perception that the austerity measures had in fact helped to stabilise the economy and pave the way for an incipient recovery. The change in sentiment was tangible in stronger confidence readings and a reduction in volatility. Nevertheless, potential macroeconomic risks persist in 2014. The rollback of quantitative easing in the US, coupled with firming economic indicators, is underpinning expectations for higher yields on US government bonds. This is driving an outflow of investor funds from emerging economies, which is in turn prompting depreciation of their currencies, particularly the weaker ones.

Meanwhile, the lack of a firm solution regarding the need for a bipartisan agreement on the US government spending ceiling constitutes an additional source of lingering uncertainty.

Against this backdrop, the dollar depreciated against the euro, ending the year at $/€1.37, compared to $/€1.32 at the beginning of the year. Despite the improvement in the US economy and announced tightening in US monetary policy, the currency was affected by delays in rolling out the policy change and fears of a potential default by the US government given the failure to agree on a budget. The change in governor at the Federal

Reserve also played a role: the replacement of Ben Bernanke by Janet Yellen in early 2014 had the effect of delaying the gradual withdrawal of monetary stimuli in the US, keeping the dollar weak.

Pulp prices performed excellently during the year, peaking at $821/tonne in June and correcting moderately to end the year at $770/tonne, in line with the seasonal pattern etched out in prior years. This healthy price performance was underpinned by solid growth in worldwide demand of 3.2% (source: PPPC). In addition to high growth in consumption in China (9.3%), despite the moderate slowdown in the Asian giant's economy last year, growth in demand in the US was a strong 4.8%, in line with the firming economy stateside. Worldwide capacity increased by 2.0% (PPPC), so that capacity utilisation improved to 93%, compared to 92% in 2012. The reduced growth in supply reflects continual delays in two projects under construction in Latin America (Maranhao and Montes del Plata) as well as closures (Jari in Brazil) and capacity reconversions to textile fibre facilities. Inventories held steady at normalised levels of 32 days' sales at the end of the year in the case of pulp producers and hit a record low of 19 days' consumption in the case of the paper producers.

The outlook for the pulp business is positive for the first half of 2014, with supply expected to remain stable. The new capacity being built in Latin America is expected to come on stream during the second half of the year, putting pressure on prices at a time of the year marked by seasonally low demand.

Lastly, the electricity business was penalised by the regulatory changes passed by the Spanish government in an attempt to eliminate the structural tariff deficit. In addition to the new taxes introduced at the end of 2012 (a 7% levy on electricity sales and a higher tax burden on the consumption of oil and gas), the government passed a new regulatory framework governing the generation of electricity from renewable sources with effect from 14 July 2013. The draft enacting proposals point to a significant decline in the Group's revenue.

Business overview and financial results

Pulp production increased by 2%, while electricity output rose 17%. In the pulp market, prices averaged €792/tonne, slightly higher than the $751/tonne average of 2012. The healthy performance in the pulp segment cushioned the impact on Group profitability of the full-year adverse impact of the new taxes levied by the government on the energy business, curtailing the decline in operating profit to 9%.

Group revenue increased by 3% over 2012 levels to €853.1m. Revenue from pulp sales amounted to €611.4m, up 2% year-on-year, driven by volume growth of 2%. Net pulp prices in euros were flat year-on-year as the increase in the dollar price per tonne was offset by the depreciation of the dollar last year.

Revenue from electricity sales also registered sharp growth thanks to the start-up of the new 50-MW generation plant fuelled by biomass. The Group sold 17% more electricity in 2013 than in 2012, at 1,896 GWh, 80% of which generated from biomass. Prices per MWh fell despite the higher weight of forest waste in the generation mix due to the reduction in the premium in respect of black liquor, the classification of energy crops and forest waste in the same category for remuneration purposes and the cap introduced on the number of output hours entitled to premium remuneration. Revenue from electricity sales amounted to €233.7m, up 12% on 2012.

Revenue from the forestry and consultancy business dropped 64% to €8.0m in 2013 due to the restructuring of and gradual exit from this business, coupled with the sale of the Uruguayan forest assets.

The Group recorded operating profit (EBIT) level of €31.8m compared to €82.3m in 2012. The growth in production volumes and pulp prices and the start-up of the biomass plant in Huelva were more than offset by a 13% increase in pulp production costs due to the new taxes levied on the generation of electricity and a reduction in the premiums received. Operating profit was adversely affected by the €32.2m provision recognised on investments in energy crops for which remuneration, as currently drafted, will fall sharply. The Company remains committed to making its operations more productive and cost effective under the umbrella of its total quality management (TQM) programme. To this end it is strategically increasing the percentage of standing timber purchases under agreements with forest owner associations; these agreements reduce dependence on imported wood for supplying the plants' growing consumption and reduce supply and transportation costs by means of greater control and modernisation of the supply chain over the medium term.

Elsewhere, the Group continued to improve its financial structure, issuing €250m of bonds in January. The proceeds were used to repay existing bank debt originally due in 2014 and extend the debt maturity profile to 2020. The financial structure was also shored up by the sale of forest assets in Uruguay (this sale closed in March and generated proceeds of $77.3m) and Portugal (this sale closed in December at approximately €11m).

Capital expenditure amounted to €114.1m, with almost 16% earmarked to investments in biological assets for reforestation and forest asset enhancement purposes to cater to growth in pulp production and also to the development of energy crops to supply the new power generation plants. Investments in industrial assets totalled €96.0m, over 51% of which went to the expansion of the biomass power plants, particularly the 20-MW plant being built in Merida, which is expected to begin to operate mid-2014.

Group equity at 31 December 2013 stood at €710.3m (year-end 2012: €724.7m), equivalent to 52% of total assets. Equity was affected by the impact of a €1 million buyback of own shares during the year, the impairment provisions recognised and the payment of a €16.2m dividend in April 2013 from 2012 profits. The dividend effort falls under the umbrella of the Company's stated aim of providing its shareholders with attractive remuneration while keeping leverage at reduced levels so that it can fund investment in new projects at a time of restricted access to credit.

On the R&D, innovation and technology fronts, the Group continued to pursue projects designed to enhance the genetic and forest attributes of the eucalyptus species in terms of the production of both pulp and energy crops, the mechanical transformation of timber and the engineering of new projects, as duly detailed in the notes to the consolidated financial statements in the section dealing with intangible assets.

Environmental disclosures

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

Employee benefit expense

Recruitment

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

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

Thanks to agreements with universities, business schools and professional skills training academies, 104 people did work practice at Ence's work centres in 2013 and 13 of these interns were hired at the end of their work experience stints.

Workplace climate/motivation

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

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

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

Workplace safety

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

This cultural change is based on the following principles:

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

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

The main accident risks at Ence include falls (same-level or from an elevation), collisions with objects and contact with chemical substances. In 2012 Ence developed a practical training programme for all users of power saws that do work for Ence. The course was structured around five unbreakable rules designed to guarantee safe tool use. The forest contractor managers also took part in a series of bi-monthly meetings on workplace safety.

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

Training

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

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

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

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

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

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

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

Diversity

The Equality Plan promotes effective application of the principle of non-discrimination between men and women, guaranteeing the same job and career development opportunities for both genders at all levels of the organisation. Although Ence belongs to a sector in which female representation has traditionally been low, in 2013 over 16% of the workforce was female. As part of its policy for preventing harassment, Ence has pledged it will prevent, avoid, remedy and discipline potential instances of harassment as part of its non-negotiable commitment to guaranteeing the dignity, integrity and non-discriminatory treatment of all employees and equal opportunities for all. The Group's remuneration policy is likewise designed to guarantee non-discrimination in pay, compensating employees competitively based on market criteria and a variable component based on objective job performance evaluation informed by equality and efficiency criteria.

Liquidity

Net cash flows from operating activities totalled €176m 2013, up 58% over 2012 levels thanks to higher pulp prices, greater electric output due to the start-up of the Huelva biomass plant and a reduction in working capital requirements, thanks to a reduction in inventories and accounts receivable.

figures in €Mn	2013	2012	Δ%
Consolidated profit for the year before tax	**5.6**	**63.0**	**(91%)**
Depreciation and amortisation charge	78.3	63.4	24%
Finance income/costs	24.8	17.3	43%
Increase / decrease other deferred income/costs	63.9	(0.5)	n.s.
Adjustments of profit for the year	**167.0**	**80.1**	**108%**
Trade and other receivables	29.8	(24.0)	n.s.
Current financial and other assets	(2.9)	18.2	n.s.
Current liabilities	(0.8)	(13.8)	(94%)
Inventories	10.4	18.3	(43%)
Changes in working capital	**36.4**	**(1.3)**	**n.s.**
Interest paid / received	(16.0)	(20.8)	(23%)
Income tax recovered (paid)	(17.1)	(9.4)	82%
Other cash flows from operating activities	**(33.1)**	**(30.2)**	**10%**
NET CASH FLOWS FROM OPERTATING ACTIVITIES	**175.9**	**111.6**	**58%**

Cash flows used in investing activities amounted to €48m in 2013, compared to a net outflow of €120m in 2012 as the Group closed the sale of its assets in Uruguay and Portugal. Capital expenditure was 7% lower than in 2012 due to the timing of the investments in biomass projects.

figures in €M	2013	2012	Δ%
Property, plant and equipment	(112.8)	(104.4)	8%
Intangible assets	(0.9)	(16.1)	(94%)
Other financial assets	1.3	(0.2)	n.s.
Investments	**(112.4)**	**(120.6)**	**(7%)**
Disposals	**64.4**	**0.5**	**n.s.**
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(48.0)**	**(120.1)**	**(60%)**

Financing activities, meanwhile, implied a net cash outflow of €65m 2013. Some of the cash (€45m) was placed in longer-term deposits (longer than 3 months) in order to boost finance income. The proceeds from the €250m of bonds placed on the market in January 2013 were used to repay existing debt so that gross corporate debt was largely flat year-on-year.

figures in €M	2013	2012	Δ%
Proceeds and payments relating to equity instruments	**1.0**	**(40.4)**	**n.s.**
Debt instruments and held-for-trading liabilities (net)	239.5	-	n.s.
Increase/(decrease) in bank borrowings (net)	(232.1)	37.4	n.s.
Other financial liabilities	(11.9)	(3.3)	262%
Proceeds and payments relating to financial liability	**(4.5)**	**34.2**	**n.s.**
Dividends and returns on other equity instruments paid	**(16.2)**	**(16.5)**	**(2%)**
Translation differences	**(0.0)**	**(0.2)**	**(79%)**
Fixed-term deposit	(45.0)	-	n.s.
Other proceeds and payments from financing activities	**(45.0)**	**-**	**n.s.**
NET CASH FLOWS FROM FINANCING ACTIVITIES	**(64.7)**	**(22.9)**	**182%**

As a result, the Group's cash balance rose by €63m to €103m. This figure rises to €159m factoring in short-term financial investments.

figures in €M	2013	2012	Δ%
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**63.2**	**(31.4)**	**n.s.**

Key risks and sources of uncertainty

Ence's risk management system, which has been fully implemented within the organisation and operational since 2011, takes into consideration the possible threats to delivery of the strategic objectives of all of the ENCE Group's businesses (pulp, energy and forestry) as well as other activities undertaken by the organisation's various support areas.

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

The system contemplates threats to the various types of objectives established by the organisation. Specifically it refers to objectives classified as:

- Strategic
- Operational
- Financial Information and Reporting
- Regulatory Compliance

The risks addressed by Ence's risk management model are in turn classified as follows:

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

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

Objective: Financial discipline

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

a) PULP PRICE VOLATILITY

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

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

b) EXCHANGE RATE VOLATILITY

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

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

c) INTEREST RATE VOLATILITY

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

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

The Group is not exposed to interest-rate risk in respect of its most significant projects as ENCE has funded these projects with fixed-rate financing. For the rest of its investments/floating-rate financing, the Group arranges hedges 70% to 80% in the derivative markets or by hedging open positions upfront when the financing is arranged at the behest of the banks.

d) CREDIT RISK

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

Ence transfers this risk to a third party by means of a credit insurance policy, which has been renewed until 31 December 2014, that covers, depending on the country in which the customer is located, between 80% and 90% of balances receivable. This insurance policy assigns credit limits according to the creditworthiness of the customer and covers virtually all of the Group's pulp sales. Under the policy, pulp customer-specific credit limits cannot be overstepped.

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

e) LIQUIDITY AND CAPITAL RISK

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

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

The Ence Group uses two main sources of external financing:

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

- Corporate financing, used to finance all other activities. Ence Energía y Celulosa S.A. centralises the cash surpluses of all the companies in order to distribute them depending on the Group's needs, raising funding from the banks and capital markets as required.

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

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

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

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

f) REGULATORY CHANGES (INCLUDING TAX REGULATIONS)

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

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

Objective: Enhancing the Company's Productive Capacity

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

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

Objective: Decommoditisation of the Pulp Produced by ENCE

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

The Group also maximises its products' value added by using certified wood; however, it is hard to find sufficient quantities of certified wood that meet Forest Stewardship Council (FSC) certification standards.

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

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

Objective: Minimisation of Cash Cost

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

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

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

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

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

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

Objective: Increasing ENCE's Market Share

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

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

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

Objective: Streamlining of Post-Production Logistics

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

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

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

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

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

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

The Company is strategically committed to reducing the environmental impact of its business operations. In 2013 it completed several of the initiatives included in the Industrial Investment Plan for each of its three factories.

Objective: Commissioning and Monetisation of New Energy Projects

The generation of energy from renewable sources is a regulated business, which means the revenue it generates is conditioned by the tariffs set by the Spanish government, so that the main risk to which this business segment is exposed relates to changes in the renewable energy regulatory framework in Spain. The changes made to the regime in recent years, including a temporary moratorium on premium remuneration for new capacity, new energy taxes and levies and Royal Decree-Law 2/2013, on urgent electricity system and financial sector measures, point to a less propitious outlook for this business.

Objective: Optimisation of Forest Asset Costs

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

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

Objective: Business Continuity

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

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

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

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

The assets located on land held under concession are currently depreciated over the shorter of their remaining useful life or the term of the concession agreement. An increase in the concession term would accordingly reduce the depreciation charge forecast for 2014 by approximately €7.5 million.

Objective: To Guarantee Worklife Quality and Workplace Health and Safety

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

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

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

Objective: Regulatory and Reporting Compliance

The new pulp and paper sector Best Available Techniques References (BREF) documents are expected to take effect in 2017. Adopters have one more year for full adaptation to the new regulations. The BREF metrics used in the new regulation are expected to be more restrictive, requiring new control systems and investment.

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

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

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

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

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

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

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

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

Events after the reporting date

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

R&D activities

The Ence Group continued to reinforce its R&D effort in 2013 across each of its three main lines of initiative: (i) eking out continual improvements in the pulp production process; (ii) optimising the energy harnessed from forest crops; (iii) improving the productivity and resistance of energy crops.

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

The most important R&D projects undertaken in 2013 included, in the forestry arena, the "Study of the productive potential of Eucalyptus hybrids using ferti-irrigation, water rationalisation methods and sap analysis", and "Selection, reproduction and evaluation of Camaldulensis eucalyptus clones for use in highly productive energy crops in Extremadura". On the industrial front the following projects stood out: "Study of the impact of the main continuous kraft cooking variables on the performance and quality of pulp"; "Generation of fertilisers from gypsum"; and the CASCATBEL project developed together with another 20 research partners with the goal of deriving second-generation biofuel from lignocellulosic biomass at the laboratory and at the pilot plant levels.

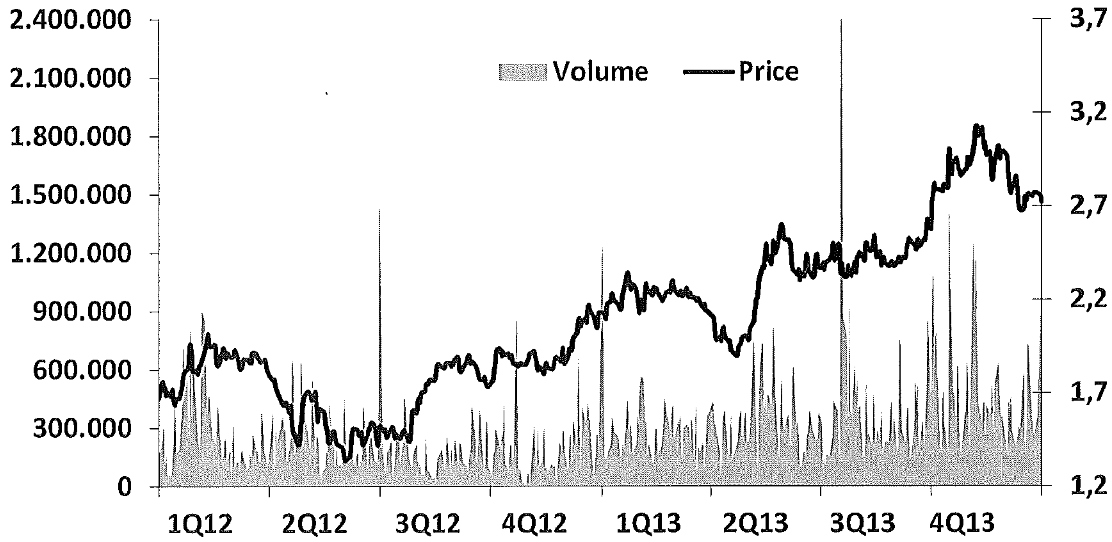
Purchase-sale of own shares

The disclosures regarding the acquisition and sale of own shares in 2013 are provided in note 16.7 to the accompanying consolidated financial statements.

Other information

Share price information

ENCE's share performed well in 2013, outperforming the Spanish and European stock markets by 7% and 10%, respectively.



Source: Thomson Reuters

	1Q12	2Q11	3Q11	4Q12	1Q13	2Q13	3Q13	4Q13
Average daily volume (shares)	283,924	270,690	190,820	226,282	283,963	347,171	446,481	508,964
Ence performance	7%	(15%)	14%	23%	0%	11%	9%	6%
Ibex 35 performance	(7%)	(11%)	9%	6%	(3%)	(2%)	18%	8%
Eurostoxx performance	7%	(9%)	8%	7%	(0%)	(1%)	11%	7%

Note: Ence's share price performance has been adjusted for the €0.07 per share dividend paid on 8 May 2012 and the €0.07 per share dividend paid on 3 April 2013; it has not been adjusted for the in-kind dividends paid on 8 May 2012, 17 August 2012 and 11 April 2013, which have the effect of increasing the total shareholder return by 3.5%, 2.7% and 4%, respectively.

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

Dividend policy

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

Credit ratings management

In addition to having its shares publicly traded, in 2013 the Company issued €250 million of 7.25% bonds due 2020. The ratings awarded have not changed since the time of the bond issue.

Corporate Rating

	Current Rating	Outlook	Last review
Moody's	Ba3	Stable	21/01/2014
Standard & Poor's	BB	Stable	12/07/2013

Issue Rating

	Current Rating	Outlook	Last review
Moody's	B1	Stable	21/01/2014
Standard & Poor's	BB	Stable	12/07/2013

At year-end, the bonds were trading at close to 110% of par, i.e. 10% above the issue price. From time to time ENCE may buy back its bonds on the secondary market. Any such buyback activity would be carried out on the basis of analysis of all relevant factors, including the bonds' quoted price and the Group's liquidity position, and in compliance with all applicable legal requirements.

Corporate governance

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