IMPORTANT NOTICES

The following disclaimer applies to the English version of the Prospectus ("*Folleto Informativo*", the "**Prospectus**") delivered to you for information purposes.

The English translation of the Spanish Prospectus is a free translation of the original Spanish approved by the Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores* or *CNMV*) on 4 March 2010. In the event of any discrepancy between the English translation of the Spanish Prospectus and the original Spanish Prospectus, the original Spanish Prospectus will prevail.

The English translation of the Spanish Prospectus has been prepared exclusively for information purposes. Investors should rely solely on the Spanish language Prospectus registered with the CNMV when making an investment decision in relation to the securities. No document other than the Spanish language Prospectus registered by GRUPO EMPRESARIAL ENCE, S.A. (the "Company") with the CNMV may be considered as having any legal effect whatsoever in respect of the securities and the capital increase. Copies of the Spanish language Prospectus are available on the web sites of the CNMV (http://www.cnmv.es) and of the Company (http://www.ence.es).

The English translation of the Spanish Prospectus has not been and will not be registered by the CNMV or by any other equivalent regulatory authority or stock exchange.

No representation, warranty or undertaking (express or implied) is made and no responsibility or liability is accepted by the Company as to the accuracy of the English translation of the Spanish Prospectus ant nothing herein should be construed as a recommendation or advice to invest in any securities.

Mr. Antonio Palacios Esteban, acting for and on behalf of GRUPO EMPRESARIAL ENCE, S.A. (hereinafter "**ENCE**" or the "**Company**"), in his capacity as managing director, duly authorised for the purposes of the procedure for increase in capital of the Company and admission to trading of the New Shares on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through the Stock Exchange Interconnection System (Continuous Market) (*Sistema de Interconexión Bursátil (Mercado Continuo*), resolved by the board of directors of ENCE on 3 March 2010 pursuant to the delegation made by the shareholders general meeting of the Company on 25 June 2008,

HEREBY CERTIFIES

That the version attached hereto on IT medium of the prospectus for the capital increase coincides with the prospectus registered in the official records of the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) on 4 March 2010.

He further authorises the Spanish Securities Market Commission to publicise the said prospectus on IT medium on its website.

In witness whereof, for the appropriate purposes, I have issued this certificate in Madrid on 4 March 2010.

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Mr. Antonio Palacios Esteban

PROSPECTUS

INCREASE IN CAPITAL WITH PREFERENTIAL SUBSCRIPTION RIGHTS

OF GRUPO EMPRESARIAL ENCE, S.A.

BY THE ISSUE OF 83,112,890 ORDINARY SHARES

IN A NOMINAL AMOUNT OF 74,801,601 EUROS AND

CASH AMOUNT OF 130,071,672.85 EUROS

This Prospectus includes the Registration Document and Securities Note (in accordance with the models established in Annexes I and III of Regulation (EC) no. 809/2004 of the Commission, of 29 April 2004) pursuant to the provisions of Royal Decree 1310/2005, of 4 November.

This Prospectus was registered in the Official Records of the Spanish Securities Market Commission on 4 March 2010

CONTENTS

I. SUMMARY

This summary (the "**Summary**") describes the principal characteristics and fundamental risks associated with GRUPO EMPRESARIAL ENCE, S.A. ("**ENCE**" or the "**Company**" and jointly referred to together with the series of companies which form part of its group as the "**ENCE Group**" or the "**Group**") and the securities covered by the registration document (registered in the official records of the Spanish Securities Market Commission on 4 March 2010, hereinafter the "**Registration Document**") and the securities note (registered in the official records of the Spanish Securities Market Commission on 4 March 2010, hereinafter the "**Securities Note**") describing the capital increase in a total nominal amount of 74,801,601 euros and a total cash amount of 130,071,672.85 euros, by the issue and circulation of 83,112,890 ordinary shares of the Company (the "**New Shares**").

The Registration Document and Securities Note are jointly referred to as the "**Prospectus**".

It is expressly recorded that:

- This Summary must be read as an introduction to the Prospectus.
- Any decision to invest in the securities covered by the Securities Note must be based on consideration of the Prospectus as a whole by the investor.
- No civil liability may be pursued against any person exclusively in respect of this Summary or the information contained in it unless it is misleading, inaccurate or inconsistent in relation to other parts of the Prospectus.
- In the event that a claim is made before a court in relation to the information contained in the Prospectus, the claimant investor may, pursuant to the legislation of Member States of the European Economic Area, have to meet the expenses of translation of the Prospectus prior to commencement of the said judicial proceedings.

1. DESCRIPTION OF THE ISSUE AND ESTIMATED TIMETABLE

The operation consists of increase in the share capital of the Company in a total nominal amount of 74,801,601 euros by the issue and circulation of 83,112,890 newly issued ordinary shares of ENCE, with a nominal value of 0.90 € each, of the same class and series as the shares of the Company currently in circulation, and represented by book entry. The New Shares will be issued at an issue premium of 0.665 euros for each new share, which means a total issue premium of 55,270,071.85 euros, and a unit issue price (nominal value plus issue premium) of 1.565 euros per share (the "**Subscription Price**").

The capital increase was resolved by the board of directors of the Company at its meeting held on 3 March 2010, pursuant to the authorisation granted in favour thereof by the ordinary shareholders general meeting held on 25 June 2008. The capital increase was resolved with recognition of preferential subscription rights (excluding in respect of own shares held) in favour of the shareholders of the Company.

The "**Reference Shareholders**" Retos Operativos XXI, S.L., Alcor Holding, S.A., Atalaya Inversiones, S.R.L. and Caja de Ahorros de Asturias (Cantábrica de Inversiones de Cartera, S.L.) have irrevocably and unconditionally undertaken to subscribe for and pay up a total of 50.88% of the New Shares of the capital increase in the following proportions:

Entity	Number of Shares	%
Retos Operativos XXI, S.L.	18,410,728	22.15%
Alcor Holding, S.A. / Imvernelin Patrimonio, S.L.	16,947,447	20.39%
Atalaya Inversiones, S.R.L.	2,776,111	3.34%
Cantábrica de Inversiones de Cartera, S.L. / Norteña Patrimonial, S.L.	4,155,644	5.00%
TOTAL	**42,289,930**	**50.88%**

The Company undertakes to inform the market, by publication of a relevant fact by no later than noon on 19 March 2010, confirming that the Reference Shareholders have made orders and payment up has been made of the amount corresponding to subscription for the shares subject to the subscription commitment described in this section.

The New Shares are ordinary shares of the Company and will grant their holders the same voting, financial and information rights as those currently in circulation, as from the date on which they are registered in the name of their holders in the corresponding book entry records.

The nominal value and issue premium corresponding to the New Shares which are issued in execution of the capital increase will be paid up in full by contributions in cash on the terms and within the periods to be established in the Securities Note.

The capital increase is made free of expenses to subscribers, who will only have to subscribe for the nominal amount and issue premium of each new share. Nevertheless, entities participating in Sociedad de Gestión de los Sistemas de Registro, Compensación and Liquidación de Valores, S.A.U. (*Securities Registration, Clearing and Settlement Systems Management Company*) ("**Participating Entities**" and "**IBERCLEAR**", respectively) through which subscription is made may, in accordance with current legislation, establish recoverable expenses and commissions in respect of processing securities subscription orders and the purchase and sale of preferential subscription rights as they may freely determine.

It is planned that the New Shares will be admitted to trading on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges and included in the Stock Exchange Interconnection System (*Sistema de Interconexión Bursátil*) ("**SIBE**" or "**Continuous Market**") in accordance with the estimated timetable detailed below.

If the New Shares are subscribed for and paid up in full at the Subscription Price, the total amount of the capital increase (nominal amount plus issue premium) will be 130,071,672.85 euros and the New Shares would represent 47.52% of the share capital prior to the capital increase and 32.21% of the share capital after the capital increase.

Banco Santander, S.A., Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") and Caja de Ahorros y Monte de Piedad de Madrid ("Caja Madrid") act as underwriters and placement agents of the issue pursuant to the underwriting and placement agreement signed on 3 March 2010, and Santander Investment, S.A. also acts as Agent, pursuant to an agency agreement signed on 3 March 2010.

An estimated timetable of the capital increase is included below, a process which is described in more detail after the said timetable and in section 5.1 of the Securities Note.

ACTION	DATE
Registration of the capital increase Prospectus.	4 March 2010
Publication of the announcement of capital increase in the Spanish Commercial Registry Official Gazette ("BORME").	5 March 2010
Commencement of the Period for Preferential Subscription and application for Additional Shares (First Turn).	6 March 2010
Commencement of Stock Exchange listing of the preferential subscription rights.	8 March 2010
Final day of listing of the preferential subscription rights on the Stock Exchange.	19 March 2010
End of the Preferential Subscription Period (First Turn).	20 March 2010
Period for Allocation of Additional Shares (Second Turn).	24 March 2010
Commencement, as the case may be, of the Discretionary Allocation Period (Third Turn).	25 March 2010
Payment up of the shares subscribed for in the Preferential Subscription Period and in the Period for Allocation of Additional Shares by Participating Entities.	26 March 2010
End of the Discretionary Allocation Period (Third Turn).	26 March 2010
Payment up of the shares subscribed for in the Discretionary	30 March 2010

ACTION	DATE
Allocation Period by qualified investors.	
Resolution for execution of the capital increase/Relevant Fact to the CNMV (final subscription result).	30 March 2010
Execution of the notarised deed of increase in capital.	30 March 2010
Registration of the notarised deed of increase in capital in the Commercial Registry.	30 March 2010
Allocation by IBERCLEAR of book entry references for the New Shares.	30 March 2010
Date of verification by the CNMV.	30 / 31 March 2010
Admission to listing of the New Shares.	1 April 2010

2. PURPOSE OF THE OPERATION

The primary objective of this capital increase is to strengthen the structure of the balance sheet of the Company in order, from a more solid position, to undertake its projects of investment in industrial efficiency and growth in renewable energy generation with biomass.

The Company considers that maintenance of a solid balance sheet structure is a strategic objective given the cyclical nature of its current business; strengthening of its balance sheet will not only permit maximum value to be extracted from the business in periods of cellulose price increase but also to continue transforming the business profile of ENCE by implementing industrial efficiency programmes and energy projects geared to strengthening the generation of future cash flow of the Company.

3. SUBSCRIPTION AND PAYMENT UP PROCEDURE

3.1. First Turn: Preferential Subscription Period

The resolution to increase capital grants preferential subscription rights to the holders of existing shares in the Company in accordance with the provisions of Section 158 of the Companies Act (*Ley de Sociedades Anónimas*).

Shareholders will be entitled to preferential subscription for New Shares in the Company who, at 23.59 hours on the date of publication of the announcement of capital increase in the Commercial Registry Official Gazette (*Boletín Oficial del Registro Mercantil* – hereinafter "**BORME**") (i.e. the day prior to commencement of the Preferential Subscription Period) are accredited in the book entry records of IBERCLEAR and have not transferred the said rights ("**Shareholders**").

One preferential subscription right will correspond to each former share of ENCE. Twenty one (21) preferential subscription rights will be necessary to subscribe for ten (10) New Shares of ENCE.

The Company states that it holds 362,925 of its own shares directly. In order to determine the applicable exchange proportion and in order to comply with the provisions of Sections 74 and 79 of the Companies Act, own shares held have not been taken into account in calculating the proportion of twenty one (21) preferential subscription rights for each ten (10) New Shares, increasing those of the remaining shareholders.

In order that the number of shares to be issued maintains the said proportion of twenty one (21) preferential subscription rights for each ten (10) New Shares, Mr. Antonio Palacios Esteban has notified the Company of his decision to waive six (6) preferential subscription rights corresponding to shares held by him.

Preferential subscription rights will be transferrable on the same terms and conditions as the shares from which they derive, consequently investors other than Shareholders may acquire sufficient preferential subscription rights in the market in the necessary proportion (i.e. twenty one (21) preferential subscription rights for each ten (10) New Shares) and subscribe for the corresponding newly issued shares (hereinafter investors other than the Shareholders who acquire and exercise preferential subscription rights in the market during this Preferential Subscription Period are referred to as "**Investors**").

The Preferential Subscription Period for Shareholders and Investors will begin on the day following that of publication of the capital increase in the BORME and last for 15 calendar days. It is planned that the Preferential Subscription Period will commence on 6 March 2010 and end on 20 March 2010 (inclusive). Nevertheless, listing of the rights will begin on 8 March 2010 and end on 19 March 2010. The Preferential Subscription Period will not be capable of extension.

During the Preferential Subscription Period, at the time of exercising their preferential subscription rights Shareholders and Investors may apply for subscription of additional shares to those corresponding to their preferential subscription rights exercised ("**Additional Shares**") in the event that at the end of the Preferential Subscription Period New Shares remain unsubscribed in exercise of preferential subscription rights, and therefore the total amount of the capital increase has not been covered.

In order to apply for Additional Shares through a Participating Entity, Shareholders and Investors must have exercised all preferential subscription rights which they hold during the Preferential Subscription Period deposited with the Participating Entity through which they exercise the said right. Orders relating to application for Additional Shares must be made in a particular amount and will not be subject to a quantitative limit.

The theoretical value of each preferential subscription right will be calculated in respect of the closing price of the ENCE shares on the Madrid Stock Exchange on the day prior to commencement of the Preferential Subscription Period in accordance with the following formula:

$$VTD = \frac{(PC - PS) * NNA}{NAP + NNA}$$

where:

VTD: Theoretical value of the preferential subscription right.

PC: Closing price of the ENCE shares on the Madrid Stock Exchange corresponding to the stock exchange session on the day prior to commencement of the Preferential Subscription Period.

PS: Subscription price for each new share, i.e. 1.565 euros (0.9 euros nominal value and 0.665 euros issue premium).

NNA: Number of New Shares to be issued (83,112,890 shares).

NAP: Number of shares prior to the capital increase excluding own shares held (174,537,075 shares). The share capital of the Company is divided into 174,900,000 shares and it holds 362,925 of its own shares.

Preferential subscription rights not exercised during the Preferential Subscription Period shall by automatically extinguished at the end of the Preferential Subscription Period.

The theoretical value of preferential subscription rights at the close of trading of ENCE shares on 3 March 2010 (2.81 €) was equal to 0.4016 €.

3.2. Second Turn: Period for Allocation of Additional Shares

In the event that after the Preferential Subscription Period has ended shares remain unsubscribed, a Period for Allocation of Additional Shares will be opened in which New Shares will be allocated to those Shareholders or Investors who have applied for Additional Shares during the Preferential Subscription Period.

This Additional Period for Allocation will be for one business day and take place on the third business day following the end of the Preferential Subscription Period. It is planned that the allocation of Additional Shares will take place on 24 March 2010.

In the event that the number of Additional Shares applied for in the Period for Allocation of Additional Shares is equal to or less than the number of surplus shares, the latter will be allocated to applicants until covering their applications in full.

In the event that the total number of Additional Shares applied for in the Preferential Subscription Period for allocation in the Period for Allocation of Additional Shares exceeds the number of shares which are unallocated pursuant to exercise of preferential subscription rights, the entity acting as agent will make a pro rata allocation in accordance with the rules indicated in the Securities Note.

In no event shall more New Shares be allocated to Shareholders or Investors than those which they have applied for.

3.3. Third Turn: Discretionary Allocation Period

In the event that after the Period for Allocation of Additional Shares has ended the shares subscribed for during the Preferential Subscription Period and the Period for Allocation of Additional Shares are not sufficient to cover all of the New Shares and unsubscribed shares remain, the Agent will give notice thereof to the Company and the Underwriters by no later than 09.00 Madrid time on the fourth business day following the end of the Preferential Subscription Period (in accordance with the planned timetable, on 25 March 2010).

The Discretionary Allocation Period will then commence, and will last for two business days beginning on the fourth stock exchange business day after the end of the Preferential Subscription Period (i.e. on 25 March 2010 in accordance with the planned timetable).

3.4. Payment up

Payment up in full of the nominal value and issue premium of each of the shares subscribed for in exercise of preferential subscription rights by Shareholders and Investors who exercise the corresponding preferential subscription rights during the Preferential Subscription Period will take place at the same time as subscription, through the Participating Entities who have forwarded the corresponding subscription orders.

In relation to subscription orders for Additional Shares which are allocated, as the case may be, to Shareholders or Investors in the Period for Allocation of Additional Shares, Participating Entities, as defined in the Securities Note, may request a provision of funds from Shareholders and Investors for the amount applied for in order subsequently to pay up these shares after they have been allocated. During the first business day following the end of the Period for Allocation of Additional Shares Participating Entities will notify Shareholders or Investors of the Additional Shares which have been finally allocated to them. In the event that a provision of funds has been made, the Participating Entity will apply the provision to payment of the subscription price of the said shares. If no provision of funds has been made, the shareholder or investor must pay the subscription amount at the time of notification of allocation given to them by the Participating Entity.

Payment up in full of the subscription price of each share allocated in the Discretionary Allocation Period must take place by allottee investors thereof through the Participating Entities designated by the investors in accordance with the provisions of section 5.1.3.a) 3.c) of the Securities Note.

3.5. Underwriting

As described in section 5.4.3 of the Securities Note, on 3 March 2010 a placement and underwriting agreement was signed between the Company, as issuer, and Banco Santander, BBVA and Caja Madrid as Underwriters, and Santander Investment, S.A. as Agent.

The New Shares which the Reference Shareholders have not undertaken to subscribe for are the subject of underwriting by the Underwriters under the said underwriting and placement agreement. The total number of New Shares underwritten ("**Shares Underwritten**") is referred to as the "**Total Underwriting Commitment**". The number of Shares Underwritten by each Underwriter and its participation in the Total Underwriting Commitment are as follows:

Underwriter	Shares Underwritten	
	No.	**%**
Banco Santander	25,552,777	62.59%
BBVA	12,776,796	31.30%
Caja Madrid	2,493,387	6.11%
Total Underwriting Commitment	**40,822,960**	**100%**

Without prejudice to the following provisions, if, after the Period for Allocation of Additional Shares has ended there are remaining shares, the Underwriters may at any time during the Discretionary Allocation Period decide to subscribe directly for the said shares in proportion to their underwriting commitment and at the Subscription Price, bringing the capital increase to an early end.

3.6. Revocation of the capital increase

No grounds for withdrawal or revocation of the capital increase have been provided for, apart from those which may derive from application of law or compliance with a judicial or administrative decision.

Notwithstanding the foregoing, if, between approval of the Prospectus and the end of the Preferential Subscription Period, any of the circumstances stipulated in Section 22 of Royal Decree 1310/2005, of 4 November, in implementation of the Securities Market Act (*Ley del Mercado de Valores*) in the field of admissions to listing of securities and public offerings arises, the Company must submit a supplement to the Prospectus for approval by the CNMV, after publication of which in accordance with Section 40.f) of the said Royal Decree, an extraordinary period will commence for revocation of subscription orders or applications for subscription made during the capital increase for a period of not less than two business days from publication of the said supplement.

3.7. Early closing of the capital increase

Notwithstanding the provisions of the foregoing sections, the Company may at any time treat the capital increase as concluded early after the end of the Preferential Subscription Period, and of the Period for Allocation of Additional Shares as the case may be, provided that the capital increase has been subscribed for in full and even though the capital increase has not been subscribed for in full if the Period for Allocation of Additional Shares has ended and there is agreement between the Company and the Underwriters.

If, at the end of the Preferential Subscription Period, or of the Period for Allocation of Additional Shares and the Discretionary Allocation Period, as the case may be, the full amount of the capital increase has not been subscribed for as a result of termination of the underwriting and placement agreement or non-entry into force of the underwriting or pre-financing obligations laid down therein, the public offering for subscription shall remain in force and the Company shall declare incomplete subscription of the capital increase.

3.8. Tax aspects

Section **¡Error! No se encuentra el origen de la referencia.** of the Securities Note includes relevant information regarding the tax regime applicable in Spain to the acquisition, holding and transfer of preferential subscription rights and the New Shares.

4. DESCRIPTION OF THE ISSUER

The full name of the issuer of the securities is Grupo Empresarial ENCE, S.A. and it operates in the market under the trading and abbreviated name of ENCE, with Tax ID Code A-28212264.

The ENCE Group bases its activities on the care, promotion and sustainable use of forest assets which it manages for the production and extraction of timber and biomass and subsequent transformation thereof into cellulose and energy, consequently carrying out its activities in the following three markets:

- Cellulose market
- Electricity market
- Timber market

In order to enhance the scope of its business, the Group organises its economic activities into three management divisions which are distinct but closely inter-related:

- Forest management division: Engaged in the management of forest assets of the Company.
- Cellulose management division: Devoted to the manufacture of cellulose in the three production centres of the Company and its commercialisation.

- Energy management division: This division is engaged in operating in the electricity market and managing energy, and strategic development of the Group.

5. SELECTED FINANCIAL INFORMATION ON THE COMPANY

The following tables show the principal accounting figures which summarise the financial situation of the Group and its evolution during the 2009, 2008 and 2007 financial years. The information contained in this section must be read together with the historical consolidated financial information included in section 20 of the Registration Document, and is in any event subject in full to the contents of the consolidated annual financial statements.

CONSOLIDATED BALANCE SHEET OF THE ENCE GROUP

THOUSANDS OF EUROS					
Financial Data	**2009**	**2008**	**2007**	**% variation 09/08**	**% variation 08/07**
Non-current Assets	980,154	1,133,590	888,214	(13.5)%	27.6%
Current Assets	244,072	328,302	306,805	(25.7)%	7.0%
Total Assets	**1,224,226**	**1,461,892**	**1,195,019**	**(16.3)%**	**22.3%**
Net Worth	576,897	729,564	745,767	(20.9)%	(2.2)%
Non-current Liabilities	258,422	340,788	100,176	(24.2)%	240.2%
Current Liabilities	388,907	391,540	349,076	(0.7)%	12.2%
Total Net Worth and Liabilities	**1,224,226**	**1,461,892**	**1,195,019**	**(16.3)%**	**22.3%**

CONSOLIDATED PROFIT AND LOSS ACCOUNT OF THE ENCE GROUP

THOUSANDS OF EUROS					
Financial Data	**2009**	**2008**	**2007**	**% variation 09/08**	**% variation 08/07**
Net Turnover	535,551	656,617	626,139	(18.4)%	4.9%
Gross Margin	173,774	266,379	347,678	(34.8)%	(23.4)%
Operating Profit	(72,501)	47,528	91,815	(252.5)%	(48.2)%
Financial Profit	(44,333)	(47,829)	(15,227)	(7.3)%	(214.1)%
Profit for Year	(154,571)	4,742	53,719	(3,359.6)%	(91.2)%
Profit per Share (Basic)	(0.88)	0.03	0.31	(3,033.3)%	(90.3)%

THOUSANDS OF EUROS					
Financial Data	**2009**	**2008**	**2007**	**% variation 09/08**	**% variation 08/07**
Profit per Share (Diluted)	(0.88)	0.03	0.31	(3,033.3)%	(90.3)%

PRINCIPAL FINANCIAL FIGURES AT 31 DECEMBER 2009, 2008 and 2007.

THOUSANDS OF EUROS					
Financial Figures	**2009**	**2008**	**2007**	**% variation 09/08**	**% variation 08/07**
Working Capital	(144,835)	(63,238)	(42,271)	129%	49.6%
Gross Financial Debt	351,305	477,065	249,706	(26.4)%	91.1%
Net Financial Debt	338,260	465,035	223,568	(27.3)%	108%
Short Term Debt/Total Debt	53.01%	45.10%	81.41%	17.6%	(44.6)%
Available/Short Term Debt	6.98%	5.59%	12.86%	24.9%	(56.5)%
Gross Financial Debt/Total Liabilities + Net Worth	28.70%	32.63%	20.90%	(12.1)%	56.2%
Net Financial Debt/Net Worth	58.63%	63.74%	29.98%	(8)%	112.6%
Net Financial Debt/Total Liabilities + Net Worth	27.63%	31.81%	18.71%	(13.1)%	70%
EBITDA	(14,844)	86,878	136,994	(117.1)%	(36.6)%
EBITDA/Turnover	N/A	13.2%	21.9	N/A	(39.5)%
EBITDA/Financial Profit (times)	N/A	1.82	9	N/A	(79.8)%
Gross Financial Debt/EBITDA (times)	N/A	5.49	1.82	N/A	201.3%
Net Financial Debt/EBITDA with Recourse (times)	N/A	5.35	1.63	N/A	228%
Basic Profit per Share	(0.88)	0.03	0.31	-	-

6. RISK FACTORS

Before taking a decision to invest in shares of the Company account must be taken of the risks referred to below. Although it is considered that all principal factors have been indicated, there may be additional risks or uncertainties which are not currently identified or not considered significant and which could present an adverse effect in the future to the business or financial position of the Group.

A summary is shown below of risk factors, a full description of which can be found in Section II of this Prospectus.

6.1. Risk factors associated with the issuer and its current business

6.1.1. Risk factors associated with the issuer

a) *Debt and liquidity risk*

The Company considers that its current levels of debt are high, considering the ratios shown by the industry as a whole. Furthermore, reductions in levels of Group cash flow generation with respect to those forecast for forthcoming years and additional investment requirements could give rise to the need to increase current levels of Group debt or limit present capacity to meet existing debt when due.

In addition, consideration must be given to the current situation of relative difficulty in obtaining or modifying the amount and structure of current financing as a result of the crisis in the financial sector in 2008-2009.

b) *Interest rate risk*

Although the Group carries out an active interest rate risk management policy by contracting hedging, it cannot be guaranteed that these policies or measures are effective or that they do not give rise to additional losses, circumstances which would have an adverse effect on the results and activity of the Group.

c) *Use of derivative financial instruments*

Group operations are subject to procedures aimed at controlling and minimising market risks associated with the raw materials used in its production process, although there is a risk that these procedures are not effective to the extent expected. Furthermore, future changes in the market may not be consistent with historical data and assumptions of the Group.

Furthermore, if the Group elects not to hedge itself against market risks, volatility in the prices of cellulose paste and principal raw materials could, in certain situations, affect the volatility of Group results.

6.1.2. Risk factors associated with cellulose paste production activities

a) *Concentration of Group income*

Group sales of cellulose paste are concentrated amongst a small number of customers and therefore the loss of major customers by the Group could have a significant impact on its income and results.

b) *Credit risk*

The credit risk of the Group is principally attributable to its trade debts. The management policy applied in cellulose paste activities consists of contracting insurance and coverage to hedge its exposure to commercial risk, with this cover being at least 80% of the amount sold to each customer.

c) *Risk deriving from activities in Uruguay*

In 2009 ENCE disposed of the majority of its assets located in Uruguay, but maintains 29,600 hectares. Consequently, the Group continues to be exposed to the risks deriving from continuation of economic activities in a geographical area of greater political and legal conflict, greater macroeconomic instability and higher volatility in terms of inflation, exchange rates and interest rates than those existing in Spain.

d) *Risks associated with the industrial production of cellulose paste*

The business of production and sale of cellulose paste carried out by the Group is subject, as well as to its own cyclical nature, to the risks inherent in any industrial activity such as accidents, breakdowns or catastrophes which could give rise to loss of tangible assets of the Group and temporary interruptions or reduction in production.

e) *Timber cost and supply risks*

The principal component of cellulose production costs relates to timber, its production, acquisition from third parties, processing, transport and preparation for use in the production process. Adjustments in the supply of available timber, amongst other factors as a result of climatological conditions which make it inadvisable to fell trees, and substantial changes in cellulose demand could give rise to greater difficulties in supply to Group plants and have an impact on the cost of production, and therefore on the profitability of operations.

f) *Competition in the cellulose paste production market*

Possible start-up of new, more modern, efficient and lower production cost installations, principally in South America and Asia, could condition the competitiveness of the Group in the future.

g) *Risks deriving from emission rights*

To date, the allocation made in favour of ENCE of greenhouse gas emission rights has been sufficient to cover the requirements of ENCE. However, it cannot be ruled out that extraordinary circumstances in operation of plants could mean that these rights are insufficient.

Furthermore, the new Directive applicable in this field provides for a new allocation of CO_2 emission rights as from 2013 for the purpose of reducing free allocation rights and establishing an auction mechanism as basic principle for allocation. This could require the Company to make investments aimed at additional reductions in emissions and the purchase of rights in the market at prices presumably higher than current prices.

h) *Concession-type risks*

In 1958 ENCE obtained the administrative concession for the land on which the Pontevedra plant is located without establishing a duration. Subsequently, however, the 1988 Coasts Act, applicable to the plant, provided that the maximum term of maritime-terrestrial public domain concessions would be 30 years. For its part, Transitional Provision 14.3 of the Coasts Regulations provided that a person holding a concession granted prior to entry into force of the Coasts Act (as is the case), whatever the term included in the concession title, "shall be deemed to be granted for a maximum period of 30 years as from entry into force of the Coasts Act" (the Act came into force on 29 July 1988, and it will therefore expire on 29 July 2018). The Company maintains a depreciation policy in relation to this plant which will enable its value to be fully depreciated by that date.

6.1.3. Risk factors associated with electricity generation activities

a) *Risk of change in the established economic regime*

The income obtained from the production of electricity by Group plants depends to a large extent on the economic regime established in Spain.

The plants in operation are guaranteed the conditions of the regime applicable to them for 25 years from when they adopted it. However, in relation to plants under construction or development, the risk must be taken into account involved in modification of the economic regime applicable to them at the time when they are in operation.

b) *Risk of dependency on access to electricity transport and distribution lines*

The Group depends on connection and access to electricity transport grids which are not owned by it, and therefore over which it has no control, for sale and transport of the energy it will produce.

In this respect possible technical capacity limitations of grids must be taken into account, whether temporary or permanent, which could limit or prevent the sale of the electricity corresponding to their installed power.

c) *Electricity price market risk*

The energy generation installations of the Group sell energy following a remuneration system based on market price plus a premium. Consequently, falls in prices of the electricity pool would mean a drop in the income deriving from this activity in the short term.

Planned investments under this same system could suffer if faced with evolution of market prices below existing expectations at the time of taking the decision to join into the said remuneration mechanism.

d) *Risks deriving from reduction in cellulose paste production activities in electricity production linked to the industrial process*

The activity of electricity generation of the Group is principally linked to the production of cellulose. Consequently, shut-down or reduction in cellulose production by the Company could mean a reduction in the volume of electricity generation.

6.2. Risk factors associated with the development of renewable energy projects with biomass

6.2.1. Capital-intensive business

Given the nature and periods of investment in electricity production plants, significant increases in development and construction costs could give rise to a significant adverse effect on the objectives, business, financial situation and results of the Group.

6.2.2. Dependency on qualified suppliers

The suppliers of technical material for the development of renewable energy projects with biomass are very few, which could give rise to difficulties in acquiring planned equipment in the periods considered.

6.2.3. Risk deriving from obtaining administrative authorisations and permits

It cannot be guaranteed that the corresponding authorities will approve or grant the permits, licences and authorisations necessary to carry out biomass projects or that legislation is not modified or interpreted in a manner which increases the cost of compliance, or delays occur in entry into operation of projects with the consequent reduction in profitability.

6.2.4. Environmental impact risks

The development of biomass projects could have a relevant environmental impact as a result of the large areas of forest which are devoted to cultivating forest products, problems in maintenance of the natural habitat of the forest affected, or atmospheric emissions, waste, water and noise.

Circumstances of an environmental nature, initial or intervening, as well as legislative changes, could give rise to an unexpected increase in environmental costs or of the investment plans of the Group.

6.2.5. Risks of public objection to projects of this type

The development of biomass projects by ENCE could encounter objections from the community where it is intended to locate each project. Consequently, public arguments in the administrative process for grant of the corresponding authorisation could obstruct or increase the costs of obtaining the necessary permits for carrying out projects. Neither can administrative or judicial challenges to such authorisation be ruled out after the grant of such authorisation.

6.2.6. Risk of availability of suitable sites for the supply of forest products

In its future operations the Group could have problems in locating suitable sites (given the large areas of land required for this type of project) which enable its investments in biomass to be implemented with the planned profitability criteria.

6.2.7. Risks inherent in the development, planting, productivity and cost of forest energy products

The application of results obtained in R&D processes involves risks of adaptation of the plant material to the selected sites which could have an impact on productivity of mass and supply cost. Furthermore, energy plantations are exposed to exogenous factors (rainfall, temperature, fire, pests, etc.).

6.2.8. Risks deriving from changes in biomass product financing conditions

The implementation of biomass projects requires negotiation and closing of project financing structures without recourse. Changes in the expected project financing conditions and a change in the trend in the rates scenario could mean a reduction in the profitability of new planned biomass projects.

6.2.9. Regulatory risks and public support for renewable energy with biomass

The activity of electricity production deriving from biomass is a regulated activity in which the implementation and profitability of projects depends to a large extent on the incentive policy which the Government establishes for electricity production deriving from this alternative source. A change in government incentives which exist at the present time could affect the profitability of projects which the Company intends to implement in the future.

6.3. Specific risk factors of the sectors in which the issuer operates (cellulose and energy)

6.3.1. Economic situation

The activities carried out by the Group, and in particular the manufacture of cellulose paste, are closely connected with the world economic cycle, which directly affects its operations and results. Consequently, deterioration in the world economy in the last 2 years has had negative consequences for Group results.

6.3.2. Cyclical nature of cellulose paste market prices

The price of cellulose paste is of a cyclical nature and is characterised by high volatility, although in recent years a trend has been seen towards the existence of cycles with increasingly lower price differences.

Furthermore, since cellulose is an intermediate product, its demand is derived from the end product. The demand for these end products is closely connected with the economic situation such that low growth prospects can reduce the demand for cellulose paste and put downward pressure on prices.

6.3.3. Exchange rate risk

Income from cellulose sales is affected by the USD/euro exchange rate since the reference sale price of cellulose in the international market is denominated in USD per ton.

To the extent that the cost structure of the Group is denominated mainly in euros, fluctuation in the USD/euro exchange rate significantly affects the profitability of the Group.

6.3.4. Risks from increase in environmental requirements

Group installations are constructed and operated in all respects in substantial conformity with environmental legislation applicable in each case. These legislative requirements are those established by European, State, regional and local administrations applicable to environmental impact vectors such as effluents, atmospheric emissions, waste and noise.

Although a change in the environmental conditions established by current legislation is not anticipated in the near future, it cannot be ruled out that such modifications could take place, which could oblige the Group to make additional investments in this field.

6.3.5. Risks relating to reduction in availability of eucalyptus timber by reason of fire, pests or adverse climatological conditions

Forest masses are exposed to external phenomena such as fire, pests and different atmospheric phenomena for which ENCE adopts protective measures in accordance with international standards in order to mitigate these possible negative impacts.

6.3.6. Risks relating to the requirement for supply of certified cellulose

The dependency of plantations owned by third parties in the supply of timber to ENCE plants restricts the capacity of the Company to guarantee certification of all production volumes under FSC (Forest Stewardship Council) or PEFC (Pan European Forest Certification) standards which guarantee that the cellulose produced in each plant originates from forest masses managed under principles of sustainability and that its traceability is maintained over the course of the production chain.

6.3.7. Risks from technological changes

The Company cannot guarantee that in the future no substitute product will arise for cellulose, no new manufacturing process more competitive in economic and environmental terms than the process currently followed by ENCE, or any innovation in any component of the process itself which reduces the competitiveness of the Company and obliges it to undertake substantial investment.

6.4. Risk factors associated with the securities issued

- Apart from the legal restrictions on the distribution of dividends to which ENCE is subject as a joint stock company, ENCE has several restrictions on the payment of dividends to its shareholders established in the syndicated credit agreement signed with a series of financial institutions on 2 April 2008 and subsequently amended in February, June and October 2009.

- It cannot be ensured that the shares issued will be listed at a price equal to or similar to that at which the issue is made and therefore shareholders who take part in the increase could incur losses.

- ENCE cannot ensure that an active trading market will develop for the preferential subscription rights or the price at which the said rights will be traded.

- Securities exchanges have experienced significant fluctuations in prices and trading volumes in recent years, and in particular in recent months, which have generated greater volatility in the price of securities.

II. RISK FACTORS

General description of the risks associated with activities

The Group engages in activities in the forestry, cellulose paste manufacture and energy generation fields, and proposes to strengthen the latter activity by expanding its energy generation capacity based on biomass. Taking data from the 2009 financial year into account, sales of cellulose paste have risen to 361 million euros (67% of total income), sales of energy to 127 million euros (24% of total income), and income from sale of timber and forestry services to 48 million euros (9% of total income).

The Company's activities are subject to certain risk factors which could have a significant effect on activities themselves, operating results, financial situation and prospects.

In order to provide clarity in explaining them, the risk factors detailed below have been classified into the following categories:

- Risk factors specific to the sectors in which the issuer operates (cellulose and energy).
- Risk factors associated with the issuer and its current business:

1. Risk factors associated with the issuer.
2. Risk factors associated with cellulose paste production activities.
3. Risk factors associated with electricity generation activities.

- Risk factors associated with the promotion of renewable energy projects with biomass.
- Risk factors associated with the securities issued.

1. RISK FACTORS ASSOCIATED WITH THE ISSUER AND ITS CURRENT BUSINESS

1.1. Risk factors associated with the issuer

1.1.1. <u>Debt and liquidity risk</u>

At 31 December 2009, the Group had a level of net financial indebtedness (in accordance with debt drawn down) of 338 million euros, constituting 59% of net worth and 28% of total liabilities. Of this debt, 163 million relates to the syndicated credit which must be repaid between March 2010 and December 2013, and 179 million to credit lines with short term maturity. As a result, the Group bears financial burdens which in the 2009 financial year amounted to 26.0 million euros (without including commissions charged by financial institutions).

For 2010 the Group must meet debt repayments of 54 million euros, of which 31 million euros belong to the syndicated loan and 23 million euros to other long term loans which the Company holds. The remaining short term facility maturities of 131 million euros will be met in the context of the normal renewals of the Company in its day-to-day short term maturity operations.

Financial charges for 2010 are estimated at 18.9 million euros. In calculating the financial charges the following hypotheses have been taken into account:

1. Use of approximately 100 million euros of funds from the increase to debt cancellation.

2. Maintenance of a total debt level of around 250 million euros long term as sustainable financial structure of the Company.

3. Average cost of debt of 6.27% (in 2009).

At 31 December 2009, the Group had negative working capital of 144.8 million euros (63.2 million negative at 31 December 2008), principally deriving from financing, with current liabilities, of non-current assets.

This situation is a relevant factor associated with the liquidity risk which the Company has been managing. In order to meet these financing requirements the Company had 13 million euros of cash and banks at 31 December 2009, and implementation of the capital increase covered by this Prospectus, net of issue expenses. This position is complemented by the generation of cash flow of the Company itself in the 2010 financial year and the renewal of existing policies in its day-to-day current asset management operations.

The cash flow generation capacity of the Company is favoured by the following three factors:

▪ An improvement is estimated in the medium term in the international price of cellulose paste in line with prices which were already consolidated at the end of the 2009 financial year. In this respect the price in international markets of cellulose paste increased from $485 in April 2009 to $685 in December 2009, the latter already in line with the average prices for 2008.

▪ The business plan for 2010 and following years provides for much higher production capacity than that available in 2009, in both cellulose paste manufacturing and in electricity generation, mainly due to the substantial reforms carried out at the Navia plant in this financial year.

- The cost reduction programme carried out in 2009 will permit savings in cellulose paste production costs within a range of 7%-10% in 2010.

The Company considers that current debt levels are high, and of particular relevance are the maturities in 2010, taking into account the ratios shown by the industry as a whole.

Consideration must also be given to the current relatively difficult situation in obtaining or modifying the amount and structure of current financing as a result of the crisis in the financial sector in 2008-2009. In this respect, Group credit line renewals were carried out in 2009 with a substantial part of the financial institutions with which the Group normally operates.

As a result, the main objective and purpose of the funds obtained on the capital increase in progress is to strengthen the financial structure of the Company, cancelling debt in order to eliminate this risk consistently, such that with the new long term financial structure the Company is safe from liquidity and debt risks in any phases of the business cycle.

1.1.2. <u>Interest rate risk</u>

At 31 December 2009, the percentage represented by Group debt with fixed interest rate to total debt was 87%, with the remaining debt subject to variable interest rates. Of the 351 million euros of total debt at 31 December 2009, the nominal amount with fixed interest rate was 307 million euros.

The average cost of debt in the 2009 financial year was 6.27%.

Although the Group carries out an active interest rate risk management policy by contracting hedging which mitigates this risk, it cannot be guaranteed that these policies or measures are effective or that they do not give rise to additional losses, circumstances which would have an adverse effect on Group results and activity.

1.1.3. <u>Use of derivative financial instruments</u>

The Group contracts derivative financial instruments principally to cover risks related to fluctuations in interest rates, exchange rates, the price of cellulose paste and the price of gas, fuel-oil and electricity used in the production process.

Of the interest rate derivatives, those most used are financial interest rate swaps. Cellulose paste price derivatives and those of certain energy products are principally swaps and options.

Group operations are subject to procedures aimed at controlling and minimising the market risks associated with the raw materials referred to, although there is a risk that these processes are not effective to the expected extent. Furthermore, market changes in the future may not be consistent with historical data and Group assumptions.

Furthermore, if the Group elects not to cover itself against market risks, volatility in the prices of cellulose paste and principal raw materials could in certain situations affect the volatility of Group results.

At 31 December 2009, the Group had an Interest Rate Swap in respect of approximately 60% of the financing drawn down and maturing in 2013. This instrument enables a fixed interest rate to be ensured over the percentage of debt covered of 5.805% instead of the EURIBOR. Its reasonable value at that date was negative by 33,344,000 euros. Furthermore, the Group has an Equity Swap which showed a negative value at 31 December 2009 of 9,608,000 euros.

1.2. Risk factors associated with cellulose paste production activities

1.2.1. Concentration of Group income

The ten largest customers of the cellulose paste sales business (an area which represents 67% of current Group income) represented 60% of consolidated sales of this business area in 2009, although none of them represented more than 14% of sales. The loss of major customers by the Group could have a significant impact on its income and results if it is not able to replace them by others, and, as appropriate, increase the logistical costs incurred.

1.2.2. Credit risk

The credit risk of the Group is mainly attributable to its trading debts. As indicated, sales of cellulose paste are concentrated amongst a small number of customers.

The management policy applied in cellulose paste sales consists of contracting insurance and coverage to hedge its exposure to commercial risk, with this cover being at least 80% of the amount sold to each customer.

For their part, all sales of energy made by the Company during 2009 were made in accordance with the regulated mechanisms for the Special Regime such that settlement of the equivalent premium took place, up to 1 November 2009, by the distribution companies which directly collect these amounts from consumers and, as from that date, by the National Energy Commission, and therefore the counterparty insolvency risk is very reduced or nil.

1.2.3. Risks deriving from activities in Uruguay

As explained later in this Registration Document, in 2009 ENCE disposed of the majority of its assets located in Uruguay, which were devoted both to the supply of pulp timber to plants in the Iberian Peninsula, mainly in Huelva, and the construction and operation of a new cellulose plant in that country, a project which was under development at the time the sale took place.

The Company has no industrial project under way in Uruguay. In any event, contribution of the Uruguay activities at the level of operating results was not particularly relevant within the consolidation perimeter of the Company as a whole.

After the sale of assets in Uruguay, the Group has continued to hold 20,600 hectares. The Group consequently continues to be exposed to the risks deriving from continuation of economic activities in a geographical area of greater political and legal conflict, greater macroeconomic instability and higher volatility in terms of inflation, exchange and interest rates, than those existing in Spain.

1.2.4. Risks associated with the industrial production of cellulose paste

Apart from the cyclical nature of the cellulose market, the cellulose paste production and sale business carried out by the Group is subject to the risks inherent in any industrial activity.

Although corrective and preventative maintenance policies have been carried out in the three production centres, the production of cellulose paste is subject to the risks inherent in any industrial activity, such as accidents, breakdowns or catastrophes, which could give rise to damage to tangible assets of the Group or temporary interruptions or reductions in production.

1.2.5. Timber cost and supply risks

The principal component of cellulose production costs is timber, its production, acquisition from third parties, treatment, transport and preparation for use in the production process. In 2009 the cost of this consumption represented 55% of total cellulose production costs of the Group.

At the present time the Group supplies its plants with local timber from Spain and Portugal, and imported timber mainly from South America, an area in which the Group has proven experience based on its operations in Uruguay since 1989.

The level of self-supply of own timber by the Group in 2009 reached 13%-15% with respect to total timber consumed in the production process. Of this portion, approximately 40% originates from the Iberian Peninsula and 60% from Uruguay. As a result of the disinvestment carried out of part of the forest growth and land available in Uruguay, forecasts for forthcoming years are that levels of self-supply will reduce to a range of between 8%-10% of total timber consumed.

To complement the felling in own timber, the forestry subsidiaries of the Group have an extensive network for acquiring timber from third parties which is added to their own production and which enables the amounts of raw materials necessary for the production of cellulose to be ensured.

However, adjustments in the supply of available timber, amongst other effects from that of climatological conditions which make it inadvisable or prevent its use or as a result of pests, fires or any other adverse phenomenon, as well as substantial changes in the demand for cellulose or other products whose raw material is timber, could lead to greater difficulties in supply to plants and have an impact on production costs, and therefore on the profitability of operations.

In the north and Atlantic area of the Iberian Peninsula, where eucalyptus is located, there is a market with years of tradition around this raw material. Although the Company has its own assets from which it partially supplies raw material, its plants located in the north of Spain basically depend on the supply of timber from third parties, as developed later in this document. Although there are many suppliers of timber to these installations, in the period analysed, 2007-2009, on average five suppliers accounted for 40% of the Iberian timber supplied by third parties to the Navia plant, whilst in the case of Pontevedra this percentage was 55%. Although there is a risk in this respect of concentration of suppliers, they have historically been working with ENCE with a high degree of cooperation. The price of eucalyptus timber in this zone, stable at around 35 € per ton with bark since practically 1997, despite the fact that demand has been subject to sustained increase, reached a maximum in March 2008 at 47.4 € per ton with bark, basically due to the fires in 2003 and 2005 combined with the inclement weather in the autumn and winter of 2007 and 2008 reducing the supply of timber. Since then the price has begun a sustained fall to around 39 € per ton with bark at the present time.

In the southern area of Spain the timber market is highly marginal and the ENCE plant in Huelva is the most important consumer in the region. Only 15%-20% of the timber required by this centre comes from Iberian suppliers, and of this percentage around 50% is met by two suppliers, also with a long tradition. The price of timber in the south moves in a similar manner to that of timber in the north of the Peninsula, although with a certain time lag and normally less sharply.

1.2.6. Competition in the cellulose paste production market

Although demand for eucalyptus cellulose and other equivalent products at world-wide level shows a growing trend in structural terms, the possible implementation of new more modern, efficient and lower production cost installations, principally in South America and Asia, may condition the competitiveness of the Group in the future.

At the present time the main players in the natural market of ENCE (Europe) for eucalyptus cellulose are Fibria, Suzano, Altri, Portucel, Cenibra, Arauco and CMPC.

1.2.7. Risks deriving from emission rights

Pursuant to Royal Decree 1370/2006, of 24 November (amended by Royal Decree 1402/2007), promulgating the National Plan for Allocation of Greenhouse Gas Emission Rights, 2008-2012, and Order PRE/3420/2007, which approved individual allocation of rights, ENCE received greenhouse gas emission rights free of charge for 657,970 tons annually of CO_2 for the 2008-2012 period.

Although the allocation of these rights to date has been sufficient to cover the requirements of ENCE, which were 594,716 tons in 2008 and 526,406 tons in 2009, it cannot be ruled out that exceptional circumstances in plant operation could mean that these rights are insufficient.

Furthermore, the National Plan for Allocation of Greenhouse Gas Emission Rights, 2008-2012, which lays down the current distribution system, was based on Directive 2003/87/EC, which was superseded by Directive 2009/29/EC which pursues the objective of reducing the emission rights of States by 1.74 % annually. For these purposes the new Directive lays down a new allocation of CO_2 emission rights as from 2013 for the purpose of reducing free allocation rights and establishing the auction mechanism as basic principle for allocation.

In this new context, the amount of emission rights which will be allocated to ENCE free of charge may be insufficient to cover the emissions from its industrial installations which would require the Company to carry out investments aimed at additional reductions in emissions and the purchase of rights in the market at prices presumably higher than current prices.

1.2.8. Concession-type risks

In 1958 ENCE obtained the administrative concession for the land on which the Pontevedra plant is located, currently subject to the regime under the Coasts Act of 28 July 1988. The concession was granted to the Company by Ministerial Order of 13 June 1958. The concession title did not establish a term, but subsequently the 1988 Coasts Act, Section 66, provided that the maximum term of maritime-terrestrial public domain concessions would be 30 years. For its part, Transitional Provision 14.3 of the Coasts Regulations provided that a person holding a concession granted prior to entry into force of the Coasts Act (as is the case), whatever the period indicated by the grant, "shall be deemed to be granted it for a maximum period of 30 years as from entry into force of the Coasts Act" (the Act came into force on 29 July 1988, and it will therefore expire on 29 July 2018). The Company maintains a depreciation policy in relation to this plant which will enable its value to be fully depreciated by that date.

1.3. Risk factors associated with electricity generation activities

1.3.1. Risk of modification of the economic regime established

Income obtained from the production of electricity depends to a large extent on the economic regime established. In Spain, where all plants under the Special Regime which the Group plans to install are located, the sale price of the electricity produced by renewable energy sources is regulated by Royal Decree 661/2007, of 25 May, regulating the activity of electricity production under the Special Regime which establishes the prices which are currently applicable to certain electricity producers in the renewable energy market under the Special Regime.

After the objectives established in Royal Decree 661/2007 for the technology corresponding to the Group installations are reached, it is planned, pursuant to Royal Decree-Act 6/2009, of 30 April, adopting certain measures in the energy sector and approving the social bonus, to promulgate a new economic regime.

This potential modification of tariffs would not in any event affect the plants in operation at the present time whose income is recorded in the financial statements for 2009 and previous years, which have guaranteed tariffs and therefore income for 25 years from entry into operation, pursuant to Royal Decree 661/2007.

In the event that these Special Regime premiums or tariffs are not applicable to any of the Group installations in Spain under construction or development, the latter will be obliged to sell the electricity produced by these plants at market prices without supplementary premium, which at the present time are substantially lower than those applicable under the Special Regime, which could make the corresponding project economically unviable, and the future electricity business of the Group could be substantially affected. However, the Company estimates that fulfilment of the timescale for construction of the 50 MW project currently under development would permit entry of this plant into operation before the end of 2011, which would guarantee application of the current economic regime to this installation.

1.3.2. Risk of dependency on access to electricity distribution and transport lines

The Group depends on connection and access to electricity grids which are not owned by it for sale and transport of the energy which it will produce. The Group does not own or have control of the electricity transport and distribution installations, but needs to access them in order to discharge the electricity generated.

If the transport and distribution grids suffer from technical capacity restrictions, whether temporary or permanent, this could prevent or restrict the Group from selling the electricity corresponding to its installed power.

1.3.3. Electricity price market risk

The current regulation permits installations under the Special Regime to sell their energy either at regulated tariff or by a remuneration system based on market price plus a premium, and the installation in question must remain for at least one year under the remuneration system selected before possible change. All energy generation installations of the Group are assigned to this Special Regime and the new plants which the Group plans to construct and operate within its development line based on the generation of biomass are planned to fall within this framework.

The relatively high prices recorded in the electricity market in recent years have in general terms led to a decision for the market price plus premium remuneration option, by offering higher total remuneration, although there are prospects that this situation will not continue at least over the course of 2010. In any event, for installations assigned to the market plus premium price system, falls in electricity pool prices would mean a fall in income deriving from this activity in the short term.

Furthermore, if any of the new generation projects based on biomass elects at any time during their useful life for the market plus premium price system, their profit margin and cash flow generation for payment of the associated investment could be negatively affected due to movements in market price below existing expectations at the time of taking the decision to elect for this remuneration mechanism.

1.3.4. Risk deriving from reduction in cellulose paste production activity in electricity production linked to the industrial process

At the date of preparation of this Registration Document, around 85% of electricity generation activities of the Group are connected in one manner or another with the production of cellulose. Consequently, a shut-down or reduction in the rate of cellulose production of any of the Company's plants could mean a reduction in the volume of connected electricity production, and consequently a reduction in the level of Group income from this source.

2. RISK FACTORS ASSOCIATED WITH THE PROMOTION OF RENEWABLE ENERGY PROJECTS WITH BIOMASS

2.1. Capital-intensive business

The development of electricity production plants requires substantial investment and the recovery period is long. In this context, a significant increase in development and construction costs of new installations could have a significant adverse effect on the objectives, business, financial situation and results of the Group.

2.2. Dependency on qualified suppliers

This activity requires the supply and assembly of several technical components such as turbines and biomass boilers, which are supplied by a small number of suppliers.

It cannot be ruled out in the future that the Group may have difficulties in acquiring the planned equipment in the anticipated periods, with the consequent impact on this activity.

2.3. Risk deriving from obtaining administrative permits and authorisations

Biomass projects require that several permits, licences and authorisations be obtained which require the involvement of different public administrations, from central government to regional and local governments.

In this context, it cannot be guaranteed that the corresponding authorities will approve or grant the necessary permits, licences and authorisations for the activity or that legislation is not amended or interpreted in a manner which increases the costs of compliance, or delays arise in entry into operation of projects and investment plans which consequently give rise to a reduction in their profitability.

2.4. Environmental impact risks

Biomass projects can have a relevant environmental impact.

Firstly, and with respect to the forestry component of projects, environmental problems can be raised in devoting large areas of forest to cultivating bioenergy forest products, which on occasions can replace the autochthonous species of the area. Furthermore, forest activities necessary for producing timber (clearing forests, felling, chemical treatment, etc.) can present various problems for maintenance of the natural habitat of the forest affected.

In another respect, electricity production plants may produce a negative effect on the environment in the form of atmospheric emissions, waste, water and noise.

Without prejudice to the Group taking the environmental cost which may be necessary into account in adjusting its activities to current environmental legislation in Spain as a determining factor in assessing each project, it cannot be guaranteed that circumstances of an environmental nature, whether initial or intervening, may give rise to an unexpected increase in these costs or of investment plans, or that any legislative change may affect the profitability of projects which the Group intends to develop.

2.5. Risks of public opposition to this type of project

As a result of the extent of the land necessary to cultivate forest energy products, the transformation which these projects may involve for the traditional economic activities of small communities, and the environmental factors previously mentioned, implementation of biomass projects by ENCE may meet opposition from the community where it is intended to locate each project.

This type of objection is legally channelled through public participation and consultation in the administrative process for grant of the corresponding authorisation, and it is therefore feasible that, if they exist, public arguments may obstruct or increase the cost of obtaining the necessary permits to implement projects. Furthermore, and if this opposition takes place after grant of administrative authorisation, it cannot be ruled out that persons who consider that they are prejudiced may challenge the authorisation through administrative or judicial channels.

2.6. Risk of availability of suitable sites for the supply of forest products

The production of electricity based on biomass requires large areas of land which enable the cultivation of bioenergy products which serve as raw material for the production of energy. Indeed, the greater or lesser profitability and on occasions economic viability of these projects depends on the availability and physical quality of the land on which bioenergy crops are developed to be used for the production of electricity, and their ownership structure.

In its future operations the Group could have problems in locating suitable sites to develop its investments in biomass with the planned profitability criteria, with the consequent impact on achieving its business objectives.

2.7. Risks inherent in the development, planting, productivity and cost of forest energy products

The Group is implementing an exhaustive R&D plan in the field of forestry cultivation. Nevertheless, application of the results obtained in pilot plantations to industrial scale involves risks of adaptation of plant materials to the sites selected which could have an impact on their productivity and therefore on the cost of supply which would affect the final profitability of the project.

Furthermore, and as with any other agricultural crop, plantations of energy crops are exposed to exogenous factors (rainfall, temperature, fire, pests, etc.) which could also affect forest productivity.

2.8. Risks deriving from changes in the financing conditions of biomass projects

Implementation of the biomass projects which form part of the Company's growth plan require negotiation and closing of project financing structures without recourse on the balance sheet of the Company which reduce future capital commitments. At the present time, ENCE estimates that it can reach project financing agreements with a percentage of external debt of 70%-80%. Furthermore, low interest rate scenarios favour the profitability of renewable energy projects, including biomass, and limit the financial attraction of alternative investments.

Change in the expected project financing conditions and a change in the trend in the interest rate scenario could lead to a reduction of the profitability of new biomass projects planned in the Company's business plan, and therefore negatively affect prospects for developing this growth opportunity.

2.9. Regulatory risks and risks of political support for renewable energy with biomass

As with other renewable energy, electricity production deriving from biomass is subject to a series of regulations, covering from the installation of each of the production plants, the crops which must supply them, the environmental conditions which must be followed in their operation, to the tariffs and premiums deriving from electricity production.

In accordance with these regulations, the development and profitability of biomass projects depends to a large extent on the incentives policy established by the Government to support electricity production deriving from this alternative source.

It cannot be guaranteed that governmental incentives currently resolved for implementing biomass projects will continue in the future, and therefore any legislative change in this field, even though it would not have consequences for current energy production of the Company, could substantially affect the profitability of the projects which the Company intends to develop in the future.

3. SPECIFIC RISK FACTORS OF THE SECTORS IN WHICH THE ISSUER OPERATES (CELLULOSE AND ENERGY)

3.1. Economic situation

The activities of the Group, and in particular the production of cellulose paste, is closely linked to the world economic cycle, which directly affects its operations and results. An upward economic cycle normally corresponds to an increase in Group profit, and a crisis cycle normally translates into a reduction in Group income.

The world economy has deteriorated in the last 2 years, basically due to the world financial crisis and lack of system liquidity, which has had negative consequences on Group results.

If the world economic environment does not show positive signs of recovery, the financial situation and results of the Group could continue to be negatively affected.

3.2. Cyclical nature of cellulose paste market price

The sale of short fibre cellulose paste, and specifically of the BEKP type (Bleached Eucalyptus Kraft Pulp) to third parties as a traditional activity of the Company, constitutes a majority of its sales (67% of total income of the Company in 2009) which leads to a high degree of sensitivity of profit and loss of the Company to cellulose price variations.

The price of cellulose paste is of a cyclical nature and is characterised by high volatility. Nevertheless, recent historical series show that differences between maximum and minimum price of the most recent cycles have reduced, with a trend seen towards the existence of cycles with increasingly sharp price differences. Nevertheless, this trend has not manifested itself in the period between August 2008 and April 2009, in which the price per ton has varied between 840 USD and 485 USD, respectively. Furthermore, from this minimum value the price has substantially recovered to 700 USD per ton, which was the market price at the end of 2009.

Since market cellulose is an intermediate product, demand for it derives from the end product, specifically from the demand for printing and writing paper and lavatory and tissue paper, which is that which uses BEKP cellulose. Demand for these end products is closely connected with the economic situation such that low growth prospects may lead to a reduction in the demand for BEKP cellulose paste and put downward pressure on prices.

In order to mitigate the risk of cellulose paste price reductions the possibility is continuously assessed of using paste price hedging to reduce the volatility of future sales on Group income. An increase of 5% in the international paste price in euros would lead to an increase in Group turnover of approximately 3.4%.

3.3. Exchange rate risk

Income from cellulose sales is affected by the USD/euro exchange rate since the reference sale price of cellulose in the international market is denominated in USD per ton. Even though the majority of Group sales are made in the European market, the price denominated in euros per ton is a reflection of this price in USD/ton.

To the extent that the Group cost structure is mainly denominated in euros, fluctuation in the USD/euro exchange rate significantly affects Group profitability. Specifically, scenarios of rising dollar against the euro give rise to greater income and profits, with the opposite happening in scenarios, as at the present time, of a depreciated dollar with respect to the euro.

The Company maintains a continuous dynamic analysis of the exchange rate risk based on its net cash flow expectations in dollars over a time horizon of 12 months, complementary to cellulose sale price hedging. A rise in the dollar of 5% would lead to an increase in Group turnover of approximately 3.4%.

3.4. Risks from increasing environmental requirements

Group installations are constructed and operated in all respects in substantial conformity with applicable environmental legislation in each case. These legal requirements are those established by European, national, regional and local administrations applicable to environmental impact vectors such as liquid effluents, atmospheric emissions, waste and noise.

Each production centre has implemented an on-line assessment and control system with periodic sampling for contrasting the environmental parameters of its liquid effluents, atmospheric emissions, noise, waste, etc., laid down and set out in the different procedures, instructions and standards of its Environmental Management System, which in the three cases are recorded in the European Eco-management and Audit (EMAS) register. This on-going control enables the environmental risk to be reduced to a minimum.

No environmental audit, whether internal or carried out by certification bodies, carried out at the industrial complexes of the Group have detected irregularities in their environmental behaviour or in their control procedures which indicate that Group plants do not have control of their environmental impact or that an incident has occurred which means a risk to the environment.

Although a change in the environmental conditions laid down by current legislation is not forecast in the near future, it cannot be ruled out that such modifications may take place, which could oblige the Group to made additional investments in this field.

3.5. Risks relating to reduction in the availability of eucalyptus timber by reason of fire, pests or adverse weather conditions

All forest masses are exposed to different external agents which can condition their rate of growth, accessibility and quality as raw material for cellulose production. These external phenomena may include the occurrence of fires, pests and different atmospheric phenomena, particularly hurricanes, storms and frosts which temporarily restrict the availability of timber and negatively affect its cost, and therefore the competitiveness of the Company’s industrial installations.

The forest assets of ENCE are managed on criteria of sustainability and periodically monitored such that protection measures are taken on these events in accordance with international reference standards. In addition, the Company’s plantations are insured, which partially mitigates the possible negative impact in the event of loss.

3.6. Risks relating to certified cellulose supply requirements

Certification is a mechanism which guarantees that the cellulose produced in each plant originates from forest managed on criteria of sustainability in accordance with international standards and that its traceability is maintained over the course of the production chain. At the present time, the most widespread certification systems in the market are FSC (Forest Stewardship Council) and PEFC (Pan European Forest Certification).

Despite the fact that the ENCE plantations are certified and 100% of the timber used is of controlled origin, the dependency on plantations owned by third parties in the supply of timber to the ENCE plants limits the capacity of the Company to guarantee certification of all production volumes under the standards previously mentioned, to the extent that these third party plantations and their handling mechanisms are not certified.

ENCE works in different forums, such as forest owner associations and forest-based industries, and in close collaboration with the Administration in order to incentivise the certification of forest masses currently in the hands of third parties.

3.7. Risks from technological change

The integrated cellulose production and energy generation process applied in the ENCE plants is known as the Kraft or sulphate process and currently constitutes the dominant technology in the chemical cellulose production industry thanks to its high efficiency in energy and environmental terms and raw material consumption.

Although no relevant innovation is anticipated in the short or medium term in the application of this technology at commercial level which decisively affects the competitiveness of installations, the Company cannot guarantee that in the future no product replacing cellulose will not emerge, or any more competitive production process than the current Kraft process in economic and environmental terms and no innovation in any component of the Kraft process itself which renders the current installations of the Company in a situation of limited competitiveness which makes it necessary to undertake relevant investment in replacement of equipment as a result of obsolescence.

4. RISK FACTORS ASSOCIATED WITH THE SECURITIES ISSUED

4.1. Restrictions on distribution of dividends to shareholders

At the present time, ENCE is subject to several restrictions on the payment of dividends to its shareholders established in the syndicated credit agreement signed with a series of financial institutions on 2 April 2008, and subsequently modified in February, June and October 2009. In particular, this agreement provides that ENCE may not distribute profits, whether by way of repayment of capital, issue premium, payment of dividends or interim dividends while the credit agreement is in force in the event that it is subject to events of default of the agreement or, in the course of any financial year, is in breach of any of the financial ratios agreed over one quarter.

The principal events of default are:

1. Default in payment of any amount owing and breach of any other agreed obligations.

2. Failure to comply with the financial ratios detailed in Clause 10.1.2.1 of the agreement.

3. Breach of any contract with any financial institution which exceeds 1 million euros and which is not rectified within ten days.

4. Breach of any obligation of a non-commercial nature to third parties which exceeds 10 million euros and which is not rectified within a period of 30 days.

5. Failure to create or register the security stipulated within the agreed periods.

In 2009 the Company did not distribute dividends.

Furthermore, as a result of its status as joint stock company ENCE is subject to Spanish company law which establishes various limitations and restrictions on the payment of dividends by companies to their shareholders, including an obligation previously to make up a minimum legal reserve, the need previously to depreciate certain intangible assets in full, and a prohibition on distributing dividends if net worth is, or after the distribution will become, less than the capital of the company.

4.2. Market for the shares

It cannot be ensured that the shares issued will be quoted at a price equal or similar to that at which the issue is made despite, without taking into account the rights, the discount on the issue price of the shares of the capital increase being 35.02% with respect to the quotation at market closing on 3 March (2.81 euros) and 35.47% with respect to the average quoted price of the ENCE shares in the 6 months prior to the date of registration of this Prospectus (2.83 euros), and therefore shareholders taking part in the increase may incur losses.

4.3. Market for the preferential subscription rights

The preferential subscription rights on the capital increase covered by this Prospectus will be subject to trading on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through the Stock Exchange Interconnection System (Continuous Market) for a period of 15 calendar days. ENCE cannot ensure that an active trading market will develop for these rights or the price at which they will be traded.

4.4. Risks associated with the shares and markets

Securities markets in the United States and in Europe have experienced significant fluctuations in prices and trading volumes in recent years, and in particular in recent months. In particular, in the case of ENCE, minimum and maximum quotations during the 6 months prior to the date of registration of this Prospectus were 2.565 euros and 3.175 euros, respectively. Furthermore, the volatility of ENCE shares during that period was 43.3% (daily volatility at 6 months).

III. INFORMATION ABOUT THE ISSUER – REGISTRATION DOCUMENT (Annex I of Regulation (EC) No. 809/2004 of the Commission of 29 April 2004)

1. PERSONS RESPONSIBLE

1.1. Persons who assume responsibility for the Registration Document

Responsibility for the contents of this Registration Document is assumed by Mr. Antonio Palacios Esteban, of full age, with professional address at Avenida de Burgos no. 8 B, and National ID Document number 13681300-A, who acts for and on behalf of the company Grupo Empresarial ENCE, S.A. (hereinafter "**ENCE**"). ENCE and its subsidiaries are hereinafter referred to as the "**Group**" or the "**ENCE Group**".

He is authorised for the purpose pursuant to resolution of the Board of Directors of the Company of 3 March 2010.

1.2. Declaration by those responsible for the Registration Document

Mr. Antonio Palacios Esteban, for and on behalf of ENCE, declares that, after acting with reasonable diligence to guarantee that this is the case, the information contained in the Registration Document, to his knowledge, conforms to the facts and there is no omission which could affect its content.

2. AUDITORS

2.1. Name and address of auditors

"DELOITTE, S.L.", a firm with registered office in Madrid at Plaza Pablo Ruiz Picasso number 1, and Tax ID Code B-79104469, registered under number S0692 in the official auditors' register, is the firm responsible for auditing the accounts of the Company for the 2007, 2008 and 2009 financial years.

DELOITTE, S.L. is registered in the Madrid Commercial Registry in Sheet M-54414, Folio 188, Volume 13650, Section 8, Entry 96.

2.2. Withdrawal by auditors

The auditors have not withdrawn nor removed themselves from their functions during the period covered by the historical financial information.

3. SELECTED FINANCIAL INFORMATION

3.1. Selected historical financial information

The selected historical financial information included in this section relates to consolidated annual financial statements of the ENCE Business Group for the financial years ending 31 December 2009, 2008 and 2007, audited by Deloitte, S.L., all prepared in accordance with the provisions of International Financial Reporting Standards (hereinafter "IFRS") as approved by the European Union in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and Council. All figures contained in this section are expressed in thousands of euros unless otherwise indicated.

Principal figures from the balance sheet of Grupo Empresarial ENCE for the 2009, 2008 and 2007 financial years (in thousands of euros):

	2009 F. Year	2008 F. Year	2007 F. Year	Variation 2009/2008	Variation 2008/2007
Non-current assets					
Property, plant and equipment	737,807	834,643	615,615	-11.6%	35.6%
Biological assets	155,238	255,481	224,721	-39.2%	13.7%
Other non-current assets	87,109	43,466	47,878	100.4%	-9.2%
	980,154	**1,133,590**	**888,214**	**-13.5%**	**27.6%**
Current assets					
Stocks	88,844	158,504	87,042	-43.9%	82.1%
Debtors	90,546	120,287	147,841	-24.7%	-18.6%
Other current assets	64,682	49,511	71,922	30.6%	-31.2%
	244,072	**328,302**	**306,805**	**-25.7%**	**7.0%**
TOTAL ASSETS	**1,224,226**	**1,461,892**	**1,195,019**	**-16.3%**	**22.3%**
Net worth	**576,897**	**729,564**	**745,767**	**-20.9%**	**-2.2%**
Non-current liabilities					
Financial debt to credit institutions	155,755	250,610	46,431	-37.8%	439.7%
Derivative financial instruments	42,952	27,427	5,725	56.6%	379.1%
Other non-current liabilities	59,715	62,751	48,020	-4.8%	30.7%
	258,422	**340,788**	**100,176**	**-24.2%**	**240.2%**
Current liabilities					
Financial debt to credit institutions	186,240	215,140	203,275	-13.4%	5.8%
Trade creditors	195,259	161,078	114,161	21.2%	41.1%
Other current liabilities	7,408	15,322	31,640	-51.6%	-51.6%
	388,907	**391,540**	**349,076**	**-0.7%**	**12.2%**
TOTAL LIABILITIES AND NET WORTH	**1,224,226**	**1,461,892**	**1,195,019**	**-16.3%**	**22.3%**
RATIOS					
Working capital (1)	(144,835)	(63,238)	(42,271)	129.0%	49.6%
Gross financial debt (2)	351,305	477,065	249,706	-26.4%	91.1%
Net financial debt (3)	338,260	465,035	223,568	-27.3%	108.0%
Short term debt/total debt (4)	53.01%	45.10%	81.41%	17.6%	-44.6%
Available/short term debt (5)	6.98%	5.59%	12.86%	24.9%	-56.5%
Gross financial debt/Total liabilities + Net Worth	28.70%	32.63%	20.90%	-12.1%	56.2%
Net financial debt/Net Worth (*)	58.63%	63,74%	29.98%	-8.0%	112.6%
Net financial debt/Total liabilities + Net Worth	27.63%	31.81%	18.71%	-13.1%	70.0%

(1) Current assets less current liabilities.
(2) Financial debt to financial institutions, current and non-current and "Other financial liabilities", current and non-current.
(3) Gross financial debt less "Cash and other equivalent liquid assets" excluding cash and banks of restricted use (38 million euros in 2009).
(4) Calculated as short term "Financial debt to credit institutions" divided by "Gross financial debt".
(5) Cash and other equivalent liquid assets plus "Temporary investments - others" excluding cash and banks of restricted use divided by "Short term debts to Credit institutions" and "Other short term financial liabilities".
(*) A ratio to be monitored in accordance with the syndicated loan agreement entered into (see Part 10)

Principal figures from the profit and loss account of the ENCE Business Group for the 2009, 2008 and 2007 financial years (in thousands of euros):

	2009 F. Year	2008 F. Year	2007 (**) F. Year	Variation 2009/2008	Variation 2008/2007
Turnover	**535,551**	**656,617**	**626,139**	**-18.4%**	**4.9%**
Profit / (Loss) from hedging operations	3,808	(14,550)	59,412	-126.2%	-124.5%
Gross Margin	**173,774**	**266,379**	**347,678**	**-34.8%**	**-23.4%**
Operating Profit / (Loss)	**(72,501)**	**47,528**	**91,815**	**-252.5%**	**-48.2%**
Financial profit and loss + / (-)	(44,333)	(47,829)	(15,227)	-7.3%	214.1%
Profit / (Loss) before tax	(116,834)	6,128	70,871	-2006.6%	-91.4%
Tax on profits	39,283	2,174	(7,111)	1706.9%	-130.6%
Profit / (Loss) for the year – ongoing operations	**(77,551)**	**8,302**	**63,760**	**-1034.1%**	**-87.0%**
Profit / (Loss) for the year – interrupted operations	(77,020)	(3,560)	(10,041)	2063.5%	-64.5%
Profit / (Loss) for the year	**(154,571)**	**4,742**	**53,719**	**-3359.6%**	**-91.2%**
RATIOS					
EBITDA (1)	(14,844)	86,878	136,994	-117.1%	-36.6%
EBITDA / turnover	N/A	13.2%	21.9%	N/A	-39.5%
EBITDA / Financial profit and loss (times) (*)	N/A	1.82	9.00	N/A	-79.8%
Gross financial debt / Ebitda (times)	N/A	5.49	1.82	N/A	201.3%
Net financial debt / Ebitda (times) (*)	N/A	5.35	1.63	N/A	228.0%
Profit and loss per basic share	-0.88	0.03	0.31		

(1) Operating Profit / (Loss) plus provision for depreciation plus impact on profit and loss account of deterioration in value of fixed assets.

(*) Ratios to be monitored pursuant to the syndicated loan agreement entered into (see Part 10)

(**) Profit and loss account prepared in order to permit comparison of information with that in the 2009 and 2008 financial years (see section relating to "Comparison of information and changes in accounting principles" in Chapter 20 of this Registration Document.

3.2. Selected financial information relating to intermediate periods in accordance with IFRS

Not applicable.

4. RISK FACTORS

See Section II of this Prospectus.

5. INFORMATION REGARDING THE ISSUER

5.1 History and evolution of the issuer

5.1.1. Legal and commercial name of the issuer

The full name of the issuer of the securities is Grupo Empresarial ENCE, S.A. and it operates in the market under the commercial and short name of ENCE.

5.1.2. Place of registration of the issuer and registration number

The deed of formation of the Company is registered in the Madrid Commercial Registry in Volume 2363, Book 1720, of Section 3 of the Companies Register, Folio 33, Sheet 14837.

The Tax ID Code of the Company is A-28212264.

5.1.3. Date of incorporation and period of activity of the issuer, if not defined

ENCE was incorporated in Madrid on 27 December 1968 by notarised public deed executed before the Notary Public Mr. Alejandro Bérgamo Llabrés and numbered 3575 in his records, under the name of "Empresa Nacional de Celulosas, S.A."

On 17 December 1999 the extraordinary shareholders general meeting resolved to change the name of the Company, which as from then took the current name of "ENCE"

The Company was incorporated for an indefinite term until dissolved, voluntarily or by law.

5.1.4. Registered office and legal form of the issuer, legislation under which it operates, country of incorporation and address and telephone number of its registered office

The Company is incorporated in Spain, with its registered office established in Madrid at Avenida de Burgos number 8 B, which also constitutes its tax domicile and principal offices of the Company. The telephone number is 91 337 85 00.

ENCE has the legal form of a joint stock company (*sociedad anónima*), and therefore it is subject to legislation applicable to such companies and there is no other special legislation applicable to it apart from that of the electricity sector.

5.1.5. Important events in the activities of the issuer

The principal events in the activities of the Company are described in section 6.1.1 of this Registration Document.

5.2. Investments

5.2.1. Description of the principal investments of the issuer for each financial year for the period covered by the historical financial information up to the date of the Registration Document

The principal investments made by the Group in the 2007-2009 period are shown below, broken down by production centre and principal project:

	Thousands of Euros		
	2009 F. Year	2008 F. Year	2007 F. Year
Pontevedra:	**5,737**	**14,612**	**9,744**
Improvements in plant efficiency	1,211	8,831	5,083
Plant maintenance	3,635	5,324	2,663
Other investments	891	457	1,998
Huelva:	**41,245**	**47,270**	**19,273**
Improvements in plant efficiency	704	611	849
Plant maintenance	4,406	6,350	6,716
Improvement in energy efficiency	35,357	38,622	7,434
Other investments	778	1,687	4,274
Navia:	**60,874**	**133,142**	**53,815**
Improvements in energy and plant efficiency	58,938	131,754	52,593
Plant maintenance	1,500	871	1,081
Other investments	436	517	141
Others:	**13,805**	**38,126**	**18,004**
Uruguay projects	9,536	36,454	13,428
Other investments	4,269	1,672	4,576
INDUSTRIAL ACTIVITY	**121,661**	**233,150**	**100,836**
Increase in assets	5,667	17,651	33,790
Conservation of assets	16,309	17,186	11,786
Forestation	9,225	23,230	26,647
Others	5,005	9,452	7,452
FORESTRY ACTIVITY	**36,206**	**67,519**	**79,675**
TOTAL INVESTMENTS	**157,867**	**300,669**	**180.511**

Industrial investments (cellulose and energy)

The industrial investments made by the Group in general relate to projects, normally multi-year, devoted to improving the efficiency of the production process, optimising consumption, improving yields and maximising the energy potential of plants. In addition, it is necessary to make investments in maintenance and repair of operating assets and investments geared to ongoing improvement in the environmental and health and safety at work field, which further ensure compliance with current industrial and environmental legislation.

We have analysed below the principal investments made in the period devoted to increasing the efficiency of cellulose paste manufacture and energy production processes.

Extension of Navia plant

At the end of 2006 the Group began implementing the project for extension of its Navia installations. The basic lines of this project, the most ambitious of those undertaken by the Company in the period examined, were as follows:

- Increase in cellulose production capacity to 500,000 tons annually, from the previous 300,000 tons annually.
- Maximisation of renewable energy generation capacity based on biomass, from 150,000 MWh/year to 535,000 MWh/year.
- Technological modernisation of installations and increase in energy efficiency of the industrial complex and reduction in consumption and emissions, by installation of a continuous timber steaming process, replacement of equipment connected with energy production by units of improved energy yield and replacement of consumption of 6,500 Tm annually of fossil fuel by biomass, consequently reducing greenhouse gas emissions.

Together with this, in the framework of the Navia plant extension project actions were undertaken to improve the environmental behaviour of the installation, modernising gas odour treatment, reinforcing air quality control of the different plant sources by the acquisition of equipment for ongoing monitoring of the process, conditioning of unused land and effluent management. In the specific area of water, environmental efforts focused on improving effluent quality and reducing water consumption.

These actions constituted a decisive advance in the competitiveness of the Navia plant, positioning it as a European reference in the production of cellulose integrated with energy generation based on biomass in an efficient manner, from both an economic and environmental point of view.

After the main stages of the extension project were completed operations began in March 2009. In accordance with industry standards a complete stabilisation plan was defined in a nine-month period. During the fourth quarter of 2009 the level of functioning was 80%-90% of forecast nominal capacity.

The total investment in the foregoing actions, including under the heading of "Improvements in energy and plant efficiency – Navia Plant Extension Project", amounted to 243.3 million euros. It is expected that over the course of the second quarter of 2010, after annual plant shut-down it will reach a production close to the forecast nominal capacity.

Huelva plant

Energy efficiency improvement and generation capacity maximisation actions based on biomass were also undertaken at the Huelva plant, by reformation of the existing biomass boiler and installation of a new steam generator, such that energy production based on biomass was increased by some 70,000 MWh/year and fuel-oil consumption reduced by approximately 2,500 Tm/year. Complementary to this, in the period in question reforms were undertaken to increase productivity of the installation (improvements in evaporators, which also resulted in an increase in energy efficiency), reduction in atmospheric emissions (SO_2 and particles), optimisation of liquid effluent treatment, search for ways to make internal use of waste generated and replacements and improvements in the field of health and safety at work.

Investments in industrial and energy efficiency improvement at the plant amounted to 83.6 million euros in the period analysed.

Pontevedra plant

For its part, the investment also undertaken in Pontevedra basically related to environmental impact improvements (optimisation of the effluent biological treatment plant, permitting a reduction in chemical demand for oxygen up to 25% below the indications in the reference document on best available technologies for the sector, BREF IPPC), marginal increases in productivity, replacements (sections of the existing turbo alternator and its control system) and improvements in working conditions.

The investment made under the heading "Plant efficiency improvements" amounted to 15.1 million euros in the period examined.

Forestry investments

Investments made in 2007, 2008 and 2009 in forest activities of the Group are detailed below:

	Thousands of Euros		
	2009 F. Year	2008 F. Year	2007 F. Year
Iberian Peninsula	**23,808**	**24,163**	**16,365**
Increase in assets	5,420	2,336	708
Conservation of assets	9,245	8,851	7,551
Forestation	5,504	8,574	4,674
Others	3,639	4,402	3,432
Uruguay	**12,398**	**43,356**	**63,310**
Increase in assets	247	15,315	33,082
Conservation of assets	7,064	8,335	4,235
Forestation	3,721	14,656	21,973
Others	1,366	5,050	4,020
Total Forestry Investments	**36,206**	**67,519**	**79,675**

The purpose of forestry investments is to ensure the availability of timber for future industrial development by acquisition of new properties and forestation and subsequent care at the forest asset growth stage. As a complement to planting and maintenance activities the Company undertakes a programme of forestry research and development in order to improve forest productivity by ongoing improvement of forest treatments (fertiliser and phyto-sanitary treatments) and the development of clones better adapted to climatic conditions and soil of own and third party assets. Approximately 65% of the investment carried out in the period examined took place in Uruguay, with the remaining 35% in the Iberian Peninsula.

Forestry investment by the Group in 2007 amounted to virtually 80 million euros, representing 44.1% of the total, and centred on the acquisition of 20,776 hectares of land, mainly in Uruguay, the forestation of 18,106 hectares, of which 14,127 were in Uruguay, and carrying out conservation tasks, mainly forest treatment, on 76,781 hectares (44,075 hectares in the Iberian Peninsula and 32,706 hectares in Uruguay).

In 2008, the total investment in forestry activities amounted to 67.5 million euros, representing 22.46% of total investment in the period. Of this amount, 17.7 million euros were invested in the acquisition of 9,822 new hectares of forest land in Uruguay and 661 hectares in Spain. In addition, forestation work was carried out on 27,370 hectares, mainly in Uruguay, and conservation and forestry tasks on 159,910 hectares.

During 2009, investment in management of forest assets of the Company reached 36 million euros. This investment involved acquisition or 51 hectares in the Iberian Peninsula, planting of 8,139 hectares, of which 4,466 hectares were in Uruguay, and conservation and forestry tasks on 123,330 hectares, of which 34,620 were in the Iberian Peninsula.

In accordance with the Group's expansion line based on electricity generation with biomass, in the period in question the Company undertook investments with a value of 6.4 million euros in order to tackle an energy crop plan, currently at its initial stage. On the basis of the current knowledge and experience of the Group in the production, planting and cultivation of rapid growth woody species, the Company is developing programmes of species selection and intensive cultivation technique design at its R&D installations, and experimental plots, which ensure the supply of cultivated biomass in quality and cost to the current energy generation installations, and to future projects of the Group. At the date of preparation of this document the Company has 7,492 hectares of assets, own and leased, which are planted with forest species such as eucalyptus and poplar devoted to this purpose.

Investments in intangible assets

Investments in intangible assets in the period examined basically relate to obtaining, free of charge and therefore without cash outlay, emission rights pursuant to the National Greenhouse Gas Emission Rights Plan for the 2008-2012 period. The annual allocation of rights is 657,970 tons and consumption in 2008 and 2009 was 594,716 tons and 526,406 tons, respectively.

Group development expenses in the 2007-2009 period, approximately 2 million euros annually, relate to the costs incurred in implementing projects aimed at increasing forest productivity through the development of new clones, achieving improvements in forest cultivation plans and carrying out research into new woody energy crops which will be used in the generation of electricity based on biomass. In addition, costs were incurred of this type in 2008 and previous years in the "Uruguay" project, sold in the 2009 financial year.

Disinvestments

Uruguay project

During recent years ENCE has been engaging in intensive forestry activity in Uruguay with the objective of producing and controlling sufficient timber to ensure supply to a new cellulose plant of 1,000,000 tons in that country, with construction and operation of the new installation planned in the Punta Pereira area (Department of Colonia, Uruguay). Forestry investment in Uruguay for this purpose during the reference period amounted to 119 million euros.

At the end of 2008 ENCE decided to dispose of the majority of its assets in Uruguay, including the project for construction of the new cellulose plant, in a strategic framework in which the decisions of the Company were concentrated on management efforts in implementing industrial and energy efficiency improvement and expansion projects in Spain, in particular in Navia and Huelva, strengthening the financial structure to adapt to an unfavourable market environment and a financial context of credit restrictions, and undertaking the development, with guarantees, of an independent energy generation business with biomass (without market risks and with the possibility of selling at regulated prices) characterised by the start-up of modular, replicable and financeable projects, and consequently of less risk.

On 17 May 2009 a firm sale agreement was signed with a consortium made up 50% each by two of the reference groups in the paste and paper sector, Stora Enso and Arauco, with the subject of the transaction being sale of the whole of the Punta Pereira project together with the associated forestry base (139,500 hectares in the central and western areas of the country), the M´Bopicuá logistics terminal and ownership of titles to the corresponding vehicle companies. The amount of the sale was 229,360,371 euros in cash. This operation generated an accounting loss of 77,020,000 euros set out under the heading “Loss for the year from interrupted operations net of taxes” in the consolidated profit and loss account for the 2009 financial year.

After the sale, the ENCE Group continued management of 29,600 hectares (owned and leased) in the eastern region of Uruguay and the Peñarol (Montevideo) wood-chipping plant. Management of these non-strategic assets complements the capacity of access by the Group to the international timber market and facilitates the Company’s price and supply policy in the Iberian Peninsula, particularly in relation to the Huelva plant, with the ability for substitution by timber from the area managed by long term contracts or by supply deriving from purchases in the international market.

Details of the principal assets sold in this transaction and their book value at the time of sale are as follows:

Intangible fixed assets	18,492
Tangible fixed assets	171,004
Biological assets	118,563
Stocks	12,977

Trade debtors and other accounts receivable	10,919
Short term financial investments	7,288
Total	**339,243**

Data in thousands of euros.

Other disinvestments

In the 2008 financial year the Group recognised the greenhouse gas emission rights received free of charge pursuant to the 2008-2012 National Allocation Plan, corresponding to 657,970 tons of CO_2 at a market value at the time of the receipt of 23 euros per ton, as an intangible asset. On 3 June 2008 the Group entered into a contract pursuant to which it sold these emission rights at a price of 25.4 euros per ton (which facilitated cash flow generation of 16.7 million euros). The profit obtained on the sale amounted to 1,579,000 euros and is set out under the heading “Other operating income” in the consolidated profit and loss account for the 2008 financial year.

On the same date the Group entered into a purchase commitment, to be settled in 2012, for emission rights for 506,202 tons of CO_2 at an average price of 23.69 euros. This figure corresponds to the forecast consumption in 2012.

In 2007 the Group sold different real estate which it possessed in Pontevedra, owned by Eucalipto de Pontevedra, S.A., which gave rise to a loss for the Group of 5,717,000 euros and which is set out under the heading “Net profit and loss on disposal of non-current assets held for sale” in the consolidated profit and loss account for the said year. Furthermore, the Group disposed of a logistics installation located at the port of Huelva, which generated a profit of 555,000 euros, set out under the heading “Other operating income” in the consolidated profit and loss account for the 2007 financial year. At the time of sale these assets were shown at a cost of 22 million euros and a net book value of 12 million euros.

Furthermore, in 2008 the sale took place of premises 1 and 2 of floors 15, 16 and 17 of the building located in Madrid in which head offices are located. The sale price was 13 million euros and book value at the time of the sale was 6 million euros. On the same date a lease was entered into with the purchaser company, which cannot be considered to be of the nature of financial leasing.

5.2.2. Description of the principal investments of the issuer currently in progress, including the geographic distribution of these investments (home and abroad) and of financing method (internal or external)

Given the long delivery period, in 2007 the principal equipment was contracted for a key project in the strategic expansion of ENCE in energy production based on biomass. This project consists of construction of a plant of 50 MW installed power in the Huelva Industrial Complex, which will use biomass as fuel, with the weight of energy crops in the supply mix estimated at around 65%.

This project, currently being processed, will be developed in the EPC-Project Finance mode and involve an approximate investment of 120 million euros. It is forecast that the new installations will be commissioned in 2011.

This project has a unique forestry support, since approximately 60% of the forest assets managed by the Group are concentrated in Huelva, which enables a new energy crop planting development plan to be carried out in its catchment area by change of use of forest assets owned by ENCE of low productivity to cellulose production timber cultivation and its transformation into energy crop plantations.

The cumulative investment at 31 December 2009 associated with this project amounted to 47,577,000 euros (26,208,000 euros invested in 2009 and 21,369,000 euros in previous years). Investment already committed and undertaken in future years associated with it further amounts to 14,404,000 euros.

In addition, an agreement has been entered into between ENCE and the Andalusian government for the purpose of promoting and developing joint initiatives in the field of forestry regulation and increase in production and productivity of timber and biomass in the rural environment, reducing the dependency of the Huelva plant on imported material and laying the bases for developing renewable energy projects with biomass in the province. The aim of this agreement, amongst other objectives, is transformation into Mediterranean forest of the majority of abandoned or low-yield public eucalyptus plantation, devoting the timber and biomass of these zones to industrial use, and progressive reduction in the area of eucalyptus plantation in Andalusia, simultaneously with an increase in total timber production by applying the forestry R&D&i techniques developed by the ENCE Group, by which significant increases in timber production per hectare are achieved. Furthermore, the agreement provides for creation of a network of carbon sinks with an increase in net fixing of CO_2 of some 400,000 tons annually in relation to the current situation.

In parallel, it is planned to continue with energy optimisation and rationalisation of the cost structure of the cellulose plants by management improvements and actions of minor investment, ongoing improvement of forest assets of the Company in line with that carried out in previous years, and the acquisition and planting of land devoted to energy crops which serve as support for the Company's expansion plan in the field of renewable energy generation with biomass.

5.2.3. Information on the principal future investments of the issuer

Forestry area

In the forestry area the Company continually prospects for the acquisition or leasing of land of high productivity in the natural catchment area of its cellulose plants for the purpose of enhancing the self-supply of timber to them. Factors enter into the purchase or leasing decisions such as price or cost of leasing, estimated productivity of the land, estimated cost of use and transport and timber market price forecasts at the time of felling, in order thereby to assess the desirability and profitability of the investment to be made. The costs associated with work of forest repopulation, fertilisation and maintenance, leasing and of course the acquisition of new properties are regularly capitalised and form part of the tangible fixed assets of the Company. The annual investment in these areas is expected to be around 20-25 million euros in the Iberian Peninsula and 3-4 million USD in Uruguay in forthcoming years.

Cellulose area

In the cellulose area the Company's plan will focus on additional efficiency and productivity improvements as well as maintaining investments geared to ongoing improvement of working conditions and environmental behaviour of installations. Planned investment in each of the industrial centres in forthcoming years is between 4 and 6 million euros/year.

Energy area

The greatest growth prospects for the Group centre on the energy management division. Given the position of ENCE as one of the largest forest owners and managers in Spain, with broad experience in integrated forest exploitation from the production of nursery plants to harvesting and transport of timber and forest waste, and its experience in operating integrated industrial complexes for the production of cellulose and clean energy, the Group has designed a growth line in the electricity generation area based on biomass with the objective of installing between 150 and 210 MW not associated with the cellulose production process in the 2010-2015 period. In this manner, the objective of the Group is to promote growth of the Company towards a business of recurrent stable income, supported by a regulatory framework geared to development of so-called clean energy, and improving its cash flow generation capacity, looking towards a regulated business away from the cyclical nature of the cellulose market.

The development plan consists of developing ten electricity generation plants based on biomass distributed over the country with the Huelva 50 MW plant being the project at the most advanced stage of processing.

These are all currently at the development stage, with the corresponding preliminary prospecting analyses and studies having already been carried out in relation to the viability of biomass supply, the potential environmental viability of the projects, and capacity for discharging electricity through the distribution grid. In parallel with the processing of projects, ENCE is working in these areas on structuring a stable framework of biomass supply through negotiation and closing of agreements with landowners for the purpose of commencing energy crop planting and therefore having available biomass at the time when the plants enter operation.

The internal development timetable involves start-up of projects on a 2015 horizon, since administrative processing of all permits required to construct a plant lasts between 1 and 2 years and plant construction usually lasts around 18 months.

ENCE has decided to construct projects with an installed power of between 10 and 20 MW due to optimisation of their profitability, with the option of becoming standardised which would facilitate negotiation with equipment suppliers and obtaining price synergies, as well as the negotiation, closing and replicability of financing structures without recourse.

Although the scale effect is relevant, for future developments ENCE has opted for a lower size as a compromise between investment cost, installation output and electricity distribution and transport grid access capacity, and guarantee of fuel supply, such that an adequate return is obtained with lower risks on both the investment side and in administrative processing, project execution and plant operation. In addition, these projects present the advantage of modularity, and are virtually replicable, such that the learning in each project can be applied in following projects (from both a design point of view as well as processing, construction, operation and maintenance, and financing) and it is possible to adapt their execution to cash flow generation, financial structure and debt capacity of the Company at any time.

Nevertheless, the most important and advanced project, Huelva, will have an installed capacity of 50 MW, this being possible since it is located in the ENCE industrial complex with considerable access to energy crops (either on new agricultural land or on reconverted ENCE land) and very close to the ENCE forest assets in Huelva, Extremadura and Portugal, which ensures considerable availability and efficient transport of waste from felling pulp timber plantations. The location of this plant in the Huelva industrial complex will enable operating and maintenance synergies to be generated and an Integrated Environmental Authorisation ("AAI") to be obtained for the new installations by updating the AAI of the industrial complex. This complex has had this authorisation since 23 April 2008 and this updating was granted on 6 February 2010.

Execution of the strategic 150-210 MW could form the basis of new potential developments in the biomass field, in which ENCE expects to encounter several opportunities deriving from the different applications of biomass

The supply of biomass is the most important aspect of the project, and perhaps the most important entry barrier for other possible competitors, an activity in which ENCE has been present for almost 30 years, actively participating in the electricity production business through biomass.

In this respect, in the framework of the Navia installations expansion project, a 37 MW installed power plant has been constructed, in operation since March 2009, unconnected in terms of fuel supply with the industrial cellulose production process, and ENCE was able to design and execute a biomass fuel supply plan which guarantees plant operation with the levels required in the business plan. This supply plan provides for the entry of 380,000 tons annually, of which 280,000 tons were contracted from different external suppliers on long term contracts and the remainder obtained from the cellulose plant production process through use of timber bark.

In order to reduce the supply risk and guarantee its cost over the time horizon of the investment, and within the strategy of integrating energy crops with the forestry activities of ENCE, as well as increasing synergies by leveraging knowledge of timber management, it is intended that around 55%-65% of the biomass required by the electricity generation plants comes from own exploitations or those directly managed by ENCE, with the rest managed through long term supply agreements with public administrations and other private sources.

Despite the fact that ENCE works on its projections, on a conservative basis, with actual market figures existing at the present time with respect to investment costs, it is reasonable to consider that as with other mature technologies, such as wind power, investment costs may reduce as the technology is implemented, which would mean an improvement in the profitability of projects. Section 6.1.1.4 of the document deals in greater depth with the timetable for implementing projects and investments and operating costs.

In addition, the current situation in the agricultural market, with low profitability, means that farming undertakings are open to new alternatives to make their land profitable. European aid to farmers is progressively tending to disappear, with the possibility opening up of entry into long term agreements for use of land for energy crops in greater volumes and at lower costs.

Finally, the activities described are supported by an R&D&i plan with lines dedicated to the forestry, industrial, and specifically energy crop areas (see section 11).

6. DESCRIPTION OF THE UNDERTAKING

6.1. Principal activities

6.1.1. Nature of the issuer’s operations and its principal activities

6.1.1.1 Overall picture of the Group

The Group organises its economic activities into three distinct but closely inter-related management areas:

- Forest management division: Devoted to management of the forest assets of the Company, including their exploitation, obtaining third party timber and the supply of this raw material of different sources to the cellulose production plants. There is also a marginal activity of timber sales to third parties and a forestry services and consultancy unit which provides its services both to the parent and other Group subsidiaries as well as third parties.

- Cellulose management division: Devoted to the production of cellulose in the three production centres of the Company and its commercialisation. In addition, at these centres renewable energy generation takes place of biomass origin alongside the production of cellulose, given the nature of its production process.

- Energy management division: This division has two distinct activities. It is firstly responsible for operating in the electricity market and managing energy, both originating in connection with cellulose production and that obtained in generation plants based on biomass independently of cellulose activities. In addition, the strategic development of the Group falls in this Management Division, based on the identification, development, execution and operation of new independent renewable generation installations based on biomass, basically energy crops. In this second framework of activities, and with the support of the Forest Management Division, the Energy Management Division is responsible for obtaining and developing the base of energy crops and complete programme for supply of biomass to feed these installations.

Sales associated with each of the management divisions previously described are detailed below:

	2009 Financial Year		2008 Financial Year		2007 Financial Year
	M€	***Variation with respect to previous year (%)***	**M€**	***Variation with respect to previous year (%)***	**M€**
Sales of paper paste	361,035	*(25.5)*	484,727	*(2.6)*	497,698
Sales of electricity	126,901	*7.7*	117,796	*76.8*	66,639
Timber and forestry services	47,615	*(12.0)*	54,094	*(12.5)*	61,802
Total Sales	**535,551**	*(18.4)*	**656,617**	*4.9*	**626,139**
EBITDA	**(14,844)**	*NA*	**86,878**	*(36.6)*	**136,994**
Net P&L after tax	**(154,571)**	*NA*	**4,742**	*(91.2)*	**53,719**

Cellulose production activities are closely and inseparably associated with electricity generation based on use, as fuel, of waste generated in the paste production process. In addition, the Group has specific installations geared to electricity generation based on biomass and other fuels and has forest cultivations which are subsequently used as raw material in the production of paper paste and energy. In this context the results of the activities carried out by the cellulose production and energy management divisions are analysed jointly by the management bodies of the Company, and there is no separate financial information except in relation to income.

Furthermore, since the Forest Management Division has the basic objective of managing the forest assets of the Company and commercialising timber for supply of its cellulose plants, most of its sales (94%) are made between companies within the consolidation perimeter of the parent, whilst the previous table solely indicates sales to third parties outside the consolidation perimeter. It is not possible (and in any event it would not be representative) to indicate a figure for EBITDA or after-tax profit and loss exclusively associated with the said sales to third parties.

Alongside these clearly defined Management Divisions there are R&D&i activities, health and safety at work, environmental, quality and forestry activity sustainability management systems, which are fully integrated in day-to-day management and in the Group's lines, and corporate support areas (financial, capital and human resources, legal department and corporate services).

From the point of view of asset location, the Group is present in the Iberian Peninsula and in Uruguay. Assets devoted to the production of cellulose and energy are located in Pontevedra and Navia (Asturias), in the northwest of the Peninsula, and in Huelva. Forest plantations devoted to pulp timber production located in the Peninsula are situated in the catchment area of the respective plants, and there are plantations in the north and south of Portugal. In addition, there are plantations in the Atlantic zone of Uruguay, managed through the subsidiary company ENCE Sierra Calmas, S.A. In Huelva province there are also incipient plantations devoted to the production of woody energy crops. Finally, in

Madrid, there is a corporate centre where ENCE senior management and corporate bodies are located.

The relationship between the activities of the Group in Uruguay and the Iberian Peninsula has historically been based on the supply of timber from the former country to the cellulose production plants, basically Huelva. This activity was carried out by the Forest Management Division since 1989, in which year the purchase began of land in that country for forestation. However, in October 2009 ENCE transferred the companies Eufores, S.A., Zona Franca Punta Pereira, S.A. and Celulosa y Energía Punta Pereira, S.A, holding 139,500 hectares of forest and a project begun in 2008 in Punta Pereira (Department of Colonia, Uruguay) comprising the construction of a cellulose plant and port terminal integrated in it which at the time of the transfer was at the stage of land preparation and earthworks.

Sale of the project was formalised by transfer of the shares and holdings of ENCE in the three Uruguayan companies referred to in the previous paragraph to a consortium made up of Stora Enso Oyj and Celulosa Arauco y Constitución S.A. The total sale price amounted to the equivalent in USD of 229,360,371 euros, which ENCE received at the time of formalising the contract and which firstly enabled reduction in the debt contracted in a syndicated credit of 2 April 2008 by an amount of 179 million euros, and secondly certain investments to be undertaken in the Navia, Pontevedra and Huelva plants.

ENCE has retained management, in the Atlantic zone of Uruguay, of 29,600 hectares devoted mainly to eucalyptus globulus plantations, as well as the existing wood-chipping plant in Peñarol, Montevideo. These assets have been included in the company Sierras Calmas, S.A., which also become subrogated to the leases and property consortium existing in that region of Uruguay.

The Company's strategy to ensure future return on investment includes (i) consolidation and expansion of its position in the forest-timber market in the Iberian Peninsula, for the purpose of reducing timber supply costs and improving the profitability of cellulose production, (ii) integration of the cellulose production and energy businesses by integrated management of forest resources in order to exploit the synergies of integrating the two projects, and (iii) expansion and development of the electricity business with biomass in Spain, aimed at supporting growth of industrial activities of the undertaking, obtaining supplementary profits which can compensate for the economic cycles in the other two management areas, and utilise the opportunities provided by legislation to those who generate electricity with renewable energy or offer surplus emission rights and emission reduction credits ("CERs") for carbon sinks or energy efficiency.

6.1.1.2. Forest Management Division

The forest management area comprises management of the eucalyptus forest assets, mainly of the globulus variety, the supply of timber to plants, both own and third party by managing the exploitation and transport chain, and the sale of timber to third parties. On a complementary basis, as previously indicated, the division provides forestry services in the field of forestry and environmental consultancy.

Asset management activities

At 31 December 2009 the area of assets managed by the Group was 115,885 hectares. Of this amount, 67% related to own assets and 33% to "consortium" assets to be used by ENCE in both the Iberian Peninsula and Uruguay.

For these purposes consortium in general terms means a system of forest exploitation consisting of the owner retaining ownership of the land and ENCE carrying out the tasks of land preparation, planting and maintenance. At the time of felling the owner receives an agreed percentage of the timber extracted from the consortium area, or an amount corresponding to this percentage valued at market price. The duration of consortia is normally established at a period equal to three cuttings (30 years). If it is agreed that planting and/or maintenance tasks are for account of the owner (the plant is normally supplied by ENCE), an additional premium is usually established for productivity, also receivable at the time of felling.

Geographical area	Subsidiary	Hectares under management	% in ownership
Iberian Peninsula	Silvasur	68,871	68%
	Norfor	12,959	23%
	Iberflorestal	4,401	56%
Uruguay	Sierras Calmas	29,654	87%
Total		**115,885**	**67%**

Of total hectares under exploitation, 18,106 were forested in 2007, 27,370 in 2008 and 8,139 hectares in 2009. In 2009 forestation work was significantly reduced due to the partial disinvestment made in Uruguay.

Hectares forested	2009 Financial Year	2008 Financial Year	2007 Financial Year
Uruguay	4,466	19,961	14,127
Iberian Peninsula	3,673	7,409	3,979
Total hectares forested	**8,139**	**27,370**	**18,106**

The Group has been partially supplying itself with timber from its own assets since 1977. The level of timber self-supply is currently approximately 13%-15%, which will nevertheless fall to 8%-10% by reason of sale of the Uruguay assets, although in recent years major efforts have been made in the Iberian Peninsula to implement new genetic material in own land which, together with more perfected forestry techniques, will enable this percentage of self-supply to be increased in the future by greater productivity. All necessary services for planting, improvement and conservation of forest assets are carried out through Silvasur Agroforestal, S.A., Norte Forestal, S.A. and Iberflorestal, S.A. in the Iberian Peninsula and by the company created in Uruguay to group together the assets not disposed of in the sale operation already described, Sierras Calmas, S.A.

Management of ENCE forest assets takes place under sustainability criteria which seek management and use of forests capable of maintaining their biodiversity, productivity and regeneration capacity and viability, as well as enhancing their ecological, social and economic functions.

The following table shows the total volume of timber harvested in the period in question (from own forests and on-site purchases from third parties):

Thousands m^3	2009	2008	2007
Iberian Peninsula	533	575	599
Uruguay	263	1,022	477
Total	**796**	**1,597**	**1,076**

Note: The volume of timber harvested in 2009 is affected by bringing forward felling in 2008 and the sale of assets in 2009.

Felling takes place in parallel with the reforestation programme with improved plants in order to achieve greater productivity of future assets, by applying forestry technology (planting techniques and treatment of plantations, land preparation, fertilisation, pest control) and advanced cloning (selection of trees, cloning in nurseries, raising in greenhouses).

The cost of own timber covers outlays incurred in forestation and maintenance of forest assets, which are capitalised together with the financial expenses connected with the activity and depreciated as harvesting takes place. To this is added the costs of labour and services contracted for this harvesting and transport to consumption points.

Timber supply activities

Although maximising the supply of own timber to cellulose production plants is a priority objective of ENCE, achievable by productivity improvements and increase in the area under management, the high degree of fragmentation of forest property in Spain and the duration of felling cycles (10-15 years), which limit the rate of practical application of genetic improvements applied, requires supplementing the volume of timber originating from own forests of the Group by purchasing timber from third parties to meet internal consumption deriving from cellulose production. The acquisition of timber from third parties takes place in three ways:

- Purchases of standing timber: These are purchases of forest trees, with the purchaser meeting costs associated with their use and transport. The costs incurred by the Company including purchase of the standing timber and remuneration for the labour in felling and transport of this timber to the plant. The volume of timber supplied to plants from purchases of standing timber in 2009 amounted to 9% of the total.

- Suppliers: This is timber which the Group purchases already cut from local suppliers, normally delivered at the point of consumption. The cost of acquiring the timber remunerates the whole value chain from standing timber to its transport to the plant. The total volume of timber acquired from Peninsular suppliers (including suppliers based in Portugal) in 2009 amounted to 64% of the total.

Most of the Peninsular eucalyptus timber consumption is located in the northern and Atlantic zone, in areas close to forests. It is in these regions where there is a well-developed market with years of tradition, with suppliers who operate at all levels of the supply chain, from standing timber to delivery to the end customer.

The distribution by supplier of timber purchases from third parties at ENCE installations in Navia and Pontevedra in recent years is shown below:

Navia	2009	2008	2007
1	13%	19%	19%
2	10%	8%	6%
3-5	15%	15%	16%
6-10	14%	16%	16%
Rest	49%	42%	43%

Pontevedra	2009	2008	2007
1	15%	17%	15%
2	13%	13%	13%
3-5	24%	27%	29%
6-10	16%	15%	15%
Rest	32%	28%	27%

On the other hand, in the catchment area of the Huelva plant the eucalyptus timber market is highly marginal, and a small number of suppliers operate in it who have traditionally been providing timber to this plant almost as sole customer. In the time examined two single suppliers were responsible for between 50% and 60%

of total volume of timber acquired from third parties, with the volume of timber acquired from suppliers in Huelva accounting for around 15% to 20% of the total consumed by the plant.

- Imports: This is off-Peninsula timber normally imported by sea. In the case of timber originating in Uruguay, vessels normally transport both own timber and that acquired from third parties. The volume of non-Iberian timber supplied to plants in 2009 amounted to 18% of the total.

In 2009 the total supply of timber to the cellulose and energy production installations of the Group amounted to 2.91 million m^3, 8.4 % less than in 2008. This was basically due to the reduction in cellulose production during this financial year as a result of extraordinary technical shut-downs necessary to carry out the investment activities planned at the installations, particularly in Navia, and the low rate of Huelva operations between May and September conditioned by the low price of cellulose in the international market. The volumes supplied by plant in the reference period are detailed below, by source of timber:

Thousands m^3	**2009**	**2008**	**2007**
Own assets	206	220	241
Purchases standing	256	200	183
Suppliers	1,338	1,232	1,310
Portugal	584	867	788
Non-Iberian	528	661	569
Total	**2,912**	**3,180**	**3,091**

Note: "Portugal" covers both own timber and that from suppliers and that purchased standing.

Timber commercialisation activities

Sales and exchanges of timber with third parties in 2009 accounted for 1% of total timber managed by the ENCE forest division.

Complementary business activities

As well as the activities described of timber production and acquisition, forestry activities cover:

- Forestry and environmental projects and consultancy in the rural environment through Ibersilva, S.A.U., with branches in Spain, Uruguay, Portugal and France.

- Production and commercialisation of forest plants in own nurseries, with 20,000 m^2 of greenhouses located in Figueirido (Pontevedra), Huelva, Navia (Asturias) and Viana do Castelo (Portugal).

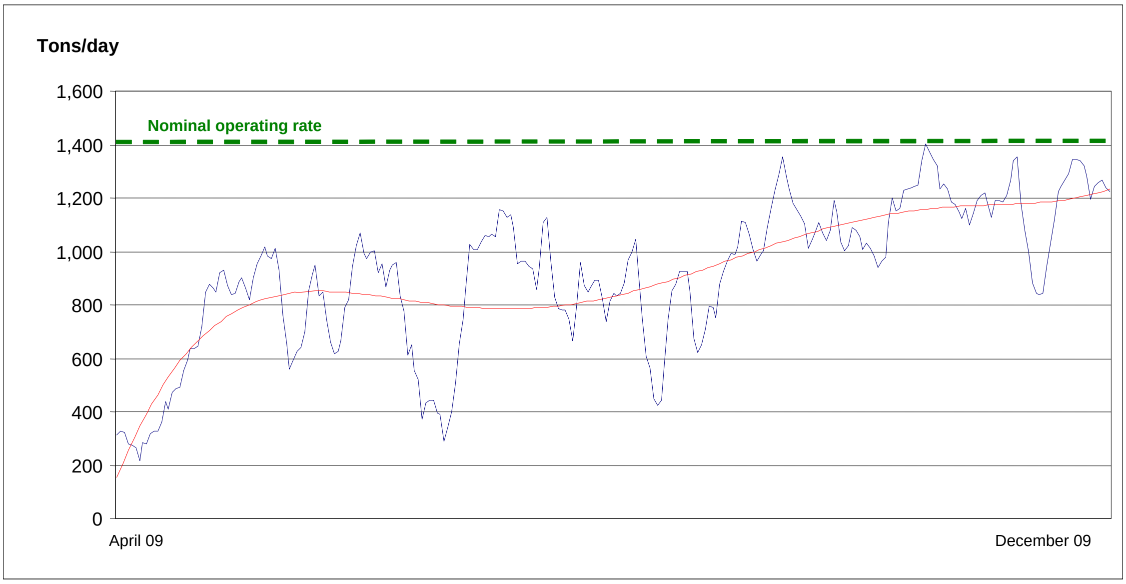
6.1.1.3. Cellulose Management Division

The Cellulose Management Division comprises integrated production of cellulose and energy at three production plants located in Navia (Asturias), Huelva and Pontevedra, as well as commercialisation of the cellulose produced.

The manufacturing assets in Huelva and Pontevedra are assigned to the Company, whilst those located in Navia are on the balance sheet of a subsidiary company, Celulosas de Asturias, S.A., wholly owned by Grupo Empresarial ENCE, S.A. Sale of production in international consumer markets is managed directly by the company.

The combined nominal production capacity of the three plants is 1,340,000 Tm/year. The Huelva and Navia plants are specialised in production of ECF cellulose (elemental chlorine free) and that of Pontevedra in TCF cellulose (totally chlorine free).

The Huelva and Pontevedra plants are historically at utilisation levels clearly exceeding 90%. At the end of 2009 the Navia plant reached a production rate virtually equivalent to its nominal capacity after carrying out the installation extension and improvement project, which placed it as the largest short fibre market cellulose plant in Europe. The following graph shows the start-up curve of the Navia plant in terms of daily production (moving weekly average).



Installed capacity, production and degree of utilisation of each of the plants are detailed below:

Type of paste and plant	Installed capacity (Tn/year)	Production 2009 (Tn)	Degree of utilisation (average annual computation)
ECF	**910,000**	**590,340**	**64.9%**

Huelva	410,000	319,582	77.9%
Navia	500,000	270,758	54.2%
TCF	**430,000**	**407,670**	**94.8%**
Pontevedra	430,000	407,670	94.8%
Total	**1,340,000**	**998,010**	**74.5%**

2009 was not a very representative year for the actual average utilisation indices of the installations for the reasons described below:

- Navia Plant: Investment activity carried out (see 5.2 Investments) to increase the production capacity of the installations from 300,000 to 500,000 Tm/year required a start-up and optimisation period until reaching its cruising level of around 9 months, which is within the optimum range of the industry in the case of actions of this importance. The installation utilisation index in 2008 was 96.1%.

- Huelva Plant: The sharp fall in cellulose prices which began in the last part of 2008 led to taking the decision to operate this installation at 50% between May and September 2009, such that it was not necessary to use higher cost imported wood and thereby guarantee the profitability of the plant in an environment of low-cycle prices. After entry into operation of the new energy installations in September 2009, the installation again operated at its standard production rate. The utilisation index of the installation in 2008 was 94.76%.

- Pontevedra Plant: During 2009 minor improvements of an operating nature were undertaken along with minor investments which enabled bottlenecks to be eliminated and placed production capacity of the plant at around 430,000 Tm/year at the end of the year, when this capacity was originally 410,000 Tm/year. The installation utilisation index in 2008 was 98%.

A breakdown of evolution in production by type of cellulose is detailed below:

	2009 Financial Year	**2008 Financial Year**	**2007 Financial Year**
ECF	590,340	686,754	687,527
TCF	407,670	402,229	423,535

Total	**998,010**	**1,088,983**	**1,111,062**

According to Company estimates, in 2009 ENCE maintained fourth position by eucalyptus paste production capacity in the market at world level, maintaining a share of 17% of the European market and being the principal world producer in the production of eucalyptus TCF short fibre paste. It is estimated that extension of the plant will permit the market share of the Company to increase up to 20%.

The cellulose which the Group produces is basically used to manufacture printing and document paper and tissue of maximum quality, particularly by the principal European paper producers. The mix of destinations, customers and specialities has continued on the same lines in the last 3 years.

The principal figures for production and sales of cellulose in the last 3 years are shown below:

	Units	**2009 Financial Year**	**2008 Financial Year**	**2007 Financial Year**
Production of cellulose	kTad	998	1,089	1,111
Sales of cellulose	Tons	1,061	1,067	1,113
Average exchange rate	$/€	1.39	1.47	1.38
Cellulose price (*)	$/Ton	563	774	706
Cellulose price (*)	€/Ton	405	526	512
Cellulose sales	M€	361.0	484.7	497.7
Cash cost	€/Tm	360	393	357
EBITDA	M€	(14.8)	86.9	137.0

Note: Cash cost means the effect per ton of cellulose of the costs incurred annually by the Company in its activities, excluding depreciation, financial costs and other non-recurring costs, but including forest exhaustion.

Note: The prices of cellulose shown, both in € and $, are average prices for the period effectively received by ENCE.

Note: With respect to prices in force in the market (denominated in euros) the Company applies discounts to its customer for various items (trade discounts, volume discounts, discounts for prompt payment, etc.). These discounts are variable based on the type of customer and market conditions at any time. The average discounts applied in the reference period to the average price in euros were 12.7% in 2007, 13.6% in 2008 and 15.6% in 2009.

The principal figures for cellulose production and sales activities in the four quarters of 2009 are shown below:

	Units	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Production of cellulose	kTad	192	237	263	307
Sales of cellulose	Tons	235	247	263	316
Average exchange rate	$/€	1.30	1.36	1.43	1.48
Cellulose price	$/Ton	521	495	551	658
Cellulose price	€/Ton	401	364	385	445
Cellulose sales	M€	77.6	76.7	86.9	119.8
Cash cost	€/Tm	435.1	377.9	341.5	303.9
EBITDA	M€	(21.5)	(17.1)	2.4	20.9

Note: Cash cost means the effect per ton of cellulose of the costs incurred annually by the Company in its activities, excluding depreciation, financial costs and other non-recurring costs, but including forest exhaustion.

Note: The prices of cellulose shown, both in € and $, are average prices for the period effectively received by ENCE.

Note: With respect to prices in force in the market (denominated in euros) the Company applies discounts to its customer for various items (trade discounts, volume discounts, discounts for prompt payment, etc.). These discounts are variable based on the type of customer and market conditions at any time. The average discounts applied in the reference period to the average price in euros were 12.7% in 2007, 13.6% in 2008 and 15.6% in 2009.

Production process

The production process used in the Group cellulose production plants is the so-called Kraft process with ECF bleaching process (elemental chlorine free) in the Huelva and Navia installations, and TCF (totally chlorine free) in those of Pontevedra. These processes do not involve the use of particularly pollutant or hazardous consumables.

As well as eucalyptus timber, received in the form of trunks (mainly with bark) or in the form of chippings (normally timber imported from South America), the principal products used in the production process are as follows:

- Chemical products: Oxygen produced on site and cryogenic oxygen, oxygenated water, caustic soda, sulphuric acid, sodium chlorate, EDTA, lime and sulphur dioxide. In addition, additives are used in insignificant amounts, such as talc, antifoaming and dispersion agents.

- Fuels to support biomass fuels: Fuel-oil, natural gas, propane and petroleum coke in small amounts.

The timber received at the plant is debarked and chipped in order to be subjected to a controlled steaming process with the addition of alkali produced on site based on the supplies previously described. The steaming dissolves the content of lignin present in the wood (a component which serves as a union between the cellulose fibres, providing strength to the whole), making disintegration of the cellulose fibres possible. The mixture so obtained is washed with water in a virtually closed circuit, separating the dissolved lignin from the suspension of cellulose fibres. The cellulose paste so obtained is subjected to a bleaching process and subsequent drying, cutting and packaging in order to facilitate its transport to its point of use as raw material in the production of paper, cardboard, card, packaging, etc.

For its part, the separated lignin together with the chemical products used in steaming of the wood are concentrated in a multiple effect evaporation train in order to facilitate combustion. The renewable energy generated on combustion of this biomass fuel is sufficient to generate a steam flow such that, using an electric turbine, it is capable of supplying the electrical and thermal requirements of the installation and generating a surplus of additional renewable electricity. This surplus is even greater when, as happens in the Group plants, use is also made of the bark of the wood to obtain supplementary energy in a boiler designed for the purpose, which maximises the capacity for generation of renewable energy with biomass from the wood used as raw material. Furthermore, the process used is conceived such that it is possible to regenerate the alkali necessary for steaming of the wood with minimum contributions to the circuit to replace losses.

Each plant continuously monitors environmental parameters of its liquid and atmospheric effluents, noise, waste, etc., verifying and taking the necessary steps to ensure that they are within the limits required in each case. The monitoring procedures and operating guidelines are set out in the corresponding procedures, instructions and standards of the Company's management system. Furthermore, since December 2008 all plants have their corresponding Integrated Environmental Authorisation and greenhouse emission authorisations, with the allocation having been obtained of 657,970 emission rights annually for the 2008-2012 period.

Logistics

Group plants are strategically located to cover the European market thanks to their proximity to ports of embarkation and the competitiveness of their logistical solution which enables them to increase their proximity to the customer by coastal vessels of a size more adapted to customer demand. The north-south flow of goods is greater than the reverse, which enables it to operate in a market with a surplus of logistical resources which are forced to return to northern Europe under ballast, which enables lower cost logistical solutions to be contracted.

- The Huelva plant is located 10 km from the port of that city from where it can competitively supply the Mediterranean zone in particular. Pontevedra is located 2 km from the port of Marín where there is a covered terminal which enables vessels to be loaded on their arrival, irrespective of weather conditions. There is also container shipping capacity in this port.

- Navia, for its part, is 35 km from the port of Ribadeo, which to date has acted as logistics base for the dispatch of units sold by the plant. However, the extension of the Navia plant required design of a new logistic solution which guarantees the dispatch of production at a competitive cost and reduces the environmental impact of transport (saving in CO_2 emissions and lower saturation and greater safety on highways). In this respect, the Company signed a framework agreement with FEVE (Ferrocarriles de Vía Estrecha) and the Principality of Asturias in 2008 to structure a logistic solution by rail from the Navia plant to the port of Gijón, where ENCE would operate a covered terminal with storage capacity for some 15,000 tons of cellulose, equivalent to ten days' production. It is estimated that this logistic solution will enter operation in 2012, after construction of the new rail infrastructures. The cost of a port infrastructure of these characteristics is around 8-10 million euros, although ENCE is currently in talks with different logistics operators in order that the selected operator undertakes this investment and operates the installation exclusively. Furthermore, these new infrastructures will permit an efficient supply of timber in terms of cost and environmental impact to the plant, with provision for the possibility of annual transport of up to 300,000 Tm/year from different points of the Cantabrian cornice and up to 100,000 Tm/year received in the port of Gijón by sea.

The Group sells cellulose mainly on CIF terms, i.e. including freight and insurance. The Group also operates with deposit warehouses in different European ports, from which an efficient capillary distribution takes place in cases in which supply has been agreed at the customer's installations, to which it arrives either by land or by a combination of lorry-barge.

Development lines

The planned development of the cellulose business includes continuing optimisation of the cost structure of the existing plants, thereby improving their efficiency in both environmental terms and from the energy point of view, their productivity and in short their competitiveness. In this respect, there is still room for improvement by cost management or low investment measures to eliminate bottlenecks in the production process, increase the weight of use of biomass fuels compared with fossil fuels, improve the logistics conditions and rationalise the costs of maintenance and fuels, just to mention a few.

From the commercial point of view, having overcome the collapse in prices and demand in 2008 and 2009, the Company will continue seeking a more balanced mix of sales between different paper sectors and geographical areas in order to diversify risks, looking for the possibility of closing transactions with new customers in growth markets, in particular in Eastern Europe and the Mediterranean.

Sales

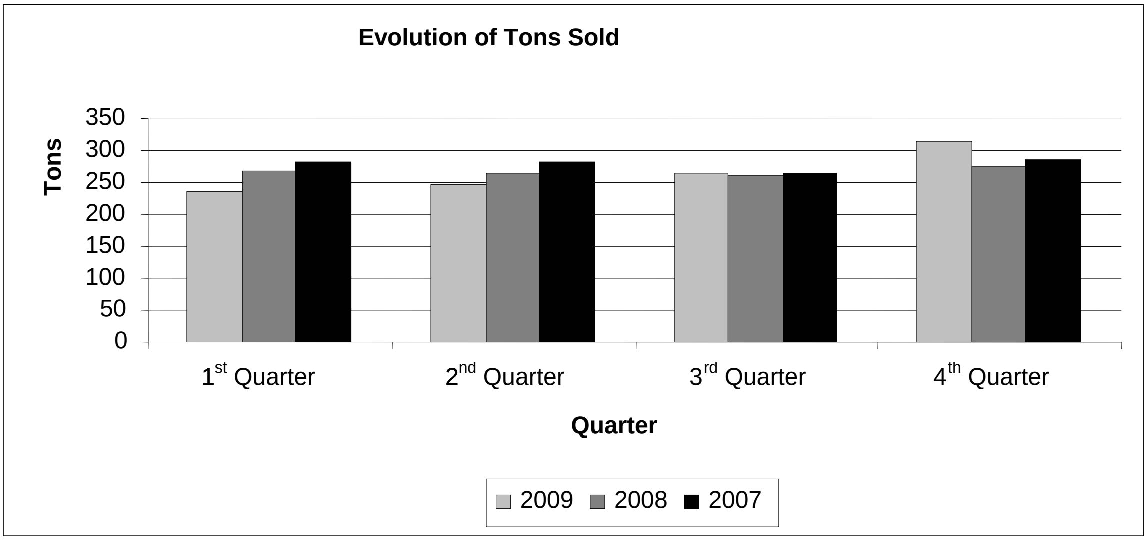
Sales from activities in the last 3 years have reduced at an annual compound rate of 14.8%, with a fall of 2.6% in 2008 over 2007, and 25% in 2009 over 2008. This evolution has been conditioned by:

- Lower volume of cellulose sold resulting from the lower production volume achieved by the Company for the reasons previously described, as well as a longer annual shut-down in Navia in 2008 due to production capacity extension works.

- Price of cellulose: The average annual price of cellulose in 2009 fell to 563 USD/Tad compared with 774 in 2008, due to the general fall in demand and the entry of new production in Latin America. The exchange rate reflected a rise in the dollar in 2009 compared to 2008, but the combined effect of these two variables meant an average price fall in euros of cellulose from 526 in 2008 to 405 in 2009.

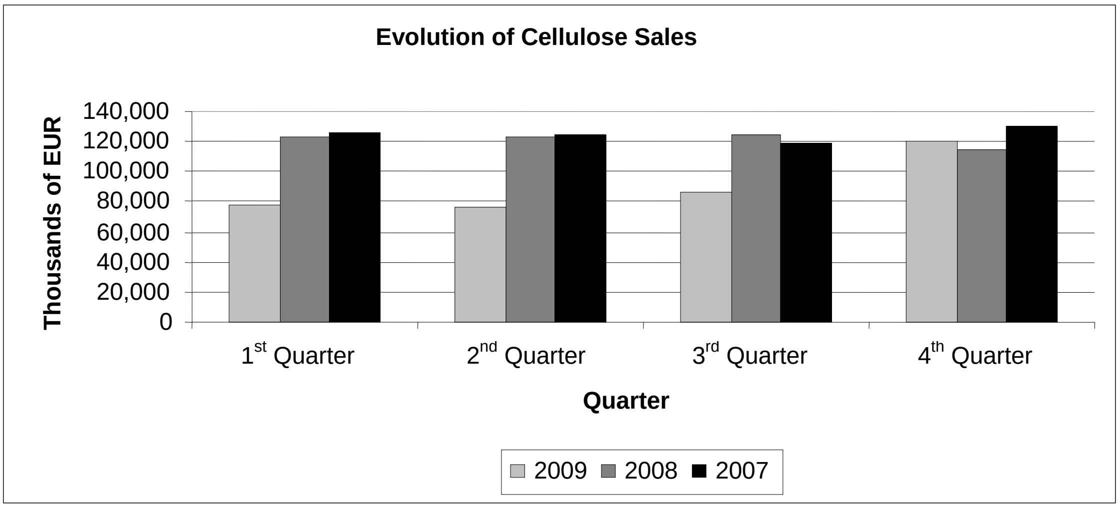
The price of cellulose in 2008 was characterised by contracting demand, particularly as from September, and consequent fall in prices from 478 euros/Tn recorded in August 2008 to 415 euros/Tn reached at the end of 2008.

The following graph shows quarterly evolution of tons of paper paste sold in the period under analysis:



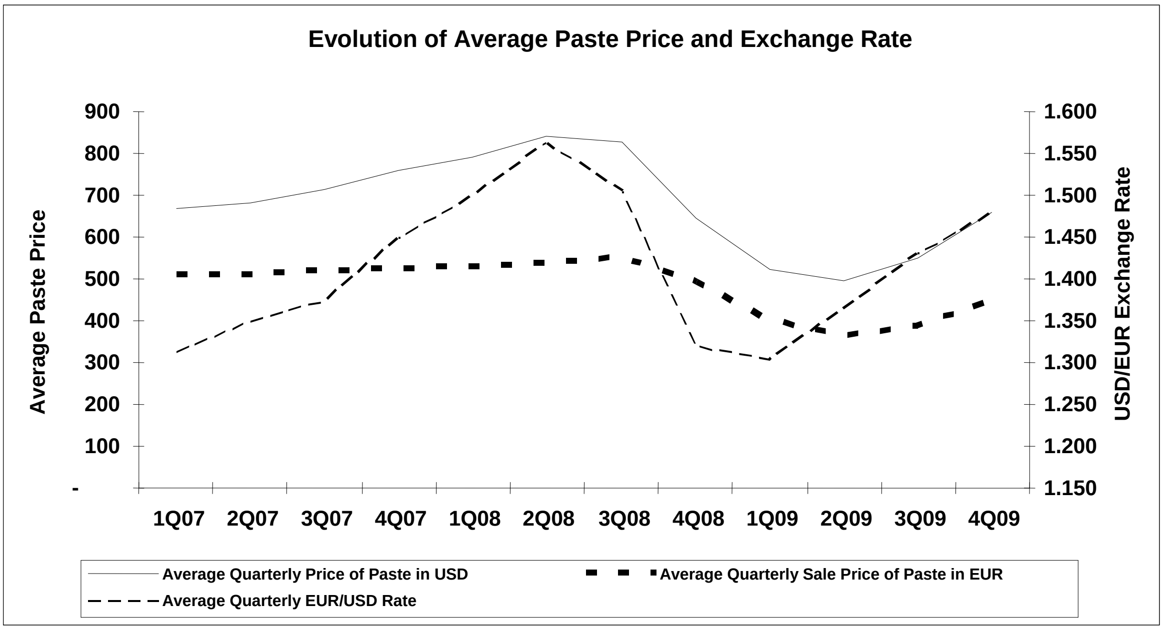
As can be seen in this graph, the volume of tons sold in the period was reasonably stable.

Quarterly evolution is shown below of income from sales of paper paste:



In addition, the evolution of income from paper paste is conditioned by evolution in the sale price. The cellulose paste production and sale market has historically been cyclical and presents high volatility, with this behaviour basically being due to the different movements which occur both in supply and demand, and also speculation carried out in futures markets in respect of this commodity, which principally impacts on the evolution of the reference paper paste price in international markets.

The behaviour is shown below of the reference paste price in dollars in international markets, evolution in the dollar/euro exchange rate and evolution of the reference price in euros:



The above graph shows how, as from the second half of 2008, there was a substantial fall in market price in dollars, coinciding with contraction of the world economy at that time, and subsequently there was a substantial price improvement in the second half of 2009, in line with the reactivation of the world economy which began at that time and which again showed signs of growth. The reference price at the end of 2009 was around 700 dollars per ton, equivalent to the price in the first months of 2007 and far from the 840 dollars per ton reached in the third quarter of 2008.

With respect to the exchange rate, the period examined shows a certain parallel between evolution of the price of paper paste in dollars and evolution of the USD/euro exchange rate, although on examining longer historical series this situation does not occur in all cases.

The destination markets of paper paste sales are as follows:

	Tons Sold (%)		
	2009 FY	**2008 FY**	**2007 FY**
Germany	22.9%	24.4%	24.3%
Spain	19.7%	18.7%	18.1%
Italy	12.6%	11.1%	9.7%
United Kingdom	6.4%	10.7%	10.7%
Austria	5.7%	6.7%	6.1%
France	6.9%	8.0%	7.5%
The Netherlands	3.2%	4.4%	4.4%
Switzerland	4.6%	3.8%	4.1%
Poland	4.5%	4.0%	3.6%
Turkey	2.9%	2.4%	4.3%
Sweden	1.5%	1.9%	2.5%
Others	9.1%	3.9%	4.7%
Total	**100.0%**	**100.0%**	**100.0%**

The main destinations of Group sales are European countries, since logistics costs are thereby controlled to a maximum. Furthermore, shares by countries remained stable in the reference period, seeking a concentration per country adapted to the demand in each one in order to minimise the country risk as far as possible.

As can be seen, the most relevant destinations of cellulose paste sales of the Group are Germany, Spain and Italy.

The evolution of sales by customer in the period analysed is shown below:

	Tons Sold (%)		
	2009 FY	2008 FY	2007 FY
1	13.8%	11.4%	9.9%
2	9.4%	10.2%	7.6%
3-5	22.6%	21.3%	18.5%
6-10	142%	16.6%	17.4%
Rest	40.0%	40.5%	46.6%
Total	**100.0%**	**100.0%**	**100.0%**

In 2008 and 2009 the relative weight increased of Group sales to customers 1 and 2, due principally to the concentration which took place in those years in the paper paste destination sector, and sales to customers with greater balance sheet solidity in an economic crisis environment. The relative distribution of the remaining customers remained reasonably stable between periods.

Furthermore, analysis of the type of destination customer for paper paste produced by the Group shows an increasingly greater concentration amongst those customer engaged in the production of tissue, since the paper paste produced by the Group is best adapted to its production process.

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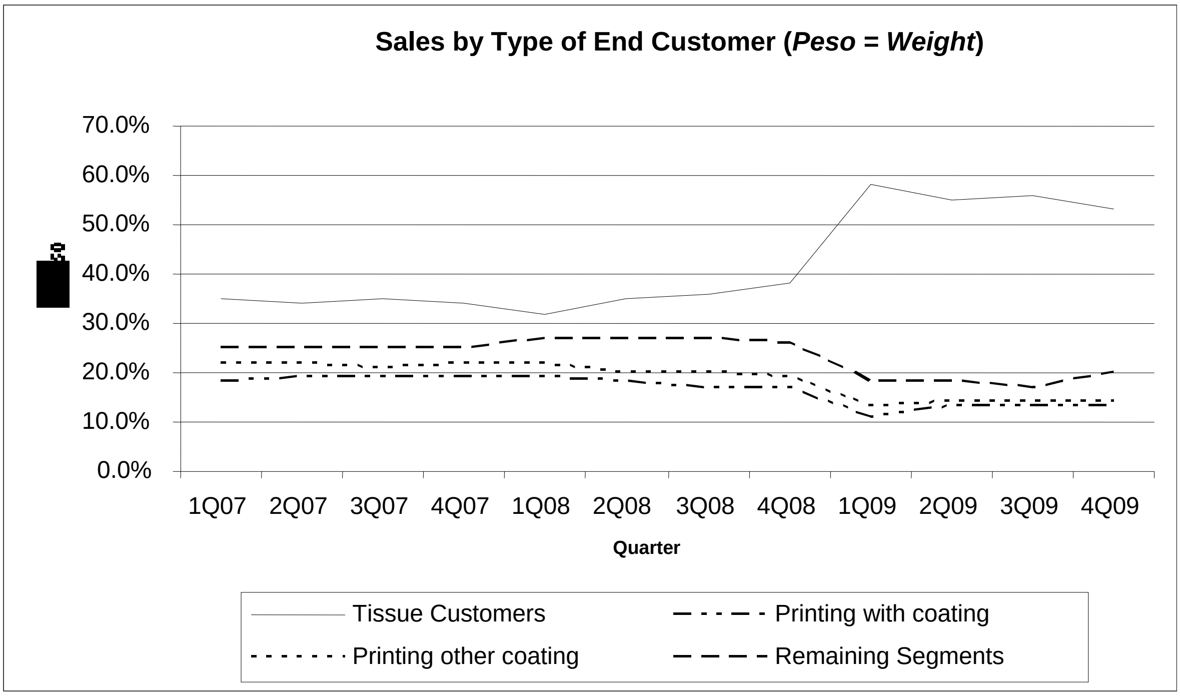


6.1.1.4. Energy Management Division

Description of the energy management division

At the present time energy generation takes place in existing industrial complexes. A description of assets can be found in section 8 of this document whilst the corporate structure is described in section 7.

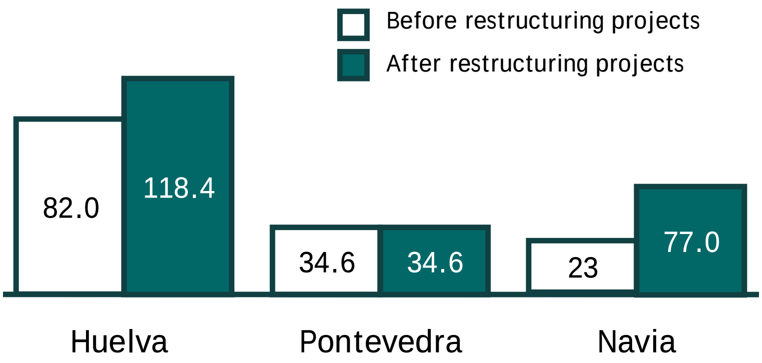
All Group energy generation installations are included under Royal Decree 661/2007, such that based on its application, the energy generated is discharged into the Iberian electricity system under the modes of either sale at regulated fixed tariff or based on a market price system ("pool price") plus premium laid down, at the election of the producer every 12 months based on the results of analysis of market price prospects. The Company has its own energy office, attached to the subsidiary Celulosa Energía, S.A., which is responsible for operations and negotiation of energy in the electricity market. Likewise, the Company acquires the electricity necessary in the organised market to supply its production processes, paying in addition the access tolls of third parties to the grid laid down by law.

Since installations falling under Royal Decree 661/2007 have priority access to the distribution grid, the sale is guaranteed of all production of ENCE plants, either in the fixed tariff mode or under the market plus premium system. It is also important to take into account that all plants have a sale and purchase system commonly referred to as "all-all", by which all production of the energy generation plants is sold and all electricity required by the industrial complexes to cover production process needs is purchased. Royal Decree 661/2007 establishes a stable remuneration mechanism over 25 years, thereby eliminating possible risks deriving from the income received per MWh sold, and each installation in question can elect for the regulated tariff or market price plus premium system at any time during this period, although after selecting one of the options it must be maintained for the following 12 months.

All industrial centres of the Group have biomass cogeneration installations, such that electricity and useful heat for the production process are generated in the most efficient possible manner. In addition, the Navia and Huelva complexes have condensation generators to maximise the quantity of energy obtained from biomass, whilst Huelva also has a natural gas cogeneration installation to support the cellulose production process.

In the Huelva industrial complex itself the Company is developing an independent 50 MW installed power installation with biomass fundamentally based on energy crops, as part of the Company's strategy of increasing the volume of business associated with the production of renewable energy based on biomass as a means of organic growth (see section 5.2.2.).

The following graph shows evolution of installed power (MW) after the investment carried out in the Navia and Huelva plants (see Chapter 5.2). Huelva includes the natural gas cogeneration plant.



Note: Huelva includes cogeneration with gas

The biomass which the Group currently uses as raw material for renewable energy generation originates from two principal sources: wood bark (solid biomass) obtained as part of the supply to plants for cellulose production, and the black liquor or by-product resulting from the wood steaming process, comprising lignin, water and remains of chemical products used in the steaming, which are subsequently recovered and re-used in the process. As well as these two sources, the Group acquires biomass from third parties, basically forest waste and is implementing an ambitious programme of energy crops which is the lever for its future development, as explained later in this document.

Movements in energy sales in recent years are shown below:

	Per centre in MWh/year		
	2009	**2008**	**2007**
Huelva	703,883	693,518	521,613
Pontevedra	197,319	215,265	182,379
Navia	314,487	142,125	143,582
Total	**1,215,689**	**1,050,908**	**847,574**

	By technology in MWh/year		
	2009	**2008**	**2007**
Cogeneration with biomass	429,723	357,390	325,962
Condensation with biomass	435,385	348,167	260,872
Cogeneration with gas	350,581	345,351	260,740
Total	**1,215,689**	**1,050,908**	**847,574**

	Total sales in M€/year		
	2009	**2008**	**2007**
Group Total	**126.9**	**117.8**	**66.6**

Energy sales in 2007 accounted for just 11% of total Group sales, whilst in 2008 they accounted for 18% of total sales, and in 2009 24%.

Sales have been conditioned by the following factors:

- Investment in expansion and optimisation undertaken in production centres, both of a purely energy nature and connected with cellulose production.
- Commissioning of the new Navia installations (see 6.1.1.3).
- Reduced cellulose production in Huelva, 2009 (see 6.1.1.3), which conditioned production and sale of energy connected with this process.

- Entry into force of Royal Decree 661/2007 and registration of new generation plants under the Special Regime.

- Evolution of electricity market prices and of the tariff-market mix.

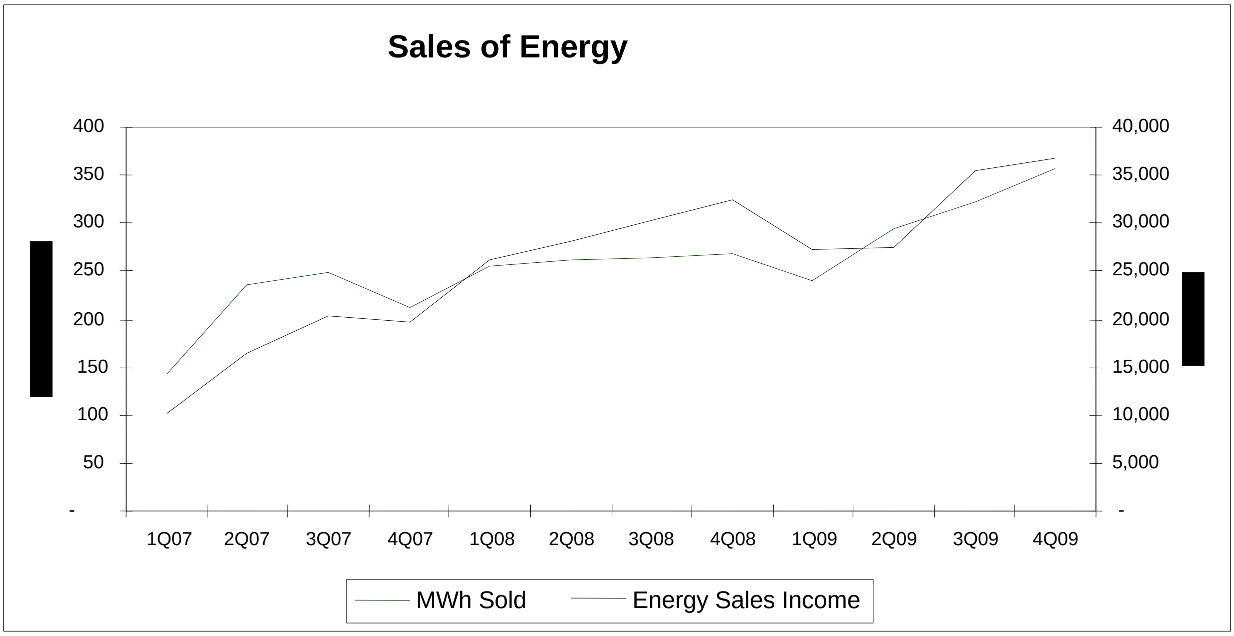
Income deriving from energy activities of the Group has grown significantly in the period examined, + 8% in 2008 compared with 2007, and +77% in 2009 over 2008.

This strong growth is concentrated in the Huelva and Navia industrial centres:

The extension of the Navia plant which began in 2007 and ended during 2009 (see section 5.2 of this Registration Document) enabled nominal electricity generation capacity based on renewable sources (biomass) to be increased from 150,000 MWh/year to 535.000 MWh/year.

At the Huelva plant a reform was carried out of the existing biomass boiler and a new steam generator included in order to bring about an increase in energy production based on biomass of some 70,000 MWh/year.

The quarterly evolution of income from energy sales compared with evolution of the volume of energy produced is shown below:



Average income per megawatt produced in 2007 was approximately 78 euros. Changes to energy systems together with the increase in energy production subject to the Special Regime established by Royal Decree 661/2007 enabled the average sale price to increase to 112 euros and 104 euros in 2008 and 2009, respectively.

In relation to price management strategy, the Company or its subsidiaries have contracted and will continue to contract organised electricity market price hedging instruments (from the point of view of purchase or sale of energy) and/or of the price of certain fuels in order to fix the return from their generation installations.

Specifically, in 2009 ENCE covered 306,600 MWh generated and sold to the market by the CENER I unit at a price of 54 €/MWh (daily market price, without premiums or supplements). Furthermore, it covered part of the natural gas consumed by this installation (1,485,000 MWhpcs) at a price of 28.92 €/MWh (before discounts). Finally, the Company covered 51,206 Tm of fuel-oil consumed at its production centres during the first and second quarters of 2009 at a price of 290 €/Tm at plant.

Principal characteristics of electricity production based on biomass

As well as the production of cellulose, the industrial activities of ENCE focus on the production of electricity from biomass.

In this respect, in accordance with European Technical Specification CEN/TS 14588, biomass means all materials of biological origin excluding those which have been encompassed in geological formations undergoing a mineralisation process, which include coal, oil and gas. Consequently, the definition of biomass covers a large group of materials of different origins and with very different characteristics, from the waste from forest exploitations and agricultural crops to waste from garden pruning, waste from agricultural-forestry industries, crops for energy purposes, liquid fuels deriving from agricultural products, and waste of animal or human origin, amongst others.

Wastes and materials susceptible to use in energy production of the Group are as follows:

- Waste from forestry and agricultural industries: Chippings, bark or sawdust of first and second timber conversion industries and stones, peelings and other waste from the foodstuffs industry (olive oil, preserves, nuts, etc.).
- Energy crops: Are cultivations of plant species devoted specifically to the production of biomass for energy use.
- Forest waste: Originates in the processing and exploitation of vegetable masses, both for protection and improvement and to obtain raw materials for the forestry sector (timber, resins, etc.).
- Woody agricultural waste: Trimmings from olive trees, vines and fruit trees.
- Herbaceous agricultural waste: Obtained during harvesting of various crops, such as cereals (straw) or maize (cane).

The heterogeneous nature of the sources from which biomass can derive continues in the uses of energy produced with biomass, and it can be used for heating and hot water production in the domestic sector (family dwellings, residents' associations, districts or entire municipalities), heat for industrial processes and electricity generation.

In relation to the application of biomass, the conversion of biomass can give rise to different energies:

- Thermal energy: This is the most widespread application of natural and residual biomass. Direct combustion systems produce steam which can be used from heating to the production of electricity.

- Electricity: This is obtained above all from the conversion of biomass from energy crops, from primary forest biomass and from industrial waste products. In certain processes the biogas resulting from the fermentation of biomass can also be used to produce electricity. The technology to be used to achieve electricity depends on the type and quantity of biomass.

- Mechanical energy: This is generated from biofuels, which can totally or partially replace fossil fuels, enabling petrol engines to be powered with bioalcohols and diesel engines with bio-oils. In many countries this type of fuel is already reality, for example in Brazil.

- Cogeneration: Finally, cogeneration systems are systems of combined production of useful heat and electricity based on a single fuel. Natural gas is the primary energy most used for the functioning of combined heat and power plants, which function with gas motors or turbines. In the case of ENCE, however, biomass is also used as a fuel for cogeneration installations such that the two advantages of cogeneration and renewable energy sources are combined: the high efficiency associated with the former and the sustainability associated with the latter.

In the cogeneration process the heat is presented in the form of high-pressure water steam or in the form of hot water. Thanks to the use of residual heat, cogeneration systems have an overall yield of around 85%, which means that the simultaneous use of electricity and heat favours obtaining high rates of energy saving and a substantial reduction in energy bills without altering the production process, an energy saving which is substantially increased if residual energies are used.

Development lines

The production of electricity is traditionally integrated in ENCE with the production of cellulose, since the energy is produced from combustion of the forest products associated with the production of cellulose in steam boilers at high pressure and temperature, specifically designed for this purpose, producing energy in turbines designed also to supply the demand for useful heat in the industrial process (cogeneration). The basic purpose is to guarantee self-supply of electricity and heat demand required for the cellulose production process, taking advantage of the existence of organic surpluses from paste production (lignin and bark), maximising electrical surpluses by progressive improvements in energy efficiency.

Nevertheless, the Group is currently developing and enhancing an energy business line independently.

In the future, as well as ongoing improvement and optimisation of processes in the energy field in industrial complexes, the Company plans to develop new independent energy generation plants based on biomass in different locations, optimising the supply of energy crops.

Our decision to make investments and our confidence in the future development of the biomass sector are based on a series of premise which are examined below:

Favourable regulatory framework

Support from public authorities for electricity generation based on biomass as a renewable source is essential. For these purposes the new Directive 2009/29/EC, of 23 April, amending Directive 2003/87/EC on completing and extending the Community Regime of Trade in Greenhouse Gas Emission Rights, forms part of the so-called “green package” which the European Union has been promoting since 2007 to comply with the “20/20/20” commitment. This commitment relates to a triple objective for the year 2020 by which 20% of consumption of final energy must derive from renewable sources, greenhouse gas emissions reduced by 20% (with respect to those in 1990) and an improvement brought about in energy efficiency of 20% with respect to the consumption trend.

With respect to domestic legislation, successive regulatory frameworks in Spain have improved the premiums received by electricity producers using biomass, a trend which is expected to continue in the short and medium term. Significantly, promulgation in May 2007 of Royal Decree 661/2007, increasing the remuneration for electricity generation with biomass and granting the possibility of charging a premium for those installations under the ordinary regime which engage in co-combustion activities, opened the door to a substantially higher growth in this type of generation. For its part, Royal Decree-Act 6/2009, of 30 April, adopting certain measures in the energy sector and promulgating the social bonus, introduced as its principal novelty creation of the Remuneration Pre-allocation Register. All electricity installations under the Special Regime must be registered in this register in order to be entitled to charge under the economic regime established in Royal Decree 661/2007.

In this respect, the contribution of renewable energy to gross end consumption of energy in Spain is estimated for 2020 at 22.7%, almost three points higher than the mandatory objective established by the European Union for its Member States, whilst the contribution of renewables to electricity production will reach 42.3%, by which Spain will exceed its forecasts in this field (40%)[1].

The data is contained in the advance 2011-2020 Renewables Plan, sent by the Ministry of Industry, Trade and Tourism to the European Commission in compliance with the Community Directive in the field (2009/28/EC), which provides for mandatory renewable energy objectives for the EU and for each Member State in 2020, and preparation by them of national action plans to achieve these objectives.

In this respect, the 2011-2020 Renewable Energy National Action Plan is in the process of preparation, and therefore the scenario and objectives for each of the renewable technologies during this period may be subject to review. It is expected that this new Renewable Energy Plan will be published during the summer of 2010, since the Government has undertaken to the European Union to provide its plans in the Renewable

[1] Data contained in the advance 2011-2020 Renewable Energy National Action Plan, sent by the Ministry of Industry, Trade and Tourism to the European Commission in compliance with Directive 2009/28/EC.

Energy field with the objective of complying with Community objectives. The corresponding sector analyses prior to preparation of the document are being carried out by the Institute for Energy Saving and Diversification ("IDAE"), a body attached to the Ministry of Industry, Trade and Tourism. In this context IDAE has included ENCE within the consultation group for analysis of the biomass sector and establishment of new objectives and paths to achieve them to be included in the new Plan.

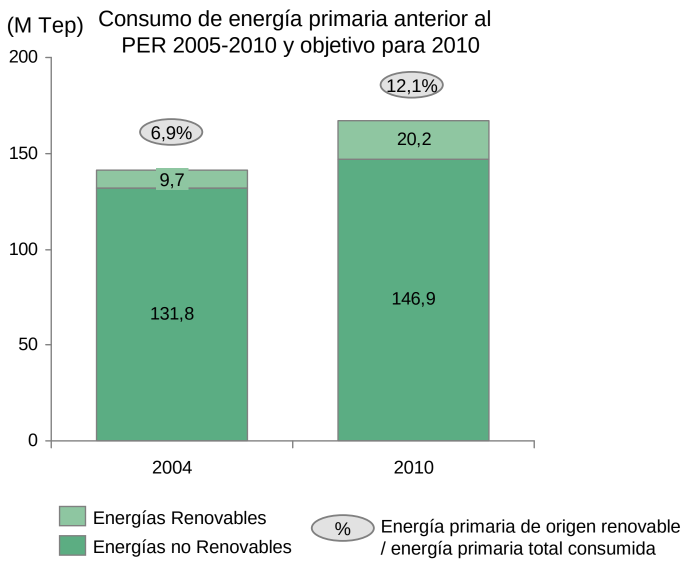
As an intermediate estimate, it is forecast that in 2012 the share of renewable energies will be 15.5% (compared with the orientative forecast in the indicative trajectory of 11.0%), and in 2016 18.8% (compared with the 13.8% forecast in the trajectory).

The increased development of renewable sources in Spain relates to electricity generation areas with forecast contribution of renewable energy to gross electricity generation of 42.3% in 2020.

At the present time, there are good prospects that the different Administrations will continue to strengthen electricity generation based on biomass due to the positive effects of biomass as a source of renewable energy:

- Neutral CO_2 balance and reduction in emissions of other pollutant agents (particles, NOx, sulphur, etc.).
- It favours the sustainable treatment of waste, avoiding tipping and uncontrolled burning.
- It reduces the risk of fires and plagues of insects.
- Creation of rural employment and development of own know-how. Reactivation of the agricultural sector, using fallow land and making use of agricultural waste now burnt on the land.
- Improvement in the trade balance, reducing the need to import fuels and purchase CO_2 emission rights.
- Manageable energy which contributes to stability of the network, avoiding transport losses and plants can be connected in locations close to consumption points.

To these factors must be added the fact that until the middle of 2009 only 28% of the electricity generation objective with biomass established in the Renewable Energy Plan had been covered. In fact, only 152 MW of new biomass projects had been installed between 2004 and May 2009, compared with the 1,695 forecast for 2010 in the Plan. Furthermore, it must be taken into account that Spain is the third country of the UE-15 with highest electricity generation potential with biomass.



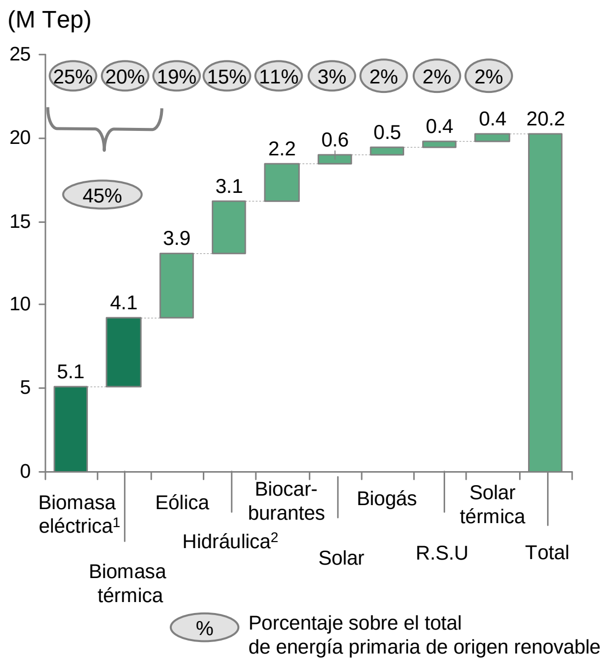
Legend: ***(M Tep) Consumption of primary energy before the 2005-2010 REP and objective for 2010***

Renewable Energies *Primary energy of renewable origin/total primary energy consumed*

Non-renewable Energies

Note: M Tep refers to millions of oil-equivalent tons.

As can be seen in the following graph, the 2005-2010 REP provided that biomass must account for 45% of primary energy contributed by renewable sources by 2010.



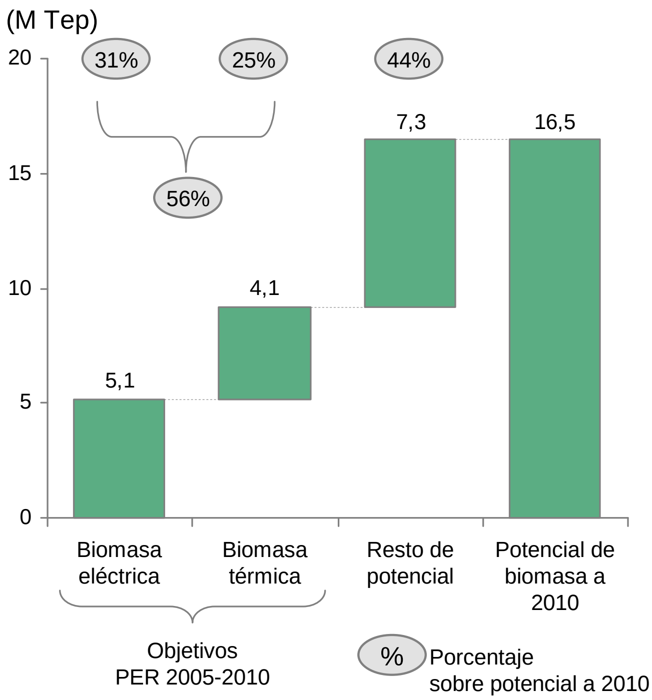
Legend: ***(M Tep)***

Electricity Biomass[1]	*Wind*	*Bio-fuels*	*Biogas*	*Thermal Solar*
Thermal biomass	*Water*[2]	*Solar*	*SUW*	*Total*

% Percentage of total primary energy of renewable origin

Source: 2005-2010 REP, IDAE

For which purpose it is necessary to mobilise 56% of the potential biomass existing in Spain:

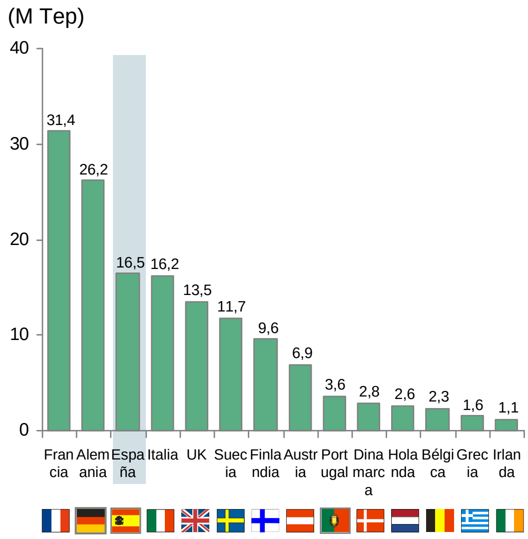


Legend: ***(M Tep)***

Electricity Biomass	*Thermal Biomass*	*Rest of potential*	*Biomass potential at 2010*
Objectives 2005-2010 REP		*% Percentage of potential at 2010*	

Source: 2005-2010 REP, IDAE

As mentioned, Spain is a country with large energy generation potential based on biomass in the EU:

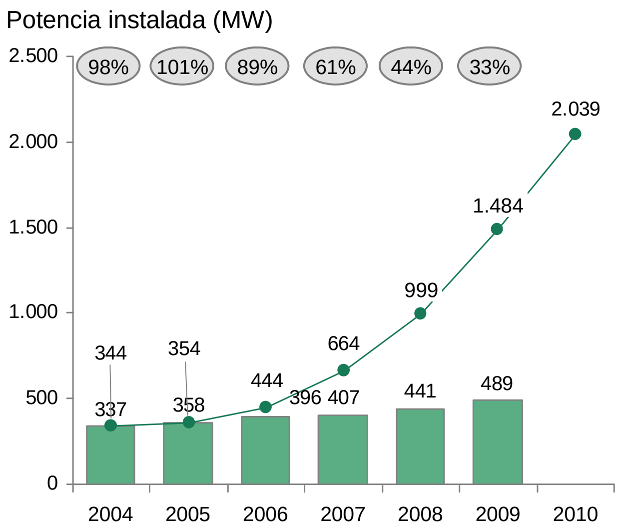


*Legend:**(M Tep)***

France	*Germany*	*Spain*	*Italy*	*UK*	*Sweden*	*Finland*	*Austria*	*Portugal*	*Denmark*	*Netherlands*	*Belgium*	*Greece*	*Ireland*

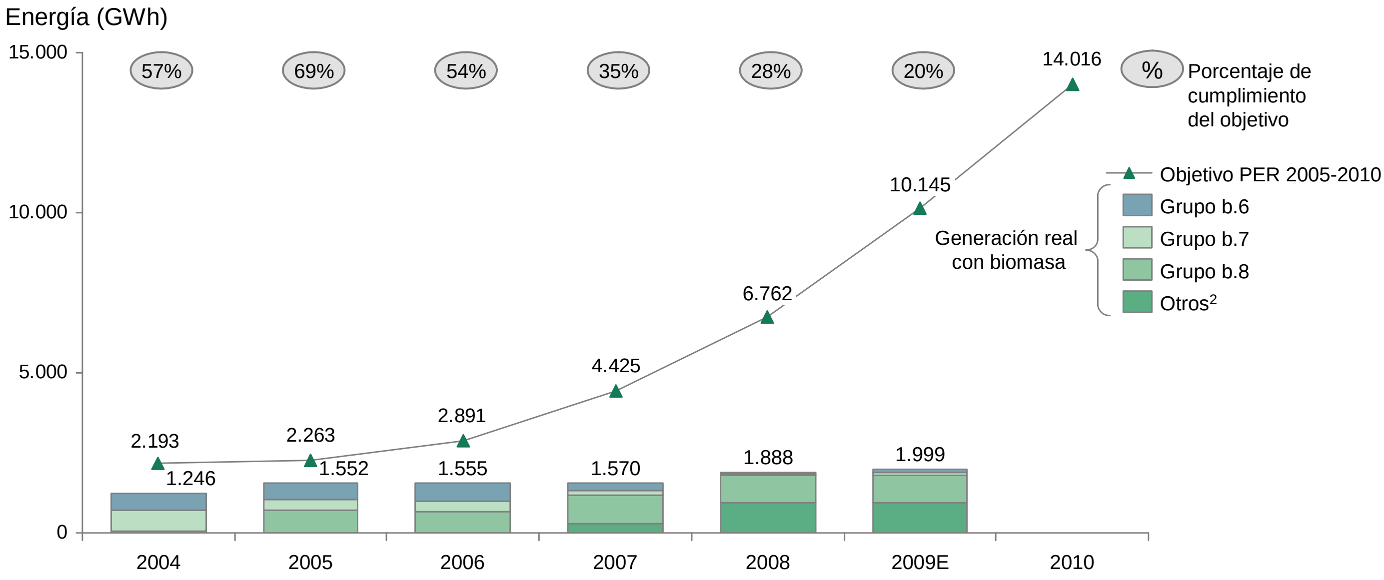
Source: 2005-2010 REP; EEA ("How much bioenergy can Europe produce without harming the environment?")

Nevertheless, the objectives laid down by the REP are not being complied with, and therefore an increased push is expected on the part of the Administration for this energy source, which could translate into greater incentives for energy generation by these means and facilitate processing of the corresponding authorisations to undertake projects of this type.



Legend: ***Installed power (MW)***

Source: 2005-2010 REP; National Energy Commission



Legend: ***Energy (GWh)*** *% Percentage compliance with target*

2005-2010 REP target

Actual generation with biomass

Group b.6
Group b.7
Group b.8
Others[2]

Source: 2005-2010 REP; National Energy Commission

Management of the entire biomass supply chain

ENCE has experience and know-how in management of the biomass supply chain. Access to its own forest resources and joint action with its suppliers guarantee the resource in the medium and long term. Furthermore, forest biomass is achieved at a more efficient cost since ENCE is manager of the resource.

To this must be added that ENCE has an excellent position in R&D&i thanks to its investments in the research field, particularly in energy crops, which reduces the acquisition cost of raw material compared with the cost of purchasing from suppliers, and in particular permits greater control and future reduction by improvements in productivity of the crop. The Group already now has 8,979 hectares planted with ligneous energy crops which are producing very high productivity data. In addition, there are agricultural crops at the present time which show low yields for producers, to which must be added the gradual elimination of aid deriving from the Common Agricultural Policy, which foments access to long term leasing agreements on price terms lower than those in previous years.

Of the 8,979 hectares, 7,679 are devoted to supply of the 50 MW project in Huelva, and are equivalent to 45% of estimated annual requirements for biomass of this installation. The remaining volume relates to the initial activities for development of the remaining Group projects. In the Huelva project around 70% of biomass supply will come from energy crops, whilst the remaining supply will basically come from forest waste. The energy crop planting plan for Huelva provides for the use of principally unirrigated land.

However, for the remaining new developments it is expected that around 50% of the supply of biomass will come from energy crops, but mainly implemented on irrigated land. The remaining supply will be covered with waste, basically forest waste. It is clear that productivity of irrigated land is much higher than that of unirrigated land; this fact combined with the fact that it is expected that in new developments a lower proportion that that established in the plan for supply of the 50 MW Huelva project will be energy crops leads to a need for hectares planted with crops for new developments with lower installed MW compared with the Huelva project.

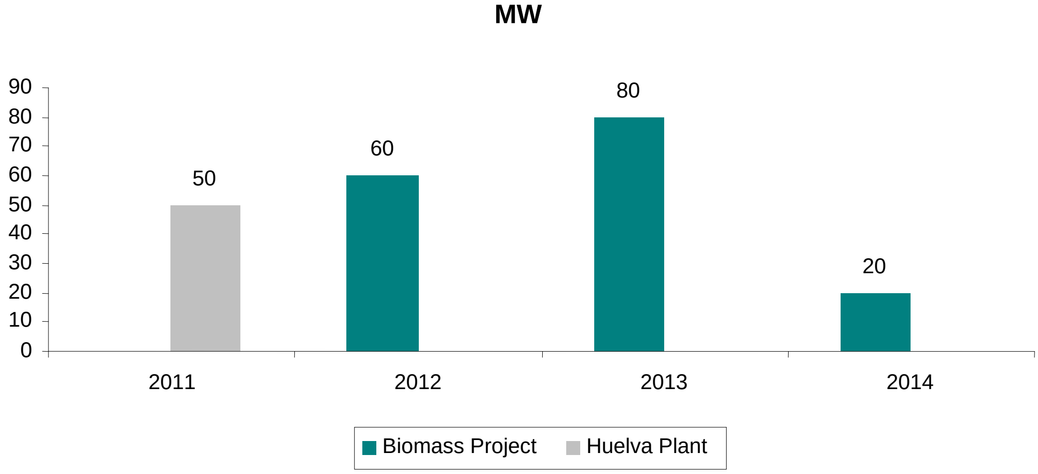
Based on the foregoing premises, ENCE is undertaking an ambitious growth plan focused on the generation of electricity from biomass which is dealt with in more detail below.

Plan for development of 150-210 MW of electricity based on biomass

As indicated in section 5.2.3 of this Registration Document, ENCE is working on development of a plan to install between 150 and 210 MW of electricity generated from biomass by 2015, to which end consideration must be given to the following premises which ENCE uses as basic criteria to comply with this objective.

It must firstly be indicated that ENCE has begun processing the necessary permits for the purpose of implementing the plan. To this end, the most advanced project, that of Huelva with 50 MW, has Integrated Environmental Authorisation and is therefore in its final stage of processing, with the commencement of works expected during the second half of 2010 in order to thereby comply with the estimated date of entry into operation at the end of 2011. In parallel, for the projects of between 10 and 20 MW the relevant studies have been commenced to analyse the availability of electricity evacuation, biomass and verify that there are no environmental impacts which cannot be borne by the recipient environment.

On this basis, entry into functioning of projects would accord with the following scheme:



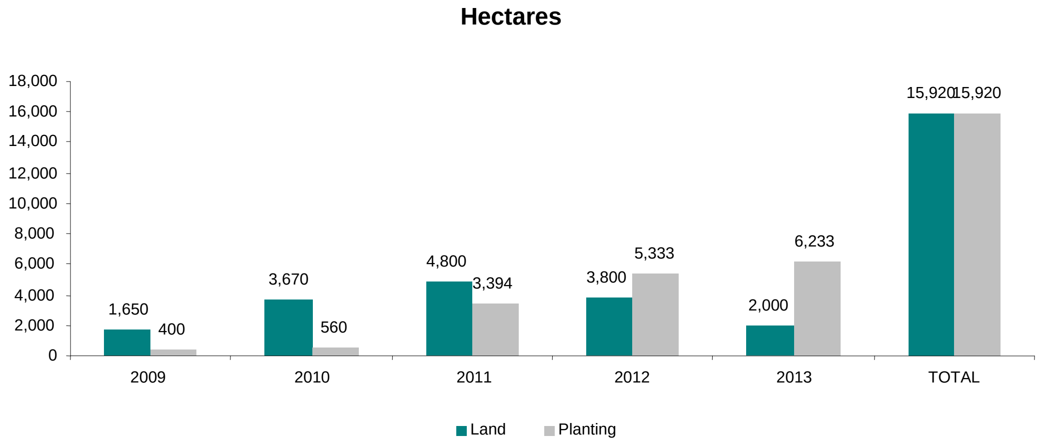
The biomass development plan is associated with a major investment, estimated at some 2.5 million euros per MW installed, of which ENCE will only contribute between 20% and 30% as own funds depending on the financing terms which are anticipated in the context of negotiating the Project Finance structures for each individual project.

In relation to the operating parameters of the biomass plants, the basic hypotheses of ENCE point towards operating indices above 8,000 equivalent hours annually, thanks to a biomass supply plan mainly based on energy crops (around 55%) with the remaining 45% from forest waste, with costs of between 40 euros per ton (forest waste) and 60 euros per ton (energy crops). Figures are being considered for Operating and Maintenance costs of around 15 euros per MWh produced. This data is in line with market figures and those used by IDAE in its studies into monitoring development in the biomass sector in Spain.

In accordance with the plan, several of these projects are at an advanced stage of promotion. Specifically, three of them (as well as the 50 MW Huelva project) have a definitive acquired site and environmental studies are at an advanced stage. In two of these projects access has also been applied for to the high voltage grid, depositing the corresponding guarantees. The processing of permits is taking place at a good rate and with a high degree of cooperation from the Administrations involved, without special difficulties foreseen in this respect.

In parallel with the process of obtaining permits, ENCE is beginning the contracting and planting of energy crop hectares for the purpose of implementing a stable plan for supply of the plants after they enter operation. Due to the necessary period for obtaining the first harvest (between 3 and 5 years) the Company considers this own supply activity in parallel with technical promotion and construction of the energy projects to be fundamental.

The plan for contracting and planting hectares associated with the 150-210 MW biomass plan is taking place in accordance with the following planning:



The cost of investment in planting varies based on the type of crop between 1,100 and 1,600 euros per hectare (unirrigated or irrigated), whilst the cost of irrigating properties without existing infrastructure varies between 1,500 and 2,000 euros per hectare. Annual maintenance is between 150 and 500 euros per hectare and year, and likewise depends on the type of crop.

During the process of drawing up Royal Decree 661/2007, IDAE (*Instituto para la Diversificación y el Ahorro de Energía* (Institute for Energy Saving and Diversification) of the Ministry of Industry, Trade and Tourism) made public that the remuneration system to be included in this Royal Decree must provide an internal rate of return for electricity generation products based on biomass, as for other renewables, of around 8%. The presence of ENCE in all stages in the biomass supply chain and its experience in developing energy crops, optimising the productivity of the different types of crop used and their calorific power are two elements which favour improvement in these rates of return.

With respect to contribution of own funds, although the target timetable for implementing projects is defined, their modularity will enable their execution to be adapted to the cash flow generation capacity of the Company.

6.1.1.5. Principal figures

See Chapter 9 of this Registration Document.

6.1.2 <u>New significant services and products</u>

No significant products or services have been developed other than previously referred to in relation to the biomass development plan (see the foregoing section 6.1.1.1).

6.2 Principal markets

6.2.1 <u>The cellulose market</u>

<u>Brief description</u>

Cellulose is the principal raw material for the manufacture of paper and its derivatives. Producers can be classified in three ways:

1) Cellulose producers can be classified amongst those who produce cellulose for internal consumption (being integrated paper manufacturers) and those which produce cellulose for sale to third parties. The latter produce what is called "market cellulose", which represents around 22% (excluding cellulose from recycled paper) of world paste capacity, estimated at 225 million Tn/year.

2) Depending on the production process used for separation of the three principal components of the wood (water, lignin and cellulose fibre) and for bleaching the cellulose, the process may be chemical, mechanical or a combination of the two. Of all cellulose produced worldwide, approximately 93% is obtained by using chemical processes, with the so-called "Kraft" –or sulphate– process predominating. Cellulose can be bleached or crude by type of finishing. Bleached chemical cellulose represents around 96% of chemical pastes in the market, a segment in which ENCE Group activities fall.

3) Depending on the cellulose fibre used, it may be "short fibre" or "long fibre", depending on the length of the cellulose fibres used in the production process, which in turn depends on the type of timber employed as raw material. Long fibre cellulose, under the same conditions, is stronger and used in paper which requires specific strength characteristics, whilst short fibre cellulose has better dimensional stability properties, better qualities for printing and is generally considered to be that which enables better quality paper to be produced. Long fibre cellulose is obtained from soft wood (conifers, pine) whilst short fibre cellulose derives from timber considered hard (such as eucalyptus and birch). Long fibre cellulose represents approximately 46% of all bleached cellulose produced through chemical processes aimed at the open market (21 million Tm/year). Within short fibre, eucalyptus accounts for approximately 62% (15 million Tm/year) and over 33% of the global world market.

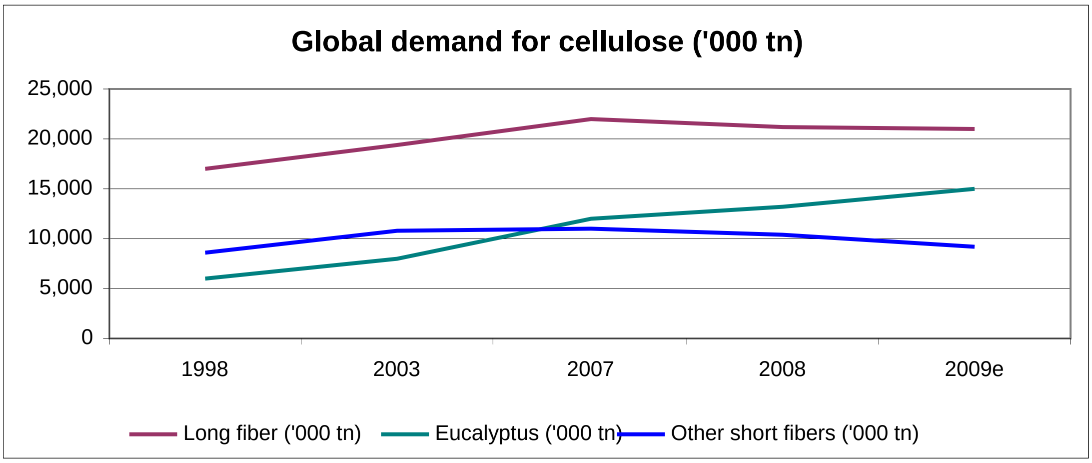
For these purposes, the Group has a profile of bleached chemical cellulose market producer from eucalyptus timber (short fibre).

Analysis of demand

Evolution of the cellulose market, conditioned by a fall in production of printing and writing paper in Europe (natural market of the Group) and in North America, but with a large increase in China, has undergone a markedly volatile and varied behaviour during the 2007, 2008 and 2009 financial years, which can be divided into three stages:

1. January 2007-August 2008

Despite the reduction in European paper industry activity (particularly in wood free printing/writing and except for the increase in tissue paper production) the market for cellulose paste remained balanced during this period, due to the increase in paper production in China and the restriction on fibre supply as a result of timber supply problems (Scandinavian long fibre and birch, short and long fibre from Canada as a result of labour disputes, lesser supply of timber from Indonesia as a result of greater control over illegal cutting, and certain restrictions on maritime transport). In the case of eucalyptus (paste produced by the Group) the increase in production of eucalyptus paste worldwide was absorbed without greater problems on substituting other fibres as a result of its greater availability, strategic nature (planned growth, geographical location of producers, lower production costs and availability of timber) and lower price, as well as its own physical characteristics. This enabled its price in USD to rise during this period by 25%.



Source: Hawkins Wright

2. September 2008-April 2009

As from August 2008 the principal market cellulose demand indicators began to show signs of weakness at the same time as the world economy, due to the convergence of several factors: drastic reduction in purchases in China up to the end of 2008, transfer of stock from customers to producers worldwide, reduction in demand as a result of lower paper production in Europe and North America (where 60% of consumption is concentrated) due to the general weakening of the economy and lower consumption in the two regions, leading to a very substantial increase in stocks –in producers. The sum of these factors combined with the drastic reduction in financial capacity led to a rapid fall in prices. This deterioration in the international market gave rise to a series of extraordinary shut-downs and closures of capacity in less efficient plants, concentrated in Europe and North America, even if Chinese production of annual plant fibres are added.

In this context the market price of eucalyptus cellulose fell rapidly, reaching a minimum in Europe in April 2009 of 485 USD, equivalent to a reduction of 42% with respect to August in the previous year. However, its worldwide consumption in tons did not cease to increase despite the reduction in worldwide paste consumption.

The surplus paste was being absorbed in the first quarter of 2009 thanks to the strong increase in China imports which, when the price was lower, took advantage of the liquidity provided by the Chinese government to restore its stock and replace the local production which shut down. The production cut-backs for their part enabled the lack of demand in the remainder of the world to be set off.

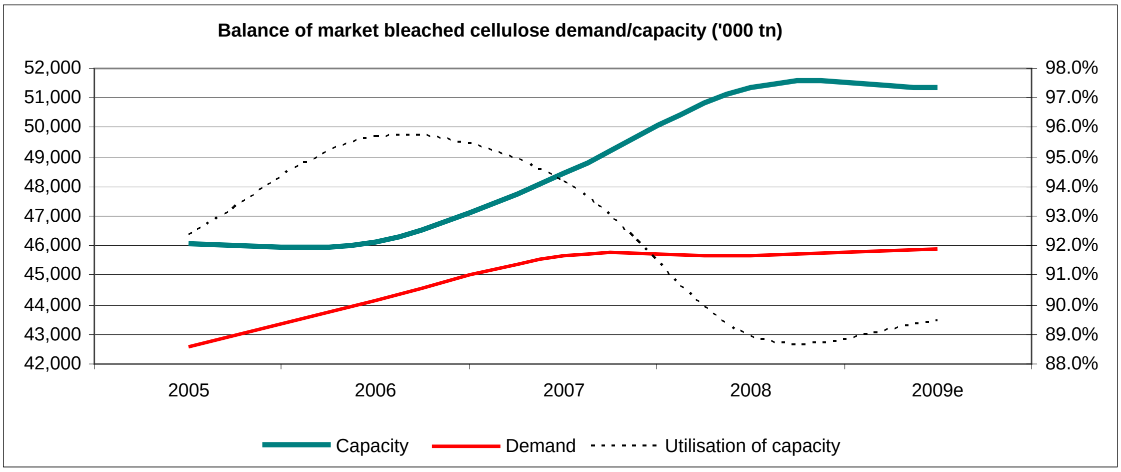
3. May 2009-December 2009

The weakness in demand in the more developed economies, markets which concentrate around 60% of cellulose consumption, excess stock of paste accumulated during 2008, the rapid fall in prices, the entry of new low-cost capacity in the southern hemisphere and consequent loss of competitiveness of western producers, were factors which accelerated the restructuring process in the sector.

Thus, during the first half of 2009 the succession of extraordinary shut-downs and closures of capacity referred to in the previous stage had the consequence of an adjustment in supply of bleached market paste close to 10% of installed worldwide capacity.

This reduction in supply, combined with maintenance of higher demand in China and partial recovery of demand in the rest of the world, permitted a gradual reduction of paste stocks, the fall in which was particularly notable in the months of May and June 2009. Furthermore, the weakening of the USD and improved balance between demand and available supply favoured recovery of cellulose prices, evolution of which showed a change in trend similar to that of other, also cyclical, raw materials.

In this context of recovery, cellulose prices underwent widespread rises in all markets; thus, the price of eucalyptus cellulose in Europe recovered in this last stage by 44% from a low point reached in April 2009, to 700 USD/ton. Evolution in annual demand and capacity of market cellulose worldwide is shown below:



Source: Hawkins Wright

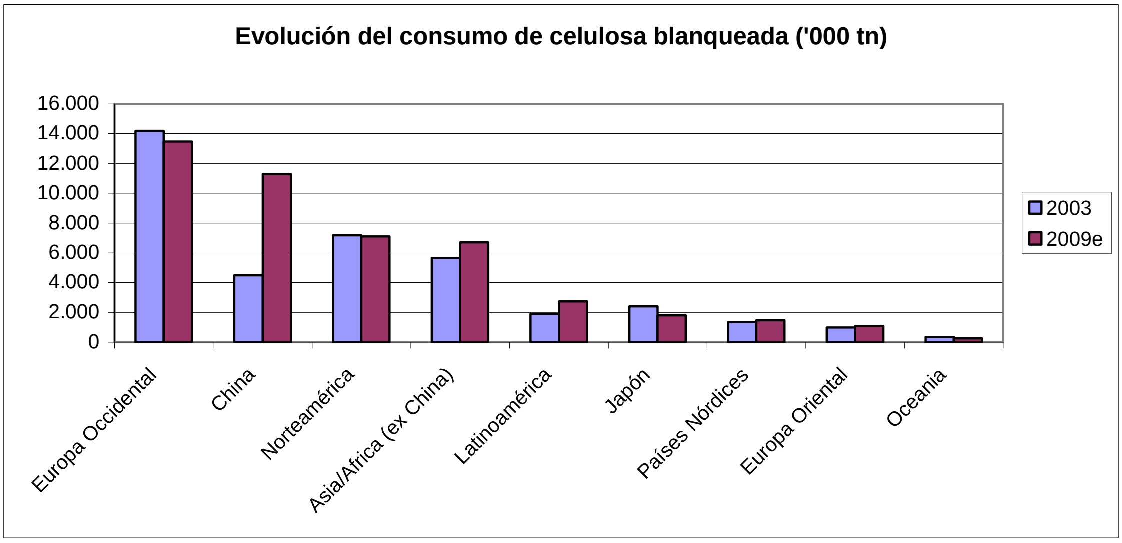
In the first months of 2010 the upward trend in the price of eucalyptus cellulose continues, with values expected of around 800 USD/ton at the end of the first quarter.

Geographical distribution of demand

Europe is the biggest consumer of bleached market cellulose (excluding non-bleached, mechanical and thermomechanical cellulose) in the world, in 2009 accounting for approximately 36% of total consumption, followed by China at 23%. In growth terms, China is the geographical area with the highest growth rates, with 55% growth in 2009. In Western Europe bleached market cellulose demand fell in the same period by 12%, basically due to stagnation of economic activity. At world level, bleached cellulose demand in 2009 was equivalent to that of 2008.

In the case of eucalyptus cellulose, the evolution was positive in 2009, with world growth of 14%, managing to win a market share with respect to other types of fibre. In Europe the consumption of eucalyptus cellulose fell by 4.5% but in China it increased by 69%. This data proves the good positioning of eucalyptus cellulose compared with other types of fibre, and its potential.

A table is shown below with evolution of the principal bleached cellulose markets:



Legend: ***Evolution of consumption of bleached cellulose (‘000 tn)***

Western Europe China North America Asia/Africa (ex-China) Latin America Japan Nordic Countries Eastern Europe Oceania

Source: Hawkins Wright

Details are also shown of estimated short fibre cellulose demand (the category in which eucalyptus fibre falls) at the end of 2009:

kTad/year	**Demand**
Western Europe	8,065
China	6,450
North America	2,815
Latin America	1,605
Japan	925
Eastern Europe	435
Oceania	80
Rest of Asia and Africa	3,815
Total	**24,190**

Source: Hawkins Wright

Whilst evolution in worldwide demand for eucalyptus market cellulose was as follows:

kTad/year	**2009**	**2008**	**2007**
World demand for market eucalyptus cellulose	15,085	13,241	11,945

Source: Hawkins Wright

Analysis of supply

Total production capacity of bleached cellulose in the world market is 57.07 million tons per year, with the production capacity of cellulose obtained from eucalyptus timber being 15.5 million tons.

The Group is currently the leading European operator in eucalyptus market cellulose and the fourth worldwide, with an 8.6% share of global capacity.

rk	**Company**	**Country**	**Eucalyptus Capacity ('000 tn)**	**Global Share**
1	FIBRIA	BRAZIL	5,245	33.8%
2	SUZANO	BRAZIL	1,575	10.2%
3	CMPC	CHILE/ARGENTINA	1,430	9.2%
4	ENCE	SPAIN	1,340	8.6%

Source: Hawkins Wright

These companies sell significant percentages of their production in Europe, the natural market of ENCE.

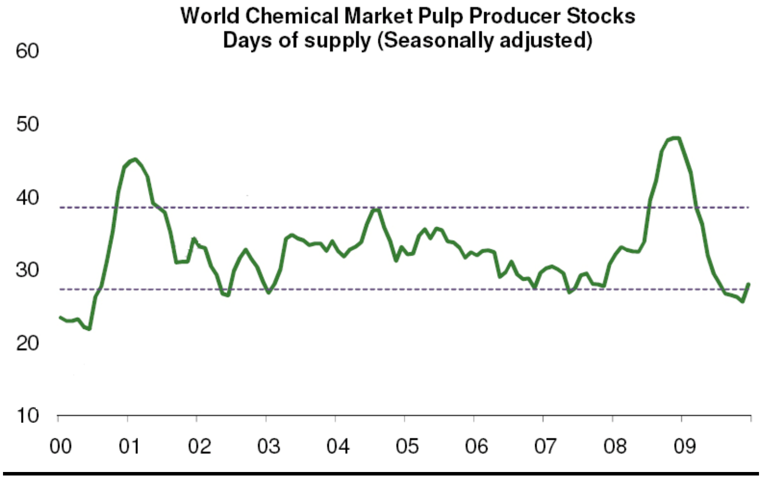
The supply of production capacity is mainly conditioned by two factors:

The need to guarantee the supply of timber, the principal raw material, by the existence of forest resources in sufficient amount and at a suitable average distance to guarantee economy in the logistics process. In this respect, the forest assets necessary to supply a cellulose plant of 1 million tons are around 100,000 and 150,000 hectares in areas of high productivity with felling intervals of 8 to 10 years, such as the humid regions close to the coast of Brazil, where annual productivity is obtained equivalent to between 7 and 10 tons of cellulose per hectare and year, ratios generally higher than those recorded in the Iberian Peninsula.

A production structure which does not allow for gradual increases in production capacity: new plants have a high investment cost, particularly due to environmental requirements and the strong technological component which they incorporate. The latest "greenfield" plants started up in the world have an installed production capacity of around 1 million tons per year, although plants are also being planned with higher capacity. In any event, the world economic crisis in recent years has temporarily paralysed these new very capital-intensive developments, given the restriction on obtaining external financing. Furthermore, as from taking the decision to construct a plant its commissioning takes around 3 years.

Consequently, supply is very inelastic since it is displaced in time in relation to demand. This factor, combined with a cost structure (low variable costs and high fixed costs) which requires a high degree of utilisation to reach satisfactory profitability levels (high operational gearing) means that in periods of excess supply there is strong price volatility. These periods of excess supply result from relevant increases in production capacity which only correspond to demand when increases in production capacity in the paper sector take place. This imbalance is reflected to a large extent by increase in stocks (indicative of times of excess supply and downward pressure on prices).

The evolution is detailed below of global stocks and cellulose prices. Stock levels are measured in days, with 34 days considered a standard stock level. As can be seen in the graph, there is an imbalance of approximately 3 months between the variation in stock levels of producers and evolution in the price of cellulose. In recent months stock levels have been reduced until reaching 23 days at the end of November 2009, due to adjustment in supply and the restructuring process which the sector is undergoing.



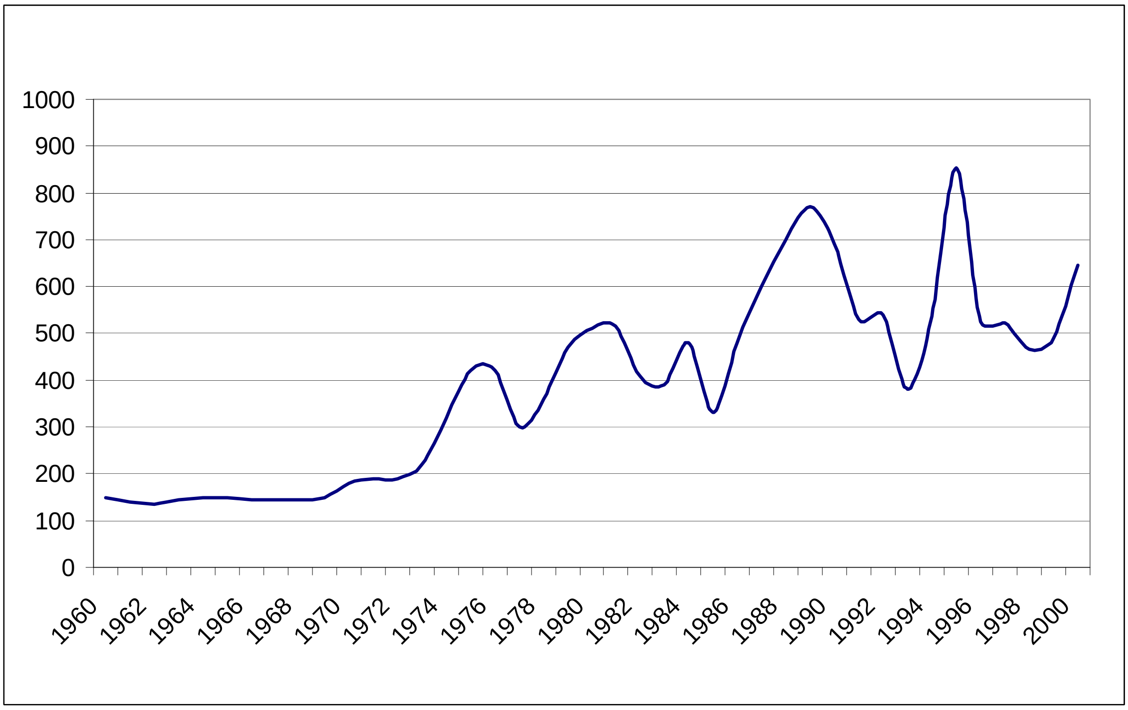
Source: PPPC

Cellulose price

As mentioned in the previous section on *"Analysis of supply"*, given the lack of elasticity in supply the price of cellulose shows high levels of volatility, common in cyclical sectors.

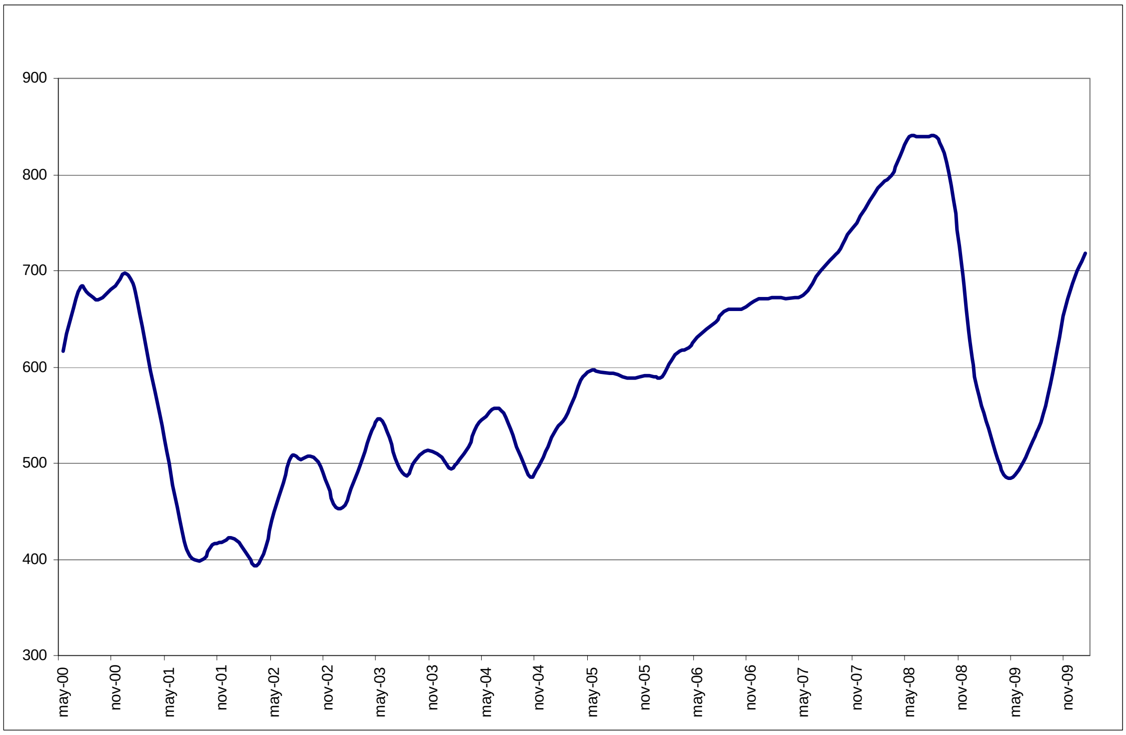
Cellulose prices have traditionally been fixed in USD. The long fibre cellulose market continues to use USD as reference currency, whilst for short fibre cellulose commercialised in European markets (the principal market in which the Group operates) the euro is used. Nevertheless, this price is euros is also affected by the exchange rate against the USD, since the high liquidity of cellulose as commodity leads, in times of depreciation of the USD against the euro, to producers linked to economies more dependent on the USD exporting short fibre cellulose to Europe at a price denominated in dollars.

The evolution of the price of eucalyptus cellulose in USD per ton in Europe is shown below, in average annual terms, from 1960 to 2000:



Source: FOEX

The following graph shows the price of eucalyptus cellulose in Europe, in USD per ton, and in average monthly terms from 2000 until the end of 2009:



Source: FOEX

The following table shows the price in dollars of eucalyptus cellulose on an annual average together with movements in the euro/USD exchange rate, also on an annual average, and conversion of the price in dollars to euros:

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Price (USD)	669	491	459	505	520	582	643	702	789	561
Rate (EUR/USD)	0.90	0.90	0.95	1.13	1.24	1.24	1.26	1.37	1.47	1.39
Price (EUR)	745	548	485	447	418	468	511	513	537	402

Source: FOEX and Oanda

It is estimated that during 2010 the recovery in the market which began in the final months of 2009 will stabilise, supported by the increase in demand in China given its strong increases in installed capacity of paper production and the expected recovery of the US economy and principal European economies. Furthermore, reactivation of part of production shut down for market reasons and volatility of demand may be factors which negatively affect the upward trend in prices.

Evolution of the euros/USD exchange rate could in the medium term condition the impact of potential price rises on the profit and loss account of the Company.

Nevertheless, the Company carries out an ongoing analysis of exposure to cellulose price and euro/USD exchange rate risks in order to cover this exposure dynamically. In order to cover the risks to which the Group is exposed as a result of fluctuations in the price of paste, the Group contracted paste price swaps at 2 and 3 years to hedge its future sales.

At 31 December 2009 the Company had no paste price and euro/USD hedging agreement in force.

The situation of hedging operations (swaps) at 31 December 2008 is detailed below:

3 Year BHKP PIX Contract:	Currency	Tons	Average Price *(Dollar/Ton)*
2009	USD	102,000	601.1

The reasonable value of this financial instrument at 31 December 2008 was positive by 3,729,000 euros and it was recorded under the heading of short term financial investments under assets in the balance sheet.

Changes in the reasonable value of these instruments are directly recorded under net worth in the account “Adjustments as a result of change in value – Hedging operations”. The deferred tax generated by recognising these instruments amounted to 1,119,000 euros at 31 December 2008. These deferred taxes are likewise recorded with a debit or credit to net worth accounts (see section 14).

The heading “Variation in reasonable value of financial instruments – Trading portfolio and others” in the attached profit and loss account for the 2009 includes a profit of

3,808,000 euros (loss of 14,550,000 euros in 2008) corresponding to hedging liquidated during the year.

The Group's market

As can be seen in the following table, 80% of Group cellulose sales are destined for export, mainly to the rest of Europe:

	Tons sold (%)		
	2009 FY	**2008 FY**	**2007 FY**
Germany	22.9%	24.4%	24.3%
Spain	19.7%	18.7%	18.1%
Italy	12.6%	11.1%	9.7%
United Kingdom	6.4%	10.7%	10.7%
Austria	5.7%	6.7%	6.1%
France	6.9%	8.0%	7.5%
The Netherlands	3.2%	4.4%	4.4%
Switzerland	4.6%	3.8%	4.1%
Poland	4.5%	4.0%	3.6%
Turkey	2.9%	2.4%	4.3%
Sweden	1.5%	1.9%	2.5%
Others	9.1%	3.9%	4.7%
Total	**100.0%**	**100.0%**	**100.0%**

Apart from Spain, the principal Group markets are Germany and Italy, which together made up 35.5% of total sales in 2009. Furthermore, the Company has increased its sales in Eastern Europe and in certain Mediterranean countries, particularly Turkey and Israel, which have a greater growth potential.

Distribution by product (type of paper manufactured by the customer) in the 2007-2009 period was as follows:

Segment	2009	2008	2007
Tissue	53%	38%	34%
Printing/writing without coating	14%	19%	22%
Printing/writing coated	14%	17%	19%
Multilayer	9%	11%	9%
Other papers	4%	4%	4%
Decorative	4%	7%	8%
Cigarettes	1%	2%	2%
Filters	1%	1%	1%
Colour	0%	1%	1%
Total	100%	100%	100%

The increase in weight of tissue in the sales mix is the result of the higher potential growth of this type of paper, with uses less linked to economic growth and more to social development, and better adaption to the use of eucalyptus as principal fibre.

In addition, the reduction in demand in 2009 in most paper segments meant that the Company focused more on the tissue sector, which remained active with relative strength. A re-balancing of sales by product in the medium term can be expected.

In the last 3 years the ten main customers of ENCE have increased their weight and in 2009 accounted for approximately 60% of sales. In 2009 no customer individually accounted for more than 15% of cellulose sales.

In this respect, ENCE has a portfolio of around 160 customers and maintains stable supply relationships with the most important paper producers at European level. Sales to its customers take place virtually totally by means of the reserve system. This system consists of the customer providing ENCE with an estimate of its cellulose requirements for the year, agreeing on monthly delivery and the prices in force at the time of each delivery. The Company keeps the customer informed of prices in force and enters into an individual contract with the customer for each delivery.

In this respect, ENCE establishes its sales contracts on standard cellulose industry terms, i.e. “General Trade Rules for Wood Pulp”.

ENCE furthermore normally applies a discount to its customers on market prices in force at the time of signature of each of the sale contracts, a discount which is agreed with each customer. The average Group discount is in the range of 14% to 16%. Payment normally takes place within 60 days from delivery of the goods, although ENCE normally grants an additional discount if payment is made in cash within the 15 days after delivery.

Group sales in external markets take place through independent commission agents located in Europe. Domestic sales are made directly by the Group.

6.2.2. Electricity market

Legislation

Regulation in support of renewable energy in Spain started with the Energy Conservation Act, 82/1980 of 30 December, which particularly fomented cogeneration and small hydropower plants.

The Electricity Sector Act 54/1997, of 27 November, established the general lines of liberalisation of the sector. With respect to renewable energies, the Act provided as follows: "*In order that sources of renewable energy cover at least 12 percent of total energy demand in Spain by 2010, a Renewable Energy Development Plan shall be established, the objectives of which shall be taken into account in establishing premiums*". Furthermore, Act 54/1997 acknowledged that in order to achieve this objective a Special Regime of support for these technologies was required (different from the ordinary conventional power plant regime).

In compliance with the mandate laid down in Act 54/1997, on 30 December 1999 the Council of Ministers approved the Renewable Energy Development Plan for the 2000-2010 period, setting out the most relevant guidelines in articulating the strategies necessary for promotion, development, dissemination and innovation of renewable energies, becoming a basic instrument in energy and environmental policy of national scope in the context of increasing liberalisation tending towards a single European energy market. This Plan was replaced by the 2005-2010 Renewable Energy Development Plan, approved by the Council of Ministers of 26 August 2005.

After several subsequent regulations geared to incentivising the production of electricity under the Special Regime, at the present time Royal Decree 661/2007 is in force, promulgated on 25 May 2007.

Additional Provision Nine of Royal Decree 661/2007 provides that during 2008 a study should begin of a new Renewable Energy Plan (REP), taking into account achieving the objectives indicated in order to establish a new projection for the period between 2011 and 2020. These new objectives will be taken into account in revision of the remuneration system for the Special Regime planned for the end of 2010.

Finally, on 6 May 2009 Royal Decree-Act 6/2009, of 30 April, was published in the Official State Gazette, adopting certain measures in the energy sector and approving the social bonus ("RDA 6/2009"). For the purposes of electricity production under the Special Regime, the principal novelty of RDA 6/2009 is creation of the Remuneration Pre-allocation Register. All electricity installations under the Special Regime must be registered in this register in order to be entitled to charge under the economic regime established by Royal Decree 661/2007 (see Section B.4.3).

RDA 6/2009 expressly provides that after the power objective of a certain technology is achieved, the Government must, by Royal Decree, promulgate a new legal-economic framework for these installations which takes into account the establishment of a sufficient and adequate economic regime and motivate research into cost reduction in the sector in question. Furthermore, it provides that in the event that the registered power is higher than the power objective for a particular technology as a result of applications submitted by developers who comply with certain requirements before 7 May 2009, the possibility is provided that by resolution of the Council of Ministers annual restrictions may be established on execution and entry into operation of installations already registered and their prioritisation in order to guarantee economic and technical sustainability of the system.

With respect to the economic profitability of electricity production, Royal Decree 661/2007 aims for cogeneration with biomass to reach reasonably attractive profitability levels, both when the electricity is transferred to the distribution system and if sold in the market. In the latter case, the profit may be somewhat higher, but there is a certain risk in the final remuneration receivable resulting from participation in the daily electricity market.

In the case of selling electricity in the market, the premium varies depending on the price in the reference market. To this end various upper and lower limits are established for each technology for the sum of the reference market price and premium.

The amounts of tariffs (transfer to distributor) and premiums, upper and lower limits and other supplements are the subject of annual updating in accordance with variations in the CPI less 25 basis points up to 31 December 2012 and 50 basis points as from that date.

In addition, it must be indicated that the economic regime is temporary, such that when the power objective laid down in each of the groups is established, installations which are registered as from that time will receive different remuneration.

For these purposes the production of electricity by cogeneration falls under heading A.1.3 of the tariffs, i.e. it is clearly distinguished from electricity production solely with biomass (groups b.6 and b.8) or biogas (group b.7).

For these purposes systems of electricity generation by condensation, with biomass and biogas, must reach minimum efficiency levels for gross generation of electricity, which means that in order to be included in the Special Regime and benefit from the remuneration, biomass plants must reach the following minimum electricity yields:

- Up to 5 MW: 18%
- From 5 to 10 MW: 20%
- From 10 to 20 MW: 22%

- From 20 to 50 MW: 24%

Condensation generation installations based on biomass planned by ENCE in its expansion plan and those existing at the present time comply with these obligatory yields, as indicated in the case of the latter by their registration in the Register of Producers under the Special Regime.

Calculation of efficiency takes place in accordance with the following formula: Efficiency = [PEB]·0.086 / EPC, where: [PEB]: is gross annual electricity production in MWh. EPC: is primary energy consumed in oil-equivalent tons, recorded at LCP (lower calorific power). Not reaching the efficiency levels established may give rise to revocation of the status of electricity producer under the Special Regime or suspension of the economic regime.

Structure of remuneration

Royal Decree 661/2007 provides that for the sale of electricity exported to the grid one of the two following options can be selected:

- Regulated tariff: The principal component of the price is fixed and denominated base tariff ("Ptr"), to which a series of supplements are applied.

- Electricity energy market: Hourly electricity price in the market increased by a certain premium and series of supplements. The principal remuneration in this case is the sum of the daily market price band ("PMD") plus a premium ("P").

The electricity producer must in any event maintain the selected option until 12 months have elapsed from the last change. In other words, if 12 months have elapsed with one of the options and the producer considers that it will be more beneficial to change to the other option it may do so, but in this case it must remain for 12 months with the new option selected before again returning to the original situation.

The supplements which are added to the principal remuneration are:

- Supplement for reactive energy ("CR"): Both options (tariff or market) receive a supplement for reactive energy.

- Power guarantee ("GP"): Plants which resort to the market will receive a power guarantee supplement on using manageable primary energy.

- Efficiency supplement ("CEF"): All plants which exceed the REE (Red Electríca Española) minima required will receive an efficiency supplement. Solely applicable to cogeneration.

- Hourly discrimination supplement ("DH"): Optional supplement for plants in the tariff option.

- Deviations ("DES"): All installations will be subjected to a deviation cost as a result of variation between actual and forecast power exported.

Reactive energy supplement

All installations under the Special Regime, independently of the sale option selected (tariff or market) also receive a reactive energy supplement for maintaining certain power factor values. This supplement is a percentage, based on the power factor with which the energy is delivered, with a value of 7.8441 c€/kWh, which is reviewed annually.

At peak times the generation of reactive energy is subject to a bonus and in trough times the absorption of reactive energy is rewarded.

Reference premiums and tariffs for cogeneration with biomass

The reference premiums and tariffs applicable to electricity exported by cogeneration plants which use biomass as fuel are included in the following table, distinguishing by type of fuel used:

Group	**Subgroup**	**Fuel**	**Power**	**Period**	**Regulated Tariff C€/KWH**	**Reference Premium**
a.1	**a.1.3**	b.6.1 (Energy crops)	P ≤2 MW	first 15 years	17.0948	12.9291
				as from then	12.688	0
			2 MW < P	first 15 years	15.651	11.2588
				as from then	13.1825	0
		b.6.2 (Agricultural waste)	P ≤2 MW	first 15 years	13.6659	9.5162
				as from then	9.2133	0
			2 MW < P	first 15 years	11.4817	7.0895
				as from then	8.6118	0
		b.6.3 (Forest waste)	P ≤2 MW	first 15 years	13.6659	9.5162
				as from then	9.2133	0
			2 MW < P	first 15 years	12.6299	8.2383
				as from then	8.6118	0
		b.8.1 (Agricultural industry waste)	P ≤2 MW	first 15 years	13.6659	9.5162
				as from then	9.2133	0
			2 MW < P	first 15 years	11.6906	7.2931

Group	Subgroup	Fuel	Power	Period	Regulated Tariff C€/KWH	Reference Premium
				as from then	8.7685	0
		b.8.2 (Forestry industry waste)	P ≤2 MW	first 15 years	10.1219	5.9874
				as from then	7.1006	0
			2 MW < P	first 15 years	7.6175	3.6778
				as from then	7.6175	0
		b.8.3 (Black liquor)	P ≤2 MW	first 15 years	10.1219	6.2652
				as from then	7.1006	0
			2 MW < P	first 15 years	9.9294	5.7733
				as from then	8.0775	0

Reference premiums and tariffs for generation with biomass

The reference premiums and tariffs applicable to electricity exported by generation plants which use biomass as fuel are included in the following table, distinguishing by type of fuel used:

Group	Subgroup	Power	Period	Regulated Tariff C€/KWH	Reference Premium	Upper Limit C€/KWH	Lower Limit C€/KWH
b.6	b.6.1 (Energy crops)	P ≤2 MW	first 15 years	16.9642	12.7888	17.7553	16.4528
			as from then	12.5911			
		2 MW < P	first 15 years	15.6509	11.2588	16.1111	15.2356
			as from then	13.1825			
	b.6.2 (Agricultural waste)	P ≤2 MW	first 15 years	13.4216	9.2462	14.2107	12.9081
			as from then	9.0487			
		2 MW < P	first 15 years	11.4817	7.0895	11.9472	11.0813
			as from then	8.6118			

Group	Subgroup	Power	Period	Regulated Tariff C€/KWH	Reference Premium	Upper Limit C€/KWH	Lower Limit C€/KWH
	b.6.3 (Forest waste)	P ≤2 MW	first 15 years	13.4216	9.2462	14.2107	12.9081
			as from then	9.0487			
		2 MW < P	first 15 years	12.6299	8.2383	13.0896	12.2141
			as from then	8.6118			
	b.8.1 (Agricultural industry waste)	P _2 MW	first 15 years	13.4216	9.2462	14.2107	12.9081
			as from then	9.0487			
		2 MW < P	first 15 years	11.4817	7.0895	11.9472	11.0813
			as from then	8.6118			
	b.8.2 (Forestry industry waste)	P ≤2 MW	first 15 years	9.9080	5.7336	10.6980	9.3848
			as from then	6.9505			
		2 MW < P	first 15 years	6.9484	2.5562	7.4096	6.5341
			as from then	6.9484	0		
	b.8.3 (Black liquor)	P ≤2 MW	first 15 years	9.9080	5.9986	10.6980	9.3848
			as from then	6.9505			
		2 MW < P	first 15 years	8.5413	3.9170	9.6090	8.0075
			as from then	6.9484			

Price formation in the electricity market and its evolution

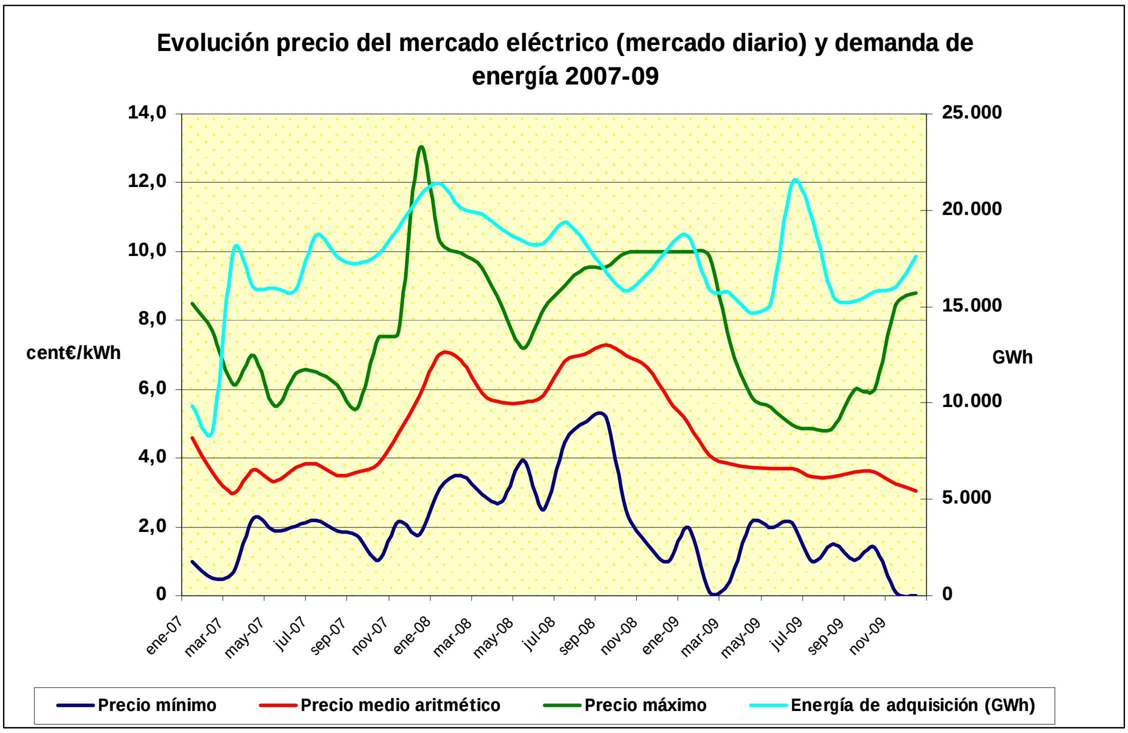
The electricity production market is structured in the form of auctions and technical operating system processes, comprised by the daily market, intra-day market, resolution of technical restrictions, complementary services and deviation management.

The daily market concentrates the majority of transactions and electricity producers, self-producers in relation to their surplus energy, external agents, distributors, commercialisers and qualified consumers participate in it.

Prior to the export of energy to the grid in each time period, agents make offers for sale and purchase of electricity to the Market Operator ("OMEL"), which is the operator responsible for financial management of the electricity production market, i.e. the receipt of offers for sale, receipt and acceptance of offers for acquisition of energy and guarantees, as appropriate, and finally the matching of sale and acquisition offers.

Furthermore, OMEL incorporates physical bilateral contracts into matching of the daily market and the production of units under the Special Regime which have not been offered in the market. Simultaneously, the System Operator ("Red Eléctrica Española") studies the technical viability of delivery of electricity to the grid for the purpose of ensuring stability of the system and, as the case may be, correcting imbalances which may arise between generation and demand.

Evolution of electricity market



Legend: ***Evolution of electricity market price (daily market) and energy demand 2007-09***

Minimum price   Arithmetic mean price   Maximum price   Acquisition energy (GWh)

Synergy of the biomass project with cellulose-forestry activities of ENCE

The fundamental aspects and competitive advantage contributed by ENCE in development of an expansion project based on biomass generation is its capacity for integrated management of forest resources, such that optimum use of forest assets is possible, linking the production of pulp timber with the obtaining of biomass fuel, with an efficient means of access to both sources of value thanks to rational utilisation of logistics resources.

Furthermore, since the new generation projects will be for the most part installed in the normal catchment areas of ENCE it will also have the current network of suppliers and also be able to increase the level of collaboration with local Administrations in regulation of different land uses.

From an internal management point of view, ENCE will be able to carry out efficient allocation of resources such as engineering, administration, legal services, purchasing and finance. Furthermore, it can act in a coordinated manner in the acquisition of capital goods, since leading suppliers are companies which also operate in the cellulose-forestry sector.

6.2.3. Timber market

The eucalyptus timber in the Iberian Peninsula during the second quarter of 2008 reached a price close to the historical maximum of 1995, a rise resulting from the existing restrictions in supply caused by fires in previous years and the appearance of pests in the west of the Peninsula. However, the impact of the crisis and reduction in consumption varied this upward trend, with 2008 ending with prices lower than those at the beginning of the year. Furthermore, ENCE carried out a proactive management of timber supply and was present at all stages in the supply chain with high visibility and capacity for anticipation with respect to market trends.

2009 continued this progressive price fall. The deceleration in timber industries, in particular the real estate sector and timber yards, together with contraction of consumption as a result of paper market weakness placed downward pressure on timber prices. International prices also fell given the widespread reduction in consumption.

The following graph shows evolution of the price in euros per ton with bark of timber from suppliers at the ENCE Pontevedra plant from the year 1990:

Legend: ***Evolution of timber price with bark***

In the northern part of the Peninsula and on the Atlantic cornice of Portugal where there is a real organised market for eucalyptus timber, since consumption points are locate in these areas (cellulose plants, timber yards, chipping plants, etc.) given the proximity of forest masses. Consequently, the price of timber indicated in the above graph is a very good indicator of the market trend in recent years. For its part, the price of standing timber only continues the same trend, naturally discounting the costs associated with extraction and transport of the timber to consumption points. The ownership structure of the existing land in these regions, with small properties owned by private individuals, local communities and in public ownership, and in many cases with major difficulties in access and exploitation, favours the existence of very flexible specialist suppliers with good access to forestland, capacity for adaptation to felling campaigns and a large capacity for managing human and logistical resources. As shown in the previous graph, the market price is fixed taking timber measured in tons as basis.

The supply of timber from third parties to the ENCE plants in Pontevedra and Navia rose in 2009 to 81% of the total.

Applying the appropriate conversion factors (moisture content, percentage of bark and its density, density of the timber without bark, etc.) evolution of the market cost of timber in ENCE plants located in the north of Spain was as follows, measured in euros per cubic metre of timber without bark:

€/m³ cc	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Pontevedra	52.6	54.1	52.7	53.6	54.0	55.0	54.6	56.0	65.9	62.4
Navia	55.8	57.6	56.0	56.6	58.3	59.1	58.8	61.0	71.9	67.5

At the end of 2009 (weighted average for the final quarter) the cost of timber at ENCE plants was 65.6 €/m^3 with bark in Navia and 53.9 in Pontevedra.

For its part, supply to the Huelva plant is strongly dependent on timber imports, basically from Uruguay (49% in 2009), with a relatively lower weight than in the north of timber supply for third parties (27% in 2009) and, on the other hand, a greater weight of volume of wood from own assets (17% in 2009).

The evolution is shown below of the price of Iberian market timber supplied to the Huelva plant in recent years:

€/m³ with bark	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Huelva	48.4	50.0	54.2	53.3	54.8	57.9	53.0	51.5	61.3	59.5

According to estimates by the Company, the demand for eucalyptus timber in the Iberian Peninsula moved between 11 and 11.5 million cubic metres in the reference period (2007-2009) whilst, as indicated in section 6.1.1.2, the volume of Iberian timber supplied to the production centres of ENCE moved in the said period between 2.4 and 2.5 million cubic metres such that it can be said that ENCE obtained around 22%-23% of the eucalyptus timber available in the Iberian Peninsula.

These transactions relating to imported timber are normally carried out in US dollars and therefore its price at point of consumption is conditioned both by the price of the timber at source, movements in exchange rates and the costs of trans-oceanic freight.

Average prices in euros per cubic metre and volumes of non-Iberian timber supplied to the Huelva plant in recent years are shown below:

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Supply (thousands m³)	592	661	516	374	462	442	493	547	537	494
Cost (EUR/m³)	85.1	93.6	86.0	81.0	78.2	80.6	73.2	67.1	76.5	81.4

6.3. Sustainable development and management

Attention to health and safety of persons, the environment and quality constitute a central aspect to ENCE of its management. Consequently, all ENCE activities and development lines are implemented in accordance with a strategy of sustainability and ongoing improvement, which is set out in the ENCE Management Policy.

The governing principle of this Management Policy, as well as the criterion of sustainability and a focus by processes, is its integrated character, given that it jointly tackles aspects of quality and efficiency, health and safety of persons, respect for the environment and prevention of pollution. In 2009 ENCE continued promoting full integration of environmental management, the quality of its products and processes which generate them, and the prevention of occupational risks in order to comply with commitments acquired to its customers, employees and the Company.

The ENCE Management Policy is instrumented in a series of principles listed below:

1. Visible commitment of management, supervisors and workers.
2. Training and participation of persons.
3. Communication with interested parties.
4. Compliance with legislation and other requirements.
5. Planning, prevention and ongoing improvement.
6. Cooperation with customers, suppliers and contractors.

In accordance with this Management Policy, ENCE defines guidelines which pursue maximum efficiency in use of natural resources and executing its industrial processes. Actions carried out are systematically audited by duly accredited independent bodies and the Group has all certifications required in these areas.

The following table summarises the situation of the different certifications obtained by the Group:

Management aspect or datum	**Operating Unit or subsidiary**	**Accredited certification body**	**Scope of certificate and available validated documents**
Data on environmental parameters	ENCE-Navia (CEASA) ENCE-Huelva ENCE-Pontevedra	LRQA AENOR AENOR	EMAS Environmental Statement (EU Regulation 761/2001), validated by the competent administration.

Management aspect or datum	Operating Unit or subsidiary	Accredited certification body	Scope of certificate and available validated documents
Data on greenhouse effect emissions	ENCE-Navia (CEASA) ENCE-Huelva ENCE-Pontevedra	LRQA AENOR AENOR	Annual Carbon Emissions Report in accordance with Act 1/2005 regulating the regime of greenhouse gas emission rights trading.
Data on environmental investments	ENCE-Navia (CEASA) ENCE-Huelva ENCE-Pontevedra	Deloitte Deloitte Deloitte	Annual Report on Accounts in accordance with the Resolution of 25 March 2002 (recognition, assessment and information on environmental aspects of annual financial statements).

Management aspect or datum	Operating Unit or subsidiary	Accredited certification body	Scope of certificate and available validated documents
Occupational risk management	ENCE-Navia (CEASA) ENCE-Pontevedra NORFOR SILVASUR	AENOR AENOR AENOR AENOR	Certification of occupational health and safety management in accordance with international standards OHSAS 18001.
Environmental management ISO 14001	ENCE-Navia (CEASA) ENCE-Huelva ENCE-Pontevedra NORFOR SILVASUR	LRQA AENOR AENOR AENOR AENOR	Certification of Environmental Management in accordance with ISO 14001 international standards (in addition the three plants have certificated their management in accordance with the EMAS Regulation of the UE 761/2001).
PEFC Sustainable Forest Management	NORFOR SILVASUR	AENOR AENOR	Certification of sustainable forest management of plantation and natural masses of the undertaking in accordance with the international standard of Programme for the Endorsement of Forest Certification Schemes (PEFC).
PEFC Chain of Timber Custody	ENCE (Multisite Navia, Huelva and Pontevedra) NORFOR SILVASUR	AENOR AENOR AENOR	Certification of custody chain of timber used in the process in order to guarantee its traceability and that it does not originate from risk sources, in accordance with international standards of Programme for the Endorsement of Forest Certification

Management aspect or datum	Operating Unit or subsidiary	Accredited certification body	Scope of certificate and available validated documents
			Schemes (PEFC).
FSC Timber Custody Chain	ENCE (Multisite Navia, Huelva and Pontevedra) Las PLÉYADES SIERRAS CALMAS MASERLIT	SGS SGS SGS SGS	Certification of custody chain of timber used in the process to guarantee its traceability and that it does not originate from risk sources, in accordance with the international standards of the Forest Stewardship Council (FSC).
Quality Management	ENCE-Navia (CEASA) ENCE-Huelva ENCE-Pontevedra NORFOR SILVASUR	LRQA AENOR AENOR AENOR AENOR	Certification of Quality Management in accordance with ISO 9001 international standards.

After sale of part of the Group's assets in Uruguay, the forest assets retained were assigned to the company Sierras Calmas, S.A., as explained in this Registration Document. At the date of preparation hereof, Sierras Calmas, S.A. has FSC custody chain certification with SGS being its accrediting body, and has also been the subject of audit by this certification body for renewal of the Sustainable Forest Management Certificate in respect of assets under the FSC system, and no major difficulties are expected in obtaining the certification, since the management procedures are well established, being forest assets before the transaction held by the company Eufores, S.A., a subsidiary of ENCE en Uruguay which already had this certification. Sierras Calmas, S.A. is also working on renewal of its environmental and health and safety at work certification in accordance with ISO and OHSAS directives, respectively.

Management of health and safety of persons

Health and safety of persons in ENCE is a priority included as part of the Company's system of management by objectives and is included as a fundamental aspect of its day-to-day work at all levels, with its management and training adapted to the different activities carried out in the Company, both in the forestry and industrial and corporate fields.

The Company has for years implemented a system of health and safety at work management which is developed and improved continuously in accordance with the OHSAS 18000 series of international standards. The industrial complexes and forestry subsidiaries Norfor and Silvasur are certificated in accordance with these standards, and the remaining ENCE workplaces are also in the process of certification.

In 2007 the joint prevention service was created and in parallel an in-depth review was carried out of the functions and responsibilities of all ENCE personnel in the health and safety at work field, seeking greater integration thereof in all activities and decisions carried out in ENCE, including its suppliers and subcontractors.

The activities of ENCE in Uruguay are governed by the same management criteria and policy in the field of Health and Safety at Work laid down for the remainder of its activities.

Without prejudice to the foregoing, the Works Committee of the Huelva and Pontevedra workplaces respectively decided to convene a strike on 18 and 19 February 2010, questioning the safety policy in these workplaces. The Company considers that at all times it has complied with health and safety at work standards laid down, applying safety standards higher than those laid down by legislation, as accredited by the certification obtained by the Company as to compliance with the OHSAS 18000 series of international standards.

Environmental management

Obtaining cellulose and energy is achieved by industrial processes directly related to efficiency and productivity. The greater the efficiency of the processes the lower are their financial costs and impact on the environment.

ENCE has incorporated best available techniques (BAT) in its production processes.

This series of technical improvements is defined for the paste and paper sector in the BREF document, which is of an official nature in the EU and derives from development of IPPC standards (Integrated Pollution Prevention and Control).

As well as adopting best technologies, best environmental practices are also incorporated in ENCE, and known as BEP (Best Environmental Practice).

Application of the IPPC standards to the industrial installations meant that the Huelva, Navia and Pontevedra plants applied for and obtained the so-called Integrated Environmental Authorisation (*Autorización Ambiental Integrada* – “AAI”).

After the different stages of environmental assessment and public consultation they were granted as shown in the following table:

	Date obtained	**Duration**
Huelva	23 April 2008	8 years
Pontevedra	30 April 2008	Until 31 December 2011
Navia	10 December 2008	8 years

The AAI for the Huelva industrial complex was recently updated (6 February 2010) in order to incorporate the new biomass energy generation installations (50 MW project described in this Registration Document).

The ENCE industrial complexes have an Environmental Management System certificated in accordance with ISO 14001 standards, subject to periodic audits by independent bodies. Furthermore, they are also voluntarily included in the European Eco-Management and Audit Scheme) (EMAS) in accordance with European Union Regulation 761/2001. This registration requires a commitment to issue a public environmental statement which explains environmental behaviour of each of the production units.

All emission parameters of the Group's production centres are lower than the limits laid down by applicable legislation in each case, as can be seen in the corresponding Environmental Statements published annually. Average data for 2009 is included below for the principal emission parameters of each centre and a comparison with the international reference in the BREF-IPPC document, which, although it is not legally binding, indicates the obtainable values in installations of this type by applying internationally recognised Best Available Technologies, establishing goals which for the most part have already been achieved by the ENCE installations, thereby indicating their markedly low environmental impact. It should be noted that the data corresponding to the Navia centre, although in line with the BREF indications, is affected by the start-up process during 2009 and substantial improvements are expected now that the production process is stabilised at its normal production rate.

Liquid effluents 2009 (kg/Tad)

Parameter	Reference value BREF (1)	Huelva	Pontevedra	Navia
TSS (Total solids in suspension)	0.6 – 1.5	3,5	0,7	2,3
DQO (Chemical demand for oxygen)	8 – 23	15,6	5,3	19,5
AOX (Absorbable Organohalogens)	<0.25	0,14	0,002	0,33
Ph	6-9	8.1	7.2	7.2

Atmospheric emissions 2009 (kg/Tad)

Parameter	Reference value BREF (1)	Huelva	Pontevedra	Navia
Particles	0.2-0.5	0.45	0.42	0.25
TRS (Reduced sulphur compounds**)	0.1-0.2	0.01	0.002	0.02

(1) BREF: Best Available Techniques Reference Document, Office for the Integrated Control and Prevention of Pollution, European Commission.

The forestry activity of the Group directly contributes to mitigating the greenhouse effect. Forest masses represent the largest carbon sink on the planet, given the fixing of CO_2 which they produce, and therefore investment devoted to extending and maintaining the forest masses of the Company has a positive environmental effect.

Furthermore, ENCE works on reducing and replacing fossil fuels by renewable fuels (basically biomass) and in short works on improving the energy efficiency of its installations to reduce its energy requirements.

Sustainable forest management and custody chain

Sustainable forest management aims at a management and use of forests capable of maintaining their biodiversity, productivity, regeneration capacity and viability, and strengthening their ecological, social and economic functions.

In this respect, ENCE's commitment is and has been constant. In 1997 ENCE promoted the "Elvas Iberia Declaration" on the triple function of forests. This document was signed by a large number of Spanish and Portuguese organisations representing the forestry sector who engage in a pioneering management system in Spain which guarantees respect for the environment in accordance with the most advanced sustainable forest management criteria.

Adoption of sustainable forest management criteria places us in the vanguard in our area of action, both in Uruguay and in the Iberian Peninsula and its basic elements are technical forest management plans, regulation projects, dasocratic plans, ongoing forest inventory and other integrated quality and environmental system instruments which provide monitoring and control of activities.

These tools particularly include systematic monitoring of process and operations for the purpose of controlling identified environmental effects and applying corrective and preventative measures, which include:

- Annual planning monitoring.
- Controlled use of phytocides.
- Monitoring of state of health
- Vitality of forest masses
- Protective functions.
- Particular features of each forest area, such as archaeological heritage and natural and landscape values.

The ongoing forest inventory and regulation project is available to management units, being a technical planning document defining criteria, objectives and priorities, assessing alternatives and adopting decisions.

All these instruments have enabled sustainable management certification of the forest assets in the Iberian Peninsula and Uruguay to be achieved, maintained and extended, in accordance with the most stringent and advanced international standards, such as the corresponding ISO 14001 standards and the PEFC systems (Programme for the Endorsement of Forest Certification schemes) and FSC (Forest Stewardship Council).

Diversity and conservation

Effective implementation of the management system means that not only can forest generation capacity be ensured as well as its vitality and the possibility that it continues to fulfil its environmental, social and economic functions in the future, but favours maintenance of adequate biodiversity levels for plantations from the point of view of sustainability, in accordance with the criteria laid down by FSC.

In each area subject to ENCE forest management protection aspects have been identified such as “Red Natura 2000”, Places of Community Interest (“LIC”) and Special Bird Protection Zones (“ZEPA”) in accordance with the Ramsar Convention. Furthermore, in forestland management account is taken of the presence of rivers included in “Red Natura 2000”.

Inventories of natural, sociocultural and heritage features identify and evaluate special habitats and landscapes, natural spaces, cultural heritage and recreational values in the forestlands managed by ENCE.

Knowledge of the particular values of each forestland enables usage planning to be adapted and the most suitable management techniques to be defined. Improvement and conservation tasks take the form of a series of precautions which must be adopted when carrying out felling and forestry treatment, including forestland erosion control.

In the case of cultural heritage assets the tasks are carried out recommended by an individual archaeological study. Significant examples are conservation of the forestland located on land of the Coto Muiño forest in the Zas municipality (A Coruña) and of the petroglyph of Campo de Cuñas in land of the Pé da Mua forest in the Municipality of Pontecaldelas (Pontevedra).

Forestation, protection and multiple forestry functions

The timber and biomass used in our industrial and conversion processes derive to a large extent from own forest resources and plantations of ENCE. Forest and plantation maintenance activities are a preeminent task which contribute to reducing pressure on other natural forest masses and at the same time creating natural spaces providing new habitats and areas of refuge for fauna.

Fire prevention

The ENCE forestry plan ensures protection of forestlands thanks to their regulation, periodic cleaning and establishment of fire breaks and defensive measures.

Landscape management

Another of the aspects which ENCE takes into account in its management is landscape and visual impact. ENCE is thus analysing and implementing methodologies to reduce the visual impact of felling, such that it takes account of the analysis and characterisation of landscapes and visual basins and measures for prevention of impact on the landscape. These activities are carried out by collaboration agreements with the University of Huelva and the University of Vigo.

Custody chain

ENCE considers it of priority importance to guarantee the origin of the timber which it produces and consumes in its processes, to which end it has implemented and certified a system of process traceability from supply of the timber, its conversion, transport and delivery to the customer in the form of forest origin converted product (cellulose). In this manner it is ensured that products which are delivered to the consumer are prepared with certified raw materials of controlled origin from forest masses managed under criteria of internationally acknowledged sustainability.

Furthermore, ENCE permanently evaluates its timber supplies in accordance with the standards established by the PEFC and FSC forest certification systems in order to verify that the timber from third parties also complies with sustainable management criteria.

Quality

ENCE products are manufactured under the strictest quality controls. The manufacturing processes are strictly monitored and the end product subject to inspection online to ensure that the product is capable of meeting the requirements undertaken to the customer. These inspections extend to transport and possible intermediate storage of the product before delivery.

Both the Group's industrial complexes and commercial and logistics activities have a Quality Management System which is certified in accordance with ISO 9002 international standards.

Social responsibility

Relations with public institutions and other parties, external communications and social responsibility in the surrounding environment are priority management criteria in ENCE. Beyond the transparency required, ENCE daily activities are the first channel of communication and relationship with interest groups. The specific task of the different divisions and departments of the undertaking involves an ongoing dialogue in their areas of action, whether forestry, industrial or corporate. Clear examples are commercial relations, forestry projects in rural communities, forestry and industrial activity audits and other control mechanisms by public institutions, the activities of the communications department itself and its daily activities, relations with analysts and investors and labour relations and dialogue with unions in the field of human resources.

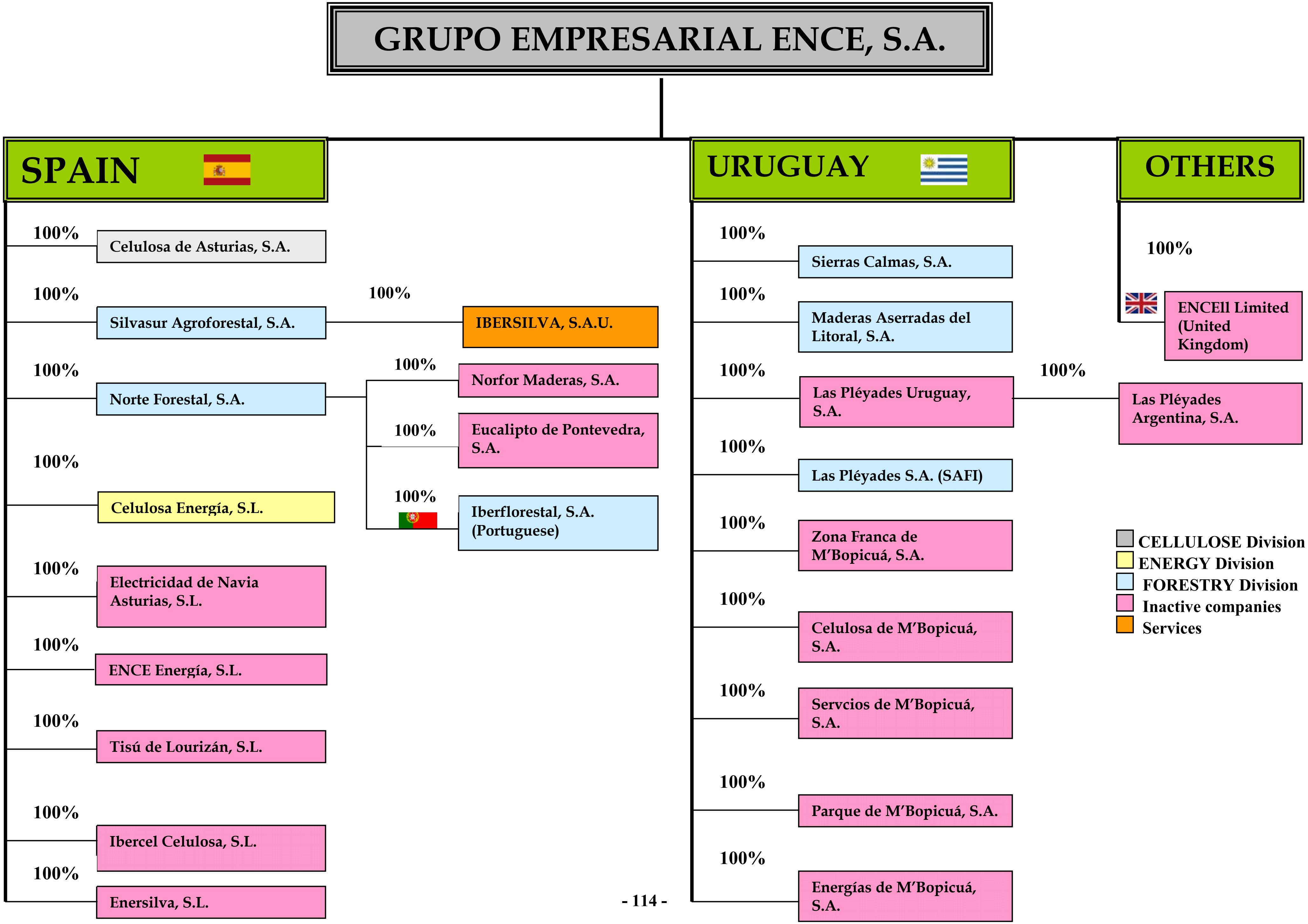
Furthermore, ENCE reinforces this relationship with interested parties through belonging to the most representative business and sector associations and institutions of both local and regional nature as well as those of national and international scope.

ENCE belongs to more than 40 associations, foundations and institutions in its different areas of activity. The direct participation by professionals of the undertaking in working groups, forums, seminars, conferences and public and social initiatives which they implement permits not only a first-hand contribution to the demands and concerns of interest groups but also promoting mutual collaboration projects to tackle the challenges of sustainable development as business opportunities and generation of wealth in the medium and long term.

7. ORGANISATIONAL STRUCTURE

7.1. Corporate organisational chart of the Group

The principal companies at the date of this Prospectus are included in the following corporate organisational chart:


GRUPO EMPRESARIAL ENCE, S.A.
SPAIN
100% Celulosa de Asturias, S.A.
100% Silvasur Agroforestal, S.A.
100% IBERSILVA, S.A.U.
100% Norte Forestal, S.A.
100% Norfor Maderas, S.A.
100% Eucalipto de Pontevedra, S.A.
100% Iberflorestal, S.A. (Portuguese)
100% Celulosa Energía, S.L.
100% Electricidad de Navia Asturias, S.L.
100% ENCE Energía, S.L.
100% Tisú de Lourizán, S.L.
100% Ibercel Celulosa, S.L.
100% Enersilva, S.L.
URUGUAY
100% Sierras Calmas, S.A.
100% Maderas Aserradas del Litoral, S.A.
100% Las Pléyades Uruguay, S.A.
100% Las Pléyades Argentina, S.A.
100% Las Pléyades S.A. (SAFI)
100% Zona Franca de M'Bopicuá, S.A.
100% Celulosa de M'Bopicuá, S.A.
100% Servcios de M'Bopicuá, S.A.
100% Parque de M'Bopicuá, S.A.
100% Energías de M'Bopicuá, S.A.
OTHERS
100% ENCEll Limited (United Kingdom)
CELLULOSE Division
ENERGY Division
FORESTRY Division
Inactive companies
Services

7.2. List of Group companies

An informative table is included below setting out basic information on the companies held by ENCE, including name, country of incorporation or residence and the percentage of shares held by ENCE:

Company	Domicile/Country of Incorporation	Activity	%
Grupo Empresarial ENCE S.A.	Avenida de Burgos no. 8-B - Spain	(a) manufacture and sale of cellulose paste (b) production of electricity (c) forest cultivation and exploitation See Chapter 21.2.	Group Parent
Celulosas de Asturias, S.A.	Armental s/n. Navia, Asturias - Spain	Manufacture and commercialisation of cellulose paste and its derivatives	100% by ENCE
Ibercel Celulosa, S.L.	Avenida de Burgos, 16, Madrid - Spain	Commercialisation for own and third party account of cellulose paste, paper and cardboard of all types	100% by ENCE.
Tisú de Lourizán, S.L.	Marisma de Lourizan, s/n, Province of Pontevedra - Spain	Manufacture of toilet paper	100% by ENCE.
Silvasur Agroforestal, S.A.	Avenida de Andalucía, s/n. Huelva - Spain.	Exploitation of forests, forestation work, study and implementation of specialist projects and services, commercial exploitation and commercialisation of forest products, their derivatives and by-products	100% by ENCE
Ibersilva, S.A.U.	Avenida de Alemania, 9. Huelva - Spain	Forest, environmental, agricultural, stock-breeding, water and water works and projects, production, commercialisation and sale of forest machinery and public works.	100% by the company Silvasur Agroforestal, S.A.

Company	Domicile/Country of Incorporation	Activity	%
Norte Forestal, S.A.	Avenida de Fernández Ladreda, 15. Pontevedra - Spain	Exploitation of forests, forestation work and specialist work and services of a forestry nature, preparation, conversion and commercialisation of forest products.	100% by ENCE.
Norfor Maderas, S.A.	Avenida de Fernández Ladreda, 15. Pontevedra - Spain.	Exploitation of forests, forestation work and specialist work and services of a forestry nature, preparation, conversion and commercialisation of forest products.	100% by the company Norte Forestal, S.A.
Eucalipto de Pontevedra, S.A.	Carretera Barbado, s/n. Pontecaldelas, Pontevedra - Spain	Current activity limited to leasing real estate which it maintains in ownership, after disinvestment in 2007 of assets assigned to timber production activities.	100% by the company Norte Forestal, S.A.
Electricidad de Navia Asturias, S.L.	Armental s/n. Navia, Asturias - Spain	Management and operation of electricity generation installations.	100% by ENCE.
Celulosa Energía, S.L.	Carretera Madrid-Huelva, Km. 630. Huelva - Spain	Management and operation of electricity generation installations of the Group plant in Huelva and commercialisation of energy resources.	100% by ENCE
Ence Energía, S.L.	Avenida de Burgos, 8, Madrid - Spain.	All types of activities, works and services, own or connected with production by any means, commercialisation, sale and purchase, supply and use of electricity, and other sources of electricity.	100% by ENCE. Newly formed company without current activity.
Enersilva, S.L.	Avenida de Burgos, 8, Madrid - Spain.	Production and sale of electricity under the Special Regime.	100% by ENCE.

Company	Domicile/Country of Incorporation	Activity	%
Iberflorestal, S.A.	Rua Antonio Feijó, 7 Odivelas - Portugal.	Sale and purchase of timber without handling.	100% by Norte Forestal, S.A.
Encell Limited	Marie Cottage, 14 Chapel Street, Billericay, Essex – United Kingdom	Commercialisation of cellulose paste in the United Kingdom.	100% by ENCE.
Sierras Calmas, S.A.	Avenida Paraguay, 1470 piso 5 Montevideo - Uruguay.	Agricultural, forestation, fruit and citrus cultivation and derivative operations.	100% by ENCE.
Las Pléyades Uruguay, S.A.	Paraguay, 1470 piso 5, Montevideo - Uruguay.	Operating in Free Zones and Free Deposits with own and third party goods.	100% by ENCE.
Las Pléyades, SAFI.	Paraguay 1470 piso 5, Montevideo - Uruguay.	Export of timber.	100% by ENCE.
Maderas Aserradas del Litoral, S.A.	Paraguay 1470 piso 5, Montevideo - Uruguay.	Sawmill for obtaining planks for different uses.	100% by ENCE.
Zona Franca de M´Bopicuá, S.A.	Zona Franca de M´Bopicuá, Río Negro - Uruguay.	Operation of Free Zone on a strip of the Río Negro in Uruguay.	100% by ENCE.

Undertakings in which ENCE has a direct or indirect holding equal to or less than 50% are as follows:

Entity	Country of Incorporation	% holding
Transporte de Celulosa and Madera, S.A. (TRACEMA)	Spain	40% by Silvasur Agroforestal, S.A.
Electroquimica de Hernani, S.A.	Spain	5% by Celulosa de Asturias, S.A.
Imacel, A.E.I.E.	Spain	50% by Silvasur Agroforestal, S.A.
Sociedad Andaluza de Valorización de la Biomasa, S.L.	Spain	6% by ENCE.

8. PROPERTY, INSTALLATIONS AND EQUIPMENT

8.1. Information regarding any tangible fixed assets existing or planned, including properties leased and any major encumbrances

The productive assets of the Group are classified in two categories: “Biological assets”, which include forest growth owned by the Group independently of ownership of the land where it is located, and “Property, plant and equipment”, a category which includes the remaining assets, including land owned on which forest growth is located.

8.1.1. Property, plant and equipment

Valuation rules applied

The tangible assets included under this heading are valued at cost price or production cost, subsequently reduced by the corresponding cumulative depreciation, and losses as a result of deterioration, if any, in accordance with the criterion described in this section.

Costs of extension, modernisation or improvements which represent an increase in productivity, capacity, efficiency or useful life of goods are capitalised as an increase in cost of the corresponding assets.

Conservation and maintenance costs incurred during the year are charged to the consolidated profit and loss account.

For those fixed assets which require a period exceeding one year to be in a condition for use, costs capitalised include financial expenses which have accrued before entry into operating condition and which have been charged by the supplier or relate to loans or other type of third party financing, whether specific or general, directly attributable to their acquisition or manufacture.

Work which the Group carries out on its own fixed assets is valued at cumulative cost which results from adding to external costs the internal costs determined based on own consumption of materials in store and manufacturing costs, determined in accordance with hourly absorption rates similar to those used for the valuation of stocks.

The cost of buildings constructed on land granted under a system of administrative concession is recorded in the account “Constructions”. This cost, together with the remaining fixed installations located on concession land is depreciated on the basis of their useful life or the period of the concession, if less.

In accordance with the exception permitted by IFRS 1, forest land was updated to market values on 1 January 2004, which meant an increase in its value of 76,061,000 euros. This market value is considered as historical cost as from that time.

Whenever there are indications of loss of value, the Group makes an estimate by means of the so-called “deterioration test” of the possible existence of losses in value which reduce recoverable value of the assets to an amount less than their book value. The amount recoverable is determined as the higher of reasonable value less cost of sale and value in use.

The procedure implemented to carry out this test is based on calculation of the recoverable values of each cash generation unit based on the business plan for the forthcoming three years.

If it estimated that the recoverable amount of an asset is less than its book amount, the latter is reduced to its recoverable amount, recording the corresponding correction through the consolidated profit and loss account.

Variations occurring in the last three financial years

Movements in the different accounts which make up tangible fixed assets of the ENCE Group in the 2007, 2008 and 2009 financial years are detailed below:

	2007 Financial Year - Thousands of Euros					
	Balance at 01/01/2007	Additions or Increases	Removals or Reductions	Transfers	Departures from Perimeter	Balance at 31/12/2007
Land and constructions:						
Forest land	197,251	33,790	(663)	5	-	230,383
Other land	21,009	1,462	(3,506)	(5,390)	-	13,575
Constructions	160,994	398	(3,032)	(5,320)	-	153,040
Provisions	(9,248)	(13,267)	1,348	-	-	(21,167)
Cumulative depreciation	(69,444)	(4,342)	62	3,104	-	(70,620)
	300,562	**18,041**	**(5,791)**	**(7,601)**	**-**	**305,211**
Technical installations and machinery:						
Cost	689,163	1,476	(34,215)	20,229	-	676,653
Provisions	(13,710)	(347)	12,462	-	-	(1,595)
Cumulative depreciation	(454,015)	(22,363)	10,907	-	-	(465,471)
	221,438	**(21,234)**	**(10,846)**	**20,229**	**-**	**209,587**
Other fixed assets:						
Cost	27,602	673	(1,814)	424	-	26,885
Provisions	(102)	-	-	-	-	(102)
Cumulative depreciation	(19,558)	(2,991)	611	-	-	(21,938)
	7,942	**(2,318)**	**(1,203)**	**424**	**-**	**4,845**
Advances and fixed assets in progress:						
Cost	**29,513**	**92,848**	**(218)**	**(26,171)**	**-**	**95,972**
Total:						
Cost	1,125,532	130,647	(43,448)	(16,223)	-	1,196,508
Provisions	(23,060)	(13,614)	13,810	-	-	(22,864)
Cumulative depreciation	(543,017)	(29,696)	11,580	3,104	-	(558,029)
Total	**559,455**	**87,337**	**(18,058)**	**(13,119)**	**-**	**615,615**

	2008 Financial Year – Thousands of Euros						
	Balance at 01/01/2008	Additions or Increases	Removals or Reductions	Transfers	Departures from Perimeter	Conversion Differences	Balance at 31/12/2008
Land and constructions:							
Forest land	230,383	17,651	(95)	4,960	-	-	252,899
Advance purchases and nurseries	-	-	-	-	-	-	-
Other land	13,575	-	-	3,015	-	(105)	16,485
Constructions	153,040	163	(1,181)	431	-	(168)	152,285
Provisions	(21,167)	-	3.000	(1,538)	-	2	(19,703)
Cumulative depreciation	(70,620)	(4,505)	(129)	69	-	9	(75,176)
	305,211	**13,309**	**1,595**	**6,937**	**-**	**(262)**	**326,790**
Technical installations and machinery							
Cost	676,653	1,388	(3,404)	17,762	-	(257)	692,142
Provisions	(1,595)	(3,037)	384	-	-	-	(4,248)
Cumulative depreciation	(465,471)	(22,635)	2,774	(1)	-	95	(485,238)
	209,587	**(24,284)**	**(246)**	**17,761**	**-**	**(162)**	**202,656**
Other fixed assets:							
Cost	26,885	1,336	(230)	569	-	(7)	28,553
Provision	(102)	-	-	-	-	-	(102)
Cumulative depreciation	(21,938)	(1,512)	276	-	-	4	(23,170)
	4,845	**(176)**	**46**	**569**	**-**	**(3)**	**5,281**
Advances and fixed assets in progress:							
Cost	**95,972**	**224,268**	**(30)**	**(20,212)**	**-**	**(82)**	**299,916**
Total:							
Cost	1,196,508	244,806	(4,940)	6,525	-	(619)	1,442,280
Provisions	(22,864)	(3,037)	3,384	(1,538)	-	2	(24,053)
Cumulative depreciation	(558,029)	(28,652)	2,921	68	-	108	(583,584)
Total	**615,615**	**213,117**	**1,365**	**5,055**	**-**	**(509)**	**834,643**

	2009 Financial Year – Thousands of Euros						
	Balance at 01/01/2009	Additions or Increases	Removals or Reductions	Transfers (a)	Departures from perimeter	Conversion Differences	Balance at 31/12/2009
Land and construction:							
Forest land	252,899	5,667	(193)	(4)	(104,906)	-	153,463
Advance purchases and nurseries	-	-	-	-	-	-	-
Other land	16,485	273	-	(887)	(6,914)	1	8,958
Constructions	152,285	110	(38)	18,746	(31,769)	70	139,404
Provisions	(19,703)	(76,529)	73,829	(884)	9,998	-	(13,289)
Cumulative depreciation	(75,176)	(5,051)	52	(197)	10,115	(8)	(70,265)
	326,790	**(75,530)**	**73,650**	**16,774**	**(123,476)**	**63**	**218,271**
Technical installations and machinery							
Cost	692,142	652	(4,247)	256,877	(5,148)	194	940,470
Provisions	(4,248)	(7,845)	1,225	(1,936)	-	-	(12,804)
Cumulative depreciation	(485,238)	(31,584)	3,383	207	2.435	(86)	(510,883)
	202,656	**(38,777)**	**361**	**255,148**	**(2,713)**	**108**	**416,783**
Other fixed assets:							
Cost	28,553	1,286	(206)	(168)	(2,648)	4	26,821
Provision	(102)	-	-	(102)	-	-	(204)
Cumulative depreciation	(23,170)	(1,273)	66	(112)	2,220	(2)	(22,271)
	5,281	**13**	**(140)**	**(382)**	**(428)**	**2**	**4,346**
Advances and fixed assets in progress:							
Cost	**299,916**	**116,642**	**(322)**	**(273,442)**	**(44,387)**	**-**	**98,407**
Total:							
Cost	1,442,280	124,630	(5,006)	1,122	(195,772)	269	1,367,523
Provisions	(24,053)	(84,374)	75,054	(2,922)	9,998	-	(26,297)
Cumulative depreciation	(583,584)	(37,908)	3,501	(102)	14,770	(96)	(603,419)
Total	**834,643**	**2,348**	**73,549**	**(1,902)**	**(171,004)**	**173**	**737,807**

The investments and principal disinvestments made in each of the periods are described in section 5.2 of this Registration Document.

The forest land owned by the Group at 31 December 2009 is detailed below:

	Thousands of Euros	
	Has	Value in Euros
Iberian Peninsula	**51,905**	**124,770**
Northwest Spain	2,919	13,536
Southwest Spain	46,528	103,924
Portugal	2,458	7,310
Uruguay (1)	**25,820**	**25,693**
Total Forest Land	**77,725**	**150,463**

(1) The value of the Uruguay land is shown net of a provision for deterioration in the amount of 3,000,000 euros.

(2)"Has": abbreviation equivalent to "Hectares" (applicable throughout the document).

As can be seen in the above details, approximately 33% of the hectares of the Group for developing forest crops serving as raw material or fuel for other activities are located in Uruguay. Some 60% are located in the south of Spain, around the Huelva industrial centre.

Details of net book value of the fixed assets associated with the industrial activities of the Group detailed by nature of asset and production centre at which they are located are as follows:

	Thousands of Euros					
	Pontevedra	Huelva	Navia	CENER	Others	TOTAL
Land and constructions	22,331	11,201	31,184	-	3,092	67,808
Technical installations and machinery	62,570	58,042	269,716	8,240	18,215	416,783
Other tangible fixed assets and fixed capital assets in progress	6,239	88,604	4,052	1,180	2,678	102,753
Total Tangible Fixed Assets	**91,140**	**157,847**	**304,952**	**9,420**	**23,985**	**587,344**

The Huelva and Navia plants are engaged in the production of EFC (elemental chlorine free) cellulose, whilst Pontevedra produces TCF (totally chlorine free) market cellulose. Both technologies are considered in the sector as best available technology. The three installations have since 2008 had the necessary Integrated Environmental Authorisation in accordance with Act 16/2002, of 1 July, on Integrated Prevention and Control of Pollution.

The Group at the present time has six electricity generation plants, all included under the Special Regime, given the renewable nature of the fuels used and/or their high energy efficiency, and therefore they fall within the remuneration system laid down by Royal Decree 661/2007, of 25 May.

Location	Name	Production Capacity	System	Subgroup
Huelva	CENER I	49.936MW	Cogeneration, natural gas	a.1.1
	CBIO	27.5MW	Cogeneration, biomass	a.1.3 and b.8.3.
	CENER II	40.95MW	Condensation	b.6.1 and b.6.3
Pontevedra	-	34.57MW	Cogeneration with biomass	a.1.3, b.6.3, b.8.2 and b.8.3
Navia	CEASA NAVIA I	40.332MW	Cogeneration with biomass	a.1.3, b.6.1, b.6.3, b.8.2. and b.8.3.
	BIOMASA CEASA	36.645MW	Cogeneration with biomass	b.6.3 and b.6.1

Pontevedra plant

The production centre located in Pontevedra is constructed on land over which there is a right of use covered by an administrative concession in force until 2018. This centre occupies an area of 376,000 square metres and the maximum production capacity is 430,000 tons of cellulose paste annually.

At the Pontevedra plant, the ENCE Group has an electricity generation installation with a total installed nominal power of 34.57 MW and total sales in 2009 of 197,319 MWh, consisting of a cogeneration installation with biomass of 34.57 MW nominal power, comprising two counter-pressure generators of 7.95 MW and 26.62 MW, respectively. This plant uses waste from the paper paste manufacturing production process as principal fuel (black liquor - 80%), as well as forest waste biomass (20%). The installation is subject to the Special Regime under Royal Decree 661/2007, within Category a.1.3, in accordance with Section 2.1 of the said Royal Decree, hybridising fuels from categories b.6.3 (forest waste biomass), b.8.3. (black liquor from the paper industry) and b.8.2 (biomass from forestry sector industrial installations) and was registered in Section Two of the Administrative Register of Production Installations, for installations subject to the Special Regime, at the Ministry of Industry, Trade and Tourism, prior to publication of Royal Decree-Act 6/2009, and therefore does not require registration in the Pre-allocation Register of the Ministry of Industry, Trade and Tourism. At the present time this plant sells its energy under the remuneration system of market price plus premium.

Navia plant

The plant located in Navia (Principality of Asturias) occupies own land of approximately half a million square metres and after the extension completed in 2009 has a cellulose paste production capacity of 500,000 tons annually.

At the Navia plant ENCE Group has two electricity installations: CEASA NAVIA I and BIOMASA CEASA, with a total installed nominal power of 76.98 MW and total sales in 2009 of 314,488 MWh.

CEASA NAVIA I is an electrical cogeneration installation with biomass, 100% owned by Celulosas de Asturias, S.A. with a nominal installed power of 40,332 MW, comprising a counter-pressure steam turbine and alternator which produces both electricity and useful heat. This plant uses black liquor as fuel from the cellulose plant (80%), as well as forest waste and energy crop biomass (20%). The installation is subject to the Special Regime under Royal Decree 661/2007, within Category a), subgroup a.1.3 (cogeneration using biomass as principal fuel, provided that it accounts for at least 90% of primary energy used) in accordance with Section 2.1 of the said Royal Decree, hybridised with fuels from Categories b.6.1 (energy crops), b.6.3 (forest waste biomass), b.8.2. (industrial forest waste biomass) and b.8.3. (black liquor from the paper industry) and registered in Section Two of the Administrative Register of Production Installations, for installations under the Special Regime, at the Ministry of Industry, Trade and Tourism. This plant was registered in the list of installations in the Pre-allocation Register of installations under the Special Regime in November 2009, in accordance with Royal Decree-Act 6/2009. At the present time the plant sells its energy under the remuneration system of market price plus premium.

During 2009 electricity production of CEASA NAVIA I was 169,124 MWh.

BIOMASA CEASA is an electricity generation installation with biomass, 100% owned by ENCE, with a nominal installed power of 36.645 MW, comprising a condensation steam turbine and alternator. This plant uses forest waste (80%) as principal fuel as well as energy crops and industrial forest waste biomass (20%). The installation is subject to the regime under Royal Decree 661/2007 within Category b), subgroup b.6.3 (plants which use biomass from forest exploitations and other forestry operations in forest masses and green areas as principal fuel), hybridised with group b.6.1, registered in Section Two of the Administrative Register of Production Installations for installations subject to the Special Regime, at the Ministry of Industry, Trade and Tourism and registered in the Pre-Allocation Register of installations under the Special Regime of the Ministry of Industry, Trade and Tourism. This plant was registered in the list of installations in the Pre-Allocation Register of installations under the Special Regime in November 2009, in accordance with Royal Decree 6/2009. At the present time the plant sells its energy under the remuneration system of market price plus premium.

During 2009 sales of electricity by BIOMASA CEASA amounted to 145,364 MWh.

Huelva plant

The industrial complex located 12 km from Huelva comprises the paper paste production installations and installations of “Celulosa Energía – Cener” and occupies land in ownership with an approximately area of 473,000 square metres.

The paper paste production capacity of this plant is approximately 410,000 tons annually.

At the Huelva industrial complex the Group has three electricity generation installations: CENER I, CBIO and CENER II, with total installed nominal power of 118.39 MW and total energy sales in 2009 of 703,883 MWh.

CENER I is a cogeneration installation with natural gas, owned by Celulosa Energía, S.L. and Grupo Empresarial ENCE S. A., 50% each, with a installed nominal power of 49.936 MW, comprising two turbines, one gas (41.936 MW nominal power) and another counter-pressure steam (8 MW nominal power). This installation is subject to the Special Regime under Royal Decree 661/2007 in Category a), subgroup a.1.1 (cogeneration with natural gas, provided that this fuel accounts for at least 65% of the primary energy used and the rest derives from biomass) in accordance with Section 2.1 of the said Royal Decree, and was registered in Section Two of the Administrative Register of Production Installations, for installations subject to the Special Regime, at the Ministry of Industry, Tourism and Trade, prior to publication of Royal Decree-Act 6/2009, and therefore it does not need to be registered in the Pre-allocation Register of the Ministry of Industry, Tourism and Trade. At the present time this plant sells its energy under the remuneration system of fixed tariff.

During 2009 sales of electricity by CENER I amounted to 348,287 MWh.

CBIO is a cogeneration installation with biomass, 100% owned by Grupo Empresarial ENCE, S.A., with a nominal installed power of 27.5 MW, comprising a counter-pressure steam turbine. This plant uses lignin as principal fuel, in the form of black liquor, obtained in the cellulose production process, and bark and other forest waste and now, to a lesser extent, energy crops. The installation is subject to the Special Regime under Royal Decree 661/2007, in Category a), subgroup a.1.3 and b.8.3 (cogeneration which uses biomass as principal fuel, provided that it accounts for at least 90% of primary energy used), in accordance with Section 2.1 of the said Royal Decree, and registered in the Administrative Register of Electricity Production Installations under the Special Regime of the Autonomous Region of Andalusia. Given the regulatory changes brought in by Royal Decree-Act 6/2009, on 30 July 2009 registration was applied for in the Remuneration Pre-allocation Register, with the same coming into effect in February 2010. At the present time this plant sells its energy under the remuneration system of fixed tariff.

During 2009 sales of electricity by CBIO amounted to 62,740 MWh.

CENER II is a condensation installation which uses biomass as fuel, 100% owned by Celulosa de Energía, S.A., with a nominal installed power of 40.59 MW, comprising a turbo-alternator. This plant also uses lignin, forest waste and energy crops. The installation is subject to the Special Regime under Royal Decree 661/2007, in Category b) (plants which use biomass as principal fuel) in accordance with Section 2.1 of the said Royal Decree, hybridised with the fuels in categories b.6.1 (energy crops), b.6.3 (forest waste biomass) and b.8.3 (black liquor from the paper industry), and was registered in Section Two of the Administrative Register of Electricity Production Installations, for installations under the Special Regime, at the Ministry of Industry, Tourism and Trade, prior to publication of Royal Decree-Act 6/2009, and therefore does not require registration in the Pre-allocation Registers of the Ministry of Industry, Tourism and Trade. At the present time this plant sells its energy under the remuneration system of fixed tariff.

During 2009 sales of electricity by CENER II amounted to 292,856 MWh.

Other assets

The Group also has real estate located in Pontevedra province (30,000 m^2, 1,750 m^2 constructed) in full ownership, which was the headquarters of the R&D&i activities of the Group before it was decided in 2006 to integrate them into the industrial complexes. The property currently has no defined use.

The headquarters of the Company and place of residence of its corporate bodies and divisions is in Madrid, in a property held on lease.

Location	Activity	Company	Area (m^2)	Property system
Avenida de Burgos, 8-B, Madrid	Senior management and corporate services	ENCE	2,160, on three floors	Leasing

The corporate headquarters were transferred by private sale agreement dated 20 December 2007 and corresponding notarised public deed of sale executed on 10 June 2008, to Infoinvest, S.A. Since then, ENCE has been occupying these offices without interruption as lessee pursuant to a lease entered into by the parties on the same date.

On 30 September 2009, within the period laid down by contract, ENCE informed the lessor of its desire to withdraw from the lease and return the office to it on 31 March 2010, unless in that month it confirmed whether it would extend the lease for one more month.

After termination of the lease referred to, the headquarters will change to premises in a building in Madrid, located at Paseo de la Castellana no. 35. For these purposes on 1 October 2009 ENCE entered into a lease with the owner of the premises, Pontegadea Inmobiliaria, S.L. (Single Member Company), which was subsequently modified on 14 January 2010. The lease provides for handover of the leased area on 15 February 2010 and a term of 5 years.

8.1.2. Biological assets

Valuation rules applied

Part of the activities of the Group consist of cultivating different forest species used in the production of cellulose paste in its own plants.

Due to the absence of public markets for these forest species in their markets of origin, Spain and Uruguay, and the impossibility of calculating the present value of future net flows generated by these biological assets, the Group has elected to record forest growth assets in accordance with the historical cost principal (cost less cumulative depreciation less cumulative losses for deterioration in value). The investment in forest assets is thus valued by attributing all costs directly incurred in acquisition and leasing, land preparation, planting, care and conservation and part of the costs of the forestry service of Group companies.

Furthermore, an individual variable percentage of the book value of the growth is capitalised by way of interest, subject to the limit of its estimated realisation value. Capitalisation in this respect was 2,365,000 euros, 3,699,000 euros and 3,432,000 euros in the 2009, 2008 and 2007 financial years, respectively.

The principle of attributing costs to felled timber is based on total costs incurred at the date of felling and the residual value of the plantation, the latter estimated based on net future income. Disinvestment of timber of own forests of the Group amounted to 9,744,000 euros, 10,958,000 euros and 13,559,000 euros in the 2009, 2008 and 2007 financial years, respectively. These amounts are included in the account "Exhaustion of forest reserve" under the heading "Provision for depreciation" in the consolidated profit and loss account.

Variations occurring in the last three financial years

Movements in the different accounts which make up the biological assets of the ENCE Group in the 2007, 2008 and 2009 financial years are detailed below:

2007

	Thousands of Euros				
	Balance at 01/01/07	Additions or Increases	Removals or Reductions	Departures from the Perimeter	Balance at 31/12/07
Biological assets:					
Forest growth	273,470	45,885	(*) (13,422)	-	305,933
Forest reserve exhaustion	(67,729)	(13,559)	76	-	(81,212)
Total	**205,741**	**32,326**	**(13,346)**	**-**	**224,721**

(*) 12,535,000 corresponding to losses from pests and frost in Silvasur Agroforestal and Norte Forestal.

2008

	Thousands of Euros				
	Balance at 01/01/08	Additions or Increases	Removals or Reductions (*)	Departures from the Perimeter	Balance at `
Biological assets:					
Forest growth	305,933	49,868	(8,169)	-	347,632
Forest reserve exhaustion	(81,212)	(10,958)	19	-	(92,151)
Total	**224,721**	**38,910**	**(8,150)**	**-**	**255,481**

(*) 4,960,000 euros transferred to the heading "Property, plant and equipment – forest land" and 3,190,000 euros transferred to the heading "Stocks".

2009

	Thousands of Euros				
	Balance at 01/01/09	Additions or Increases	Removals or Reductions	Departures from the Perimeter	Balance at 31/12/09
Biological assets:					
Forest growth	347,632	30,539	(2,819)	(147,940)	227,412
Forest reserve exhaustion	(92,151)	(9,744)	344	29,377	(72,174)
Total	**255,481**	**20,795**	**(2,475)**	**(118,563)**	**155,238**

The Group manages own forest assets and consortium forest assets, the latter having the principal characteristic that the land is owned by a third party and the Group has right of use in exchange for a rent, or in exchange for part of the timber harvested.

Details are shown below of the forest assets managed by ENCE, which include both own assets and assets leased and consortium assets, detailing their location and principal uses:

	Hectares managed		
	2009	2008	2007
Cellulose-			
Northwest Spain	10,127	10,390	10,274
Southwest Spain	45,899	46,678	46,158
Portugal	3,767	3,496	1,559
Total Iberian Peninsula	**59,793**	**60,564**	**57,991**
Total Uruguay	29,654	168,818	154,072
Total Group	**89,447**	**229,382**	**212,063**
Energy crops			
Northwest Spain	916	408	-
Southwest Spain	6,576	4,487	640
Portugal	-	-	-
Total Iberian Peninsula	**7,492**	**4,895**	**640**
Total Uruguay	**-**	**-**	**-**
Total Group	**7,492**	**4,895**	**640**
Other uses-			
Northwest Spain	1,916	1,838	2,019
Southwest Spain	16,396	15,152	17,003
Portugal	634	560	325
Total Iberian Peninsula	**18,946**	**17,550**	**19,347**
Total Uruguay	**-**	**-**	**-**
Total Group	**18,946**	**17,550**	**19,347**
Total-			
Northwest Spain	12,959	12,636	12,293
Southwest Spain	68,871	66,317	63,801
Portugal	4,401	4,056	1,884
Total Iberian Peninsula	**86,231**	**83,009**	**77,978**
Total Uruguay	29,654	168,818	154,072
Total Group	**115,885**	**251,827**	**232,050**

Of the total of 115,885 gross hectares managed at the end of the 2009 financial year, 77,725 hectares are owned by the Group. The rest is leased or there is a right of use through other types of legal agreements. Of this available land (gross hectares) only part can be cultivated (net hectares), with the rest relating to roadways for access to the land or other easements, rocky areas incapable of cultivation, etc.

Details are shown below of the net hectares forested and their book value classified based on location and age:

	Iberian Peninsula		Uruguay	
	Has	Thousands of Euros	Has	Thousands of Euros
Years/ Age	Hectares Affected	Net Book Value	Net Hectares	Net Book Value
> 17	1,190	2,424	216	676
16	135	445	-	-
15	267	917	380	988
14	562	1,759	-	-
13	233	725	426	806
12	625	1,465	1,719	3,130
11	809	2,492	866	1,599
10	2,559	7,572	152	262
9	4,657	11,492	404	742
8	4,755	11,501	2,169	3,156
7	3,206	5,531	607	835
6	2,874	5,361	219	323
5	3,071	8,208	553	733
4	9,037	23,651	1,666	1,780
3	6,713	16,090	2,394	2,702
2	6,906	13,102	2,036	2,490
1	7,359	8,136	814	952
0	12,057	10,539	1,447	1,866
Total Forest Growth	**67,015**	**131,410**	**16,068**	**23,040**

Forestry activities require the maintenance of nurseries for producing clones which are subsequently planted at the forestation stage.

The Group has installations close to the Huelva industrial centre devoted to the production of eucalyptus globulus clones and other energy crops. This centre, which has a production capacity of 6 million clones annually of globulus obtained from the management of 10 million stakings and 8 million plants destined for the generation of biomass, occupies an area of 11 hectares and has an average workforce of approximately 60. The value of the investment in developing it is approximately 5 million euros.

In complementary manner, the Group has two nurseries close to the Pontevedra and Navia industrial centres of 7.7 hectares and 4.4 hectares, respectively, devoted to bringing on, maintaining and distributing the clones produced in Huelva.

8.1.3. Encumbrances over tangible fixed assets

The most significant encumbrances over tangible fixed assets derive from the syndicated credit agreement entered into by ENCE with a syndicate of banks comprising BBVA, Banesto, Caja Madrid, Popular, Sabadell, Caixa Geral and ICO on 2 April 2008 which was the subject of three modifications on 5 February, 4 June 2009 and 16 October 2009.

This loan has the principal security of a pledge over the shares of the companies Silvasur Agroforestal, S.A.U., Norte Forestal, S.A.U., and Iberflorestal Comercio e Serviços Florestais, S.A.U., although the agreement itself provides for replacement of these pledges by mortgage over the underlying forest assets owned by these companies.

On 16 October 2009, on the last modification of the Syndicated Credit Agreement, The Ence Group created an Escrow Account in the amount of 38,000,000 euros with part of the funds resulting from the sale of the Uruguay assets.

These funds are deposited in an account opened with the agent bank (BBVA) and may only be used to finance the investment necessary to increase the production of cellulose and electricity of the Navia, Huelva and Pontevedra plants together with other investments in the Iberian Peninsula and those related to maintenance of the Uruguay forest assets.

Furthermore, in order to be able to draw down these funds ENCE must demonstrate in documentary manner the use thereof, not be subject to events of default under the credit, and comply with the procedures for applying for drawdown laid down by contract.

On 30 April 2010 the surplus of this account must necessarily be used for early repayment under the Syndicated Credit Agreement.

8.1.4. Insurance cover

The policy of the Group is to enter into insurance policies to cover possible risks to which the different elements of tangible fixed assets are subject. The Directors of the Company consider that coverage of these risks at 31 December 2009 was adequate.

8.1.5. Depreciation policy

The Group depreciates its tangible fixed assets on the straight line method, distributing the cost of the asset over estimated years of useful life, meaning that land has an indefinite useful life and therefore is not depreciated, in accordance with the following details:

	Estimated Years of Useful Life
Constructions	20-40
Technical installations and machinery	11-16
Other installations, tools and furniture	11
Other tangible fixed assets	11

8.1.6. Administrative concessions

The maritime-terrestrial public domain concession over the land on which the Pontevedra plant is located was granted to the Company by Ministerial Order of 13 June 1958. The concession does not establish a term, but subsequently the 1988 Coasts Act, Section 66, provided that the maximum term of maritime-terrestrial public domain concessions would be 30 years. For its part, Transitional Provision 14.3 of the Coasts Regulations provided that a person holding a concession granted prior to entry into force of the Coasts Act (as is the case), whatever the term included in the concession title, "shall be deemed to be granted for a maximum period of 30 years as from entry into force of the Coasts Act" (the Act came into force on 29 July 1988, and it will therefore lapse on 29 July 2018).

The net book value of all assets attached to this land at 31 December 2009 was 91,665,000 euros (97,065,000 euros at 31 December 2008).

8.1.7. Leasing agreements

At the end of the 2009 and 2008 financial years the Group had contracted the following leasing instalments with certain lessors, principally in respect of real estate for use as offices and similar, in accordance with the current agreements in force, without taking into account the effect of communal expenses, future CPI increases or future rent reviews contractually agreed:

Minimum Payments	**Thousands of Euros**	
	2009	**2008**
Less than one year	2,363	2,133
Between one and five years	7,720	6,912
Over five years	-	3,550
Total	**10,083**	**12,595**

In addition, the Group has leased 30,646 hectares of forest assets devoted to the generation of forest products with a leasing cost of 1,744,000 euros in 2009. The average term of these agreements is 30 years.

8.1.8. Fixed assets subsidies

The Group has been the beneficiary of various outright subsidies associated with investments made in the different industrial centres, and assumed various commitments associated in general with the maintenance of certain levels of employment and the assets subject to subsidy.

Variations in the value of this deferred income in the period subject to analysis is shown below:

	Thousands of Euros		
	2009 FY	2008 FY	2007 FY
Subsidies			
Initial Balance	3,160	7,851	10,170
New Subsidies	2,449	-	639
Allocation to P&L	(474)	(4,691)	(2,958)
Closing Balance	**5,135**	**3,160**	**7,851**
CO_2 Emission Rights			
Initial Balance	-	16	3,412
New Rights	9,705	15,133	3,997
Allocation to P&L	(7,764)	(15,149)	(2,850)
Valuation Adjustments	-	-	(4,543)
Closing Balance	**1,941**	**-**	**16**
Total Subsidies	**7,076**	**3,160**	**7,867**

In accordance with current accounting standards, the emission rights obtained pursuant to the National Allocation Plan for greenhouse emission rights for the 2008-2012 period are recorded at the time of their receipt free of charge as an intangible asset and subsidy which is attributed to the profit and loss account depending on consumption of the rights received.

8.2. Description of any environmental aspect which could affect the use of tangible fixed assets

The Group carries out periodic analytical controls of the pollutant parameters of the discharges which it makes and makes investments aimed at reducing atmospheric emissions, noise and odours. In addition, the Company uses paper paste bleaching systems in its production processes which do not require the use of elemental chlorine, which minimises the generation of organochloride waste.

The Huelva, Navia and Pontevedra industrial complexes have, since April 2009, had the necessary Integrated Environmental Authorisations. Furthermore, these industrial complexes have Greenhouse Gas Emission Authorisation (CO_2) and have obtained the allocation of 657,970 emission rights annually for the 2008-2012 period. The emissions for 2009 do not exceed the allocation, and therefore surplus rights have been generated.

With respect to global management of processes and activities the Group has an Integrated Management System at its Pontevedra, Navia and Huelva plants which covers environmental aspects, quality and health and safety. This system, which fulfils the purpose of reducing the environmental impact of the installations, is certificated by AENOR in accordance with UNE-EN ISO 14001:2004 Standards and is registered in the System of Eco-management and Audit (EMAS) in accordance with European Union Regulation 761/2001 at the Pontevedra and Huelva plants, and certificated by Lloyd's Register (LRQA) at the Navia plant. The environmental aspects are integrated into a single Integrated Management System which is also certificated in accordance with UNE-EN-ISO 9001:2007 Standards.

In relation to Occupational Risk Prevention management, the Huelva plant has achieved certification of this system in accordance with the requirements of the OHSAS 18001 reference standards. The Pontevedra plant has revalidated this certification for a new 3 year period and the Navia plant also maintains its certificate.

Reduction in environmental impact of the Group installations centres on investments aimed at reducing water consumption, consolidation of water treatment and those aimed at reduction of atmospheric emissions.

For the Pontevedra industrial complex, 2009 meant commencement of a project to improve reduction in odours in collaboration with the University of Santiago de Compostela. Some of the proposals have already been carried out, such as improvements in the gas and condensate exchange system. Specific investments were also made to improve cleaning and availability of the Recovery Boiler, improvement of burners and boiler instrumentation as well as electrofilters and electrostatic precipitators.

A reduction was also undertaken of water consumption by recovery of clean water which is re-used in the process, as well as other investments for the purpose of preventing pollution.

The overall amount of these investments was approximately 0.68 million euros.

Environmental investments were carried out in the Huelva industrial complex during 2009 for improvement of atmospheric emission control and energy efficiency by reforming the evaporator line (which permits the concentration of biofuel from the recovery boilers to be increased) and completing reform of the biomass boiler, which permitted optimisation of the energy use of biomass and consequent reduction in fossil fuel consumption. Actions were also taken to reduce water consumption.

In 2009 functioning was consolidated of the new drying plant for sludge generated in effluent treatment and the necessary improvements for use of energy from this waste within the installations, including improvements in the biomass boiler, which permitted waste generated to be used with consequent reduction in external environmental effects.

The overall amount of investments carried out at the Huelva plant amounted to approximately 7.6 million euros.

On 10 December 2008 the Navia plant obtained Integrated Environmental Authorisation for the new installations commissioned after the project to extend the plant to 500,000 ADt.

The environmental investment plan was continued, basically aimed at:

- Optimising and reducing water consumption at the plant by implementing cooling utilization systems.

- Studying solutions to improve the acoustic impact of the new installations.

- Studying solutions to minimise odour impact by capturing diluted odorous gases for eventual heat treatment in the Recovery Boiler.

Action also continued on incorporating automatic environmental parameter control elements and progressive adaptation of the plant installations for improvement.

The amount of environmental actions carried out in Navia amounted to approximately 0.6 million euros.

In September 2009 the Group completed the maintenance audit for certification of timber custody chain management certification, covering the stage between receipt of certified timber at plant and delivery of certified paste to customers in accordance with PEFC standards. After the official audit carried out by AENOR of the Huelva plant, at Pontevedra (Central Offices) and Sales, compliance was verified with all technical and documentary requirements for the purpose of the PEFC Forest Certification System (Programme for the Endorsement of Forest Certification). The term of this certificate is until 2013.

During 2009 the external FSC (Forest Stewardship Council) Custody Chain audit report was received (Forest Stewardship Council) by the SGS accredited firm which carried out the audit, furthermore maintaining in force the corresponding certificate for the multi-centre.

During 2009 forestry activities of Group companies continued, which include investment in maintenance and extension of forest assets. In environmental terms, preservation and promotion of forests involves improvements in land conservation and a global effect on mitigating climatic change due to capacity for carbon fixing. The different Group companies which engage in predominantly forestry activities have, for the purpose of protecting the environment, sustainability and efficiency, obtained and maintained certification which demonstrates sustainable management of forests from duly accredited firms, which contributes to increasing confidence in the consumption of forest products.

The companies Silvasur Agroforestal, Norte Forestal, Ibersilva and Eufores maintain certification of their Management System in accordance with ISO 14001:2004 international standards.

Norte Forestal and Silvasur Agroforestal were the first forestry managers in the Iberian Peninsula to obtain PEFC certification (Programme for the Endorsement of Forest Certification Schemes) for sustainable forest management, and in addition have obtained certification of their custody chain, ensuring the traceability of the source of timber over the course of the process, and that it does not originate from conflictive sources.

In relation to sustainable forest management in the custody chain, the following certifications are maintained in our subsidiaries in Spain in accordance with sustainable forest management and custody chain in accordance with the PEFC scheme for Silvasur Agroforestal and Norte Forestal.

In relation to the timber custody chain management certification in accordance with FSC, both Las Pléyades (Uruguay) and Iberflorestal (Portugal) maintain their corresponding certification. In 2009 the new forestry subsidiary Sierras Calmas (Uruguay) obtained the corresponding custody chain certification.

9. OPERATING AND FINANCIAL STUDY AND PROSPECTS

9.1. Financial situation

Information relating to the financial and net worth situation of the Group is dealt with in section 20 of this Registration Document. Group operations in the selected historical financial information period is analysed below, in relation to the contents of this section.

The consolidated profit and loss accounts of the Group for the 2007, 2008 and 2009 financial years (in thousands of euros) are as follows:

	2009 FY	% of Turnover 2009	2008 FY	% of Turnover 2008	2007 (*) FY	% of Turnover 2007 (*)	2007 (**) FY	% of Turnover 2007 (**)
Ongoing operations:								
Net turnover	535,551		656,617		626,139		637,189	
Profit and loss on hedging operations	3,808	0.7%	(14,550)	2.2%	59,412	9.5%	59,412	9.3%
Variation of stocks of finished products and products in progress	(17,422)	3.3%	7,124	1.1%	(840)	0.1%	(840)	0.1%
Supplies	(348,163)	65.0%	(382,812)	58.3%	(337,033)	53.8%	(316,674)	49.7%
GROSS MARGIN	**173,774**	**32.4%**	**266,379**	**40.6%**	**347,678**	**55.5%**	**379,087**	**59.5%**
Work carried out by the Group on fixed assets	34,438	6.4%	32,377	4.9%	26,512	4.2%	42,212	6.6%
Other operating income	3,006	0.6%	15,138	2.3%	3,097	0.5%	4,936	0.8%
Capital subsidiaries transferred to profit and loss	8,238	1.5%	19,825	3.0%	5,808	0.9%	5,808	0.9%
Personnel expenses	(88,730)	16.6%	(82,756)	12.6%	(100,256)	16.0%	(102,396)	16.1%
Other operating expenses	(145,570)	27.2%	(164,085)	25.0%	(145,845)	23.3%	(185,191)	29.1%
EBITDA	**(14,844)**	**2.8%**	**86,878**	**13.2%**	**136,994**	**21.9%**	**144,456**	**22.7%**
Provision for depreciation	(46,812)		(36,313)		(41,755)		(46,267)	
Deterioration in value of tangible and intangible fixed assets	(10,845)		(3,037)		(3,423)		(13,614)	
OPERATING PROFIT / (LOSS)	**(72,501)**		**47,528**		**91,815**		**84,575**	
Financial income	2,438		6,842		7,588		1,087	
Variation in the reasonable value of financial instruments	(21,232)		(25,473)		(5,972)		(5,972)	
Other financial expenses	(25,995)		(32,732)		(8,489)		(9,961)	
Exchange rate differences	456		3,534		(8,354)		(2,308)	
FINANCIAL PROFIT AND LOSS	**(44,333)**		**(47,829)**		**(15,227)**		**(17,154)**	
Net profit and loss on disposal of non-current assets held for sale	-		6,429		(5,717)		(5,717)	
PRE-TAX PROFIT / (LOSS)	**(116,834)**		**6,128**		**70,871**		**61,704**	
Tax on profits	39,283		2,174		(7,111)		(7,985)	
PROFIT / (LOSS) FOR YEAR FROM ONGOING OPERATIONS	**(77,551)**		**8,302**		**63,760**		**53,719**	
Profit and Loss on Interrupted Operations net of taxes	(77,020)		(3,560)		(10,041)		-	
PROFIT / (LOSS) FOR YEAR	**(154,571)**		**4,742**		**53,719**		**53,719**	
Attributable to								
Shareholders of the Parent Company	**(154,571)**		**4,742**		**54,009**		**54,009**	
Minority interests	-		-		(290)		(290)	
Profit and loss per share:								
Basic	**-0.88**		**0.03**		**0.31**		**0.31**	
Diluted	**-0.88**		**0.03**		**0.31**		**0.31**	

(*) Profit and loss account prepared for the purpose of permitting comparison of information with that set out in the 2008 and 2009 financial years (see section on "Comparison of information and changes in accounting principles" in Chapter 20 of this Registration Document).
(**) Profit and loss account for the 2007 financial year shown for comparison purposes in the consolidated annual financial statements of Grupo Empresarial ENCE, S.A. for the 2008 financial year (see Chapter 20 of this Registration Document).

9.1.1. Turnover

Details of "Net turnover" broken down by the different activities carried out by the Group in the period subject to analysis are as follows:

	Thousands of Euros		
	2009 F. Year	**2008 F. Year**	**2007 F. Year**
Cellulose	361,035	484,727	497,698
Energy	126,901	117,796	66,639
Forestry and services	47,615	54,094	61.802
Total Sales	**535,551**	**656,617**	**626,139**

	2009 F. Year	**2008 F. Year**	**2007 F. Year**
Cellulose, thousands of Tm sold	1,061	1,067	1,113
Energy, thousands of MW sold	1,215	1,051	848

In general terms a significant reduction can be seen in the volume of cellulose paste income in 2009 with respect to the two previous years, and at the same time a significant increase in the period examined in income from energy activities.

In relative terms, paper paste moved from representing 79% of Group income in 2007 to 67% in 2009. For their part, energy activities, complementary at origin to the paper paste production activities, increased from representing 11% in 2007 to 24% in 2009.

This increase in the relative position of energy is basically due to the significant growth in the number of megawatt hours produced. In addition, although with an insignificant effect in the period examined, there was a change in the system of commercialising energy produced by the Group (see section 8.1.1 of this Registration Document) at the paper paste production installation located in Huelva.

The cellulose market in 2008 was characterised by a contraction in demand, particularly as from September, and consequent fall in prices from 478 euros/Tn recorded in August 2008 to 415 euros/Tn reached at the end of 2008, although the volume of tons sold in the period examined was very similar.

The complementary services, principally forestry services, dependent to a significant extent on contracting by public authorities and sales of timber to third parties, showed a reduction in the period in volume of activities.

See detailed analysis of Group income in Chapter 6 of this Registration Document.

Supplies

This heading in the profit and loss account basically contains the cost of timber necessary in paper paste production and to a lesser extent other variable costs such as chemicals, fuels, spare parts and packaging, and their evolution is related to the units produced by the Group.

Annual evolution is shown below of the number of tons produced and unit cost resulting from dividing total “Supplies” by the units produced:

	2009 FY	Var in % 09vs08	2008 FY	Var in % 09vs08	2007 FY
Tons produced	998,010	-8.44%	1,089,983	-1.90%	1,111,063
Supplies (thousands of euros)	348,163	-9.05%	382,812	13.58%	337,033
Cost / Ton	**349**	**-0.67%**	**351**	**15.78%**	**303**
% of Supplies to turnover	65.01%		58.30%		53.83%

The eucalyptus timber market in the Iberian Peninsula in 2008 passed through different phases. Thus, up to June there were major tensions in supply caused by fires in previous years which led to significant price increases. Subsequently, there was a stabilisation in the price of the timber until the final months of the year when a fall took place resulting from the drop in demand associated with the economic situation. As a result of all this in 2008 there was net growth in price with respect to the previous year of approximately 15%.

The reduction in prices which began at the end of 2008 began to be passed on to production cost in the second half of 2009 as a result of the need to consume available stocks acquired at high cost (tensions in supply in previous periods led to the increase in minimum levels of security stock).

In Chapter 6 of this Registration Document there is also a description of the major lines of market behaviour for the timber consumed by the Group based on its origin.

Personnel and other operating expenses

Details of personnel expenses by items in the period subject to analysis are as follows:

	Thousands of Euros		
	2009 FY	2008 FY	2007 FY
Wages and salaries	62,749	62,795	62,443
Social Security	15,215	15,875	15,018
Pension plan contributions	3,524	3,653	3,832
Net compensation	7,242	433	18,963
	88,730	**82,756**	**100,256**
% of Other Operating Expenses to turnover	16.6%	12.6%	16.0%

Evolution of the effective workforce at the end of 2007, 2008 and 2009 is shown below, broken down by the principal businesses:

	2009 FY	2008 FY	2007 FY
Industrial operations	798	842	830
Forestry operations	120	114	147
Forestry services	442	536	484
Uruguay	132	316	274
Overheads and others	162	139	155
	1,654	**1,947**	**1,890**

Optimisation of the Group workforce took place in all business areas, with growth found solely in the electricity generation activities based on biofuels.

Details of "Other operating expenses" by items in the period subject to analysis are as follows:

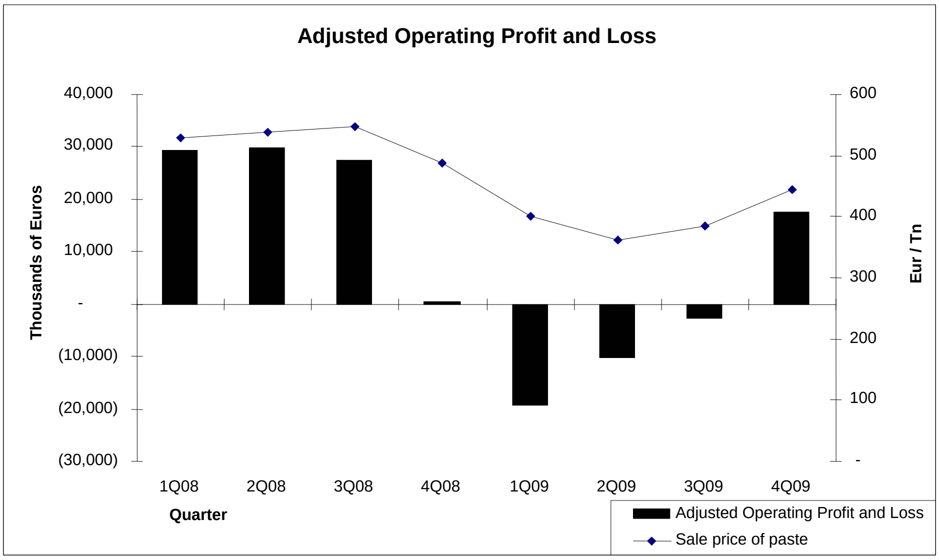
	Thousands of Euros			%
	2009 FY	2008 FY	2007 FY	
Transport, freight and sales costs	46,586	58,407	43,981	
Supplies	34,272	37,413	25,396	
Repairs and conservation	12,326	15,472	16,269	
Leasing and royalties	7,622	8,053	5,700	
Insurance premiums	6,439	5,344	3,903	
Emission rights	6,194	9,098	2,850	
Services of independent professionals	5,727	6,057	6,641	
Taxes	3,515	4,041	4,141	
Other expenses	22,889	20,200	36,964	
Total other operating expenses	**145,570**	**164,085**	**145,845**	
% of Other Operating Expenses to Turnover	27.2%	25.0%	23.3%	

Cost containment policies begun in 2007, and which ended in 2008 and 2009, showed their results in 2009 with a significant saving in operating expenses of approximately 11% with respect to 2008 expenses.

Adjusted operating profit and loss

The series of effects previously described conform evolution of operating profit and loss of the Group in the period subject to analysis.

Details are shown below of the evolution of "Adjusted operating P&L". This evolution is calculated taking into account operating profit and loss before including expenses by way of "Depreciation" and "Provisions for fixed assets" for each of the quarters of 2008 and 2009, compared with evolution of the quotation in euros of paste price in international markets:



This graph shows a strong dependency of operating profit of the Group on movements in the price of paste in euros in international markets, such that in the period of contraction of demand and sale price which began in the last quarter of 2008 and which reached its lowest point in the second half of 2009 there was a substantial reduction in adjusted operating profit, which began to recover with the improvement in market price of cellulose paste.

It further indicates that the cost containment policies applied in the selected information period enabled the sale price to be reduced based on which positive adjusted operating profits were obtained. In this respect, in the fourth quarter of 2008, in which the average sale price was 489 euros, adjusted operating profits were virtually nil, whilst in the fourth quarter of 2009, with a market price of 445 euros, an adjusted operating profit was obtained of around 18 million euros. This improvement in the last quarter of 2009 with respect to the previous year relates to savings in timber costs of approximately 18 million euros and in plant efficiency improvements which resulted in savings of approximately 9 million euros.

9.2. Operating profit and loss

9.2.1. Information relating to significant factors, including unusual or infrequent events or new developments which substantially affect the income of the issuer from operations, indicating to what extent they have affected income

See the foregoing section 9.1.

9.2.2. When the financial statements disclose material changes in net sales or income, provide a narrative comment on the reasons for these changes

See the foregoing section 9.1.

9.2.3. Information relating to any action or factor of a governmental, economic, fiscal, monetary or political nature which has directly or indirectly affected or could materially affect operations of the issuer

There have been no factors of an economic, fiscal or political origin which have directly or indirectly affected Group operations.

10. CAPITAL RESOURCES

10.1. Information concerning capital resources of the issuer

10.1.1. Own funds

At 31 December 2009 the net worth of the ENCE Group amounted to 576,897,000 euros, a decrease of 21% with respect to the previous year, mainly attributable to the losses of ENCE as parent company and adjustments to net worth as a result of valuation of financial hedging instruments.

Details are shown below of net worth of the ENCE Group and its evolution at 31 December 2007, 2008 and 2009:

In thousands of €	2009	%var. 09vs08	2008	%var. 08vs07	2007
Net Worth					
Subscribed capital	157,410	0.0%	157,410	0.0%	157,410
Issue premium and reserves	527,045	22.40%	522,074	5.0%	497,224
Profit and loss for period attributed to ENCE as parent company	(154,571)	-3,360%	4,742	-91.2%	54,009
Adjustments in net worth from revaluation	47,448	2.97%	46,078	9.2%	42,215
Own Shares	(435)	100%	-		-
Interim dividend	-	N/A	-	N/A	(5,094)
Minority Interests	-	N/A	-	N/A	3
Conversion differences	-	N/A	(740)	N/A	-
Total Net Worth	***576,897***	***-20.93%***	***729,564***	***-2.2%***	***745,767***

The principal landmarks in relation to own funds are as follows:

- On 26 April 2007 the Shareholders General Meeting of Grupo ENCE approved a reduction in the nominal amount of shares from 4.5 euros to 0.90 euros per share by splitting the 33,960,000 shares in circulation into 169,800,000 New Shares in the proportion of five New Shares for each old share, without any alteration in the amount of share capital.

- On 30 March 2007 a "Special Remuneration Plan for the management team for the 2007-2011 financial years" was approved, providing for long term variable remuneration accruing over five years, subject to increase in value of shares, continuation in the Group and achieving certain objectives laid down in the 2007-2011 Strategic Plan.

  In order to facilitate compliance with undertakings under this Plan, on 24 October 2007 the Board of Directors, pursuant to the delegated powers received from the Shareholders General Meeting, resolved to carry out a capital increase with exclusion of preferential subscription rights. Capital was increased by 5,100,000 ordinary registered shares at an issue rate of 4.4 euros per share of which 0.9 euros related to nominal value and 3.5 euros to issue premium, with the total number of shares in circulation increasing to 174,900,000.

The new shares were subscribed for in full by Caja de Ahorros y Monte de Piedad de Madrid.

In order to cover subscription for the new shares by the said financial institution, The Ence Group contracted an equity swap which amounted to 14,429,000 euros, which at 31 December 2009 was valued at 9,608,000 euros and detailed below under the heading ‘Equity swap’.

10.1.2 Outside resources

The objective of the ENCE Group with respect to capital management at any time is to maintain an optimum financial structure which enables it to guarantee management of its recurring operations and enter into new projects for the purpose of growth and value creation.

In order to finance its growth and management, the Group uses different sources of financing.

Evolution of gross and net financial debt at 31 December 2007, 2008 and 2009 is shown below:

Data in thousands of €	**2009**	**% var. 09vs08**	**2008**	**% var. 08vs07**	**2007**
Current debts with credit institutions	186,240	-13%	215,140	6%	203,275
Non-current debts with credit institutions	155,755	-38%	250,610	439%	46,431
Other Financial Liabilities	9,310	-18%	11,315	-	-
Gross Financial Debt	**351,305**	**-26%**	**477,065**	**87%**	**249,706**
Freely available cash (*)	11,132	112%	5,262	-5%	7,176
Short term financial investments	1,913	-72%	6,768	-72%	18,962
Net Financial Debt	**338,260**	**-27%**	**465,035**	**103%**	**223,568**

(*) Does not include the 38,000,000 euros provided in the escrow account.

Net debt with recourse reduced from 2008 to 2009 mainly due to cancellation of part of the long term corporate debt resulting from sale of the Uruguay project which is explained in the following section.

Details are shown below of the different external sources (with and without recourse) of financing of the Company:

Thousands of euros	Short Term	Long Term	Total
Syndicated Loan	31.424	131.340	162.764
Credit facilities	130.854	14.224	145.078
Loans	22.903	12.851	35.754
Others	1.059	-2.660	-1.601
Debts to credit institutions	***186.240***	***155.755***	***341.995***
Reimbursable Advances	519	8.791	9.310
Debt with recourse	***186.759***	***164.546***	***351.305***
Factoring	33.390		33.390
Confirming	37.100		37.100
Debt without recourse	***70.490***		***70.490***

The debt repayment timetable with recourse to financial institutions is as follows:

Thousands of €	2010	2011	2012	2013	Rest	
Syndicated Loan	31.424	31.417	31.422	68.501		162.764
Loans	22.903	3.425	2.205	1.813	5.408	35.754
SUBTOTAL REPAYMENTS	**54.327**	**34.842**	**33.627**	**70.314**	**5.408**	**198.518**
Short Term Facility Maturities	130.854	11.119	3.104			145.078
						343.596
Advances and others						7.709
TOTAL						**351.305**

The financial burden associated with debts to credit institutions for the 2010-2013 period is as follows:

Thousands of €	2010	2011	2012	2013
Average debt in year	301.305	251.305	251.305	251.305
Interest payable: (2009 rate: 6.27%)	18.892	15.757	15.757	15.757

The following hypotheses have been taken into account in calculating financial charges:

1. Use of approximately 100 million euros from funds from the increase to debt cancellation.

2. Maintenance of a total debt level of around 250 million euros long term as sustainable financial structure of the Company.

3. Average cost of debt of 6.27% (realised in 2009).

10.1.2.1 Corporate Financing: Syndicated Credit Agreement

On 2 April 2008 Grupo ENCE entered into a Syndicated Credit with Banco Bilbao Vizcaya Argentaria, S.A., Caja de Ahorros y Monte de Piedad de Madrid, Instituto de Crédito Oficial, Banco Popular Español, S.A., Banco de Sabadell, S.A., Banco Español de Crédito, S.A. and Caixa Geral de Depósitos, S.A., Branch in Spain, in the amount of 1,075,000 euros, structured into three Tranches:

- Tranche A for 940 million dollars, devoted to construction and supply of a Uruguay plant of 1 million tons.
- Tranche B for 225 million euros, devoted to financing the investment necessary to increase production and improve forest supply of the Spain plants and to optimise the energy balance.
- Tranche C (revolving credit facility) in the amount of 160 million euros to meet short term current financing requirements and part of the investments in Spain.

On 5 February 2009 a modification was made of the loan, cancelling Tranche A and reducing Tranche C by 35 million euros, with the loan becoming 350 million euros, structured into two tranches:

- Tranche B for 225 million euros.
- Tranche C for 125 million euros.

Both tranches were drawn down in full between 2008 and 2009 to finance the project for extension of the Navia plant and efficiency projects in the Huelva and Pontevedra plants.

The syndicated credit provides for quarterly repayments for the two tranches and quarterly settlement of interest at a variable interest rate equivalent to the EURIBOR plus a margin of 2.50% in 2009 and a margin of between 1.25% and 2.00% as from 2010, based on the level reached by the Net Debt/EBITDA ratio.

In this respect, the first repayment of principal was made in June 2009 in the amount of 7.87 million euros.

Subsequently, on 16 October 2009 and as a result of formalisation of sale of the Uruguay project in the amount of 229,360,000 euros, 179,360,000 euros was repaid (including repayment instalments for September and December 2009) and the security connected with the assets attached to the Uruguay plant project was replaced with forest assets in Spain, as indicated in section 8.1.3 of this document.

At 31 December 2009 the amount pending repayment of each tranche was as follows:

- Tranche B: 112,208,000 euros.

- Tranche C: 50,556,000 euros.

The repayment timetable in thousands of euros is as follows:

Quarter	2010	Ejercicio 2011	2012	2013
Q1	7.856	7.856	7.855	7.854
Q2	7.856	7.856	7.855	7.854
Q3	7.856	7.850	7.855	7.854
Q4	7.856	7.855	7.857	44.939
TOTAL	31.424	31.417	31.422	68.501

After the Uruguay sale the Company held 38 million euros in an escrow account devoted to financing the last investments connected with its expansion projects already carried out.

As well as the fundamental obligation of repaying the credit drawn down and the payment of interest, commissions and expenses, Grupo ENCE is obliged to comply with the following financial ratios:

	2009	2010	2011-ss
Max. Net Debt /EBITDA	5,00 x	3,50 x	3,00 x
Max. Net Debt /Own Funds	0,75 x	0,75 x	0,75 x
Min. EBITDA/Interest	2,50 x	5,50 x	5,50 x
Max. Estimated Net Debt	338	408	n/a

Taking into account that at 31 December 2009 the Company was not in compliance with the interest coverage ratio (EBITDA/Interest), the ratio of third party funds with financing cost to EBITDA (Net Financial Debt/EBITDA) and the ratio of limit of net financial debt of the Ence Group, the Company asked the creditor institutions under the syndicated credit agreement for the corresponding waiver.

On 25 February 2010 the creditor institutions under the said syndicated credit unanimously granted this temporary waiver with respect to compliance with the said financial ratios with effect from 23 December 2009 until 1 March 2011.

10.1.2.2 Credit facilities with financial institutions

As well as the Syndicated Credit Agreement, the Ence Group has credit facilities with various financial institutions for 177 million euros, of which, at 31 December 2009, only 145 million euros had been drawn down.

At the date of this Registration Document, no financial institution has more than 17% of the total short term debt with recourse.

The distribution of credit facilities of the Ence Group with institutions is shown in the following table:

BORROWER	LENDER	PRINCIPAL	MATURITY	DRAWN DOWN AT 31/12/09
CEASA	CAIXA GALICIA	15,000	23/07/2010	14,867
NORFOR		6,000	31/03/2010	5,882
SILVASUR		9,000	28/02/2010	8,874
ENCE	BANESTO	10,000	22/03/2010	6,607
ENCE	BBVA	12,000	28/03/2010	11,429
IBERSILVA		2,000	28/03/2010	1,813
IBERFLORESTAL		2,000	INDEFINITE	1,811
IBERSILVA PT		2,000	INDEFINITE	1,985
CEASA		500	28/03/2010	383
ENCE	BANCO SABADELL	2,600	08/06/2010	2,581
NORFOR MADERAS		2,400	08/06/2010	2,391
NORFOR		3,000	08/06/2010	2,647
SILVASUR		3,000	08/06/2010	2,919
ENCE	CAJA MADRID	5,000	26/01/2011	2,787
NORFOR		1,800	26/01/2011	240
SILVASUR		1,200	26/01/2011	1,196
ENCE	POPULAR	10,000	17/07/2010	9,533
ENCE	SANTANDER	3,000	28/04/2010	789
ENCE	KUTXA	13,000	25/05/2012	10,522
ENCE	BANKINTER	7,813	INDEFINITE	5,807
IBERSILVA		2,000	INDEFINITE	77
NORFOR		1,202	INDEFINITE	1,109
SILVASUR		3,005	INDEFINITE	2,747
ENCE	BANCA MARCH	6,250	26/06/2010	6,246
CEASA	CAJA ASTURIAS	3,000	30/06/2010	1,037
CEASA		6,400	05/05/2010	6,293
ENCE		5,000	30/06/2010	4,920
NORFOR MADERAS		2,000	30/06/2010	1,960
IBERFLORESTAL	B.ESPIRITO SANTO	5,000	INDEFINITE	4,073
IBERSILVA PT		1,200	INDEFINITE	356
NORFOR		5,000	29/04/2011	810
ENCE	CAIXA GERAL	3,000	18/02/2010	2,984
NORFOR		5,000	18/02/2010	3,839
NORFOR	CAIXA NOVA	6,000	28/04/2010	5,892
ENCE	LA CAIXA	5,000	28/02/2011	4,309
NORFOR	CAJA DUERO	3,000	24/07/2012	1,665
IBERFLORESTAL	B.AFRICANO INVST.	1,000	21/07/2010	721
IBERSILVA	BANCO PASTOR	1,500	05/05/2010	620
NORFOR	BANCO GALLEGO	1,202	INDEFINITE	357
TOTAL		**177,072**		**145,078**

The maturities which have already taken place and those closest in time are currently in process of renewal.

The average interest rate of the credit facilities at the end of the 2009 financial year was 3.38%.

The repayment timetable of these facilities is as follows:

Data in thousands of €

2010	2011	Rest
130,854	11,119	3,104

10.1.2.3 Other loan agreements

At 31 December 2009 the Group had entered into various loan agreements with financial institutions in a total amount of 35 million euros, of which 7 million are ICO (Instituto de Crédito Oficial) loans (Liquidity and Business Growth) managed through other credit institutions (Santander and Kutxa):

Data in thousands of euros

BORROWER	LENDER	PRINCIPAL	MATURITY	DRAWN DOWN AT 31/12/09
CEASA	CAIXA GALICIA	9.237	04/05/2010	9.237
CEASA		2.134	04/05/2010	2.134
EUPON		814	01/06/2012	814
ENCE	KUTXA	2.000	25/08/2016	2.000
ENCE	SANTANDER	2.000	25/04/2016	2.000
ENCE		3.000	05/11/2010	3.000
ENCE	LA CAIXA	937	30/11/2011	937
SILVASUR		647	01/07/2011	647
IBERSILVA	CAJA MEDITERRANEO	500	11/11/2012	500
ENCE	BANCA MARCH	5.250	30/04/2010	5.250
EUPON	CAIXA NOVA	260	30/09/2010	260
SILVASUR	CAJA RURAL DEL SUR	1.070	12/03/2021	1.070
SILVASUR		1.384	12/03/2021	1.384
MASERLIT	CREDIT URUGUAY	210	25/01/2010	210
SILVASUR	EL MONTE	4.060	09/11/2015	4.060
SILVASUR	BANCAJA	2.250	27/05/2010	2.250
TOTAL		**35.754**		**35.754**

The average interest rate on the loans at the end of the 2009 financial year was 4.83%.

The repayment timetable of these loans was as follows:

Data in thousands of €

2010	2011	2012	2013	Rest
22,903	3,425	2,205	1,813	5,408

10.1.2.4 Subsidies and other financial liabilities

The Ence Group was the beneficiary of subsidies in an amount of 0.7 million euros during the 2007-2009 period and has been granted and is pending receipt of a subsidy in the amount of 6.4 million euros granted by the Ministry of Economy and Finance, devoted to financing the Navia plant extension project. It has also received CO_2 emission rights in the amount of 28.8 million euros since 2007.

Data in thousands of euros	2009	2008	2007
Subsidies	**5,135**	**3,160**	**7,851**
Opening Balance	3,160	7,851	10,170
New Subsidies	52	-	639
CDTI loan subsidies	2,397		
Allocation to profit and loss	(474)	(4,691)	(2,958)
CO_2 emission rights	**1,941**	**-**	**16**
Opening Balance	-	16	3,412
New Rights	9,705	15,133	3,997
Allocation to profit and loss	(7,764)	(15,149)	(2,850)
Value adjustments	-	-	(4,543)
Total Subsidies	***7,076***	***3,160***	***7,867***

Likewise, the Group has obtained additional financing from the Centre for Technological Industrial Development (*Centro para el Desarrollo Tecnológico e Industrial*) and the Ministry of Industry in the amount of 9.3 million euros devoted to financing R&D&i projects. These credits have a discounted interest rate of 0% and an average maturity period of 10 years.

10.1.2.5 Factoring

In order to actively manage its working capital and improve its liquidity ratios, the Ence Group maintains invoice financing lines without recourse for cellulose and energy debtors.

During the 2009 financial year the Company managed receipts in a total volume of 263 million euros (approximately 21 million euros monthly), with interest deriving from these transactions amounting to 0.6 million euros.

Details of the factoring lines are shown below:

Data in thousands of euros

FACTOR	COMPANY	COMMENCEMENT	EXPIRY	LIMIT	RISK AT 31/12/2009
EUROFACTOR	ENCE	23/12/2008	23/12/2010	40,000	27,150
HSBC	ENCE	13/05/2009	12/05/2010	12,000	6,240
CAIXA GALICIA	ENCE	05/03/2009	31/03/2010	3,000	
BANKINTER	CEASA	11/03/2009	INDEFINITE	7,500	
KUTXA	CENER	16/03/2009	16/03/2012	8,000	
TOTAL				**70,500**	**33,390**

10.1.2.6 Confirming

Likewise, the Ence Group has confirming lines geared to management of payments to suppliers of goods and services, with different credit institutions, details of which are shown in the following table:

Thousands of €

BORROWER	LENDER	COMMENCE MENT	EXPIRY	DRAWN DOWN AT 31/12/2009
CEASA	BANESTO	17/11/2008	22/03/2010	2,000
NORFOR	B. GALLEGO	31/10/2009	31/10/2010	1,000
IBERSILVA	BANCO PASTOR	05/05/2009	INDEFINITE	1,500
IBERFLORESTAL	BANIF	27/07/2009	27/07/2010	1,000
IBERSILVA	BANKINTER	12/12/2008	INDEFINITE	3,000
NORFOR		11/03/2009	INDEFINITE	2,000
SILVASUR		19/02/2009	INDEFINITE	6,000
IBERFLORESTAL	BBVA	29/06/2009	29/06/2010	1,500
IBERSILVA		28/11/2008	28/02/2010	1,500
IBERFLORESTAL	BES	29/06/2009	29/09/2010	700
NORFOR		29/06/2009	29/06/2010	2,500
IBERFLORESTAL	BPI	21/12/2009	21/12/2010	1,000
IBERSILVA	C. MEDITARRENO	06/11/2008	INDEFINITE	1,000
NORFOR	CAJA DUERO	24/07/2009	24/07/2010	2,000
ENCE	LA CAIXA	09/03/2009	INDEFINITE	10,000
IBERFLORESTAL	MILLENNIUM	02/10/2009	02/04/2010	400
TOTAL				**37,100**

10.1.3 Guarantee agreements

The Ence Group maintains guarantee agreements (technical and financial) with different institutions, most of which are submitted to public bodies to guarantee the execution of technology improvement projects, the implementation of biomass projects (access to electricity grid and leasing of property) and compliance with environmental requirements associated with the production process, amongst others purposes.

The limits granted by institutions and their utilisation at 31 December 2009 are broken down below:

Data in thousands of euros

BORROWER	LENDER	LIMIT	DRAWN DOWN AT 31/12/09
ENCE	BANCA MARCH	15,000	13,511
IBERSILVA	BANCO PASTOR	1,000	990
ENCE	BANESTO	10,000	4,691
IBERSILVA	BANKINTER	3,000	2,461
ENCE		2,000	204
SILVASUR		51	21
IBERSILVA	BARCLAYS	1,058	1,038
IBERSILVA	BBVA	2,800	2,552
ENCE		3,600	3,227
SILVASUR		158	158
IBERFLORESTAL	BES	250	250
IBERSILVA PT		565	565
ENCE	CAIXA GALICIA	7,165	2,415
ENA		659	659
ENCE	CAJA MADRID	6,000	444
IBERSILVA	CAJA MEDITERRANEO	2,000	1,684
IBERSILVA	CAJASOL	747	747
ENCE	KUTXA	5,000	4,687
ENCE	MAPFRE	15	15
ENCE	POPULAR	6,000	4,275
NORFOR		570	364
ENCE	SABADELL	6,000	5,910
SILVASUR		8	8
SILVASUR	SANTANDER	260	260
ENCE	VALENCIA	1,203	364
TOTAL		**75,109**	**51,500**

10.1.4 Derivative instruments

In the context of managing industrial activities and balance sheet, the Group is exposed to both financial risks (interest rate) and market risks (variations in price of cellulose, dollar/euros exchange rate and principal supplies) which can affect its sales and production costs.

In addition, the Company has contracted an equity swap to cover a special variable remuneration plan

The Group's position in cash flow coverage derivative instruments contracted to mitigate the risks identified, and their evolution, is summarised in the following table:

	2009		2008		2007	
Data in thousands of euros	Asset	Liability	Asset	Liability	Asset	Liability
Financial derivative coverage instruments	**-**	**33,344**	**4,949**	**17,763**	**4,429**	**18,413**
Interest rate	-	33,344	-	16,383	-	-
Exchange rate	-	-	-	-	-	-
Paper paste price	-	-	3,729	-	-	18,413
Fuel-oil	-	-	-	1,380	-	-
Gas	-	-	3	-	-	-
Energy	-	-	1,217	-	-	-
Other financial derivative instruments	**-**	**9,608**	-	**11,044**	**14,429**	-
Equity Swap	-	9,608	-	11,044	14,429	-
Total	-	**42,952**	**4,949**	**28,807**	**14,429**	**18,413**

10.1.4.1 Equity Swap

On 30 March 2007, the Ence Group approved a "Special Variable Remuneration Plan for the management team for the 2007-2011 financial years".

As a result of this approval, on 25 October 2007 the Company contracted an Equity Swap with Caja de Ahorros y Monte de Piedad de Madrid in respect of a total of 5,100,000 securities at a base price of 4.40 euros per share maturing on 30 June 2012. This derivative instrument accrues an interest rate of the 12 month EURIBOR plus a spread of between 125 and 325 basis points.

The negative reasonable value of the Equity Swap at 31 December 2009 amounted to 9,608,000 euros.

10.1.4.2 Interest rate hedging

The Group has contracted interest hedging to neutralise fluctuation in cash flows of Company financing payable by reference to interest rates (EURIBOR).

In this respect the Company has contracted an interest swap for 60% of total financing drawn down for a five year period (2009-2013), with the following characteristics and notional amounts:

- 2009: liquidation of variable interest rate
- 2010-2013: liquidation of fixed interest rate of 5.805%.

Millions of €	**2010**	**2011**	**2012**	**2013**
Notional	308	270	232	194

After modification of the syndicated credit in February 2009 when Tranche A was cancelled (devoted to financing the Uruguay project), this derivative has ceased to be treated as a hedging derivative for accounting purposes.

In order to determine the reasonable value of the interest rate derivatives, the Company uses the cash flow discount based on implicits determined by the euro interest rates curve, in accordance with market conditions on the valuation date.

At 31 December 2009 the negative reasonable value of the IRS was 33,344,000 euros.

10.1.4.3 Paste hedging

In order to cover the risks to which the Group is exposed as a result of fluctuations in the price of BHKP paste which significantly affect the amount of sales, The Ence Group contracted paste price swaps at two and three years as coverage for its future sales.

At 31 December 2009 the Group had no paste price hedging agreements in force.

In 2009 this coverage represented a profit of 3,808,000 euros.

10.1.4.4 Other hedging

The Group is exposed to the fluctuation of certain energy products consumed in its production process which can significantly affect its production costs. This risk is partially covered by means of "Commodity Swaps".

At 31 December 2009 the Group had no energy product hedging agreements in force.

10.2 Explanation of sources and amounts and narrative description of cash flows of the issuer

The Group principally obtained its funds from the margins deriving from the sale of cellulose paste, the sale of surplus electricity which it produces, the sale of timber to third parties, and, to a lesser extent, from the provision of forestry-type services.

The Company has further obtained funds from the sale of CO_2 emission rights allocated by the Spanish National Allocation Plan, 2008-2012. Thus, in June 2008 The Ence Group sold the 657,970 ton emission rights of CO_2 received free of charge under the said National Plan at a price of 25.4 euros per ton, with the total amount of the transaction being 16.712 million euros.

In addition, in 2009 ENCE obtained funds from the sale of shares and holdings in the Uruguay companies Eufores, S.A., Celulosa y Energía Punta Pereira, S.A. and Zona Franca Punta Pereira, S.A. The sale took place on 16 October 2009 and the price was 229,360,371 euros, paid in full on the date of the sale.

The funds obtained are used in investments necessary for the production of goods and services, expansion and improvement of infrastructure and equipment (see section 5.2), financing working capital requirements, financial expenses deriving from the financing instruments contracted, and tax obligations of the Company.

10.2.1 Cash flows

Outgoing cash flows deriving from investments have been high, due to the investment efforts made by the Company based on its Strategic Plan and the objective of extending and improving its production plants.

Furthermore, the Company has generated less cash flows from the sale of cellulose, basically due to the fall in cellulose prices and progressive strengthening of the euro during the selected historical information period, but set off in part by cash flows deriving from the sale of energy to the grid which have increased over the last 3 years due to the investments made in production plants and improvement in the regulatory framework.

At the end of 2009 the trend showed a positive change, due to improvement in the cellulose market as shown by the gradual increase in prices, strengthening of the dollar in recent months, and application of an operating cost reduction policy which the Group has undertaken during the last year in order to adapt to a more complex market environment.

10.2.2 Analysis of working capital

Details of the cash flow statement and its evolution during the selected period are shown below:

	2009 F. Year	Var in % 09vs08	2008 F. Year	Var in % 08vs07	2007 F. Year
Current Assets	**193,027**	**-39.00%**	**316,272**	**12.70%**	**280,667**
Stocks	88,844	-43.90%	158,504	82.10%	87,042
Short term hedging	-	-100.00%	4,949	N/A	-
Trade debts and other accounts receivable	90,546	-24.70%	120,287	-18.60%	147,841
Public Administrations	12,260	-56.70%	28,334	-16.90%	34,092
Non-current assets held for sale	-	-100.00%	1,554	-83.30%	9,322
Other current assets	1,377	-47.90%	2,644	11.60%	2,370
Current liabilities	**202,148**	**14.60%**	**176,400**	**30.90%**	**134,777**
Short term financial hedging instruments	-	-100.00%	1,380	-89.10%	12,688
Trade creditors and other accounts payable	195,259	21.20%	161,078	41.10%	114,161
Tax liabilities	6,465	-52.10%	13,507	77.00%	7,629
Other current liabilities	424	-2.50%	435	45.50%	299
Current Assets	**(9,121)**	**-106.50%**	**139,872**	**-4.10%**	**145,890**
Variation in Current Assets	**(148,993)**		**(6,018)**		**(37,783)**

At 31 December 2009 the Group had negative working capital of 144.8 million euros (63.2 million negative at 31 December 2008), mainly deriving from financing of non-current assets with current liabilities.

	Thousands of Euros		
	2009 F. Year	**2008 F. Year**	**2007 F. Year**
Current Assets	244,072	328,302	306,805
Current Liabilities	(388,907)	(391,540)	(349,076)
Working Capital	**(144,835)**	**(63,238)**	**(42,271)**

This situation is a relevant factor associated with the liquidity risk which the Company has been managing. In order to meet these financing requirements the Company had 13 million euros of cash and banks at 31 December 2009, and execution of the capital increase covered by this Prospectus, net of issue expenses. This position is complemented by the generation of cash by the Company itself in the 2010 financial year and renewal of existing agreements in its daily current asset management operations.

The cash flow generation capacity of the Company is favoured by the following three factors:

- A medium term improvement is estimated in the international price of cellulose paste in line with prices consolidated at the end of the 2009 financial year. In this respect, the price in international markets for cellulose paste moved from 485 USD in April 2009 to 685 USD in December 2009, the latter already in line with average 2008 prices.

- The business plan for 2010 and following years provides for much higher production capacities than those used in 2009, both in cellulose paste manufacturing and energy generation, due principally to the major reforms which have been undertaken at the Navia plant in that financial year.

- The cost reduction programme carried out in 2009 will permit savings in cellulose paste production costs within a range of 7%-10% in 2010.

The sale of collection rights to third parties (factoring) enables the Company's liquidity to be improved and the average collection period from customers to be considerably reduced. Over the course of 2009 the Company increased its lines and, together with improvement in management of sales to customers, this permitted a considerable improvement in the average collection period, at the end of 2009 being between 50-60 days compared with the 75-80 days in 2007.

Furthermore, the average payment period has also contributed to strengthening the liquidity ratio due to an improvement in payment terms to suppliers and the use of financial instruments such as confirming. In 2009 the average payment period was between 100-110 days (approximately 30 days more than in 2008).

10.3 Information regarding loan requirements and financing structure of the issuer

The Credit Agreement signed on 2 April 2008 and subsequently modified in February, June and October 2009 is subject to normal restrictions, which particularly include restriction on the distribution of profits in certain events (see the following section 20.7), restrictions on the sale of certain assets, restriction on capacity for indebtedness, or restrictions on corporate transformation operations.

Without prejudice to these obligations, ENCE must furthermore comply with certain financial ratios on the basis of the consolidated financial statements of the Group.

In addition, some of the credit agreements entered into with various financial institutions also contain restrictions on the disposal powers of the respective borrowers, which in particular include the prohibition on acts of disposal or encumbering which could reduce the value of assets and an obligation to maintain the facility with the same priority, privileges and ranking as those deriving or which may derive for other creditors by reason of agreements of similar nature.

10.4 Information on restrictions on the use of capital resources which have affected or could affect the operations of the issuer

As explained in the previous section 10.3, the syndicated credit agreement of 2 April 2008 obliges the parent company to comply with certain financial ratios and restricts capacity for new indebtedness, the acquisition of own shares and engaging in corporate operations.

Furthermore, the syndicated credit agreement establishes, as a primary obligation of ENCE, that it must carry out the necessary investments to increase the production of cellulose and electricity at the Navia, Huelva and Pontevedra plants.

The investments were already implemented in the 2006-2009 period and will be complemented by payments outstanding on them in the first quarter of 2010 in an approximate amount of 30 million euros.

After these investments are made the Company will be able to finance construction of the biomass electricity generation plant in Huelva with an installed power of 50 MW and new installations, provided that this financing takes place with free cash flow generated by the Company and on the basis of closing project financing structures without recourse to the Group.

10.5 Information relating to planned sources of necessary funds

10.5.1 Definition of optimum debt level

At 31 December 2009 the level of gross debt was 351 million euros, 186 million due short term, 156 million euros long term and 9 million euros of other financial liabilities.

The Company considers that maintenance of a solid balance sheet structure is a strategic objective given the cyclical nature of its current business, which will permit not only the extraction of maximum value from the business in periods of price increase, but also continuing to transform the profile of the Company's business by carrying out industrial efficiency programmes and implementing energy projects geared to strengthening future cash flow generation of the Company.

In this respect, the Company estimates that a suitable debt level must be around 2.5-3.0 times the EBITDA generated by operations based on an average cycle price. Based on an EBITDA level of 90-100 million euros, equivalent to the average for the 2006-2009 period which includes different phases of a complete cycle, the target net debt level would be situated within the range of 250 to 300 million euros.

On this point, it must be taken into account that variations in the price of cellulose in dollars of ±10% would have an impact of ±48% on this EBITDA rate, whilst an appreciation of the euro by 10% with respect to the dollar would give rise a reduction in EBITDA of around 35%, and a depreciation of the euro with respect to the dollar by 10% would also lead to an increase in EBITDA of around 43%.

From the point of view of debt structure, the level of debt must enable day-to-day management of working capital financing requirements to be tackled with security, gaining flexibility in order to adapt to circumstances in the market environment and prospects for sales and purchase volumes, as well as providing long term stability, levelling out payment obligations over the maturity period of investments and guaranteeing the execution of new growth projects. In this respect, the proportion of long and short term is estimated at around 75% and 25%, respectively.

This debt structure by volume and period will place ENCE in line with best practices in the paper and paste industry.

The Company took decisive steps in 2009 to achieve this objective by sale of the Uruguay project (reduction in debt by 179 million euros), active working capital management in order to release 128 million euros (without considering the effect of departure from the consolidation perimeter of the Uruguay assets), and the intensification of cost containment efforts. The proposed capital increase will enable this process to be culminated, establishing the bases for:

- Implementing the biomass energy investment projects. The contribution of own funds to these projects, which will be financed to a large extent by project finance structures without recourse, will be matched by cash flow generation of the Company.

- Strengthening the competitive position of the Company in the paste and timber market, providing stability to customers and suppliers.

- Meeting financial and investment commitments at less favourable times in the paste price cycle.

10.5.2 Use of the capital increase funds

The main objective of the capital increase is to strengthen the balance sheet structure of the Company in order to undertake, from a more solid position, implementation of its investment projects in industrial efficiency and growth in renewable energy generation with biomass.

In this respect, the third party financing of the Company in section 10.1.2 will be reduced by a significant amount, by mutual agreement with the principal financial creditors and based on the repayment timetables laid down both under the heading of credit facilities and loans, based on maturity.

The planned purpose of the income deriving from this capital increase, net of costs associated with the operation, is as follows:

1. Applying an amount equal to 80% of the funds obtained from the capital increase to early repayment of part of the short term debt of the Company, which at 31 December amounted overall to 186 million euros.

   By this initiative ENCE will reduce the financial costs which the short term debt is generating for the Company in order to strengthen its own funds and its position in an unfavourable market environment.

The reduction in ENCE liabilities, which will place the Company at a solvency level exceeding that of its sector, will permit it to strengthen its position with its financial creditors with a view to complying with its obligations which fall due and be able to negotiate, as appropriate, an improvement in the financial terms of the Company's credit instruments.

2. To devote the remaining 20% to financing part of the investment which ENCE is carrying out in the project for construction of a 50 MW installed power plant in the Huelva industrial complex, which will use biomass as fuel.

As a result of the foregoing, the net financial debt of the Group will be reduced to approximately 250 million euros and the forecast financial burden in 2010 will be around 18.9 million euros, on the assumption of cancelling 100 million euros of debt with funds from the increase.

Nevertheless, use of the funds previously indicated is approximate and may vary depending on the financing agreements which the Company plans to reach with its creditor financial institutions and referred to in section 3.1 of the Securities Note.

11. RESEARCH AND DEVELOPMENT, PATENTS AND LICENCES

Research, development and innovation have been inherent in ENCE since its foundation in 1968. The basic landmarks in historical evolution in research and development in the Ence Group have been:

- 1973: opening of the first ENCE research centre in Miranda de Ebro.
- 1982: commencement of forestry research (genetic improvement of eucalyptus) in Huelva.
- 1989: commencement of forestry research programme in Galicia (Pontevedra).
- 1990: transfer of ENCE research centre ("CIE") - industrial and forestry - to Pontevedra. Opening of new research centre.
- 1995: commencement of forestry research in Uruguay. Research centre and nurseries in Fray Bentos.
- 1998: commencement of research in molecular biology (new laboratory) in Navia.
- 2000: new corporate projects unit in the CIE.
- 2006: strategic reorganisation of R&D&i engineering activities, CIE integration.
- 2008: strengthening of forestry R&D structure, new research line in ligneous energy crops for renewable energy production.
- 2010: increase in budget to step up activities in energy crops and other areas of interest.

At the present time the research, development and innovation department covers the whole spectrum of ENCE activities, from cultivation of raw materials to the production process.

Since the end of 2006 ENCE R&D&i has focused its efforts on three basic objectives:

- In the forestry management field, increasing forestry productivity measured in tons of final cellulose per hectare planted per year.
- In the field of energy, increasing the productivity of crops devoted to renewable energy production, measured in Kcal per hectare per year.
- In the cellulose production field, producing ecological paper pastes of better quality, at competitive costs.

Based on these objectives, the R&D&i department is organised into three principal areas:

1. Industrial (cellulose and energy): Engaged in improvement of cellulose manufacturing processes and optimising renewable energy product.

2. Forestry (timber for cellulose production), with two principal research programmes: genetic improvement and forestry improvement.

3. Biomass for renewable energy production, with two principal programmes: Production of short rotation woody crops (SRWC) and another for use of waste biomass.

These activities take place through the ENCE research and development centres, both industrial and forestry, as follows:

- ENCE cellulose and energy research centre (CIE, integrated within the Pontevedra industrial complex).

- ENCE forestry research centre (attached to the Huelva cloning production nurseries). In 2010 it will include in its premises the biotechnology laboratories (timber and crops) and the laboratory for biological fight against pests and biomass treatment.

- Navia cellulose research centre, which houses the large pilot plants (continuous steaming, refining, etc.).

- Forestry research centre and nurseries in Uruguay. In 2009 after sale of the nurseries in Fray Bentos (Río Negro, Uruguay), forestry R&D activities take place from Spain through cooperation agreements with the Santa Rosa laboratories and nurseries (developments in biotechnology and cloning improvement).

As well as the R&D&I activities in its own centres, ENCE in recent years has maintained an ongoing collaboration line with several universities and research centres (public and private), both Spanish and international, with research agreements in connection with its own R&D&i programmes:

- Universities of Vigo, Santiago de Compostela, Huelva, Madrid Polytechnic University and Córdoba.

- University of the Republic of Uruguay and specific contacts and agreements with universities in Portugal (Aveiro), France (Toulouse), and Argentina.

- Research centres: CSIC (CIB/IRNA), IMIDRA, INIA (Spain and Uruguay), Areeiro Phytopathological Station (Galicia).

- Paper technology centres: STFI (Sweden), KCL (Finland), CTP (Grenoble, France), AFOCEL, IPE (Spain).

There are other types of collaboration agreements with universities which particularly include:

- Creation of the ENCE Chair at the University of Vigo, at which bi-annual forestry seminars are held of national scope and research into energy crops for the northwest.

- Creation of the Eucalyptus Research and Documentation Centre ("CIDEU"), with the University of Huelva, the first centre in Europe of its characteristics and with the objective of selecting, identifying, analysing and disseminating scientific information regarding eucalyptus and scientific areas connected with the forestry sector.

During the last 3 years investment in R&D&i projects amount to around 6 million euros, broken down as follows:

	Data in millions of euros		
	2009 Financial Year	**2008 Financial Year**	**2007 Financial Year**
Industrial (cellulose and energy)	0.715	1.155	1.174
Forestry (timber for cellulose production)	0.649	0.632	0.659
Biomass, energy crops (for renewable energy production)	0.512	0.300	0.100
Total	**1.876**	**2.087**	**1.933**

In 2010 a substantial increase is planned in the budget to respond to the new challenges raised, in particular in biomass.

Resources applied in the 2007-2009 period were devoted to the programmes described below, and were certified as R&D projects in accordance with Royal Decree 1432/2003, of 21 November, regulating issue by the Ministry of Science and Technology of grounded reports relating to compliance with scientific and technological requirements for the purposes of the application and interpretation of technology research development and innovation tax deductions:

1. Industrial (cellulose and energy): Devoted to improving cellulose production processes and optimising the production of renewable energy.

Cellulose

The objective of the cellulose programme is to improve cellulose production processes, operating cost saving and improvement in paste quality.

For these purposes, during the selected historical financial information period, innovations have been implemented for energy saving and reduction in the consumption of steamed timber by adapting new continuous steaming systems.

Furthermore, there has been work on technology improvements in ECF and TCF technology pastes with a view to paper performance improvements.

With respect to paste bleaching, new TCF Bleaching sequences have been researched (peracetic acid, high consistency ozone), developing improvements in the production of EFC and TFC ecological pastes, increasing efficiency in reducing the cost of the pressurised peroxide stage (adapting new additives in order to develop the double chelate stage and completing the TFC paste iron profile project).

In parallel, trials have increased on pilot scale to define optimum operating conditions for modified steaming and bleaching of the different eucalyptus woods and a new research line in water saving has been opened up.

Technical assistance to plants has been continued in complex quality problems and support for sales management in the field of technical assistance for customers.

Energy

In the energy field different types of biomass have been evaluated as fuels for the production of renewable energy and joint studies carried out with forestry research to prepare detailed energy efficiency balances of each of the fractions of woody energy crops.

Furthermore, different activities and projects have been carried out in relation to the new concept of “bio-refinery” which seek to provide production plants with new applications and products.

A new research line has been commenced for use of ash produced in biomass combustion as fertiliser.

2. Forestry, timber for the production of cellulose, with two principal research programmes: genetic improvement and forestry improvement.

Genetic improvement programme:

The genetic improvement programme has the objective of ongoing increase in production per unit of forested area. This increase in forestry productivity translates into a greater growth of the mass in volume and better quality timber, which firstly means greater individual growth and better adaptation of limiting factors and greater tolerance to competition, and secondly a greater basic density, better gross yield on steaming and better technical timber characteristics.

This increase in productivity is based on the use, in each area of improvement of the forestry catchment area of ENCE, of genetic material which is better adapted to the limiting factors found in them, based on the geographical location of each population. In this respect, actions in recent years have been aimed at designing a genetic improvement strategy based on selection of best individuals and clonal reproduction of those which fulfil the greatest number of characteristics of interest in improving forestry productivity indices and industrial yields.

Genetic activities are focused on four principal research projects:

- Genetic improvement of *eucalyptus globulus*: reproduction of improved population and obtaining new clones.

- Genetic improvement of *eucaliptus globulus*: mass selection, clonal evaluation and plant reproduction techniques.

- Crossing to obtain hybrids and better genetics of other eucalyptus species.

- Biotechnology for eucalyptus.

Specific actions in this programme include improvement of the standards which mark the guidelines for clonal selviculture to be applied within the different geographical areas and completion in Huelva (2008) of the new nursery for mass production of clones for timber for cellulose and superior material for woody energy crops.

It should be emphasised that the planting of clones began in 1999, and in 2009 already exceeded 30,000 hectares of clonal plantations in the forest assets of the Group.

In this respect, ENCE has in recent years obtained registration of ownership of the following varieties of clones, which have been granted by the Community Plant Variety Office:

Species	Clone	Application reference no.	Date of receipt at the CPVO
Eucalyptus globulus	Anselmo	2008/0185	28/01/2008
Eucalyptus globulus	Candón	2008/1022	07/05/2008
Eucalyptus globulus	Odiel	2008/1023	07/05/2008
Eucalyptus globulus	Tinto	2008/1024	07/05/2008
Eucalyptus globulus	Sancho	2008/1025	07/05/2008
Eucalyptus globulus	Piedras	2008/1026	07/05/2008

The same steps have been taken in Uruguay, Brazil and Argentina to guarantee ownership of our clonal material improvements.

Forestry Improvement Programme

The forestry improvement programme has the objective, for each area of improvement in accordance with its characteristics, of increasing the production of raw material by forestry techniques with a minimum environmental effect. The objective is to achieve greater volume growth, longer survival and better technical characteristics of timber, which is resistant to biotic and abiotic factors and which reduce the cost of all operations, including those of harvesting.

Forestry actions focus on four principal research projects:

- Techniques for preparation of land and planting.
- Forestry treatments, control of undergrowth and production modelling.
- Fertilisation and nutritional evaluation of eucalyptus.
- Combating pests and disease.

Development of these two research programmes (financed by the CDTI) have resulted in obtaining clones resistant to drought, attack by phoracantha, cold and flooding, and the development of forestry techniques appropriate for clonal material and the different improvement zones, which has facilitated an increase in productivity of forestry area above 100% with respect to improved seed, and in the case of Huelva the latest generation improvement clones (F1), applying all improvements of the forestry clonal package, showing improvements with respect to historical forestry production in Huelva of more than 200%.

3. Biomass for renewable energy production.

With two principal programmes: production of short rotation woody energy crops (SRWC) and use of biomass waste.

In 2007 ENCE, taking advantage of its strategic benefits and clear synergies on the basis of its forestry knowledge, began a new research programme focused on biomass for the production of renewable energy.

This programme was fundamentally based on large-scale production at competitive price of short rotation woody energy crops of different species of interest (eucalyptus, poplar, paulownia, leucaena, etc.) in the different areas (Galicia, Asturias, Huelva, Castilla, etc.) with different techniques (irrigation land, non-irrigation land) and different land (forestry, agricultural). Research also began on economic exploitation of forest debris as biomass, generated in our forestry activities.

Actions with biomass are centred on three principal research projects:

- Selection and improvement of species for energy crops.
- Energy crop techniques (selviculture)
- Mechanisation of planting and harvesting of energy crops. Techniques for utilisation of residual biomass.

The principal achievements are the planting of over 8,000 hectares with best materials and obtaining experimentation plots of more than two years, which provide information on material improvements and practices in order to increase productivity per hectare.

12. INFORMATION REGARDING TRENDS

12.1. Most significant recent trends in production, sales and stocks and costs and sale prices between the end of the last financial year and the date of the Registration Document

There have been no significant changes affecting the Ence Group in its production, sales and stock and costs and sale prices between the end of the financial year and date of the Registration Document.

12.2. Information regarding any known trends, uncertainties, demands, commitments or facts which could reasonably have a major effect on the prospects of the issuer.

There are no known trends, uncertainties, demands, commitments or facts which could reasonably have a substantial effect on the prospects of the Ence Group.

13. PROFIT FORECASTS OR ESTIMATES

Not applicable. No profits forecasts or estimates are included.

14. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES AND SENIOR EXECUTIVES

14.1. Name, professional address and position in the issuer of members of administrative, management or supervisory bodies and of any senior executives who may be relevant in order to establish that the issuer has the appropriate qualifications and experience to manage the activities of the issuer, indicating the principal activities which these persons undertake outside the issuer, if such activities are significant with respect to that issuer

14.1.1. Name, professional address, position and principal activities of members of the board of directors

In accordance with the provisions of its articles of association, ENCE is managed by a board of directors comprising a minimum of 8 and a maximum of 16 members. At the present time the board of directors comprises 14 members.

The general meeting is responsible for their appointment and removal, with the position of director being revocable at all times, re-electable and capable of resignation. The duration of the office of director is three years.

Name	Date of first appointment	Position	Nature of position	Professional address
Mr. Juan Luis Arregui Ciarsolo	07/02/2006	Chairman	Executive	Avenida de Burgos 8, Madrid.
Mr. Antonio Palacios Esteban	17/11/2008	Managing director	Executive	Avenida de Burgos 8, Madrid.
Retos Operativos XXI, S.L., represented by Mr. Javier Arregui Abendivar	07/02/2006	Member	External representative	Avenida de Burgos 8, Madrid.

Name	Date of first appointment	Position	Nature of position	Professional address
Mr. Pascual Fernández Martínez	25/05/2005	Member	External representative	Avenida de Burgos 8, Madrid.
Mr. Javier Echenique Landiribar	29/12/2005	Member, proposed by Alcor Holding, S.A.	External representative	Avenida de Burgos 8, Madrid.
Atalaya Inversiones, S.R.L., represented by Mr. Gonzalo Suárez Martín	14/06/2005	Member	External representative	Avenida de Burgos 8, Madrid.
Mr. Pedro López Jiménez	25/02/2010 [1]	Member, proposed by Fidalser, S.L.	External representative	Avenida de Burgos 8, Madrid.
Norteña Patrimonial, S.L., represented by Mr. Jesús Ruano Mochales	07/06/2002	Member, proposed by Caja de Ahorros de Asturias	External representative	Cajastur, San Francisco 14, 33003, Oviedo
Mr. Fernando Abril-Martorell Hernández	30/03/2007	Proposed by appointments and remuneration committee	External (Others)[2]	Avenida de Burgos 8, Madrid.
Mr. José Carlos del Álamo Jiménez	29/06/2009	Member	External independent	Avenida de Burgos 8, Madrid.
Mr. Gustavo Matías Clavero	30/03/2007	Member	External independent	Avenida de Burgos 8, Madrid.
Mr. José Guillermo Zubía Guinea	30/03/2007	Member	External independent	Avenida de Burgos 8, Madrid.
Mr. José Manuel Serra Peris	10/10/2000	Member	External independent	Avenida de Burgos 8, Madrid.
Mr. Pedro Barato Triguero	25/06/2008	Member	External independent	Avenida de Burgos 8, Madrid.

(1) Mr. Pedro López Jiménez was appointed member of the board of directors by coopting.

(2) Mr. Fernando Abril-Martorell Hernández cannot be considered representative or independent director since up to the time of his appointment as director on 30/03/07 he held the position of individual representative of Retos Operativos XXI, S.L.

<u>Education and professional experience of directors</u>

<u>Mr. Juan Luis Arregui Ciarsolo</u>

A native of Mallavia (Vizcaya), he currently occupies the position of Chairman of the board of directors and chairman of the ENCE executive committee.

He is a technical engineer from the Bilbao school of engineering, a graduate in numeric control from Wandsdorf (Germany) and holds a masters in micro-mechanical engineering from Besançon (France). He was founder of the company Foresta Capital, S.L. He is furthermore external representative director of Gamesa Corporación Tecnológica, S.A. (since 1976) and first Deputy Chairman of Cartera Industrial Rea, S.A. (since 2008), and director of Iberdrola, S.A. (since 1993), having occupied the positions of member of the audit committee (1999-2001), member of the executive committee (since 2002), member of the appointments and remuneration committee (since 2004) and Deputy Chairman of the board of directors (since 2006).

He has also occupied the positions of Chairman of Gamesa (until 1995), of which he was founder (in 1976), chairman of Corporación Eólica Cesa, S.L., co-Chairman of Grupo Guascor (1995-2003), and director of Gestora de Proyectos y Contratos, S.A., of which he was co-founder.

<u>Mr. Antonio Palacios Esteban</u>

He currently occupies the positions of member of the board of directors, of the executive committee and managing director of ENCE since November 2008.

A graduate in Economic Sciences, he began his professional career in 1974 in Price Waterhouse where he occupied various positions of responsibility in the auditing and control department and subsequently at the "Instituto de Crédito Oficial" (ICO) with responsibilities in the areas of management control and inspection of Financial Institutions which form part of the "Crédito Oficial". In 1987 he joined the Telefónica Group as Director of Development of the Industrial Division. Since that date he has occupied different positions as Finance Director of Telefónica Internacional, participating in management of the international expansion of the Telefónica Group (acquisition and subsequent financial management of operations, principally in Chile, Argentina and Brazil) during the 1990s, as from 1999 becoming Deputy Chief Executive and Chief Executive of various divisions of "Corporación del Grupo Telefónica" (Finance, Management, Control and Accounting, and Resources, with responsibilities in the latter case in global procurement areas, information systems and management of Group real estate).

He has been a member of the audit committee of the Institute of Accounting and Auditing ("ICAC") and of the board of directors of the following companies: Telefónica de Argentina, Sociedad Operadora de Telecomunicaciones, Telefónica del Perú, Sociedad Operadora de Telecomunicaciones, Telfisa, cash management company of the

Telefónica Group, and Telefónica Inmobiliaria, a company holding real estate of the Telefónica Group.

At the present time, and since November 2009, he has occupied the position of deputy chairman of ASPAPEL, the Spanish association Paste, Paper and Cardboard Producers.

Mr. Gonzalo Suárez Martín

Native of Motril (Granada), he occupies the position of individual representative of Retos Operativos XXI, S.A., which is an external representative director on the board of directors of ENCE, and member-secretary of the ENCE audit committee.

A graduate in Law from the University of Granada, he has occupied different positions such as Deputy Member for Innovation, Science and Business of the Andalusia Regional Government, Chairman of the Management Board of the University of Granada, Chairman of the Andalusian Company for Telecommunications Development, SANEDETEL, S.A., Deputy Chairman of the Andalusia Innovation and Development Agency (formerly Andalusia Institute of Development, "IFA"), Deputy Chairman of the "Fundación Parque Tecnológico Campus de la Salud", Secretary and member of the board of directors of "Sociedad Tasaciones Inmobiliarias, TINSA. S.A.", member of the board of directors of Euro 6000, Secretary of the board of directors of the company publishing the magazine *Andalucía Económica*, member of the board of directors of "Sociedad de Equipamientos e Infraestructuras de Granada, INGRA, S.A.", General Secretary of the International Association of Pledge Credit Undertakings, member of the Legal Committee of the Spanish Confederation of Savings Bank ("CECA"), and member of the Regional Board for Andalusia and Extremadura of Asepeyo.

Over the course of his professional career he has also occupied various positions in Caja Granada, as General Manager and Secretary of the Board of the Caja Granada Foundation, Secretary of the Board of the "Fundación La General para el Desarrollo Solidario" (Caja Granada), Subdirector of External Relations of Caja General de Ahorros de Granada and Representative of Caja Granada on the Granada Music Consortium (Granada City Orchestra).

He currently occupies the position of Deputy Chief Executive and General Secretary of Caja Granada.

Mr. Pedro López Jiménez

A native of Málaga, he occupies the position of representative external director of ENCE.

A Civil Engineer, he has been Director of Construction of Thermal Power Stations at Hidroeléctrica Española, Director and Chief Executive of "Empresarios Agrupados", Director of the National Institute of Industry, sub-Secretary at the Ministry of Public Works and Planning, Director General of Ports, Director of Unión Fenosa and Enher, and Chairman of ENDESA. He was further the founder of the Spanish Confederation of Business Organisations ("CEOE") and of the Industrial Business Federation, member of the management board of "Club Español de Energía", Director of Atlas Copco, S.A., Lingotes Especiales, S.A., CEPSA and Deputy Chairman of INDRA.

At the present time he is Director and member of the executive committee of ACS Actividades de Construcciones y Servicios, S.A., Director of ACS Servicios y Concesiones, S.A., Deputy Chairman of Dragados, S.A., Chairman of the Terratest Group and member of the board of the University of Alcalá de Henares.

Mr. Javier Arregui Abendivar

A native of Durango (Vizcaya), he currently occupies the position of individual representative of Retos Operativos XXI, S.L., which is external representative director on the board of directors of ENCE and member of its appointments and remuneration committee.

A graduate in Business Administration at the University of Saint Louis (Missouri, USA), he began his professional career in 1992 in the Commercial Department of the Guascor Group, occupying various positions until, in 1996, he was appointed Chief Executive in Argentina. In 2002 he returned to Spain where until 2005 he occupied management positions in the Seche Group as member of the board of directors of Cesa, Guascor Group, Foresta Capital and as comptroller and head of procurement of Campo Noble, S.A.

At the present time he occupies the position of sole director of the Foresta Group.

Mr. Pascual Fernández Martínez

A native of Albacete, he currently occupies the position of member on the board of directors and member and Secretary of the ENCE appointments and remuneration committee.

He has a doctorate in Economic and Business Sciences and his professional activities have basically been in Public Administration, both in educational and research areas, at the Universities of Madrid (Autonomous and Rey Juan Carlos) and Valladolid, and in management tasks in the Autonomous Regions of Castilla y León and Madrid, and at the Ministries of Economy and Finance and of Environment.

He is currently Professor of Applied Economy at the Rey Juan Carlos University in Madrid, Professor on the Executive Masters in Public Administration ("EMPA") at the Instituto de Empresa Business School, and on the Masters in Infrastructure and Public Services Management of the College of Civil Engineers and Madrid Polytechnic University; Director of the "Economía de Madrid" Study Centre of the Rey Juan Carlos University, Chairman of the Economy and Environment Committee of the Madrid College of Economists, member of "L'Association D'Instituts Européens de

Conjoncture Economique" ("AIECE), advisory member of the CYTED Science and Technology Programme with Latin America.

He has formed part of the board of directors of several companies, including Sodical, Renfe, Instituto de Crédito Oficial ("ICO"), Gran Telescopio de Canarias, Sociedad Gestora de Planes de Pensiones de Caja Madrid and Gamesa Corporación Tecnológica, S.A.

Mr. Javier Echenique Landiribar

A native of Isaba (Navarre), he currently occupies the position of external representative director on the board of directors of ENCE and is a member of the ENCE executive committee and audit committee.

A graduate in Economic and Actuarial Sciences, he has been Director-Chief Executive of Allianz-Ercos and Chief Executive of the BBVA Group.

He is currently Chairman of Banco Guipuzcoano, Director of REPSOL YPF, S.A., Actividades de Construcción y Servicios (ACS), S.A., Abertis Infraestructuras, S.A., Telefónica Móviles México and Celistics, S.L.

He is also a member of the Board of the Novia Salcedo Foundation and of the Altuna Foundation and member of the Advisory Board of Telefónica de España and Director of Telefónica, S.A. in the Basque Country.

Mr. Jesús Ruano Mochales

A native of Madrid, he currently occupies the position of individual representative of Norteña Patrimonial, S.L., which is external representative director on the board of directors of ENCE, and a member of the ENCE audit committee.

Graduate in Economic and Business Sciences from CUNEF, and specialised in finances at DEUSTO, he occupied the position of Assistant Manager at The Chase Manhattan Bank between 1997 and 2000, and the position of Subdirector of Mergers and Acquisitions at NM Rothschild & Sons (investment banking) between 2000 and 2005.

At the present time he is Director of the Subsidiaries Division of CAJASTUR and member of the Management and Financial Management Committee.

He is also representative of CAJASTUR on the board of directors of different companies such as ITINERE, TELECABLE, CAPSA, General de Alquiler de Maquinaria, S.A. and SEDES.

Mr. José Carlos Del Álamo Jiménez

He currently occupies the position of independent external director of ENCE.

He is a forestry engineer from the Madrid Polytechnic University. He has a diploma from ESADE. He is also Professor on the Masters course for Energy Efficiency and Climate Change at the University Institute of Environmental Sciences at the Madrid Complutense University, Professor on the Masters course of Natural Environment Project Engineering at the Madrid Polytechnic University and Professor on the Advanced Course on Forestry Management Instruments and Policies, Institute of European Studies of the Carolina Foundation, San Pablo University-CEU and others.

He has occupied senior positions in both Central Government, in which he was Director General for Nature Conservation (Ministry of the Environment) and in Regional Government where he created the Department of the Environment of the Galicia Regional Government and was Director between 1997 and 2003 and Director General of Forests and Natural Environment between 1990 and 1996.

He is also President-Dean of the College and Association of Forestry Engineers, Chairman of the Forum "Forests and Climate Change", Chairman of the "Environmental Forum for Economic and Social Progress" and Member on the Regional Hunting Board of the Castilla y León Regional Government, Deputy Chairman of the National Parks Autonomous Body, Chairman of the Management Board of the Islas Atlánticas National Park, Member of the Environmental Advisory Board, and Chairman of the Galicia Environment Council.

He is currently Chairman and Managing Director of TECNOMA, S.A., an environmental engineering and consultancy firm, Chairman of Tecnoma Energía Sostenible, S.A., Chairman of Tecnoma Aprovechamientos Energéticos, S.L., Chairman of Estadística y Servicios, S.A., all of the TYPSA Group, of which he is also Director.

Mr. Fernando Abril-Martorell Hernández

A native of Segovia, he occupies the position of external director on the board of directors of ENCE, is Chairman of the ENCE appointments and remuneration committee and member of the ENCE executive committee.

A graduate of Law and Economic and Business Sciences from the Pontificia de Comillas University, he began his professional career at JPMorgan where between 1986 and 1996 he carried out different functions in the Financial Markets field. In 1996 he joined the Telefónica Group as Finance Director. In 1998 he was appointed Chairman of de TPI-Páginas Amarillas and in 2000 was appointed Managing Director of the Group, a position he held until the end of 2003.

At the present time he occupies the position of CEO of the Credit Suisse Group in Spain and belongs to the board of directors of Telecomunicaciones de Sao Paulo. He is also patron of the University of Comillas Foundation, of the +Family Foundation and of the Fernando Abril-Martorell Foundation.

Mr. Gustavo Matías Clavero

A native of Salamanca, he currently occupies the position of independent external director of ENCE and member of the ENCE appointments and remuneration committee.

He has a Doctorate in Economic and Business Sciences from the Madrid Autonomous University ("UAM", 1993), is a Graduate in Information Sciences from the Madrid Complutense University ("UCM" 1977), Professor of International Economic Organisation at the Faculty of Economics and Business of UAM (where he has taught since 1986) and holds a Masters in Balance Sheet Analysis from the "Instituto de Empresa" (1982). He is a member of the Economic Consensus expert panel of Price Waterhouse Coopers, assessor of three scientific publications and regular contributor to the magazine *Consejeros*. As consultant and researcher he is principally occupied with the new information and knowledge economy (on which he gave doctorate courses for ten years at UAM), health, education and sustainable development.

He has been contributing professor of CUNEF for three years, at Universitas Nebrissensis for a further three years, European Business School, "Escuela de Organización Industrial" and "Escuela de Ingenieros de Telecomunicación". He has co-directed and given summer courses at UAM, UCM, Basque Country University, University of Valladolid, UIMP and Segovia. Advisor to the Directors of the Masters Course in Telemática (Caixa Galicia), he has also directed a dozen courses of the European Social Fund and others on sustainable development and its indicators.

He has been a member of the Telecommunications Regulation Group ("GRETEL"), Deputy Chairman of the Spanish Distance Working Association and Director of the Spanish Association of Telecommunication and Information Technology Law.

In 1978 he was decorated by Royal Decree as member of the Order of Agricultural Merit and has received various national prizes from the National Statistics Institute and for economic journalism.

Mr. José Guillermo Zubía Guinea

A native of Seville, he currently occupies the position of independent external Director on the board of directors of ENCE and is also a member of the ENCE executive committee and Chairman of its audit committee.

He is a graduate in Law from the Madrid Complutense University. He undertook studies in Economy at the same Complutense University and on Taxes at the "Centro de Estudios Económicos y Tributarios".

He has been businessman and advisor to several undertakings. He was General Secretary of the "Sindicato Empresarial Alavés" ("SEA") from 1979 to 1995. He has been General Secretary of the Basque Business Confederation ("Confebask") since October 1995. He also participates in an ongoing manner in various courses and conferences and regularly at the Menéndez Pelayo International University, El Escorial Summer Courses and the Summer School of the Basque Country University.

He is presently also a member of the board of directors of "Sociedad para la Promoción y Reconversión Industrial" ("SPRI") and member of the management board of Mutualia.

In the institutional field he is also a member of the management board of CEOE, member of the Economic and Social Council of Spain and its Economy and Labour Relations Committees, Chairman of the Business Delegation at the General Social Dialogue of the Basque Country, member of the Basque Board of Labour Relations, member of the Basque Economic and Social Council and Deputy Chairman of the "Innobasque" Business Transformation Area.

Mr. José Manuel Serra Peris

A native of Valencia, at the present time he occupies the position of independent external director on the board of directors of ENCE and is a member of the ENCE audit committee.

He is a graduate in Law from the University of Valencia (1981) and a State Attorney (1984).

He engaged in his activities in the Administration firstly as State Attorney in the Valencia Tax Office and in the Courts of the Valencia Region (1986 to 1996), and later occupied various public positions in Central Government, mainly in the Ministry of Industry and Energy, where he was firstly Technical General Secretary (1996-1998), then sub-Secretary (1998) and finally Secretary of State for Industry and Energy (1998-2000), a position which he left at his own request. He was also Chairman of the Spanish Patents and Trademarks Office and Chairman of the Centre for Energy, Environmental and Technology Research ("CIEMAT") and Chairman of the CDTI.

He has been member of the boards of directors of SEPI (State Industrial Holdings Company) and of the SEPPA (State Asset Holdings Company), bodies with which he engaged in the process of privatising the public companies IBERIA, Líneas Aéreas de España, S.A., ENDESA, RED ELECTRICA DE ESPAÑA, S.A., URALITA, S.A. and Cable y Televisión de Cataluña, S.A. (MENTA) – AUNA Group.

As well as legal advisory and consultancy activities, he is also currently member of the board of directors of Natraceutical, S.A.

Mr. Pedro Barato Triguero

A native of Calzada de Calatrava (Ciudad Real), he currently occupies the position of independent external director of ENCE.

A graduate in Law, since 1978 he has been member of the National Confederation of Agriculturalists and Stockbreeders and since 1990 national president of the "Asociación Agraria de Jóvenes Agricultores" ("ASAJA"). He also occupies the positions of Deputy Chairman of the Spanish Confederation of Business Organisations ("CEOE"), is member of the Praesidium of the EU Committee of Agricultural Organisations ("COPA"), member of the PAC consultative committee of the European Commission, Chairman of the Spanish Olive Oil Interprofessional Organisation, Chairman of the "Asociación de Mutuas de Accidentes de Trabajo" ("AMAT"), and Chairman of the "Confederación Nacional de Cultivadores de Remolacha y Caña Azucareras".

Between 1997 and 2007 he was member of the European Union Economic and Social Committee, and between 1991 and 2007 member of the Spanish Social and Economic Council.

Directors of the Company have not been convicted of offences of fraud nor have they been subject to official public investigation or sanction by statutory or regulatory authorities, nor disqualified by a court as a result of their actions as member of administrative, management or supervisory bodies of an issuer or their activities in management of the affairs of an issuer in the last five years.

Neither are there family relationships between members of the board of directors, except for the father-son relationship between the individual representative of Retos Operativos XXI, S.L., Mr. Javier Arregui Abendivar, and Mr. Juan Luis Arregui Ciarsolo.

The undertakings in which they occupy or have in the last five years occupied positions in accordance with the foregoing have not been declared in insolvency or temporary receivership nor liquidated.

The non-director Secretary of the board of directors is Mr. José Antonio Escalona de Molina, who was appointed to the said position on 26 July 2006.

The regulations of the board of directors and internal code of conduct in securities market reserved matters of the Company can be consulted on the ENCE website (www.ENCE.es) and at its registered office (Avenida de Burgos 8, Madrid).

In the 2009 the board of directors met on ten occasions.

Undertakings in which members of the board of directors are members or members of administrative, management and supervisory bodies

The positions occupied by members of the administrative, management and supervisory bodies of ENCE in other companies are detailed below:

Name	Undertakings in which they are member or member of administrative, management and supervisory bodies
Mr. Juan Luis Arregui Ciarsolo	Deputy Chairman of Iberdrola, S.A. Director of Gamesa Corporación Tecnológica, S.A.
Mr. Antonio Palacios Esteban	-
Retos Operativos XXI, S.L., represented by Mr. Javier Arregui Abendivar	Mr. Javier Arregui Abendivar is sole director of Foresta Capital, S.L.
Mr. Pascual Fernández Martínez	-
Mr. Javier Echenique Landiribar	Director of Abertis Infraestructuras, S.A. Director of Repsol YPF, S.A. Director of ACS Servicios y Construcciones, S.A. Chairman of Banco Guipuzcoano, S.A.
Atalaya Inversiones, S.R.L., represented by Mr. Gonzalo Suárez Martín	Mr. Gonzalo Suárez Martín is Director of Uralita, S.A. and Tubacex, S.A.
Mr. Pedro López Jiménez	Director and member of the executive committee of ACS Actividades de Construcciones y Servicios, S.A. Director of ACS Servicios y Concesiones, S.A. Deputy Chairman of Dragados, S.A.
Norteña Patrimonial, S.L., represented by Mr. Jesús Ruano Mochales	Mr. Jesús Ruano Mochales is representative of Cajastur on the board of directors of Itinere, Telecable, Capsa, General de Alquiler de Maquinaria, S.A. and SEDES.
Mr. Fernando Abril-Martorell Hernández	Director of Cintra Concesiones de Infraestructuras de Transporte, S.A.

Name	Undertakings in which they are member or member of administrative, management and supervisory bodies
Mr. José Carlos del Álamo Jiménez	Managing Director of Tecnoma, S.A. Director of Estadística y Servicios, S.A.
Mr. Gustavo Matías Clavero	-
Mr. José Guillermo Zubía Guinea	-
Mr. José Manuel Serra Peris	Director of Natraceutical, S.A. Director of Corporación Financiera Alba, S.A.
Mr. Pedro Barato Triguero	-

14.1.2. Executive committee

The articles of association of ENCE provide that the board of directors may from amongst its members designate an executive committee, which at the date of this Registration Document comprises the following members:

Name	Position on the executive committee	Nature of position on board
Mr. Juan Luis Arregui Ciarsolo	Chairman	Executive Director
Mr. Antonio Palacios Esteban	Member	Executive Director
Mr. Javier Echenique Landiribar	Member	Representative external director
Mr. Fernando Abril-Martorell Hernández	Member	External director (Others)
Mr. José Guillermo Zubía Guinea	Member	Independent external director

The non-member Secretary of the executive committee is Mr. José Antonio Escalona de Molina.

In the 2009 financial year the executive committee met on 16 occasions.

14.1.3. Executives and other persons responsible for management of the Company at the highest level

The management committee of ENCE comprises the following persons:

Name	Position
Mr. Antonio Palacios Esteban	Managing Director
Mr. Luis Aperribay Bilbao	Chief Executive – Industrial
Mr. Luis Lopez Van Dam De Lorenzo	Chief Executive – Energy
Mr. Diego Maus Lizariturry	Chief Financial Officer
Mr. Guillermo Medina Ors	General Secretary and Head of Legal Department
Mr. José Manuel Seoane	Director of Corporate Services
Ms. María José Zueras Saludas	Director of Human Resources

Education and professional experience of ENCE executives

Mr. Antonio Palacios Esteban

See previous section 14.1.1.

Mr. Luis Aperribay Bilbao

An Industrial Engineer, he began his professional career in 1998 in the GKN Driveline Group, and between that date and 1995 occupied different positions in companies in that group, from cost and special project analyst to plant director. In particular, he worked in GKN INDUGASA between 1995 and 2001 and Malaysia and Vigo projects, where as Chief Executive he headed two production plant construction and development projects..

In 2001 he was appointed Chief Executive for Spain of GKN Driveline and in 2004 became Chief Executive for Southern Europe of the GKN Group, where he worked until 2008.

He joined ENCE in 2008, where he occupies the position of Chief Executive – Industrial.

Mr. Luis López Van Dam de Lorenzo

Graduate in Law from the Madrid Complutense University, Masters in Business Legal Advice and Financial Management.

He began his professional career as risk analyst at Commerzbank A.G. and subsequently occupied various positions in the Telefónica Group where he acted as General Secretary of Telefónica Internacional, Deputy Chief Executive to the Chairman of Telefónica, Managing Director of Telefónica Intercontinental, and Executive Deputy Chairman of Telefónica Móviles. He also carried out the functions of advisor in Klarmovil GMBH in Spain and Managing Director of WorldSpace Radio España.

He joined ENCE in March 2009. He occupies the position of Chief Executive – Energy.

Mr. Diego Maus Lizariturry

Graduate in Economic and Business Sciences from CUNEF and European Financial Analyst (CEFA).

He began his professional career in the Telefónica Group where he acquired experience in evaluation of undertakings, corporate operations and financial markets in the positions of Sub-director General for Investment Control and Analysis of Telefónica Internacional, Chief Executive of Corporate Finance?) and Director of Investor Relations of Telefónica, S.A.

In June 2007 he joined ENCE as Executive Attached to the Chairman and Corporate Development of the ENCE Group. He currently occupies the position of Chief Financial Officer.

Mr. Guillermo Medina Ors

Graduate in Law and Diploma in Business Sciences (ICADE- Pontificia University of Comillas-Madrid), Masters in Financial Economics (Postgraduate Institute of the Pontificia University of Comillas-Madrid), Masters in Institutional Communications and Policy (Carlos III University, Madrid), Competition Law Course (University of Amsterdam), Attorney Instruction Programme (Harvard University), Negotiation Seminar (Harvard University). He has undertaken Law Doctorate courses (Law Facility, Madrid Complutense University).

He has worked in the field of Capital Markets with Dresdner Bank AG (Frankfurt, 1990), in the Legal Department of Commerzbank AG, Branch in Spain (Madrid, 1991) and in the Telefónica Group (1992-1997), as Sub-director of the Telefónica Internacional, S.A. Legal Department (Madrid) and Deputy General Secretary of Unisource AG (Zürich). He subsequently entered legal practice, for several years (1997-2009), amongst others as senior associate in Iberforo - Alzaga, Marañón, Sánchez-Terán & Asociados and partner in Cremades & Calvo-Sotelo (Madrid).

In June 2009 he joined ENCE, where he occupies the positions of General Secretary and Director of the Legal Department.

Mr. José Manuel Seoane García

Industrial Engineer, he began working with ENCE in April 1973 and over the course of his professional career he has occupied different positions in the Company as Head of Production, Plant Sub-director and Director of Production of the Pontevedra plant.

In 1988 he took over management of the Pontevedra industrial complex and in 2005 carried out the functions of Operations Director until 2007 when he was appointed Chief Executive for Uruguay. Since 2009 he has carried out the functions of ENCE Corporate Services General Manager.

Ms. María José Zueras Saludas

Graduate in Law from the University of Zaragoza and Diploma in Legal Advice from the Madrid Complutense University. Masters in Human Resources Management from CESEM and General Management course at ESADE.

She began her professional career in legal practice in the firm of Pérez-Gurruchaga Abogados. Between 1984 and 1995 she worked at the National Institute of Industry/Teneo, S.A. where she occupied the position of Sub-director of Personnel and Sub-director of Industrial Relations. Between 1995 and 1996 she occupied the position of Sub-director of Industrial Relations in the State Industrial Agency. Between 1996 and 2002 she was Director of Human Resources of the Aceralia Group, where she was a member of the Management Committee. Between 2002 and 2006 she occupied various management positions as Management Development Executive Vicepresident of the Arcelor Carbon Sheet Steel Sector, Director of Labour Relations at Telefónica España, S.A.U. and Human Resources Knowledge and Process Management director of Axa Winterthur.

In November 2007 she joined ENCE, where she occupies the position of General Director of Human Resources.

The executives of the Company do not engage in activities outside the Company of significance to it, nor have they been convicted of offences of fraud or been subject to official public investigation or sanction by statutory or regulatory authorities, nor disqualified by a court as a result of their actions as member of administrative, management or supervisory bodies of an issuer or their activities in management of the affairs of an issuer in the last five years.

Neither are there family relationships between the executives of the Company. The undertakings in which they occupy or have in the last five years occupied positions in accordance with the foregoing have not been declared in insolvency or temporary receivership nor liquidated.

14.2. Conflicts of interest

Apart from the connected operations described in the following section 19, members of the board of directors and management of the Company are not subject to other conflict of interest situations.

The following is excepted from the foregoing:

(i) Mr. Juan Luis Arregui Ciarsolo and Mr. Fernando Abril-Martorell Hernández, who have an indirect holding in the company Foresta Capital, S.L., and the individual representative of Retos Operativos XXI, S.A., Mr. Javier Arregui Abendivar, who is sole director of the said company. The corporate objects of Foresta Capital, S.L. do not coincide with those of the Company but comprise activities complementary to its sector.

(ii) Mr. José Carlos del Álamo Jiménez, who has a minority holding in the company Técnica y Proyectos, S.A., which in turn holds 99,99% of Tecnoma, S.A., which in turn has a controlling holding in Tecnoma Energía Sostenible, S.A., and is Chairman of the board of directors of the said company. The principal activities of Tecnoma Energía Sostenible, S.A. consist of renewable energy project engineering, particularly solar, and the renewable energy and environmental field in general.

In all cases described in the foregoing (i) and (ii) the regulatory procedure has been followed laid down for grant by the Board of Directors of the appropriate dispensation in the field in which there has been effective competition with activities carried out by ENCE. The obligation to comply with the conditions and guarantees laid down in the dispensation resolution is applicable to these two directors, who have obtained dispensation, and in any event the obligation to abstain from accessing information and participating in discussions and voting in relation to matters in which a conflict of interest situation may specifically arise, all in accordance with the provisions of Section 127.ter.3 of the Companies Act.

Other than in relation to appointment of the representative external directors, there is no agreement or understanding with major shareholders, customers or suppliers or others pursuant to which any director or senior executive of the Company has been designated member of administrative, management or supervisory bodies or as senior executive.

The following are external representative directors of the Company:

Name	Entity proposing the appointment
Retos Operativos XXI, S.L.	Retos Operativos XXI, S.L.
Norteña Patrimonial, S.L.	Caja de Ahorros de Asturias
Atalaya Inversiones, S.R.L.	Atalaya Inversiones, S.R.L.

Mr. Pascual Fernández Martín	Alcor Holding, S.A.
Mr. Javier Echenique Ladiríbar	Alcor Holding, S.A.
Mr. Pedro López Jiménez	Fidalser, S.L.

There are no restrictions resolved by directors or members of management of the Company which prevent disposal of their holding in the capital of ENCE in a particular period of time.

15. REMUNERATION AND BENEFITS

15.1. Amount of remuneration paid (including contingent or deferred fees) and benefits in kind granted by the issuer or its subsidiaries to the persons referred to in the foregoing section 14.1 for services of all types provided by any person to the issuer and its subsidiaries

The aggregate remuneration of members of the board of directors accrued during the last financial year is as follows:

A) For services provided to the Company:

Remuneration item	Data in thousands of euros
Fixed remuneration	344
Variable remuneration	0
Allowances	552
Articles of Association	0
Share options and/or other financial instruments	0
Others	0
Total:	**896**

Other benefits	Data in thousands of euros
Advances	0
Credit granted	0
Pension Plans and Funds: Contributions	0
Pension Plans and Funds: Obligations contracted	0
Life insurance premiums	0
Security created by the Company in favour of directors	0

Director	Type	Thousands of Euros		
		Fixed Rem.	Allowances	Total
Mr. Juan Luis Arregui Ciarsolo	Executive	80	104	184
Mr. Antonio Palacios Esteban	Executive	-	-	-
Retos Operativos XXI, S.L.	Representative	22	30	52
Mr. José Manuel Serra Peris	Independent	22	30	52
Mr. Pedro Barato Triguero	Independent	22	18	40
Mr. Enrique Álvarez López (a)	Independent	11	12	23
Mr. Fernando Abril-Martorell Hernández	External	22	79	101
Mr. Gustavo Matías Clavero	Independent	22	34	56
Mr. Jose Guillermo Zubía Guinea	Independent	22	73	95
Atalaya de Inversiones, S.R.L.	Representative	22	30	52
Norteña Patrimonial, S.L.	Representative	22	28	50
Mr. Fabio E. López Cerón	Representative	22	20	42
Mr. José Carlos de Álamo Jiménez (b)	Independent	11	8	19
Mr. Pascual Fernández Martínez	Representative	22	34	56
Mr. Javier Echenique Landiribar	Representative	22	52	74
TOTAL		**344**	**552**	**896**

(a) Directors who departed in the course of 2009.
(b) Directors who joined in the course of 2009.

B) As a result of belonging to other boards of directors or the senior management of Group companies:

Remuneration item	Data in thousands of euros
Fixed remuneration	0
Variable remuneration	0
Allowances	0
Articles of Association	0
Share options and/or other financial instruments	0
Others	0
Total:	**0**

Other benefits	Data in thousands of euros
Advances	0
Credit granted	0
Pension Plans and Funds: Contributions	0
Pension Plans and Funds: Obligations contracted	0
Life insurance premiums	0
Security created by the Company in favour of directors	0

During the 2009 financial year the Company recorded an amount of 3,619,000 euros by way of remuneration accrued by members of the Management Committee in all respects, including the function of Managing Director for provision of services.

15.2. Total amounts saved or accumulated by the issuer or its subsidiaries for pension, retirement or similar benefits

The ENCE Group does not have acquired commitments in the field of post-employment remuneration, such as Pension Plans or others.

16. MANAGEMENT PRACTICES

16.1. Date of expiry of current mandate, as the case may be, and period during which the person has provided services in that position

Members of the board of directors of the Company have provided their services in that position during the periods indicated below and their respective mandates will expire on the dates indicated in the following table:

Name	Expiry date of mandate	Period of service
Mr. Juan Luis Arregui Ciarsolo	29-06-2012	Since 07-02-2006
Mr. Antonio Palacios Esteban	29-06-2012	Since 17-11-2008
Mr. José Guillermo Zubía Guinea	30-03-2010	Since 30-03-2007
Atalaya Inversiones, S.R.L.	25-06-2011	Since 14-06-2005
Mr. Gustavo Matías Clavero	30-03-2010	Since 30-03-2007
Mr. José Manuel Serra Peris	25-06-2011	Since 10-10-2000
Mr. Pascual Fernández Martínez	25-06-2011	Since 25-05-2005
Mr. Pedro Barato Triguero	25-06-2011	Since 25-06-2008
Mr. José Carlos Del Álamo Jiménez	29-06-2012	Since 29-06-2009
Retos Operativos XXI, S.L.	29-06-2012	Since 16-02-2006
Norteña Patrimonial, S.L.	25-06-2011	Since 07-06-2002
Mr. Javier Echenique Landiribar	29-06-2012	Since 29-12-2005
Mr. Pedro López Jiménez	30-06-2010 [1]	Since 25-02-2010, elected by coopting
Mr. Fernando Abril-Martorell Hernández	30-03-2010	Since 30-03-2007

(1) In accordance with Section 138 of the compact, Mr. Pedro López Jiménez will occupy the position of director until the shareholders general meeting is held, which must take place before 30 June 2010.

16.2. Information on contracts of members of administrative, management or supervisory bodies with the issuer or any of its subsidiaries which provide for benefits on termination of their functions, or the corresponding negative declaration

There are no contracts with members of the administrative, management or supervisory bodies with ENCE or any of its subsidiaries which provide for benefits on termination of their services, except in the case of the managing director and one executive who have in their senior management contracts been granted compensation on certain circumstances of termination of their employment relationship. In their respective contracts this compensation clause has been agreed in cases of dismissal or revocation. Overall quantification of the two compensations if applicable would amount to 2,064,000 euros gross.

16.3. Information regarding the audit committee and remunerations committee of the issuer, including the names of members of the committee and a summary of their internal regulation

16.3.1 <u>Audit commitment</u>

At its meeting on 26 October 2000 the board of directors of ENCE resolved to create the audit and compliance committee, and subsequently at its meeting of 9 June 2003 changed its name to that of audit committee, which at the date of this Registration Document comprises the following persons:

Name	Position	Nature of position
Mr. José Guillermo Zubía Guinea	Chairman	Independent external director
Norteña Patrimonial, S.L.	Member	Representative external director
Mr. José Manuel Serra Peris	Member	Independent external director
Mr. Javier Echenique Landiríbar	Member	Independent external director
Atalaya Inversiones, S.L.	Secretary-member	Representative external director

The audit committee must comprise a minimum of three and a maximum of seven directors, the majority of whom must be non-executive directors. The board of directors will appoint the chairman of the committee, who must be replaced every four years, and may be re-elected after a period of one year has elapsed thereafter. The chairman of the audit committee may not be elected from amongst executive or representative directors. Furthermore, the board of directors may from amongst members of the audit committee designate the secretary of the committee. In the absence of express designation, the secretary, and deputy secretary, as the case may be, of the board of directors, even if not directors, will act as secretary of the audit committee.

The audit committee must meet periodically based on requirements and at least four times each year. One of the meetings must be devoted to assessing efficiency and compliance with rules and procedures for governance of the Company and it must prepare the information which the board of directors is to approve and include in its annual public documentation.

The audit committee must have the necessary means to exercise its powers, taking its decisions by a majority of those present in person or proxy, with the chairman having a casting vote.

The audit committee will regulate its own functioning and, insofar as not specially provided, the board operating rules will be applicable, provided that they are compatible with its nature and function.

The principal functions of the audit committee are those described below:

Reporting at the shareholders general meeting on matters within its competence raised by shareholders.

Proposing designation of the external auditor to the board of directors.

Supervising the audit contract and proposing contract terms to the board, the scope of the professional mandate and, as the case may be, revocation or non-renewal of the auditor.

Overseeing the independence and efficacy of the internal audit function, and proposing appointment of the person responsible for this service and verifying that senior management takes the conclusions and recommendations of its reports into account.

Mediating in the event of disagreements between the external auditor and board of directors in relation to the principles and criteria applicable in preparation of the financial statements.

Supervising the internal audit and being familiar with the financial information process and internal control system.

Supervising periodic financial information and issue prospectuses and reviewing the annual financial statements of the Company.

Examining compliance with rules of governance of the Company and making the necessary proposals for their improvement.

Reporting on transactions with significant shareholders.

Reporting in relation to transactions which involve or could involve conflicts of interest.

Reporting in relation to the creation or acquisition of holdings in special purpose entities or those domiciled in countries or territories which have the status of tax haven.

In the 2009 financial year the audit committee met on five occasions.

16.3.2. Appointments and remuneration committee

At its meeting on 28 November 2000 the board of directors of ENCE resolved to create the appointments and remuneration committee which, at the date of this Registration Document, comprises the following persons:

Name	Position	Nature of position
Mr. Fernando Abril-Martorell	Chairman	External director

Name	Position	Nature of position
Hernández		
Mr. Gustavo Matías Clavero	Member	Independent external director
Retos Operativos XXI, S.L.	Member	External representative director
Mr. Pascual Fernández Martínez	Secretary-member	External representative director

The appointments and remuneration committee must comprise external directors in the number determined by the board of directors, with a minimum of three, and its composition must adequately represent independent directors. Its chairman may not be elected from amongst executive or representative directors.

It must meet whenever the board of directors or its chairman requests the issue of a report or the adoption of proposals, and in any event whenever desirable in order to properly carry out its functions. It will in any event meet once a year to prepare information on the remuneration of directors which the board of directors must approve and include in its annual public documentation.

The principal functions of the appointments and remuneration committee are those described below:

Reviewing the annual report on corporate governance prior to its approval by the board of directors for the purpose of verifying the status attributed to each director within the different possible categories.

Proposing the appointment of directors and members of committees.

Proposing the system and amount of director remuneration.

Proposing remuneration programmes and systems for executives determined by the board of directors.

In the 2009 financial year the appointments and remuneration committee met on seven occasions.

16.3.3. Declaration as to whether the issuer complies with the system or systems of corporate governance

The board of directors of the Company considers that its action, composition, organisation, remuneration and responsibilities comply with existing corporate governance recommendations in accordance with the specific indications in the corporate governance report of the Company.

ENCE includes all documentation relating to the annual corporate governance report on its website, www.ENCE.es, in accordance with the provisions of the Transparency Act, Order ECO/3722/2003, of 26 December, on annual reports on corporate governance, the Unified Code of Good Governance approved by the board of the Spanish Securities

Market Commission ("CNMV") on 22 May 2006 and CNMV Circular 4/2007, of 27 December, as well as other information instruments of listed joint stock companies and other entities.

17. EMPLOYEES

17.1. Number of employees at the end of the period or average for each year during the period covered by the historical financial information up to the date of the Registration Document

At 31 December 2009 the workforce amounted to 1,654 employees. Evolution of the effective workforce at the end of 2007, 2008 and 2009 is shown below, with the following distribution by management areas:

	2009 Financial Year	2008 Financial Year	2007 Financial Year
Industrial operatives	798	842	830
Forestry operatives	120	114	147
Forestry services	442	536	484
Uruguay	132	316	274
Structural and others	162	139	155
	1,654	**1,947**	**1,890**

Distribution of the workforce by sex and occupational category at 31 December 2008 and 2009 is as follows:

	Final number of employees								
	2009			2008			2007		
Occupational category	Men	Women	**Total**	Men	Women	**Total**	Men	Women	**Total**
Executives	6	1	**7**	7	1	**8**	5	1	**6**
Individual contracts	170	41	**211**	175	40	**215**	162	28	**190**
Collective agreement	906	156	**1,062**	989	198	**1,187**	971	134	**1,105**
Temporary	319	55	**374**	430	107	**537**	504	85	**589**
TOTAL	**1,401**	**253**	**1,654**	**1,601**	**346**	**1,947**	**1,642**	**248**	**1,890**

17.2. Shares and share purchase options

The following table shows the shares in the Company held by directors:

Name of holder	% Dir.Holding	% Ind.Holding	No. of shares
Mr. Juan Luis Arregui Ciarsolo	0.000%	22.151%	38,742,924
Mr. Antonio Palacios Esteban	0.033%	0.000%	57,000
Retos Operativos XXI, S.L.	22.151%	0.000%	38,742,924
Atalaya Inversiones, S.R.L.	5.010%	0.000%	8,762,894
Mr. Fernando Abril-Martorell Hernández	0.357%	0.000%	625,000
Mr. Gustavo Matías Clavero	0.002%	0.000%	3,390
Mr. Javier Echenique Landiribar	0.000%	0.058%	102,160
Mr. José Guillermo Zubia Guinea	0.012%	0.000%	20,150
Mr. José Manuel Serra Peris	0.008%	0.000%	14,315
Norteña Patrimonial, S.L.	0.000%	0.000%	500
Mr. Pascual Fernández Martínez	0.000%	0.000%	165

Members of senior management, including the managing director, hold 69,502 shares in the Company.

Furthermore, on 30 March 2007 the shareholders general meeting approved the 2007-2011 Special Variable Remuneration Plan in favour of members of senior management of the Company.

This Plan relates to persons who carry out senior management functions directly reporting to the board of directors or managing director of the Company and is aimed at strengthening the commitment of senior executives of the Group in fulfilment of the objectives laid down in the 2007-2011 Strategic Plan, by means incentives for individual and collective action by these executives.

The Plan provides for long term variable remuneration which accrues over five years, subject to increase in value of the Company's shares above 8.4 euros, remaining in the Group and achieving certain business objectives.

Finally, Retos Operativos XXI, S.L. acquired a financial instrument dated 10 January 2008 which consists of sale of four put options in the amount of 780,000 shares (exercise price 7.45 euros), 1,500,000 shares (exercise price 8.96 euros), 1,000,000 shares (exercise price 9.07 euros) and 1,500,000 shares (exercise price 9.40 euros), respectively, all falling due on 15 January 2010, with the maturity period subsequently extended to 14 January 2011, and with settlement by physical delivery of shares. These options are of the "European" type, and consequently can only be exercised on the maturity date. Consequently, if on the maturity date the counterparty to the put agreement decides to sell the shares, Retos Operativos XXI, S.L. would be obliged to buy them at the agreed exercise price.

Description of any agreement for employees sharing in the capital of the issuer

At the date of this Registration Document there are no schemes for participation by personnel in the capital of ENCE, except for the Special Variable Remuneration Plan (see section 20.1. "Historical financial information").

18. PRINCIPAL SHAREHOLDERS

18.1. As far as the issuer is aware, the name of any person who does not belong to administrative, management or supervisory bodies who directly or indirectly has a declarable interest in accordance with the national law of the issuer in the capital or voting rights of the issuer, and the amount of the interest of each of these persons or, if there are no such persons, the corresponding negative declaration

The principal shareholders of the Company and the number of shares and percentage holding therein are as follows:

Name of the holder	% Dir. Holding	% Ind.Holding	No. of shares
Alcor Holding, S.A.	12.159%	8.232%	35,663,645
Mr. Pedro José López Jiménez	0.000%	5.017%	8,775,001
Caja de Ahorros de Asturias	0.000%	5.000%	8,745,000
TOTAL	**17.176%**	**13.232%**	**53,183,645**

The holding of Alcor Holding, S.A. is instrumented directly as to 12.159% and indirectly through the company Imvernelin Patrimonio, S.L., in which Alcor Holding, S.A. holds 8.232% of the capital.

The holding of Mr. Pedro José López Jiménez is instrumented with respect to 8,775,000 indirectly through the company FIDALSER, S.L., of which he is the (direct and indirect) holder of 84.85%. Furthermore, Mr. Pedro José López Jiménez is direct holder of one share in the Company.

The holding of Caja de Ahorros de Asturias is instrumented indirectly through the companies Cantábrica de Inversiones de Cartera, S.L., holding 8,744,500 shares, and Norteña Patrimonial, holding 500 shares in the Company.

18.2. Whether the principal shareholders of the issuer have different voting rights, or the corresponding negative declaration

All shares issued constitute a single class and series and grant their holders the same voting, information and financial rights.

18.3. Insofar as the issuer is aware, state whether the issuer is directly or indirectly owned or under control, and the person exercising the same and describe the nature of this control and the measures taken to guarantee that this control is not abused

The principal shareholders of the Company are those referred to in the foregoing section 18.1.

18.4. Description of any agreement known to the issuer the application of which could at a subsequent date give rise to a change in control of the issuer

The Company is not aware of any agreement the application of which could at a future date give rise to a change of control of the issuer.

19. TRANSACTIONS WITH CONNECTED PARTIES

In accordance with the provisions of Order EHA/3050/2004, of 15 September, on information on connected transactions, we have included information relating to those transactions carried out with shareholders of the Company during the period covered by the historical financial information and up to 31 December 2009. Furthermore, the Company has entered into the following agreements with shareholders which are set out below:

Year	Significant shareholder	Company	Nature of the relationship	Transaction	Amount (thousands of euros)
2009	Caja de Ahorros de Asturias	ENCE	Contractual	Agreements for financing, loans and capital contributions (borrower)	14,210
2008	Caja de Ahorros de Asturias	ENCE	Contractual	Agreements for financing, loans and capital contributions (borrower)	15,452

During 2008 60,000 euros accrued in favour of Foresta Capital, S.L. by way of settlement for certain forestry advisory services provided to the Company. There were no connected transactions in 2007.

20. FINANCIAL INFORMATION RELATING TO THE ASSETS AND LIABILITIES OF THE ISSUER, FINANCIAL POSITION AND PROFIT AND LOSS

20.1. Historical Financial information

The financial information included in this section has been obtained from the consolidated annual financial statements of the Group for the 2009, 2008 and 2007 financial years, all audited by Deloitte, S.L.

These consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union in accordance with the provisions of Regulation (EC) no. 1606/2002 of the European Parliament and Act 62/2003, of 30 December, on fiscal, administrative and social measures, to show a true picture of the net worth and financial situation of the Group at 31 December 2009 and profit and loss on its operations, changes in net worth and cash flows which have taken place in the Group during the financial year ending on the said date.

The consolidated annual financial statements of the ENCE Group for the 2008 and 2007 financial years were approved at the Ordinary Shareholders General Meetings on 29 June 2009 and 25 June 2008. For their part, the consolidated annual financial statements of the ENCE Group for the 2009 financial year were drawn up by the Board of Directors on 25 February 2010 and are pending approval by the Shareholders General Meeting. In this respect, the Board of Directors of the Company considers that these annual financial statements will be approved without significant changes.

The annual financial statements of the ENCE Group can be consulted with the CNMV and on the website of the Company (www.ence.es).

Comparison of information and changes in accounting principles

Details are given below of the consolidated profit and loss account of the ENCE Group for the 2007 financial year as taken from the annual financial statements drawn up by the Directors and approved by the Ordinary Shareholders General Meeting, and further includes the profit and loss account for the 2007 financial year specifically prepared to permit comparison of the information attached with the 2008 and 2009 financial years.

The principal changes made were:

The row "Interrupted operations" includes operations which contributed to the Group the assets and liabilities sold in the 2009 financial year in the "Uruguay Operation" described in at least sections 5.2 and 10 of this Registration Document which are removed from the different income and expense rows in which they were shown in the profit and loss account.

On 25 October 2007 the Group contracted an "Equity Swap" to cover certain risks associated with the "2007-2011 Executive Team Special Variable Remuneration Plan" (see Section 10.1 of this Registration Document). This financial instrument was classified as a hedging instrument in 2007 and subsequently it was concluded that it did not fulfil the requirements established to maintain this classification, and was treated in

2008 and 2009 as a speculative derivative. In this respect, changes in value from contracting it until 31 December 2007 were treated as a speculative derivative, therefore impacting on financial expenses.

The cash flow statement for the 2008 financial year contains a lower amount in cash flows from operating and investment activities by 32,581,000 euros and 1,287,000 euros, and a higher amount in effective flows of financing activities by 33,868,000 euros, with respect to the cash flow statement set out in the consolidated annual financial statements for the 2008 financial year. This modification is due to treatment of financial profit and loss as flow from operating and not financing and investment activities. This effect in the 2007 financial year meant a lower amount of cash flows from operating and investment activities, by 8,874,000 euros and 1,726,000 euros, and an increased amount in cash flows from financing activities by 10,600,000 euros.

Furthermore, in order to facilitate comparison of information, an amount has been included under the heading "Long term financial derivative instruments" on the consolidated balance sheet at 31 December 2008 of 11,044,000 euros which was shown under the heading "Other long term financial liabilities" in the consolidated balance sheet for the 2008 financial year prepared by the Directors of the Company and approved by the corresponding Ordinary Shareholders General Meeting.

<u>Variations in the consolidation perimeter</u>

The principal variations in the consolidation perimeter of the 2009 financial year were as follows:

	Removal	Inclusion
Global Integration-		
Eufores, S.A	100%	-
Celulosa y Energía Punta Pereira, S.A.	100%	-
Zona Franca Punta Pereira, S.A.	100%	-
Terminal Logística M'Bopicuá S.A. [(a)]	100%	-
El Esparragal Asociacion Agraria de Responsabilidad Ltda[(a)]	100%	-
Ence Energía, S.L.U. and four subsidiaries	-	100%
Sierras Calmas, S.A.	-	100%

(a) Percentage of indirect holding through Eufores, S.A.

On 17 May Grupo Empresarial ENCE S.A. reached agreement with the paper groups Stora Enso Oyj and Celulosa Arauco y Constitución S.A. for sale in cash of 100% of the shares and holdings of Grupo Empresarial ENCE in the Urugayan companies Eufores, S.A., Celulosa y Energía Punta Pereira, S.A. and Zona Franca Punta Pereira, S.A.

In addition, the Company acquired from Eufores, S.A. its holdings in the companies M'Bopicuá, S.A., Las Pléyades de Uruguay, S.A., Las Pléyades, S.A.F.I. and Maderas Aserradas Litoral, S.A.

On 11 March 2009 Sierras Calmas, S.A. was incorporated with registered office in Montevideo (Uruguay), with an initial capital of 720,000 Uruguayan pesos, equivalent to 20,000 euros, fully paid up by ENCE. This subsidiary holds the forestry assets of the Group in the Atlantic Zone of Uruguay.

In addition, during the 2009 financial year different companies were incorporated to carry out energy projects, which are currently inactive.

During the 2007 financial year inclusion took place in the consolidation perimeter of the companies El Esparragal Asociación Agraria de Resp. Ltda. and Zona Franca Punta Pereira, S.A., as a result of acquisition of 100% of the shares by the Company.

CONSOLIDATED BALANCE SHEETS

Details are shown below of the consolidated balance sheet of Grupo ENCE for the 2007, 2008 and 2009 financial years (in thousands of euros):

	2009 FY	2008 FY	2007 FY	Variation 2009/2008	Variation 2008/2007
Non-current Assets	**980,154**	**1,133,590**	**888,214**	**-13.5%**	**27.6%**
Intangible fixed assets	4,972	21,110	19,320	-76.4%	9.3%
Property, plant and equipment	737,807	834,643	615,615	-11.6%	35.6%
Real estate investments	3,413	3,525	3,637	-3.2%	-3.1%
Biological investments	155,238	255,481	224,721	-39.2%	13.7%
Investments available for sale	-	-	261	N/A	N/A
Other financial investments	5,494	1,559	1,902	252.4%	-18.0%
Derivative and hedging financial instruments	-	-	14,429	N/A	-100.0%
Deferred tax assets	73,230	17,272	8,329	324.0%	107.4%
Current Assets	**244,072**	**328,302**	**306,805**	**-25.7%**	**7.0%**
Stocks	88,844	158,504	87,042	-43.9%	82.1%
Short term financial investments					
-Derivatives	-	4,949	-	N/A	N/A
Other financial investments	1,913	6,768	18,962	-71.7%	-64.3%
Trade debtors and other accounts receivable	90,546	120,287	147,841	-24.7%	-18.6%
Public Administrations, debtors	12,260	28,334	34,092	-56.7%	-16.9%
Cash and other equivalent assets	49,132	5,262	7,176	833.7%	-26.7%
Non-current assets held for sale	-	1,554	9,322	-100.0%	-83.3%
Other current assets	1,377	2,644	2,370	-47.9%	11.6%
Total assets	**1,224,226**	**1,461,892**	**1,195,019**	**-16.3%**	**22,3%**

	2009 FY	2008 FY	2007 FY	Variation 2009/2008	Variation 2008/2007
Net Worth					
Share capital	157,410	157,410	157,410	0.0%	0.0%
Issue premium	199,058	199,058	196,164	0.0%	1.5%
Reservss					
Legal reserve	30,270	31,482	30,564	-3.8%	3.0%
Voluntary reserve	148,586	152,740	162,340	-2.7%	-5.9%
Reserves in companies consolidated by global integration	149,131	138,794	108,156	7.4%	28.3%
Valuation adjustments to assets	47,448	46,078	42,215	3.0%	9.2%
Profit and loss for year attributed to the Parent Company	(154,571)	4,742	54,009	-3359.6%	-91.2%
Conversion differences	-	(740)	-	N/A	N/A
Interim dividend paid	-	-	(5,094)	N/A	N/A
Own shares	(435)	-	-	N/A	N/A
Net worth attributable to shareholders of the Parent Company	**576,897**	**729,564**	**745,764**	**-20.9%**	**-2.2%**
Minority interests	-	-	3	N/A	N/A
Total Net Worth	**576,897**	**729,564**	**745,767**	**-20.9%**	**-2.2%**
Non-current Liabilities	**258,422**	**340,788**	**100,176**	**-24.2%**	**240.2%**
Long term provisions	20,381	22,061	16,018	-7.6%	37.7%
Financial debt	155,755	250,610	46,431	-37.8%	439.7%
Deferred income	7,076	3,160	7,867	123.9%	-59.8%
Long term derivative financial instruments	42,952	27,427	5,725	56.6%	379.1%
Other financial liabilities	8,791	11,315	270	-22.3%	4090.7%
Deferred tax liabilities	23,467	26,215	23,865	-10.5%	9.8%
Current Liabilities	**388,907**	**391,540**	**349,076**	**-0.7%**	**12.2%**
Short term provisions	-	-	11,024	N/A	N/A
Short term financial debt	186,240	215,140	203,275	-13.4%	5.8%
Short term financial derivative instruments	-	1,380	12,688	N/A	-89.1%
Other short term financial liabilities	519	-	-	N/A	N/A
Trade creditors and other accounts payable	195,259	161,078	114,161	21.2%	41.1%
Other debts to Public Administrations	3,656	6,909	5,873	-47.1%	17.6%
Public Administrations – tax on profits	2,809	6,598	1,756	-57.4%	275.7%
Other current liabilities	424	435	299	-2.5%	45.5%
Total Liabilities	**1,224,226**	**1,461,892**	**1,195,019**	**-16.3%**	**22.3%**

Information relating to investments and breakdowns of intangible and tangible assets of the ENCE group are included in sections "5.2 Investments" and "8 Property, Installations and Equipment" of this Registration Document.

Furthermore, information relating to analysis of current assets, evolution of average collection and payment periods, situation of cash and banks and debt and accounting treatment and changes in value in 2007, 2008 and 2009 of hedging instruments contracted by Grupo ENCE are included in section "10 Capital resources" of this Registration Document.

Deferred tax assets

This heading in the consolidated balance sheet of the ENCE Group at 31 December 2009 includes tax credits for approximately 52,027,000 euros, corresponding to losses pending set-off, generated in this year by Tax Consolidation Group no. 149/02, in the amount of 173,423,000 euros.

It further includes 3,203,000 euros deriving from the tax effect of the negative value recognised in Net Worth of derivative hedging instruments, basically an Interest Rate Swap contracted to comply with the requirements established by available bank financing.

The remaining amount relates to positive adjustments made to taxable income in various respects, expenses not considered deductible at the time of their accrual and contributions for employee benefit systems made by the Company in previous years which, in accordance with the provisions of Section 13 of the Revised Text of the Companies Act, were deductible at the time when the insurance company made the corresponding payments to non-working personnel.

Stocks

Stocks of raw materials and finished products and products in progress are valued at their cost price, production cost or market value, whichever is less.

Production cost is determined by incorporating the cost of materials, labour and direct or indirect manufacturing expenses.

In allocating value to its stocks the Group uses the weighted average cost method.

Net realisable value represents an estimate of the sale price less all estimated costs for completing production and the costs which will be incurred in commercialisation, sale and distribution processes. In this respect, the Group makes the appropriate value corrections, recognising them as an expense in the consolidated profit and loss account when the net realisable value of these stocks is less than their acquisition cost (or production cost).

Details of this heading in the consolidated balance sheet at 31 December 2007, 2008 and 2009 are as follows:

	Thousands of Euros		
	2009 FY	2008 FY	2007 FY
Commercial	283	211	305
Raw materials	40,593	95,710	32,372
Auxiliary materials	24,134	17,517	22,852
Products in progress	10,680	7,472	8,723
Finished products	10,904	31,534	26,680
Advances to suppliers	7,167	10,279	6,500
Deterioration in value	(4,917)	(4,219)	(10,390)
Total Stocks	**88,844**	**158,504**	**87,042**

The final phase of 2007 and virtually the whole of 2008 were characterised by the existence of tensions in the timber market (see section 9 of this Registration Document), which led to a policy of stockpiling timber exceeding the requirements of the Group in order to thereby meet possible restrictions in supply, which led to an increase in available levels of raw materials with respect to other periods.

Furthermore, as a result of the turnaround in demand in the second half of 2009, stock levels were considerably reduced with respect to previous years.

Trade debtors and other accounts receivable

Details of this heading in the consolidated balance sheet at 31 December 2007, 2008 and 2009 are as follows:

	Thousands of Euros		
	2009 FY	2008 FY	2007 FY
Customers from sales	81,290	103,941	136,856
Miscellaneous debtors	11,885	19,200	13,378
Personnel	210	205	224
Deterioration in value	(2,839)	(3,059)	(2,617)
Total Debtors	**90,546**	**120,287**	**147,841**

Cash

Of the amount set out under the heading “Cash and other equivalent liquid assets” an amount of 38,000,000 euros can be devoted solely to payment of certain investments in fixed assets in accordance with the syndicated loan agreement (see Chapter 10 of this Registration Document).

Net worth

Variations which took place in net worth in 2007, 2008 and 2009 are as follows:

	Thousands of Euros							
	Subscribed Capital	Issue premium & reserves	Conversion differences	P&L for period attributed to parent company	Shares & holdings in own net worth	Adjustments in net worth from revaluation	minority interests	Net worth
Balance at 01 January 2006 (IFRS)	**152,820**	**399,194**	**-**	**64,038**	**-**	**119,366**	**1,530**	**736,948**
I. Total income / (expenses) recognised	-	-		50,053	-	(24,394)	171	25,830
II. Transactions with members or owners								-
- Distribution of dividends	-	(20,377)		-	-	-	-	(20,377)
III. Other variations in net worth								-
- Transfer between net worth items	-	64,106		(64,038)	-	(68)	-	-
Balance at 31 December 2006 (IFRS)	**152,820**	**442,923**	**-**	**50,053**	**-**	**94,904**	**1,701**	**742,401**
I. Total Income / (expenses) recognised	-	-	-	54,009	-	(56,230)	(290)	(2,511)
II. Transactions with members or owners								
- Increases/(reductions) in capital	4,590	17,850	-	-	-	-	-	22,440
- Distribution of dividends	-	(29,206)	-	-	-	-	-	(29,206)
- Purchase of Eupon holding from external members	-	-	-	-	-	-	(1,408)	(1,408)
III. Other variations in net worth								
- Transfers between net worth items	-	50,053	-	(50,053)	-	-	-	-
- Initial recognition of Equity Swap	-	14,280	-	-	-	-	-	14,280
- Other variations	-	(3,770)	-	-	-	3.541	-	(229)
Balance at 31 December 2007 (IFRS)	**157,410**	**492,130**	**-**	**54,009**	**-**	**42,215**	**3**	**745,767**
I. Total income / (expenses) recognized	-	-	(740)	4,742	-	3,918	-	7,920
II. Transactions with members or owners								
- Distribution of dividends	-	(24,136)	-	-	-	-	-	(24,136)
- Purchase of Eupon holding from external members	-	-	-	-	-	-	(3)	(3)
III. Other variations in net worth			-					
- Transfers between net worth items	-	54,009	-	(54,009)	-	-	-	-
- Other variations	-	71	-	-	-	(55)	-	16
Balance at 31 December 2008 (IFRS)	**157,410**	**522,074**	**(740)**	**4,742**	**-**	**46,078**	**-**	**729,564**
I. Total income/(expenses) recognised	-	-	-	(154.571)	-	1.498	-	(153,073)
II. Transactions with members or owners	-	-	-	-	-	-	-	
- Transactions in own shares	-	100	-	-	(435)	-	-	(335)
III. Other variations in net worth								
- Transfers between net worth items	-	4,002	740	(4,742)	-	-	-	-
- Other variations	-	869	-		-	(128)	-	741
Balance at 31 December 2009 (IFRS)	**157,410**	**527,045**	**-**	**(154,571)**	**(435)**	**47,448**	**-**	**576,897**

Variable Remuneration plan

On 24 October 2007 the Board of Directors, pursuant to delegation received from the Shareholders General Meeting on 30 March 2007, resolved to execute a capital increase with exclusion of preferential subscription rights. Capital was increased by 5,100,000 ordinary registered shares at a issue rate of 4.4 euros per share of which 0,9 euros related to nominal value and 3.5 euros to issue premium. The new shares were subscribed for in full by Caja de Ahorros y Monte de Piedad de Madrid in the context of the "2007–2011 Management Team Special Variable Remuneration Plan" approved by the ENCE Shareholders General Meeting on March 2007.

This Plan relates to persons who carry out senior management functions reporting directly to the Board of Directors or Managing Director of the Company and aims to strengthen the commitment of senior executives of the Group in complying with the objectives laid down in the 2007-2011 Strategic Plan, by incentives for individual and collective action by these executives.

The Plan provides for long term variable remuneration which accrues over five years, subject to increase in value of the shares of the Company above 8.4 euros, continuation in the Group and achieving certain business objectives.

Receipts under it are in cash at the end of the five years; they are therefore payments in shares settled in cash, and thus a liability is recognised equivalent to part of the services received at their present reasonable value determined on each consolidated balance sheet date.

The reasonable value of the Special Variable Remuneration Plan was determined by the Black–Scholes method, of general acceptance amongst financial analysts for valuing financial options.

Following this valuation, based on estimation of evolution of the updated share price until maturity of this Plan, the accrued expense in this respect in the 2009 financial year was nil. Furthermore, and since the quoted price of the shares at the end of the 2009 financial year was 2.71 euros, the intrinsic value of counterparty rights was nil.

On 25 October 2007 the Company contracted an equity swap with Caja Madrid, as a requirement agreed in the provisions of the Special Variable Remuneration Plan signed on the same date (on 18 June 2008 the said equity swap was modified by termination of the initial agreement and entry into a new agreement based on quotation of the Company's shares at the said date). Consequently, the lifetime of this instruments is the same as that of the said Plan, with maturity established at 30 June 2012. This equity swap was contracted in respect of a total of 5,100,000 ENCE securities at a base price of 4.40 euros per share. The reference interest rate of this instrument is the 12-month EURIBOR plus an additional spread of 0.05%, liquidated annually..

This instruments does not comply with the criteria for hedging accounting, and therefore variations in its reasonable value are attributed to the consolidated profit and loss account as they occur. In order to determine the reasonable value of the equity swap the difference was calculated between updated flows of the share component (present value of dividends plus final price of the share less 4.40 euros) and updated flows from the accrual of interest.

The reasonable negative value of this instrument at 31 December 2009 was 9,608,000 euros (11,044,000 euros at 31 December 2008) and is set out under the heading "Long term debts – Derivative Financial Instruments" in the consolidated balance sheet.

Shares in the Company

Movements under the heading "Shares of the Parent Company" on the attached consolidated balance sheet during 2009 were as follows:

	Number of Shares	***Thousands of Euros***
At beginning of the year	-	-
Additions	*2,499,887*	*6,085*
Removals	*(2,340,008)*	*(5,650)*
At the year end	***159,879***	***435***

Shares of the Company in its possession at 31 December 2009 represented 0.09 % of share capital with an overall nominal value of 144,000 euros. The average acquisition price of these shares was 2,723 euros per share. During the 2008 and 2007 financial years the Group did not engage in transactions in shares in the Company.

At 31 December 2009 shares of the Company in its possession were held for trading in the market.

Long term provisions

Details of this heading in the attached consolidated balance sheet at 31 December 2009, 2008 and 2007 are as follows:

	Thousands of Euros		
	2009 FY	2008 FY	2007 FY
Liabilities	12,595	11,771	11,924
Emission rights	6,641	9,098	2,827
Other	1,145	1,192	1,267
	20,381	**22,061**	**16,018**

The provision for liabilities covers the risk deriving from litigation with respect to which it is considered likely that an obligation will have to be met (see section 20.8 of this Registration Document).

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

Details are shown below of the consolidated profit and loss account of the ENCE Group for the 2007, 2008 and 2009 financial years (in thousands of euros):

	2009 FY	2008 FY	2007 (*) FY	Var in % 09vs08	Var in % 08vs07	2007 (**) FY
Ongoing operations:						
Net turnover	535,551	656,617	626,139	-18.4%	4.9%	637,189
Profit and loss on hedging operations	3,808	(14,550)	59,412	-126.2%	-124.5%	59,412
Variation in stocks of finished products and products in progress	(17,422)	7,124	(840)	-344.6%	-948.1%	(840)
Supplies	(348,163)	(382,812)	(337,033)	-9.1%	13.6%	(316,674)
GROSS MARGIN	**173,774**	**266,379**	**347,678**	**-34.8%**	**-23.4%**	**379,087**
Work carried out by the Group on fixed assets	34,438	32,377	26,512	6.4%	22.1%	42,212
Other operating income	3,006	15,138	3,097	-80.1%	388.8%	4,936
Capital subsidies transferred to profit and loss	8,238	19,825	5,808	-58.4%	241.3%	5,808
Personnel expenses	(88,730)	(82,756)	(100,256)	7.2%	-17.5%	(102,396)
Other operating expenses	(145,570)	(164,085)	(145,845)	-11.3%	12.5%	(185,191)
Depreciation	(46,812)	(36,313)	(41,755)	28.9%	-13.0%	(46,267)
Deterioration in value of tangible and intangible fixed assets	(10,845)	(3,037)	(3,423)	257.1%	-11.3%	(13,614)
OPERATING PROFIT / (LOSS)	**(72,501)**	**47,528**	**91,815**	**-252.5%**	**-48.2%**	**84,575**
Financial income	2,438	6,842	7,588	-64.4%	-9.8%	1,087
Variation in reasonable value of financial instruments	(21,232)	(25,473)	(5,972)	-16.6%	326.5%	(5,972)
Other financial expenses	(25,995)	(32,732)	(8,489)	-20.6%	285.6%	(9,961)
Exchange rate differences	456	3,534	(8,354)	-87.1%	-142.3%	(2,308)
FINANCIAL PROFIT AND LOSS	**(44,333)**	**(47,829)**	**(15,227)**	**-7.3%**	**214.1%**	**(17,154)**
Net profit and loss on disposal of non-currentt assets held for sale	-	6,429	(5,717)	N/A	-212.5%	(5,717)
PRE-TAX PROFIT / (LOSS)	**(116,834)**	**6,128**	**70,871**	**-2006,6%**	**-91.4%**	**61,704**
Tax on profits	39,283	2,174	(7,111)	1706,9%	-130.6%	(7,985)
PROFIT / (LOSS) FOR YEAR FROM ONGOING OPERATIONS	**(77,551)**	**8,302**	**63,760**	**-1034,1%**	**-87.0%**	**53,719**
Profit and loss on Interrupted Operations net of tax	(77,020)	(3,560)	(10,041)	2063,5%	-64.5%	-
PROFIT / (LOSS) FOR YEAR	**(154,571)**	**4,742**	**53,719**	**-3359,6%**	**-91.2%**	**53,719**
Attributable to:						
Shareholders of the Parent Company	**(154,571)**	**4,742**	**54,009**	**-3359,6%**	**-91.2%**	**54,009**
Minority interests	-	-	(290)	N/A	N/A	(290)
Profit and loss per share:						
Basic	**-0.88**	**0.03**	**0.31**	**-3033.3%**	**-90.3%**	**0.31**
Diluted	**-0.88**	**0.03**	**0.31**	**-3033.3%**	**-90.3%**	**0.31**

(*) Profit and loss account prepared in order to permit comparison with information set out in the 2009 and 2008 financial years (see previous section relating to "Comparison of information and changes in accounting principles".

(**) Profit and loss for 2007 financial year presented for comparison purposes in the consolidated annual financial statements of Grupo Empresarial ENCE, S.A. for the 2008 financial year.

Evolution of the principal items making up operating profit are analysed in section 9 of this Registration Document.

Financial profit and loss

Details of this heading in the consolidated profit and loss account for the 2007, 2008 and 2009 financial years are as follows:

	Thousands of Euros		
Income / (expense)	2009 FY	2008 FY	2007 FY
Commissions associated with syndicated loan	**(5,521)**	**(12,076)**	**-**
Financial income	**2,438**	**6,842**	**7,588**
Financial expenses	**(41,655)**	**(20,656)**	**(8,489)**
Syndicated loan	(11,690)	(6,892)	-
Credit agreements and loans	(6,667)	(13,494)	(8,489)
Factoring	(629)	-	-
Interest rate hedging instruments	(22,669)	(270)	-
Net Exchange Rate Differences	**456**	**3,534**	**(8,354)**
Changes in equity swap valution	**(51)**	**(25,473)**	**(5,972)**
FINANCIAL PROFIT AND LOSS	**(44,333)**	**(47,829)**	**(15,227)**

Net profit and loss on disposal of non-current assets classified as held for sale

This heading in the consolidated profit and loss account of the ENCE Group in 2008 includes the profit obtained on the sale of three floors of the property located at Avenida de Burgos, Madrid where the Group has its head offices. For its part, the loss incurred in 2007 results from the sale of various properties located in Pontevedra and Huelva (see section 5.2 of this Registration Document).

Corporation Tax Expense

Group Companies with tax residence in Spain

For the purpose of taxation for Corporation Tax, ENCE is taxed under the Tax Consolidation Regime for Corporation Tax governed by Chapter VII of Title VIII of the Revised Text of the Corporation Tax Act, as parent company of Group no. 149/02, constituted in the financial year ending 31 December 2002. Application of this special regime, of indefinite duration in the absence of express renunciation, means an absence of taxation under the individual Corporation Tax regime of entities included in the Group, in accordance with the following details:

- Celulosas de Asturias, S.A.U.	- Eucaliptos de Pontevedra, S.A.U.
- Celulosa Energía, S.L.U.	- Tisú de Lourizán, S.L.U.

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

The nominal Corporation Tax rate is 30%.

Group companies with tax residence in Uruguay

For the purpose of taxation for Profits Tax, Group companies located in Uruguay are taxed under the general regime of Economic Activity Income Tax ("IRAE") of Uruguay, at a nominal tax rate of 25% on book profit corrected by the tax adjustments established by applicable legislation, except for Las Pléyades, S.A., which is taxed under the special regime of Financial Investment Companies ("SAFI"), at a tax rate of 0.3% on its own funds.

Group companies with tax residence in Portugal

For the purpose of taxation for Profits Tax in Portugal, Iberflorestal, S.A. is taxed under the general regime of *Imposto sobre o Rendimiento das Pessoas Colectivas*, at a nominal tax rate of 26.5%.

Taxable income for Profits Tax is not determined on the basis of the consolidated book profit of the Group but the individual taxable income of the companies which comprise it, determined in accordance with their respective individual tax regime. For these purposes the individual tax bases of the companies with tax residence in Spain are included in taxable income for Corporation Tax of Tax Consolidation Group no. 149/02, and cannot be set off against losses in non-resident companies.

Reconciliation of book profit and loss and taxable income for Corporation Tax at 31 December 2009, 2008 and 2007 is as follows:

	Thousands of Euros		
	2009 F. Year	2008 F. Year	2007 F. Year
Book profit and loss			
Ongoing operations	(116,834)	6,128	70,871
Interrupted operations	(96,300)	(997)	(9,167)
Permanent differences originating in profit and loss	777	(19,205)	4,720
Permanent differences originating in net worth	-	11,744	-
Timing differences originating in the year	24,072	15,101	21,743
Timing differences originating in previous years	(11,387)	(11,313)	(27,531)
Consolidation adjustments	27,320	13,739	(38,633)
TAXABLE INCOME	**(172,352)**	**15,197**	**22,003**

ANNUAL CASH FLOW STATEMENTS

	2009 FY	Var in % 09vs08	2008 (*) FY	Var in % 08vs07	2007 (*) FY
1.- CASH FLOWS FROM OPERATIONS					
Consolidated pre-tax profit and loss for year	(193,854)	-3878%	5,131	-92%	61,704
Adjustments to profit and loss:					
- Depreciation of tangible assets	35,470	24%	28,596	-4%	29,696
- Exhaustion of forest reserve	9,744	-3%	10,067	-26%	13,559
- Depreciation of intangible assets	1,598	-16%	1,900	-37%	3,012
- Variation in provisions and other expenses to be spread (net)	11,376	-5%	11,922	-65%	34,240
- Gains / Losses on disposable of tangible assets	3,784	-147%	(8,008)	-225%	6,394
- Financial income	(3,875)	201%	(1,287)	18%	(1,087)
- Financial expenses	48,208	-19%	59,341	272%	15,933
- Subsidies transferred to profit and loss	(474)	-90%	(4,707)	59%	(2,958)
- Loss on Uruguay operation	77,020	N/A	-	N/A	-
Changes in current assets	**116,237**	**-959%**	**(13,538)**	**-43%**	**(23,721)**
Trade debts and other accounts receivable	34,877	150%	13,941	-155%	(25,323)
Other current assets	(1,167)	326%	(274)	9%	(252)
Current liabilities	26,828	-39%	44,257	-1351%	(3,539)
Stocks	55,699	-178%	(71,462)	-1425%	5,393
Other cash flows from operations	**(17,319)**	**-29%**	**(24,279)**	**-23%**	**(31,718)**
- Payments of interest	(20,474)	-40%	(33,868)	240%	(9,961)
- Receipts of interest	2,438	89%	1,287	18%	1,087
- Receipts (payments) for tax on profits	717	-91%	8,302	-136%	(22,844)
Net cash flows from operations (I)	**87,915**	**35%**	**65,138**	**-38%**	**105.054**
2.- CASH FLOWS FROM INVESTMENT ACTIVITIES					
Investments:					
Tangible fixed assets	(163,930)	-44%	(291,375)	65%	(176,532)
Intangible fixed assets	(2,446)	-89%	(21,667)	400%	(4,336)
Other financial assets	(3,928)	-131%	12,799	-209%	(11,737)
Disinvestments:					
Tangible assets	-	N/A	-	-100%	12,635
Intangible assets	-	N/A	16,712	34006%	49
Assets available for sale	-	N/A	14,197	3076%	447
Disinvestment Uruguay project	229,360	N/A	-	N/A	-
Net cash flows from investment activities (II)	**59,056**	**-122%**	**(269,334)**	**50%**	**(179,474)**
3.- CASH FLOWS FROM FINANCING ACTIVITIES					
Receipts and payments from asset instruments	**(335)**	N/A	**-**	N/A	**-**
- Acquisition of own shares	(6,132)	N/A	-	N/A	-
- Disposal of own shares	5,797	N/A	-	N/A	-
Receipts and payments from financial liability instruments	**(102,766)**	-145%	**226,418**	109%	**108,364**
Capital increase	-	N/A	-	N/A	22,440
Capital increase expenses	-	N/A	-	N/A	(229)
Increase (reduction) in debts to credit institutions, net of formalisation expenses	(102,821)	-145%	227,088	161%	86,922
Outside shareholders		-100%	(3)	-100%	(1,408)
Others	55	-108%	(667)	-204%	639
Payments for dividends and remuneration on other asset instruments	**-**	-100%	**(24,136)**	-17%	**(29,206)**
Dividends paid	-	N/A	(24,136)	-17%	(29,206)
Net cash flows from financial activities (III)	**(103,101)**	**-151%**	**202,282**	**156%**	**79,158**
NET INCREASE/REDUCTION OF CASH OR EQUIVALENT (I+II+III)	**43,870**	**-2392%**	**(1,914)**	**-140%**	**4,738**
Cash or equivalent at beginning of year	5,262	-27%	7,176	194%	2,438
Cash or equivalent at end of year	49,132	834%	5,262	-27%	7,176

(*) See previous section relating to "Comparison of information and changes in accounting principles".

MAIN ACCOUNTING PRINCIPLES

The accounting principles used in preparation of the consolidated annual financial statements for the financial years ending 31 December 2007, 2008 and 2009 are set out in the said annual financial statements which were filed with the CNMV and which can be consulted on the website of the Company (www.ENCE.es) and at its registered office (Avenida de Burgos 8, Madrid).

20.2. Pro forma financial information

It is not appropriate to include pro forma financial information since there was no significant change which could have affected assets, liabilities and profits of the issuer.

20.3. Consolidated financial statements

See section 20.1 of this Registration Document.

20.4. Auditing of present historical financial information

20.4.1. Declaration that the historic financial information has been audited

The annual financial statements and management report for the audited financial years at 31 December 2007, 31 December 2008 and 31 December 2009, together with the audit reports of ENCE and the consolidated annual financial statements, consolidated management reports and audit reports of Grupo Empresarial ENCE, S.A. and controlled companies can be consulted on the website of the Company (www.ENCE.es) and at its registered office (Avenida de Burgos 8, Madrid).

In all cases the auditor of the issuer and consolidated group issued a favourable opinion.

20.4.2. Indication of other information in the Registration Document which has been audited by the auditors

Not applicable.

20.4.3. Declaration of data which has not been audited, indicating its source

This Registration Document indicates the source of all information which has not been extracted from the audited financial statements.

20.5. Age of most recent financial information

20.5.1. Declaration of age of the most recent financial information

The most recent audited financial information relates to 31 December 2009, and therefore the period up to the date of registration is less than 15 months.

20.6. Intermediate information and other financial information

20.6.1. Inclusion of quarterly or half-yearly financial information from the date of publication of the most recent audited financial statements. If the intermediate information has been reviewed or audited this must also be included

Not applicable.

20.6.2. If the date of registration is more than nine months after the end of the last audited financial year, inclusion of the intermediate financial information which covers the first six months of the year and which may not be audited

Not applicable.

20.7.

In 2007 and 2008 the Group distributed 29,206,000 euros and 24,136,000 euros, respectively, corresponding to the distribution of profits and cumulative reserves of the years 2006 and 2007, respectively. In 2009 no dividends were distributed.

The credit agreement entered into between ENCE and Banco Bilbao Vizcaya Argentaria, S.A., Caja de Ahorros y Monte de Piedad de Madrid, Instituto de Crédito Oficial, Banco Popular Español, S.A., Banco de Sabadell, S.A., Banco Español de Crédito, S.A. and Caixa Geral de Depositos, S.A., Branch in Spain, on 2 April 2008, which was subsequently modified on 5 February 2009, 4 June 2009 and 16 October 2009, lays down a restriction on the distribution of profits. This restriction means that while the agreement is in force the borrower may not distribute dividends in the event that ENCE is subject to events of default or fails to comply in the course of any financial year with any of the financial ratios agreed over one quarter.

On 25 February 2010 the lenders under the said syndicated credit granted a temporary waiver with effect from 23 December 2009 in relation to compliance with certain obligations and financial ratios which ENCE had not complied with at 31 December 2009, for a period depending on the obligation or ratio in question until 30 April 2010 and 1 March 2011. Independently of the foregoing, and due to the investments which must be made in the Huelva biomass project of 50 MW, ENCE does not plan to make dividend distributions during 2010.

20.7.1. <u>Amount of dividends per share for each financial year for the period covered by the historic financial information</u>

See section 20.1 of this Registration Document.

20.8. Judicial and arbitration proceedings: information regarding any governmental, legal or arbitration proceedings (including proceedings pending or those which the issuer is aware will affect it) during a period covering at least the previous 12 months, which have had in the recent past or could have significant effects on the issuer and the position and financial profitability of the Group, or provide a negative declaration

Although there are no governmental, legal or arbitration proceedings (including proceedings pending or those of which the issuer is aware which will affect it) during the period covered by at least the previous 12 months, which have had in the recent past or could have significant effects on the issuer and/or the financial profitability of the Group, of the different proceedings which are currently in progress, those which can be classified as most relevant are indicated below:

- Arbitration in Uruguay between Codirel, S.A. and Zona Franca Punta Pereira, S.A.:

  The arbitration derives from a claim made under the sale and purchase agreement of 17 May 2009 pursuant to which ENCE transferred 100% of the shares in its Uruguayan subsidiaries Eufores, S.A., Zona Franca Punta Pereira, S.A. and Celulosa y Energía Punta Pereira, S.A. to the companies Stora Enso Oyj and Celulosa Arauco y Constitución, S.A. The purchaser companies require ENCE and Sierra Calmas, S.L. to indemnify them against the claim by the company Codirel, S.A. against the company acquired, Zona Franca Punta Pereira, S.A., amounting to 9.5 million USD, since they consider that ENCE was in breach of the representations and warranties contained in the sale agreement. Nevertheless, the arbitration is currently suspended at the request of the claimant itself insofar as direct negotiations have commenced with ENCE and Zona Franca Punta Pereira, S.A.

- Challenge against the Galicia Regional Water Board in respect of the drainage levy:

  Up to the date of this Registration Document ENCE has challenged, after previously providing a guarantee for precautionary suspension of this settlement, all quarterly drainage levies issued by Aguas de Galicia from the first quarter of 2004 to the third quarter of 2009. The approximate overall amount of the levies is 4.8 million euros. The challenges are at the processing stage with various administrative bodies and courts, from the Galicia Regional Government in administrative channels to the Supreme Court by way of extraordinary appeal.

Due provision has been made for both proceedings in accordance with criteria of prudence, in the accounts of the Company.

20.9. Significant changes in the financial or commercial position of the issuer

At the date of this Registration Document no significant changes have occurred in the financial or commercial position of the Group with respect to the audited financial statements at 31 December 2009, except as indicated in the different sections of this Registration Document.

21. ADDITIONAL INFORMATION

21.1. Share capital

The following information is based on the most recent balance sheet included in the historical financial information:

21.1.1. Amount of issued capital, and each class of share capital

a) Number of shares authorised: At the time of submission of this Registration Document the share capital of ENCE comprises 174,900,000 shares with a nominal value of 0.9 euros each, comprising a total share capital of 157,410,000 euros.

b) Number of shares issued and paid up in full and those issued but not paid up in full: All shares are subscribed for and paid up in full. At the date of this Registration Document the share capital has been paid up in full by contributions in cash.

c) Nominal value per share, or whether shares have no nominal value: The nominal value per share is 0.9 euros.

All shares in circulation are currently listed on the Barcelona, Bilbao, Madrid and Valencia Stock Exchanges and are traded on the Stock Exchange Interconnection System.

21.1.2. If there are shares which do not represent capital, the number and principal characteristics of these shares must be declared

All shares represent capital of the Company.

21.1.3. Book value, number and nominal value of shares of the issuer in the possession or in the name of the issuer itself or its subsidiaries

At 31 December 2009 the Company directly held a portfolio of own shares of 159,879 shares representing 0.09 % of its capital. The average acquisition cost was 2.723 euros/share.

At the date of this Prospectus, the Company is a direct holder of 362,925 shares representing 0.21% of its capital. The average acquisition cost was 2.7195 euros/share.

21.1.4. Amount of all convertible securities, exchangeable securities or securities with guarantees, indicating the conditions and procedures governing their conversion, exchange or subscription

There are no convertible debenture loans, exchangeable or with warrants.

21.1.5. Information on and conditions of any right of acquisition or obligations with respect to capital authorised but not issued or regarding the decision to increase capital

The Shareholders Ordinary General Meeting of 25 June 2008 delegated power to the board of directors to increase capital in accordance with the provisions of Section 153.1.b) of the Revised Text of the Companies Act, on one or more occasions and over a maximum period of five years, in a maximum amount of 78,705,000 euros, equivalent to 50% of the current share capital of the Company, including the possibility of excluding preferential subscription rights in accordance with the provisions of Section 159.2 of the said Companies Act.

21.1.6. Information on any capital of any member of the Group which is under option or which it has been agreed conditionally or unconditionally to subject to option and details of these options, including the persons to whom these options are directed

The Company is not aware that there is capital of members of the Group subject to options of any type.

21.1.7. History of share capital, emphasising any change during the period covered by the historical financial information

In April 2007 a reduction in value of ENCE shares was executed, from 4.5 euros to 0.90 euros per share by splitting the 33,060,000 shares in circulation which made up the capital of the Company at that time into 169,800,000 new shares in the proportion of five New Shares for each old share, without any alteration in the amount of share capital of the Company. As a result each of the shares with a nominal value of 4.5 euros were replaced by shares of 0.90 euros nominal value each, making up a single class and series, fully subscribed for and paid up, and represented by book entry.

Finally, in November 2007 a capital increase of ENCE was made in the amount of 4,590,000 euros by the issue of 5,100,000 new ordinary shares with a nominal value of 0.90 euros each and at an issue premium of 3.5 euros per share. This capital increase was subscribed for in full by Caja Madrid pursuant to agreement for the purpose of risk hedging deriving from the 2007-2011 Special Variable Remuneration Plan referred to in section 15.1. As a result of this increase the capital of ENCE was fixed up to the present date at 157,410,000 euros divided into 174,900,000 shares with a nominal value of 0.9 euros each.

21.2. Articles of association and deed of formation

21.2.1. Description of objects and purposes of the issuer and where they can be found in the articles of association and deed of formation

The corporate objects of the Company are as follows, in accordance with Article 2 of its Articles of Association:

a) “The manufacture of cellulose paste and its derivatives, obtaining products and elements necessary for the foregoing and utilisation of the by-products from each one;

b) the production by any means, sale and utilisation, of electricity and other energy sources and of the primary energy or materials necessary for its generation in accordance with the possibilities laid down by current legislation; and its commercialisation, sale and purchase and supply under any of the modes permitted by law. The Company may not engage in any activity of those indicated for which applicable legislation lays down specific restrictions or conditions until there is full compliance therewith;

c) the cultivation, operation and exploitation of forests and forest masses, forestation work and specialist work and services of a forestry type. The preparation and transformation of forest products. The commercial exploitation and utilisation and commercialisation of all types of forest products (including biomass and forest energy crops), their derivatives and by-products. Forestry studies and projects;

d) the planning, promotion, development, construction, operation and maintenance of the installations referred to in the foregoing a), b) and c)."

21.2.2. Brief description of any provision of the articles of association or internal regulations of the issuer relating to members of administration, management and supervisory bodies

Both Articles 39 to 53 of the Articles of Association of the Company and the board regulations are devoted to the functioning and regulation of the Board of Directors. Functioning of the executive committee, the audit committee and of the appointments and remuneration committee are contained both in the Articles of Association and Board regulations, and therefore there are no specific regulations on Board committees.

Without prejudice to the following extract, the most relevant points of both documents are available for consultation at the head office of the Company and on its website www.ENCE.es.

The fundamental aspects are as follows:

1. Management of the Company is entrusted to a Board of Directors which shall comprise at least eight and a maximum of 16 members.

2. Except for matters reserved by law and the Articles of Association to the General Meeting, the Board of Directors is configured as the maximum decision-making body of the Company. Powers may not be delegated which are legally or institutionally reserved directly to the Board nor those others necessary for responsible exercise of the general supervisory function.

3. The Board shall comprise executive directors (which amongst others are managing directors and those others who carry out executive functions or maintain a stable contractual relationship with the Company or its subsidiaries other than as director), representative external directors (those proposed by shareholders by reason of a stable holding in the capital of the Company) and independent external directors (professionals of acknowledged prestige who can contribute their experience and knowledge to corporate governance and who fulfil the remaining conditions required by

the regulations, amongst those who are not connected to the executive team or to significant shareholders).

4. The Chairman shall be elected from amongst members of the Board of Directors and have a casting vote in the event of a tie in voting. The Board may in its discretion appoint one or more Deputy Chairmen who shall be consecutively numbered from one. The Board shall also have power to appoint a Secretary, who need not be a director. The Secretary shall assist the Chairman in his tasks and must strive for proper functioning of the Board, in particular concerned with providing directors with the necessary advice and information, preserving Company documentation, duly reflecting meetings in the minute books and certifying resolutions of the body. The Board may appoint a Deputy Secretary, who also need not be director, to assist the Secretary and stand in for him in the event of absence.

5. The Board of Directors may from amongst its members designate an executive committee and a managing director, determining the persons to occupy the said positions and their manner of acting, and may delegate to them, on a temporary or permanent basis, in whole or in part, all powers not incapable of delegation in accordance with the law or the Articles of Association. The Board of Directors shall furthermore create an audit committee and appointments and remuneration committee.

6. The Board of Directors shall meet on the initiative of the Chairman as many times as the same considers appropriate for proper functioning of the Company, with a minimum of six annual meetings. The Board shall be validly constituted when attended by at least one half plus one of its members in person or by proxy. If the number of directors is uneven it shall be deemed that there is a sufficient quorum if the number of directors immediately exceeding one half are present.

7. Directors shall cease to occupy their position when the period for which they are appointed has elapsed or when so decided by the General Meeting or Board of Directors. Directors must make their position available to the Board of Directors and, if the same considers it appropriate, formalise the corresponding resignation in the following cases: (i) when they are subject to any of the applicable grounds of disqualification or prohibition, (ii) they are accused or convicted of criminal or allegedly criminal offences of an economic nature or are penalised in a disciplinary process for serious or very serious infringement by supervisory authorities, (iii) when they are seriously recriminated by the audit committee for having infringed their obligations as directors, (iv) when their continuation on the Board could seriously endanger the interests of the Company or when the reasons for which they were appointed have disappeared, or (v) when, being representative directors, the shareholder which they represent or which has proposed their appointment transfers its shareholding in full, or reduces its shareholding to a level which requires a proportional reduction in the number of representative directors.

8. Directors who have reached the age of 70 shall continue until the end of their mandate, but may not be proposed for re-election by the Board unless

by a two thirds majority the Board proposes or approves their re-election as Chairman or as executive directors, in which case it must ratify the corresponding position to be occupied within the Board with the said majority each year.

9. The Board of Directors shall in exercise of its powers of proposal to the General Meeting and coopting to cover vacancies, procure that in the composition of the body external directors constitute a full majority. The Board shall further procure that within the majority group of external directors representative directors and independent directors are included with a significant proportion of the latter in order adequately to reflect the proportion between represented capital and floating capital.

10. A director must abstain from attending and taking part in deliberations which affect matters in which the same has a direct or indirect interest for own or third party account, and notify the existence of this conflict to the Board of Directors.

11. A director must notify the Company of the ENCE shares which the same directly or indirectly holds on the terms laid down in the internal code of conduct in securities markets. Furthermore, insofar as it may affect the independence of judgment thereof, a director shall inform the Company of all those positions which the same occupies and the activities the same engages in in other companies or entities, and in general of any facts or situation which could be relevant to the action thereof as director of the Company.

12. The Board of Directors of the Company shall, on prior report by the audit committee, prepare an annual report on corporate governance which shall pay particular attention: (i) to the ownership structure of the Company, (ii) to the management structure of the Company, (iii) to connected transactions and intra-Group transactions, (iv) to risk control systems, (v) to functioning of the General Meeting and the course of meetings, and (vi) to the degree of monitoring recommendations in the good governance field contained in official reports and other content imposed by applicable legislation. This annual corporate governance report shall be the subject of the publicity stipulated in securities market regulations.

Regulations of the Board of Directors can be consulted on the website of the Company (www.ENCE.es).

21.2.3. Description of the rights, preferences and restrictions relating to each class of existing shares

The Company has issued shares of a single type, in respect of which Article 7 of the Articles of Association provides as follows, under the heading “Shareholder rights”:

“Shares shall grant the legitimate holders the status of member and grant to them the rights acknowledged by Law and these Articles of Association.

On the terms laid down by Law, and other than in the cases therein provided, shareholders shall have at least the following rights:

a) That of participating in the distribution of corporate profits and in assets resulting from liquidation.

b) That of preferential subscription on the issue of new shares or debentures convertible into shares.

c) That of attending and voting at General Meetings and challenging Company resolutions.

d) That of information."

21.2.4. <u>Description of what must be done to change the rights of shareholders, indicating whether the conditions are more significant than those required by law</u>

The Articles of Association of ENCE do not include modifications of capital in cases for which more stringent conditions are laid down than those laid down by law, and therefore the requirements will be applicable as established by Section 103 of the current Revised Text of the Companies Act.

21.2.5. <u>Description of the conditions governing the manner of convening annual General Meetings and Extraordinary Shareholders General Meetings , including conditions for admission</u>

The General Meeting must be convened by the Board of Directors by announcement published in the Commercial Registry Official Gazette and in one newspaper of major circulation in the province at least one month prior to the date fixed for holding it, except in cases in which the law establishes a different notice period, in which case the provisions thereof shall apply.

All shareholders of the Company shall be entitled to attend Shareholders General Meetings provided that their shares are registered in their name in the corresponding book entry registers five days prior to that on which the meeting is to be held.

The management body may convene Extraordinary Shareholders General Meetings whenever it considers appropriate in the Company interests.

They must also convene it when so requested by a number of shareholders holding at least 5% of the capital of the Company, setting out in the request the matters to be dealt with at the meeting. In this case the meeting must be convened to be held within one month and 15 days following the date on which notary request has been given to the management body to convene it.

Notwithstanding the foregoing, the meeting shall be deemed to be convened and validly constituted to deal with any matter provided that all capital is present and those present unanimously agree to hold the meeting. Full meetings may be held at any location.

The General Meeting shall be validly constituted in the first instance when shareholders present in person or by proxy hold at least 25% of the subscribed capital with voting rights. In the second instance the meeting will be validly constituted whatever the capital present thereat.

In order that an Ordinary or Extraordinary General Meeting can validly resolve to issue debentures, increase or reduce capital, transformation, merger, demerger or dissolution of the Company, and any modification in general of the Articles of Association, the attendance shall be necessary at the first instance of shareholders present in person or by proxy holding at least 50% of subscribed capital with voting rights. The attendance of 25% of the said capital shall be sufficient at the second instance.

When shareholders attend representing less than 50% of subscribed capital with voting rights, the resolutions referred to in the previous paragraph may only be validly passed with votes in favour by two thirds of the capital present in person or by proxy at the meeting.

Absences which occur after the General Meeting is constituted shall not affect the validity of holding the same.

It shall not be necessary for directors to be present in order to validly constitute the General Meeting.

Shareholders who have issued their vote by post or electronically on the terms laid down in these Articles of Association or in the General Meeting regulations shall be computed amongst shareholders present.

21.2.6. <u>Brief description of any provision of the Articles of Association or internal regulations of the issuer which has the effect of delaying, postponing or preventing a change of control of the issuer</u>

No provision in this respect is established.

21.2.7. <u>Indication of any provision of the Articles of Association or internal regulations, as the case may be, governing the ownership threshold above which shareholder ownership must be disclosed</u>

There are no provisions in this respect.

21.2.8. <u>Description of the terms and conditions imposed by the Articles of Association or internal regulations governing changes in capital, if these conditions are more onerous than those required by law</u>

The conditions inserted in the Articles of Association of the Company governing changes in capital do not impose more onerous conditions that those required by law.

22. MAJOR CONTRACTS

22.1. Summary of major contracts

Contracts, other than those entered into in the normal course of business activities, to which the issuer or any member of the Group is party, entered into during the two years immediately prior to publication of the Registration Document, are summarised below.

- Shareholders sale and purchase agreement: On 17 May 2009 ENCE signed a sale and purchase agreement pursuant to which it transferred 100% of the shares of its Uruguayan subsidiaries Eufores, S.A., Zona Franca Punta Pereira, S.A. and Celulosa y Energía Punta Pereira, S.A. to the companies Stora Enso Oyj and Celulosa Arauco y Constitución, S.A. The sale and purchase agreement follows the normal system of representations and warranties of the seller inherent in this type of transaction. These representations and warranties are in force for a period of between two and five years based on the nature of the corresponding representation and warranty.

  The sale price amounted to 229,360,371 euros which was paid in cash by the buyers on 16 October 2009, the date on which the conditions laid down in the sale and purchase agreement were fulfilled.

  This sale and purchase meant sale by ENCE of the project for construction and operation of the Uruguay cellulose plant. ENCE maintains its presence in Uruguay through subsidiaries of certain subsidiaries of Eufores, S.A. which have become direct subsidiaries of ENCE.

- Syndicated credit agreement: On 2 April 2008 ENCE signed a credit agreement with the syndicate of banks formed by BBVA, Banesto, Caja Madrid, Popular, Sabadell, Caixa Geral and ICO. After various modifications to this agreement the outstanding amount of the credit is 166 million euros, which will be paid between March 2010 and December 2013.

  The credit is currently secured by pledge over shares of the companies SILVASUR AGROFORESTAL, S.A., NORTE FORESTAL, S.A. and IBERFLORESTAL, S.A., although the agreement itself provides for replacement of these pledges by mortgages over the underlying forest assets owned by these companies.

22.2. Summary of any other contract which includes an obligation or right of relevance to the Group

Apart from the most significant contracts relating to the debt of the Company indicated in section 4, and the contracts entered into in the normal course of its business, there are no other major contracts to which the Company or any member of its Group is party nor contracts which contain any clause pursuant to which any member of the Group has an obligation or right of relevance to the Group.

23. THIRD PARTY INFORMATION, DECLARATIONS BY EXPERTS AND DECLARATIONS OF INTEREST

23.1. Data relating to the independent expert report

This section is not applicable.

23.2. Third party information

Not applicable.

24. DOCUMENTS SUBMITTED

The Articles of Association of the Company and the annual financial statements, management reports and any other documentation contained in this Registration Document or the existence of which derives from its contents may be consulted while this Registration Document is in force both on the website of ENCE (www.ENCE.es), and at the registered office the Company, located at Avenida de Burgos 8, in the city of Madrid. The deed of formation of the issuer may also be consulted at the registered office.

25. INFORMATION ON PORTFOLIOS

Section 7.1 of the Registration Document contains an organisational chart showing the principal companies in the Group which covers all of its production activities.

Information is detailed below relating to the undertakings which are not included in the consolidation at 31 December 2009.

Company	Grupo ENCE % holding	Share capital (€)	Holder	Net P&L 2008 (€)	Net value of holding	Dividends 2008
Transportes de Celulosa y Madera, S.A.	40%	81,000	Silvasur	90,914	20,560	-
IMACEL, A.E.I.E.	50%	24,789	Silvasur	Inactive	-	-
Sociedad Andaluza de Valorización de la Biomasa, S.L.	6%	6,000,000	Ence	(174,370)	180,000	-
Electroquímica de Hernani, S.A.	5%	1,077,347	Ceasa	1,207,565	108,466	5,714

The information relating to assets, liabilities, financial position, losses and profits of the undertakings included in consolidation are set out in the consolidated financial statements.

IV. INFORMATION ON THE SECURITIES TO BE ISSUED – SECURITIES NOTE (Annex III of Regulation (EC) No. 809/2004 of the Commission of 29 April 2004)

1. PERSONS RESPONSIBLE

1.1. Persons who assume responsibility for contents of the Securities Note.

Responsibility for the contents of this Securities Note is assumed by Mr. Antonio Palacios Esteban, of full age, with professional address at Avenida de Burgos no. 8 B, and with National ID Document number 13681300-A, who acts for and on behalf of the company Grupo Empresarial ENCE, S.A. (hereinafter severally "**ENCE**" or the "**Company**").

He is authorised for the purpose pursuant to the resolution of the Board of Directors of the Company dated 3 March 2010.

1.2. Declarations by those responsible for the Securities Note

Mr. Antonio Palacios Esteban, as person responsible for this "**Securities Note**", states in his representative capacity for and on behalf of ENCE that after acting with reasonable diligence to ensure that the same is the case, the information contained in this Share Note, to his knowledge, conforms to the facts and is not subject to any omission which could affect its contents.

2. RISK FACTORS

See Section II of this Prospectus.

3. BASIC INFORMATION

3.1. Statement of working capital

With the information available to date, ENCE estimates that working capital which it currently holds together with the funds which will result from the capital increase and the income which it expects to generate in the course of its business in the forthcoming 12 months will be sufficient to meet the operating requirements of the Company during this period of time.

Nevertheless, this statement must be considered completed by the following considerations:

1. On the forecast non-compliance at 31 December 2009 of certain obligations and financial ratios contained in the Syndicated Credit Agreement, ENCE asked the Lender Institutions on 23 December 2009 for a temporary waiver in compliance with certain obligations and ratios which the Lenders granted to it unanimously on 25 February 2010 with retrospective effect from 23 December 2009.

   This authorisation extends the period for complying with the non-financial obligations (commitment to agree with the Lenders on an exchange rate hedging strategy for the whole contractual period, subrogation of ENCE to certain credit agreements of its subsidiaries, obtaining prior authorisations from third parties to grant certain security *in rem* and formalisation thereof in favour of the Lenders under the Syndication Credit) until 30 April 2010, whilst compliance with the financial ratios associated with the credit (restriction on Net Financial Debt of the ENCE Group, maximum financial gearing, minimum coverage of interest and third party resources with financial cost in relation to maximum EBITDA) is extended automatically to 1 March 2011. On this date the Company will notify the market by relevant event of compliance with the said obligations, or of obtaining a new extension, as the case may be.

2. In order to comply with the debt reduction objective of the Company defined in the framework of the capital increase, ENCE is in negotiation with its principal creditor financial institutions for the purpose of agreeing on a new financing structure better adapted to the business profile and growth projects of the Company, which will mean devoting a substantial part of the funds obtained from the capital increase to the repayment of amounts due to the said institutions and the grant of security *in rem*.

In the event that the modification agreement with the financial institutions concerned is not formalised before 30 April 2010, and insofar as compliance with the aforesaid obligations to grant security and of subrogation to certain credit agreements of its subsidiaries is in turn linked to the authorisation of certain financial institutions, it is foreseeable that ENCE will have to apply for a new temporary authorisation until the modification agreement is formalised with its creditor financial institutions.

3.2. Capitalisation and debt

A declaration of capitalisation and debt must be provided (distinguishing between secured and unsecured debt, and guaranteed and non-guaranteed debt) relating to a *date not less than 90 days prior to the date of the document. The debt must also include indirect and contingent debt.*

31 DECEMBER 2009	**THOUSANDS €**
A) LIABILITIES	**647,329**
Current liabilities	**388,907**
Guaranteed[1]	0
Secured[2]	31,424
Not guaranteed / secured	357,483
Total long term debt	**258,422**
Guaranteed	
Secured	131,340
Not guaranteed / secured	127,082
B) NET WORTH	**576,897**
Share capital	157,410
Issue premium	199,058
Legal reserve	30,270
Voluntary reserve	148,586
Consolidation reserves	149,131
Adjustments to net worth from revaluation	47,448
Profit and loss for year attributed to the Company	(154,571)
Own shares	(435)
C) BREAKDOWN OF FINANCIAL DEBT	**351,305**
Short term bank debt	186,240
Other short term financial debt	519
Short term financial debt	**186,759**
Long term bank debt	155,755
Other long term financial debt	8,791
Long term financial debt	**164,546**
TOTAL FINANCIAL DEBT (a)	**351,305**
CASH AND BANKS AND OTHER FINANCIAL INVESTMENTS (b)	**13,045**
D) TOTAL NET FINANCIAL DEBT (a) - (b)	**338,260**

(1) Guaranteed Debt means debt secured by personal guarantees granted by ENCE as parent company in favour of its subsidiaries. At 31 December 2009 Grupo ENCE had granted personal guarantees to third parties for 1,272,000 euros.
(2) Secured Debt means debt secured by security *in rem* created in the form of mortgage or pledge..

In relation to indirect and contingent debt, it should be indicated that ENCE has received guarantee lines from various financial institutions in the amount of 75,109,000.05 euros (at 31 December 2009 it had utilised 51,500,000 euros).

3.3. Interest of individuals and legal entities participating in the issue/offer

ENCE is not aware of the existence of any connection or financial interest between ENCE or any of its subsidiaries and entities participating in the capital increase, except as mentioned below.

Banco Santander, BBVA and Caja Madrid, who act as underwriters and placement agents, are normal financiers of the Company and subsidiaries in its Group. Specifically, the relationship between BBVA, Banco Santander and Caja Madrid and the Company and its subsidiaries is described in the following table:

(i) **Banco Santander**

Product	Company	Limit
Agreements	ENCE	3,000,000.00 €
Loan	ENCE	2,000,000.00 €
Loan	ENCE	3,000,000.00 €
Guarantees	SILVASUR	259,269.10 €
Total		**8,259,269.10 €**

(ii) **BBVA**

Product	Company	Limit
Agreements	ENCE	12,000,000.00 €
Agreements	IBERSILVA	2,000,000.00 €
Agreements	IBERFLORESTAL	2,000,000.00 €
Agreements	IBERSILVA PT	2,000,000.00 €
Agreements	CEASA	500,000.00 €
Syndicated	ENCE	30,111,450.82 €
Confirming	IBERFLORESTAL	1,500,000.00 €
Confirming	IBERSILVA	1,500,000.00 €
Guarantees	IBERSILVA	2,800,000.00 €
Guarantees	ENCE	3,600,000.00 €
Guarantees	SILVASUR	158,324.35 €
Total		**58,169,775.17 €**

In addition, ENCE has entered into interest rate swap agreements with BBVA in the amount of 123,162,000 euros.

(iii) **Caja Madrid**

Product	Company	Limit
Agreements	ENCE	8,000,000 €
Syndicated	ENCE	30,111,450.82 €
Guarantees	ENCE	6,000,000 €
Total		**44,111,450.82 €**

In addition, ENCE has entered into interest rate swap agreements with Caja Madrid in the amount of 60,041,475 euros. The Company has also contracted an equity swap with Caja Madrid in respect of a total of 5,100,000 securities at a base price of 4.40 euros per share maturing on 30 June 2012. This derivative instrument accrues interest at the 12-month EURIBOR plus a spread of between 125 and 325 basis points.

3.4. Reasons for the offering and use of the funds

The primary objective of this capital increase is to strengthen the balance sheet structure of the Company in order to tackle, from a more solid position, its investment projects in industrial efficiency and growth in renewable energy generation with biomass.

The Company considers that maintenance of a solid balance sheet structure is a strategic objective given the cyclical nature of its current business; strengthening its balance sheet will enable not only maximum value to be extracted from the business in periods of increase in the price of cellulose but also to continue transforming the business profile of ENCE by implementing industrial efficiency programmes and energy projects geared to strengthening the generation of future cash flow of the Company.

The Company considers that an adequate debt level to meet its current financing requirements, to maintain the level of recurring investment planned, and to tackle new growth projects with a solid base should be around 2.5-3 times the EBITDA generated by operations, based on an average cellulose cycle price. Furthermore, distribution of this debt with 75% falling due short term and the remaining 25% short term is considered optimum.

The planned purpose of the proceeds of this capital increase net of costs associated with the operation is as follows:

1. Applying an amount equal to 80% of the funds obtained from the capital increase to early repayment of part of the short term debt of the Company, which at 31 December amounted overall to 186 million euros.

   With this initiative ENCE will reduce the financial costs which the short term debt is generating to the Company in order to strengthen its own funds and position it in an unfavourable market environment.

   The reduction of ENCE liabilities, which will place the Company at a solvency level comparable with those in its sector, will permit it to strengthen its position with its financial creditors with a view to complying with obligations which fall due and be able to negotiate, as the case may be, an improvement in the financial terms of the Company’s credit instruments.

2. Devoting the remaining 20% to partial financing of the investment which ENCE is carrying out in the project for construction of a 50 MW installed power plant in the Huelva industrial complex, which will use biomass as fuel.

   This project will require an approximate investment of 120 million euros, of which ENCE intends to cover 17% by income from the capital increase. Application of the capital increase funds together with payments already made in execution of the project in 2008 and 2009 will enable the Company to finance more than 30% of the project, equivalent to the maximum level of own funds associated with the project finance estimated by the Company

   As explained in the Registration Document, ENCE has opted for investment in a project of these characteristics with the following objectives:

   - Strengthening the growth in industrial activity of the Company, taking advantage of its unique position as forest manager;

- Obtaining stable and predictable complementary profits which can compensate for economic cycles in the forestry and cellulose production market; and
- Exploiting the opportunities provided by legislation in the field of renewable energy generation and surplus emission rights and emission reduction credits ("CERs") for carbon sinks or energy efficiency.

The capital increase is therefore presented as a suitable instrument for ensuring financing of a project of these characteristics which will give rise to ongoing income for ENCE enabling it to ensure growth and diversification of its business.

Nevertheless, use of the funds previously indicated is approximate and may vary based on the refinancing agreements which the Company plans to reach with its creditor financial institutions, referred to in the foregoing section 3.1.

4. INFORMATION RELATING TO THE SECURITIES TO BE OFFERED / ADMITTED TO LISTING

4.1. Description of the type and class of the securities offered or admitted to listing, with the ISIN Code (international securities identity number) or other security identification code

The securities which are issued on the capital increase are ordinary ENCE shares with a nominal value of 0.90 euros each, represented by book entry, belonging to the same class and series and with the same characteristics as the remaining shares comprising the capital of the Company currently in circulation.

The ISIN Code (international securities identity number) of the ENCE shares currently existing is ES0130625512. The National Agency for Coding of Transferrable Securities, part of the Spanish National Securities Commission (*Comisión Nacional del Mercado de Valores* – hereinafter "CNMV") will allocate a provisional ISIN Code to the New Shares until the time when this code is made equivalent to that of the shares admitted to listing on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges through the Spanish Stock Exchange Interconnection System (*Sistema de Interconexión Bursátil Español* -"**SIBE**" or "**Continuous Market**").

4.2. Legislation in accordance with which the securities have been created

The New Shares created as a result of the operation covered by this Prospectus conform to the typical legal regime laid down by Royal Decree-Act 1564/1989, of 22 December, promulgating the Revised Text of the Companies Act (hereinafter the "**Companies Act**") and the Securities Market Act, 24/1988 of 28 July, and other applicable complementary legislation.

4.3. Manner of representation of the securities

All ENCE shares currently in circulation are represented by book entry and are registered in the corresponding book entry records of Sociedad de Sistemas, de Registro, Compensación y Liquidación de Valores, S.A.U. (hereinafter severally, "**IBERCLEAR**" or the "**Systems Company**"), with registered office in Madrid at Plaza de la Lealtad no. 1, and its Participating Entities.

The New Shares covered by this capital increase will likewise be represented by book entry and be registered in the book entry records of IBERCLEAR and the corresponding Participating Entities.

4.4. Currency of issue of the securities

In accordance with the provisions of the foregoing section 4.1., the new shares will be denominated in euros.

4.5. Rights linked to the securities

Holders of the New Shares will have the rights and obligations inherent in the status of shareholder contained in the Companies Act and the Articles of Association of the Company, deposited with the CNMV, in accordance with the following provisions. In particular, the following should be cited:

- Right to participate in corporate profits and assets resulting from liquidation

    Date or dates established on which the rights will arise

    The New Shares of the Company will grant the right to participate in the distribution of Company profits (without granting a right to receive a minimum dividend) and in assets resulting from liquidation on the same conditions as existing shareholders. The New Shares will grant the right to receive dividends, interim or final, distribution of which is resolved as from the date on which they are registered in the name of their holders in the corresponding book entry records.

    The returns deriving from the New Shares will be paid through IBERCLEAR and its Participating Entities (hereinafter "**Participating Entities**").

    Period after which the right to dividends lapses and an indication of the person in whose favour the lapse operates

    The right to receive dividends will prescribe in favour of ENCE in a period of five years in accordance with the provisions of Section 947 of the Commercial Code. The beneficiary of this prescription will be the Company.

    Dividend procedures and restrictions for non-resident holders

    The Company is not aware of the existence of any restriction on the receipt of dividends by non-resident holders, who will receive their dividends through the same procedure described in the previous paragraph, without prejudice to possible restrictions on account of Non-Resident Income Tax which may be applicable.

    Rate of dividends or method for their calculation, regularity and the cumulative or non-cumulative nature of payments

    The New Shares, as with the existing shares, do not incorporate a right to receive any minimum dividend, since they are all ordinary shares. Consequently, the entitlement of the said shares to dividends will arise solely as from the time when the Shareholders General Meeting, or Board of Directors as the case may be, of ENCE resolves on the distribution of corporate profits. At the date of this Securities Note there are no dividends resolved pending distribution.

- Right to participate in profits

    The holders of the New Shares will be entitled to participate in any distribution of Company profits which is resolved in proportion to the nominal value of the said shares as from when the deed of execution of the capital increase is registered in the Commercial Registry and the New Shares are registered in the name of their holders in the corresponding book entry records.

- Right of preferential subscription on offerings for the subscription of securities of the same class

The New Shares, as with the existing shares, will grant their holders a right of preferential subscription on capital increases with issue of New Shares (ordinary or preference) and on the issue of debentures convertible into shares, all on the terms laid down in the Companies Act and the Articles of Association of ENCE, without prejudice to the possibility of total or partial exclusion of the said rights in accordance with Sections 159 (in the event of capital increases) and 293 (in the case of issues of convertible debentures) of the Companies Act.

Likewise, the New Shares will have a right of free allocation granted in the Companies Act in the event of capital increases charged to reserves.

- Right to attend and vote at Shareholders General Meetings and to challenge corporate resolutions

  The New Shares will grant holders the right to attend and vote at Shareholders General Meetings and to challenge corporate resolutions, in accordance with the general regime laid down in the Companies Act and Articles of Association of ENCE.

  In particular, with respect to the right to attend Shareholders General Meetings, shareholders may attend whose shares are registered in their name in the corresponding book entry registers five days prior to the date on which the meeting is to be held and they obtain the corresponding attendance card, up to two days prior to the date of the meeting, in the manner indicated in the notice of meeting.

  Each share grants entitlement to one vote and no restrictions are laid down on the maximum number of votes which may be cast by each shareholder or by companies belonging to the same group in the case of legal entities.

  All shareholders entitled to attend may be represented at General Meetings by another person, even if not a shareholder. Proxies must be granted in writing (on paper or electronically) on an individual basis for each meeting.

- Right to participate in any surplus in the event of liquidation

  Holders of the New Shares will be entitled to participate in the assets resulting from liquidation in proportion to the nominal value thereof on the same conditions as other shares in circulation.

- Information rights

  The New Shares will have the information rights set out in general in Section 48.2.d) of the Companies Act, and in particular in Section 112 thereof, and in Section 34 of the Articles of Association, on the same terms as remaining shares which make up the capital of ENCE. They will also have those particular features in the field of information rights set out in the provisions of the Companies Act, the Securities Market Act and Act 3/2009, of 3 April, on structural modifications of mercantile companies, in detail in the case of modification of Articles of Association, increase or reduction in capital, approval of annual financial statements, issues of debentures, whether or not convertible into shares, transformation, merger and demerger, dissolution and liquidation of the Company and other corporate acts or operations.

- Redemption and conversion provisions

  Not applicable.

4.6. In the case of new issues, declaration of resolutions, authorisations and approvals pursuant to which the securities have or will be created or issued

a) Authorisations

The capital increase covered by this Securities Note does not require administrative pronouncement or authorisation other than the general system of approval and registration by the CNMV in accordance with the provisions of the Securities Market Act, 24/1988 of 28 July, and its implementing regulations.

b) Corporate resolutions

The New Shares are issued pursuant to the corporate resolutions passed by (i) the Ordinary Shareholders General Meeting of the Company held on 25 June 2008, and (ii) the Board of Directors of the Company at its meeting of 3 March 2010. These resolutions are described below:

- Resolution of the Ordinary Shareholders General Meeting of the Company of 25 June 2008:

  The Ordinary Shareholders General Meeting held on 25 June 2008 resolved to authorise the Board of Directors of the Company, as fully as may be necessary by law and pursuant to Section 153.1.b) of the Companies Act, to increase the capital of the Company without prior consultation of the General Meeting, on one or more occasions within a period of five years from the date of holding the meeting, in a nominal amount of 78,705,000 euros, equivalent to one half of the capital of the Company at the time of the said authorisation, by the issue of New Shares, with or without premium, and with a counter value consisting of contributions in cash.

  In addition, the Ordinary Shareholders General Meeting authorised the Board of Directors to fix the terms and conditions of the capital increase and the characteristics of the New Shares.

- Resolution of the Board of Directors of the Company of 3 March 2010:

  The Board of Directors of the Company at its meeting on 3 March 2010, acting pursuant to the authorisation to increase the capital of the Company granted by the Ordinary General Meeting previously referred to, resolved within the limits laid down by the General Meeting, in accordance with the provisions of Section 153.1.b) of the Companies Act, to increase the capital of the Company by 74,801,601 euros with an issue premium equal to 55,270,071.85 euros, by the issue and circulation of 83,112,890 New Shares.

The subscription price established for the New Shares is 1.565 euros per share (0.9 euros nominal value and 0.665 euros issue premium), with preferential subscription rights of shareholders in the Company and with incomplete subscription being expressly provided for.

4.7. Planned date of issue of the New Shares

It is provided that on 30 March 2010 the deed of execution of the increase will be executed for subsequent registration in the Madrid Commercial Registry, which for the purposes of this capital increase will be the date of issue of the New Shares.

4.8. Restrictions on the free transferability of the securities

The Articles of Association of ENCE do not contain any restriction on the free transferability of ordinary shares of the Company. Consequently, the New Shares which are issued as a result of the capital increase will be freely transferable in accordance with the provisions of the Companies Act, the Securities Market Act and implementing legislation thereunder.

4.9. Obligatory offer for acquisition, rules for withdrawal and obligatory repurchase of shares

No obligatory offer for acquisition in respect of the Company shares has been formulated. Furthermore, there is no special rule which regulates obligatory offers for the New Shares, other than those deriving from legislation on public offerings for the acquisition of securities contained in Section 60 of the Securities Market Act and implementing legislation (currently Royal Decree 1066/2007, of 27 July, on the regime of takeover bids).

4.10. Public offerings for acquisition of shares of ENCE during the 2009 and 2010 financial years

No public offerings for the acquisition were made either during the 2009 or current financial year in respect of ENCE shares.

4.11. Tax regime

A general description is provided below, in accordance with Spanish legislation in force (including regulatory implementation) at the date of approval of this Securities Note of the tax regime applicable to the acquisition, ownership, and subsequent transfer, as the case may be, of the New Shares.

It must be taken into account that this analysis does not explain all possible tax consequences of the said operations nor the regime applicable to all categories of shareholders, some of whom (such as financial institutions, collective investment undertakings, income distribution entities and cooperatives, for example) may be subject to special rules. Furthermore, neither does this description take into account the economic tax regimes in force respectively in the Historic Territories of the Basque Country and the Navarre Region, nor legislation promulgated by the different Autonomous Regions which may be applicable to shareholders in respect of certain taxes.

Consequently, potential investors, both Spanish and foreign, are advised to consult their lawyers or tax advisors who will be able to provide personalised advice in the light of their particular circumstances. Likewise, potential investors must be attentive to changes in legislation in force at the present time or interpretation which it may experience in the future.

In particular, on 23 December 2009 the General State Budget Act for 2010 was promulgated, 26/2009 of 23 December, pursuant to which various legislative provisions were reformed in the tax field. Amongst other aspects the reforms affect taxation for Individual Income Tax of so-called "savings income" (which includes dividends and capital gains deriving, as the case may be, from transfer of the New Shares) which will be taxed from a fixed rate of 18% to a new fixed rate of 19% (for the first 6,000 euros of savings income obtained by the individual) and 21% (for income exceeding this 6,000 euros).

(1) Indirect taxation on acquisition and transfer of the New Shares

Acquisition, and subsequent transfer as the case may be, of the New Shares will be exempt from Capital Transfer Tax and Stamp Duty (*Impuesto sobre Transmisiones Patrimoniales y Actos Jurídicos Documentados*) and Value Added Tax on the terms laid down by Section 108 of the Securities Market Act and related legislation governing the said taxes.

(2) Direct taxation deriving from ownership and subsequent transfer of the New Shares

(i) Shareholders resident in Spanish territory

This section examines the tax treatment applicable both to shareholders resident in Spanish territory and to those others who, even though not resident, are taxpayers for Non-Resident Income Tax (hereinafter "**Non-Res. Inc. Tax**") and who act through a permanent establishment in Spain, and to individual investors resident in other European Union Member States (provided that they are not resident in a territory classified as tax haven) and also taxpayers for Non-Res. Inc. Tax who elect for taxation as taxpayers for Individual Income Tax (hereinafter "**Individ. Inc. Tax**"), in accordance with the provisions of Section 46 of the Revised Text of the Non-Resident Income Tax Act, promulgated by Royal Decree-Act 5/2004, of 5 March (the "**Non-Res. Inc. Tax Act**").

For these purposes, without prejudice to the Double Tax Treaties (hereinafter "**DTT**") entered into by Spain, shareholders resident in Spain will include entities resident in Spanish territory in accordance with Section 8 of the Revised Text of the Corporation Tax Act (hereinafter "**Corporation Tax Act**") promulgated by Royal Decree-Act 4/2004, of 5 March, and individuals who are normally resident in Spain, as defined in Section 9.1 of the Individual Income Tax Act 35/2006, of 28 November, in Individual Income Tax and partial amendment of the Acts on Corporation Taxes, Non-Resident Income and Wealth (hereinafter the "**Individ. Inc. Tax Act**"), and residents abroad who are members of Spanish diplomatic missions, Spanish consular offices and other official positions on the terms of Section 10.1 of the said legislation. Shareholders resident in Spain for tax purposes will likewise include individuals of Spanish nationality who, ceasing tax residency in Spain, evidence their new tax residency in a tax haven, both during the tax period in which the change of residence takes place and in the four following.

In the case of individuals who acquire their tax residency in Spain as a result of moving to Spanish territory, an election may be made to be taxed under Invidivid. Inc. Tax or Non-Res. Inc. Tax during the period in which the change of residence takes place and the five following provided that the requirements are fulfilled laid down by Section 93 of the Invidivid. Inc. Tax Act.

(a) Individuals

(a.1) Individual Income Tax

(a.1.1) <u>Returns on securities</u>

In accordance with Section 25 of the Invidivid. Inc. Tax Act, returns on securities include dividends, premiums for attending meetings, returns deriving from the creation or transfer of rights or powers of use or enjoyment of the New Shares covered by the capital increase, and participation in the profits of ENCE in general, and any other profit received from the said entity in their capacity as shareholder.

Returns from securities obtained by shareholders as a result of owning the New Shares will be included at the net return resulting from deducting, as the case may be, the costs of administration and deposit of the gross amount thereof, but not those of discretionary and individual portfolio management, into taxable savings income for the year in which they are due to the recipient, taxed at the fixed rate of 19% (for the first 6,000 euros of savings income obtained by individuals) and 21% (for income exceeding 6,000 euros), without being able to apply any deduction to avoid double taxation.

Nevertheless, in accordance with the provisions of sub-section y) of Section 7 of the Invidivid. Inc. Tax Act, there is an exemption from Invidivid. Inc. Tax, with a limit of 1,500 euros annually, on dividends, premiums for attendance at meetings and participation in profits of any type of entity (including participation in the profits of ENCE) and returns from any type of assets, except the delivery of paid up shares which, pursuant to articles of association or decision of corporate bodies, grant an entitlement to participate in the profits of an entity (including ENCE). This limit will be applicable to all dividends and participation in profits obtained during the calendar year by the Invidivid. Inc. Tax taxpayer in the capacity of shareholder or member of any entity.

The said exemption will not be applied to dividends deriving from securities acquired during the two months prior to the date on which they have been paid when, after the said date, and within the said period, a transfer of homogenous securities takes place.

Furthermore, shareholders will in general be subject to a withholding on account of Invidivid. Inc. Tax of 19% of the full amount of the profit distributed, without for these purposes taking into account the exemption of 1,500 euros previously described. The withholding on account will be deductible from the amount of the said tax and, if insufficient, will give rise to the repayments stipulated in Section 103 of the Invidivid. Inc. Tax Act.

(a.1.2) Capital gains and losses

Variations in the value of the assets of Invidivid. Inc. Tax taxpayers manifested on any alteration in the said assets will give rise to capital gains or losses which, in the case of transfer for good consideration of the New Shares, will be quantified at the negative or positive difference, respectively, between the acquisition value of these securities and their transfer value, which will be determined (i) by their quoted price on the date on which the said transfer takes place, or (ii) the price agreed when higher than the said quoted value.

Both the acquisition value and transfer value will be increased or reduced, respectively, by the taxes and expenses inherent in the said transactions which have been paid by the transferee or transferor, respectively.

Capital gains or losses which arise as a result of transfers of New Shares carried out by shareholders will be included and set off in their respective taxable savings income for the year in which the alteration in assets takes place, being taxed, if the resulting balance of the inclusion and set-off in the savings tax base is positive, at the fixed rate of 19% (for the first 6.000 euros of savings income obtained by the individual) and 21% (for income exceeding 6,000 euros), independently of the period during which it has been generated.

Capital gains deriving from transfer of the New Shares are not subject to withholdings.

Finally, losses deriving from transfers of the New Shares subscribed for will not be computed as losses when homogeneous securities have been acquired within the two months before or after the date of the transfer giving rise to the said loss. In these cases, capital losses will be included to the extent that the securities which still remain in the assets of the taxpayer are transferred.

(a.1.3) Preferential subscription rights

The amount obtained from the sale of preferential subscription rights to the New Shares does not constitute income but reduces the acquisition cost of the shares from which they derive for the purposes of future transfers until the said cost is reduced to zero. Amounts received in excess of the acquisition cost are considered capital gains and will be included in taxable savings income for the year, being taxed at the rate of 19% (for the first 6.000 euros of savings income obtained by the individual) and 21% (for income exceeding 6,000 euros).

(a.2) Wealth Tax

Section 3 of Act 4/2008, of 23 December, eliminating Wealth Tax, broadens the system of monthly repayment under Value Added Tax and introduces other modifications to tax legislation, eliminated Wealth Tax, both for obligations *in personam* and *in rem* to contribute, with effect from 1 January 2008. To this end the said Act introduced an allowance of 100% on the amount of the tax and at the same time eliminated the obligation to file the corresponding return to the tax authorities.

Consequently, holders of the New Shares, whether resident or not in Spanish territory for tax purposes, will not be taxed under this tax.

For their part, legal entities are not subject to Wealth Tax.

(a.3) Inheritance and Gift Tax

Transfers of shares without consideration (on death or by gift) in favour of individuals resident in Spain are subject to Inheritance and Gift Tax (hereinafter "**ISD**") on the terms laid down by Act 29/1987, of 18 December, with the transferee of the securities being the taxpayer and without prejudice to specific legislation promulgated, as the case may be, by each Autonomous Region. The tax rate applicable to the tax base varies between 7.65% and 34%; after establishing the amount of tax, certain coefficients are applied to it based on the pre-existing wealth of the taxpayer and degree of kinship to the deceased or donor, finally resulting in an effective tax rate as a result of these coefficients and other possible reductions varying between 0% and 81.6% of the tax base.

(b) Taxpayers for Corporation Tax

(b.1) Dividends

Taxpayers for Corporation Tax (hereinafter "**Corporation Tax**") or those who, being taxpayers for Non-Res. Inc. Tax, operate in Spain through a permanent establishment, must include in their taxable income the entire amount of dividends or participation in profits received as a result of ownership of the New Shares subscribed for, and the expenses inherent in the holding, in the manner laid down by Section 10 and following of the Corporation Tax Act, in general being taxed at the rate of 30%.

Provided that none of the grounds for exclusion laid down by Section 30 of the Corporation Tax Act apply, taxpayers for this tax will be entitled to a deduction of 50% of the amount of tax corresponding to taxable income deriving from dividends or participation in profits obtained, to which end it will be considered that taxable income is the full amount of the said dividends or participation in profits.

The foregoing deduction will be 100% when, on fulfilment of the remaining requirements laid down by legislation, the dividends or participation in profits derive from a direct or indirect holding of at least 5% in capital, and provided that this has been held without interruption during the year prior to the day on which the profit which is distributed is due or, in default, it is held during the time necessary to complete the year.

Furthermore, Corporation Tax taxpayers will be subject to a withholding on account of this tax of 19% of the entire amount of the profit distributed, unless any of the withholding exclusions is applicable to them pursuant to current legislation, which particularly include possible applicable of a double taxation deduction of 100% to dividends received, in which case, provided that the minimum holding period of one year has been fulfilled without interruption, no withholding will be made. The withholding made will be deductible from the amount of Corporation Tax and, if insufficient, with give rise to the repayments laid down in Section 139 of the Corporation Tax Act.

(b.2) Income deriving from transfer of the New Shares

The profit or loss deriving from transfer with or without good consideration of the New Shares, or any other alteration in assets in relation to them, will be included in taxable income of Corporation Tax taxpayers or Non-Res. Inc. Tax taxpayers who act through a permanent establishment in Spain, in the manner laid down in Section 10 and following of the Corporation Tax Act, being taxed in general at the rate of 30%.

Income deriving from the transfer of New Shares will not be subject to withholding.

Furthermore, on the terms laid down by Section 30.5 of the Corporation Tax Act, transfer of New Shares by taxpayers for this tax may grant the transferor the right to a double taxation deduction and, as the case may be, enable the same to enjoy the deduction for reinvestment of extraordinary profits in accordance with the provisions of Section 42 of the Corporation Tax Act, in that part of the income which has not benefited from the double taxation deduction, provided that the requirements contained in the said Section are fulfilled.

Finally, in the event of acquisition without consideration of the shares by an Corporation Tax taxpayer, the income generated to it will likewise be taxed in accordance with the rules for this tax, with inheritance and gift tax not being applicable.

(b.3) Preferential subscription rights

The amount obtained from the sale of preferential subscription rights will be recorded in accordance with applicable legislation which has full relevance for tax purposes.

(ii) Shareholders not resident in Spanish territory

This section examines the tax treatment applicable to shareholders not resident in Spanish territory, excluding those who act in Spanish territory through a permanent establishment, the tax regime for whom has been described along with that for Corporation Tax taxpayer shareholders, and also excluding those who exercise the option to be taxed as residents in Spain in accordance with the foregoing sub-section 4.11.(2).(i).

Individuals who are not Invidivid. Inc. Tax taxpayers and non-resident entities in Spanish territory in accordance with the provisions of Section 6 of the Non-Res. Inc. Tax Act will be considered non-resident shareholders.

The regime described below is of a general nature, and therefore account must be taken of the particular features of each taxpayer and those which may result from the double taxation treaties entered into between other countries and Spain.

(a) Non-Resident Income Tax

(a.1) Returns on securities

Dividends and other returns deriving from a holding in the own funds of an entity, obtained by individuals or entities not resident in Spain who act for these purposes without a permanent establishment in the said territory, will be subject to taxation for Non-Res. Inc. Tax at the general tax rate of 19% on the entire amount received.

Nevertheless, the dividends and participation in profits referred to in the foregoing section 4.11.(2) (i) (a.1.1) obtained without the mediation of a permanent establishment in Spain by individuals resident for tax purposes in the European Union or in countries or territories with which there is an effective tax information exchange will be exempt, subject to a limit of 1,500 euros, computed during each calendar year. This exemption will not be applicable to returns obtained through countries or territories classified by regulations as tax havens.

This limit will be applicable to all dividends and participation in profits obtained during the calendar year by the Non-Res. Inc. Tax taxpayer as a result of the status thereof as shareholder or member of any type of entity. This exemption will not be applied when the dividends or participation in profits derives from securities acquired within the two months prior to the date on which they have been paid when, after that date and within the same period, a transfer of homogenous securities takes place.

In general, ENCE will at the time of payment of the dividend make a withholding on account of Non-Res. Inc. Tax of 19%.

However when, by virtue of tax residency of the recipient, a double taxation treaty is applicable entered into by Spain, or an internal exemption, the reduced tax rate will apply, as appropriate, stipulated in the double taxation treaty for this type of income or the exemption applied on prior evidence of tax residence of the shareholder in the manner laid down by current legislation. For these purposes, at the present time a special procedure is in force, approved by Order of the Ministry of Economy and Finance of 13 April 2000, to give effect to withholdings from non-resident shareholders at the corresponding rate in each case, or to exclude the withholding when financial institutions are involved in the payment procedure which are domiciled, resident or represented in Spain and which are depositaries or handle receipt of income from the said securities.

In accordance with this rule, at the time of distributing the dividend ENCE will make a withholding on the entire amount of the dividend at the rate of 19% and transfer the net amount to the depositaries. Depositaries which, in turn, evidence in the manner established the entitlement to apply reduced rates or exclusion from withholdings from their clients (for which they must provide the depositary, before the 10th of the month following that on which the dividend is distributed, with a tax residency certificate issued by the tax authority of their country of residence which, as the case may be, must expressly record that the investor is resident within the meaning defined in the applicable double taxation treaty; or, in those cases in which a tax limit is applied established in a double taxation treaty developed by an Order establishing the use of a specific form, the said form instead of the certificate) will immediately receive the surplus amount withheld for crediting to them. The certificate of residence previously mentioned is valid for these purposes for one year from date of issue.

When an exemption is applicable or, as a result of applying a double taxation treaty, the withholding rate is less than 19% and the shareholder has not been able to evidence residency for tax purposes within the period established for the purpose, the same may apply to the Tax Office for return of the amount withheld in excess subject to the procedure and model return laid down by the Ministerial Order of 23 December 2003. Shareholders are advised to consult their advisors on the procedure to be followed in each case in order to apply for the said return from the Spanish Tax Office.

Furthermore, the procedure set out in the Order of the Ministry of Economy and Finance of 13 April 2000 previously described will not be applicable with respect to dividends or participation in profits which, with a limit of 1,500 euros, is free from tax for Non-Res. Inc. Tax on the terms previously indicated. In this case, ENCE will at the time of payment of the dividend make a withholding on account of Non-Res. Inc. Tax of 19%, and the shareholder may, as the case may be, apply to the Tax Office for repayment of the amount withheld in excess subject to the procedure laid down in the Ministerial Order of 23 December 2003.

In any event, after making the withholding on account of Non-Res. Inc. Tax or acknowledgement of the exemption, non-resident shareholders will not be obliged to submit a return in Spain for Non-Res. Inc. Tax.

Investors are advised to consult their lawyers or tax advisors on the procedure to be followed in each case in order to apply for this repayment from the Spanish Tax Office.

(a.2) Capital gains and losses

In accordance with the Non-Res. Inc. Tax Act capital gains obtained by non-resident individuals or entities without mediation of a permanent establishment in Spain from the transfer of securities or any other capital gain connected with the said securities, will be subject to taxation under Non-Res. Inc. Tax which will be quantified in general in accordance with the rules laid down in the Invidivid. Inc. Tax Act. In particular, capital gains deriving from the transfer of shares will be taxed under Non-Res. Inc. Tax at the rate of 19%, unless an internal exemption or double taxation treaty entered into by Spain is applicable, in which case the provisions of the said double taxation treaty will apply.

In this respect, the following capital gains will be exempt by application of Spanish domestic law:

(i) Those deriving from the transfer of shares in official Spanish secondary securities markets obtained without mediation of a permanent establishment in Spain by individuals or entities resident in a State which has entered into a double taxation treaty with Spain with information exchange clause, provided that they have not been obtained through countries or territories classified by regulations as tax havens.

(ii) Those deriving from transfer of the shares obtained without mediation of a permanent establishment in Spain by individuals or entities resident for tax purposes in other European Union Member States or by permanent establishments of the said residents located in another European Union Member State, provided that they have not been obtained through countries or territories classified by regulations as tax havens. The exemption does not extend to capital gains deriving from the transfer of shares or rights of an entity when (i) the assets of the said entity consist principally directly or indirectly of real estate located in Spanish territory, or (ii) at some time, within the 12 months prior to the transfer, the taxpayer has directly or indirectly held at least 25% of the capital or net worth of the issuer company.

The capital gain or loss will be calculated and subject to taxation separately for each transfer and it is not possible to set off gains and losses in the event of several transfers with differing results. It will be quantified applying the rules of Section 24 of the Non-Res. Inc. Tax Act.

The amount obtained from the sale of preferential subscription rights to the New Shares will reduce the acquisition cost of the shares from which they derive, for the purposes of future transfers, until this cost is reduced to zero. Amounts received in excess of acquisition cost will be considered capital gains and subject to taxation at the rate of 19%.

In accordance with the provisions of the Non-Res. Inc. Tax Act, capital gains obtained by non-residents without mediation of a permanent establishment will not be subject to withholding or payment in on account of Non-Res. Inc. Tax.

Non-resident shareholders will be obliged to submit a return, determining and paying in, as the case may be, the corresponding tax debt. The return and payment in may also be made by their tax representative in Spain or depositary or manager of the shares, subject to the procedure and model return laid down by the Ministerial Order of 23 December 2003.

If an exemption is applicable, whether pursuant to Spanish law or a double taxation treaty, the non-resident investor must evidence the right by providing a certificate of tax residence issued by the corresponding tax authority of country of residence (which, as the case may be, must expressly record that the investor is resident in the said country within the meaning defined in the applicable double taxation treaty) or the form stipulated in the Order implementing the applicable double taxation treaty. This certificate of residence will be valid for one year for these purposes from the date of issue.

(b) Wealth Tax

See the previous section 4.11.(2).(i) (a.2).

(c) Inheritance and Gift Tax

Without prejudice to the double taxation treaties entered into by Spain, acquisitions without good consideration by non-resident individuals in Spain, wherever the residence of the transferor, will be subject to Inheritance and Gift Tax when the acquisition is of property located in Spanish territory or rights which can be exercised or to be complied with in that territory. The Spanish tax authorities consider that shares of a Spanish company must be considered property located in Spain for tax purposes in any event.

Companies not resident in Spain are not taxpayers for this tax and the income which they obtain without good consideration will generally be taxed as capital gains in accordance with the Non-Res. Inc. Tax rules previously described, without prejudice to the provisions of double taxation treaties which may be applicable.

Non-resident shareholders are advised to consult their tax advisors regarding the terms on which the double taxation treaty will be applied in each specific case.

5. TERMS AND CONDITIONS OF THE OFFERING

5.1. Terms, conditions and statistics of the offering, planned timetable and action required to apply for it

5.1.1. Conditions to which the offering is subject

This capital increase is not subject to conditions.

5.1.2. Total amount of the issue/offering, distinguishing between securities offered for sale and those offered for subscription: if the amount is not fixed, description of the resolutions and time when announcement will be made to the public of the final amount of the offering

The nominal amount of the planned capital increase is 74,801,601 euros and it will be represented by 83,112,890 new ordinary shares with a nominal value of 0.9 euros each. The New Shares will be issued at an issue premium of 0.665 euros per share, giving rise to a total issue premium of 55,270,071.85 euros, and a unit issue price (nominal plus premium) of 1.565 euros per share.

Corporate resolutions pursuant to which the New Shares are issued, described in the foregoing section 4.6.1, in any event expressly provide for the possibility of incomplete subscription and therefore in the event that the capital increase is not fully subscribed within the period laid down for subscription and the Underwriting and Placement agreement has not entered into force or has been rendered without effect, the capital of the Company will be increased by the amount of subscriptions effectively made, all in accordance with the provisions of Section 161 of the Companies Act.

At the end of the period laid down for subscription for the New Shares, the Board of Directors of the Company or persons authorised by it will determine the final amount of the capital increase, which will be announced to the public as soon as possible by sending the corresponding relevant fact to the CNMV.

If all of the New Shares are subscribed for and paid up the total amount of the issue (nominal amount plus issue premium), taking into account the price of 1.565 euros per share, will amount to 130,071,672.85 euros.

The nominal amount of the issue would in this event represent 47.52% of the capital prior to the capital increase and 32.21% of capital after the capital increase.

5.1.3. Period, including any modification, during which the capital increase will be open and description of the application process

a) Subscription process

The Company has established a subscription process for the New Shares in three turns (respectively, the "**Preferential Subscription Period**" or "**First Turn**", the "**Period for Allocation of Additional Shares**" or "**Second Turn**" and the "**Discretionary Allocation Period**" or "**Third Turn**"), in the manner and with the periods described below:

1. Preferential Subscription Period (First Turn)

a) Allocation of preferential subscription right

The resolution to increase capital acknowledges the preferential subscription rights of existing shareholders of the Company in accordance with the provisions of Section 158 of the Companies Act.

Shareholders of the Company will be entitled to allocation of preferential subscription rights who, at 23.59 hours on the date of publication of the announcement of capital increase in the Commercial Registry Official Gazette (*Boletín Oficial del Registro Mercantil* – hereinafter "**BORME**") (i.e. the day prior to commencement of the Preferential Subscription Period) are accredited in the book entry records of IBERCLEAR and have not transferred the said rights (the "**Shareholders**").

One preferential subscription right will correspond to each former share of ENCE. Twenty one (21) preferential subscription rights will be necessary to subscribe for ten (10) New Shares of ENCE.

The Company states that it holds 362,925 of its own shares directly. In order to determine the applicable exchange proportion and in order to comply with the provisions of Sections 74 and 79 of the Companies Act, own shares held have not been taken into account in calculating the proportion of twenty one (21) preferential subscription rights for each ten (10) New Shares, increasing those of the remaining shareholders.

In order that the number of shares to be issued maintains the said proportion of twenty one (21) preferential subscription rights for each ten (10) New Shares, Mr. Antonio Palacios Esteban has notified the Company of his decision to waive six (6) preferential subscription rights corresponding to shares held by him.

b) Transferability of the preferential subscription rights

Preferential subscription rights will be transferrable on the same terms as the shares from which they derive, pursuant to the provisions of Section 158.3 of the Companies Act, and will therefore be negotiable on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through the Stock Exchange Interconnection System (Continuous Market).

Furthermore, the Preferential Subscription Period is the period in which other investors apart from the shareholders may acquire sufficient preferential subscription rights in the market in the necessary proportion (i.e. twenty one (21) preferential subscription rights to subscribe for ten (10) New Shares) and subscribe for the corresponding newly issue shares (hereinafter investors other than Shareholders who acquire and exercise preferential subscription rights in the market during this Preferential Subscription Period are referred to as "**Investors**").

c) Period for exercising preferential subscription rights

The Preferential Subscription Period for Shareholders and Investors will begin on the day following that of publication of the capital increase in the BORME and last for 15 calendar days.

It is anticipated that the Preferential Subscription Period will begin on 6 March 2010 and end on 20 March 2010 (inclusive). However, listing of the rights will begin on 8 March 2010 and end on 19 March 2010. The Preferential Subscription Period will not be subject to extension.

d) Procedure for exercise of preferential subscription rights

In order to exercise preferential subscription rights Shareholders and Investors must address the Participating Entity in whose book entry records the preferential subscription rights are registered (in the case of Shareholders this will be the Participating Entity in which they have deposited the shares which grant them such rights) indicating their desire to exercise the said subscription rights.

Orders given to exercise preferential subscription rights for shares will be deemed to be firm, irrevocable and unconditional.

Preferential subscription rights not exercised during the Preferential Subscription Period will be automatically extinguished at the end of the Preferential Subscription Period.

The Reference Shareholders (as the said term is defined in the following Section 5.2) have assumed a commitment to subscribe on the terms detailed in the said Section 5.2.2.

e) Application for Additional Shares

During the Preferential Subscription Period, at the time of exercising their preferential subscription rights Shareholders and Investors may apply for subscription of additional shares to those corresponding to them pursuant to the preferential subscription rights exercised ("**Additional Shares**") in the event that at the end of the Preferential Subscription Period New Shares remain which are not subscribed in exercise of preferential subscription rights and therefore the total amount of the capital increase has not been covered.

In order to apply for Additional Shares through a Participating Entity, Shareholders and Investors must have exercised all preferential subscription rights which they hold during the Preferential Subscription Period deposited with the Participating Entity through which they exercise the said rights. Orders relating to application for Additional Shares must be made in a particular amount and will not be subject to a quantitative limit within the limit of the increase. Orders shall be deemed made for the number of Additional Shares resulting from dividing the amount applied for in euros by the Subscription Price and rounded downwards to the closest whole number of Additional Shares.

Participating Entities will be responsible for verifying that Shareholders and Investors who apply for Additional Shares have exercised all preferential subscription rights which they have deposited with the Participating Entity in question.

Without prejudice to the fact that they may not be met in full, orders relating to applications for Additional Shares will be deemed to be made on a firm, irrevocable and unconditional basis. In no event will a number be allocated to accredited Shareholders or Investors who apply for Additional Shares greater than the shares which they have applied for. The allocation will in any event be conditional on the existence of surplus shares after the exercise of preferential subscription rights in the Preferential Subscription Period. In relation to orders for subscription for Additional Shares which are allocated, as the case may be, to Shareholders or Investors in the Period for Allocation of Additional Shares, Participating Entities may request a provision of funds from them in the amount required to subsequently pay up these shares after they have been allocated. In any event, if the number of Additional Shares finally allocated to each applicant as a result of pro rata allocation is less than the number of Additional Shares requested by the same, the Participating Entity will be obliged to return to the said applicant, free of expenses or commissions, the amount of the provision of funds corresponding to the Additional Shares requested and eventually not allocated.

f) Communications between the Participating Entities and the Agent

After publication in the BORME of the announcement relating to the capital increase, Santander Investment, S.A. (the "**Agent**") will, through IBERCLEAR, send an operating instruction to all Participating Entities informing them, amongst other aspects, of the periods for issue of the New Shares and possible existence of a Second Turn (Period for Allocation of Additional Shares) and of a Third Turn (Discretionary Allocation Period) and, in particular, that application for Additional Shares must be made during the Preferential Subscription Period.

During the Preferential Subscription Period Participating Entities must notify the Agent by e-mail, or in default by fax, each day and by no later than 17.00 hours during the Preferential Subscription Period of the total number of New Shares subscribed in exercise of preferential subscription rights and the total number of Additional Shares applied for, in all cases in cumulative terms since commencement of the Preferential Subscription Period.

Furthermore, Participating Entities must communicate, on behalf of their clients and, as the case may be, on their own behalf, of the total volume of subscriptions for New Shares made to them indicating the total number of shares subscribed for in exercise of preferential subscription rights and, separately, the total volume of applications for subscription for Additional Shares given to them (the so-called “Definitive Reserves” in the operating instructions to be sent by the Agent) by no later than 16.00 hours Madrid time, on the third Stock Exchange business day following the end of the Preferential Subscription Period (in accordance with the planned timetable the Preferential Subscription Period will end on 20 March 2010), following the operating instructions established for the purpose by the Agent and by IBERCLEAR.

Participating Entities must send to the Agent electronic file transfers or, in default, magnetic media with the information on shares subscribed for during the Preferential Subscription Period and applications for subscription for Additional Shares, which must comply with the specifications of Leaflet number 61, format Al, of the AEB Issuer Operating Manual in 120 position format, incorporating the modifications made by AEB Circulars 857 and 875, by no later than 19.15 hours Madrid time on the third Stock Exchange business day following the end of the Preferential Subscription Period (i.e. in accordance with the planned timetable, on 24 March 2010). These electronic file transfers, or magnetic media in default, must contain the total volume of New Shares subscribed for in exercise of preferential subscription rights for the New Shares of the capital increase and applications for Additional Shares made to them, and full list of subscribers, and applicants, as the case may be, with the content, period, form and requirements detailed in this Securities Note and in the operating instructions in respect thereof which have been issued. The files or magnetic media or electronic transfers, as the case may be, must be received by the Agent with details of investors (including the identifying details required by current legislation for this type of operation: first and last names or company name, address and tax ID number – including of minors– or, in the case of non-residents who do not have a tax ID number, passport number and nationality, and in the case of non-residents in Spain, their registered office, and in particular the provisions of Leaflet 61 of the AEB) and the cash amount corresponding to each one without in any case it being the responsibility of the Agent to verify the integrity and accuracy of the data provided by Participating Entities. Participating Entities shall be solely responsible for errors or omissions in the information provided by them, defects in the files or magnetic media sent or electronic transfers made, and in general for failure by them to comply with the provisions of this section and the Agent assumes no liability whatsoever in this respect.

The Agent may not accept those communications from Participating Entities which have been transmitted on a date or time after that indicated or those which do not comply with any of the requirements in this Securities Note or in current legislation, without any liability on its part or on the part of ENCE, and without prejudice to possible liability which the infringing Participating Entity may incur to those giving orders submitted in due time and manner to the said Participating Entity.

2. Period for Allocation of Additional Shares (Second Turn)

In the event that after the Preferential Subscription Period has ended shares remain which are not subscribed for, a Period for Allocation of Additional Shares will commence in which New Shares will be allocated to those Shareholders or Investors who have applied for Additional Shares during the Preferential Subscription Period.

This Period for Allocation of Additional Shares will be for one business day and take place on the third business day following the end of the Preferential Subscription Period (i.e. in accordance with the planned timetable, 24 March 2010).

On that date the Agent will determine the number of surplus shares for allocation to those Shareholders and Investors who have applied for subscription for Additional Shares.

The possibility of allocation of additional New Shares in this Period for Allocation of Additional Shares is therefore subject to the following requirements:

a) The existence of surplus shares after exercise by Shareholders and Investors of their rights at the end of the Preferential Subscription Period.

b) Indication, in the subscription order sent to Participating Entities during the Preferential Subscription Period, of the intention to subscribe for Additional Shares in the Period for Allocation of Additional Shares.

c) Exercise by the applicant Shareholder or Investor of all preferential subscription rights held by the same during the Preferential Subscription Period.

If the number of Additional Shares requested for subscription in the Period for Allocation of Additional Shares is equal to or less than the number of surplus shares, they will be allocated to applicants until covering their applications in full.

In the event that the total number of Additional Shares requested in the Preferential Subscription Period for allocation in the Period for Allocation of Additional Shares exceeds the number of shares which remain unallocated pursuant to exercise of preferential subscription rights, the entity acting as Agent shall make a pro rata allocation in accordance with the following rules:

- The surplus shares shall be allocated in proportion to the volume of Additional Shares requested by each Shareholder or Investor. For these purposes the number of surplus shares will be divided by the total volume of additional applications notified. In the case of fractions in allocation there will be rounding downwards such that there is a whole number of shares. The percentages to be used for the proportional allocation indicated will also be rounded down to three decimal points (i.e. 0.098983 shall equal 0.098).

- If, after application of the pro rata allocation referred to in the previous paragraph, there are shares unallocated as a result of the rounding effect, they will be distributed one by one by order of greater to lesser amount of the application for Additional Shares and, in the case of equality, by alphabetical order of Shareholders and Investors who have made the said applications, taking the first position in the field “First and Last Names or Company Name”, whatever the contents thereof, as from the letter “A”.

In no event will more New Shares be allocated to Shareholders or Investors than those for which they have applied.

The Agent will notify the Participating Entities through which the respective applications have been made for subscription for Additional Shares of the number of New Shares allocated to applicants, which will take place on the business day following the end of the Period for Allocation of Additional Shares (i.e. in accordance with the planned timetable, 25 March 2010).

Surplus shares allocated to applicants for Additional Shares in the Period for Allocation of Additional Shares will be deemed to be subscribed for during the Period for Allocation of Additional Shares.

3. Discretionary Allocation Period (Third Turn)

a) Commencement of Discretionary Allocation Period

In the event that, at the end of the Period for Allocation of Additional Shares, the shares subscribed for during the Preferential Subscription Period and the Period for Allocation of Additional Shares are insufficient to cover the whole of the New Shares and shares remain not subscribed for, the Agent will inform the Company and the Underwriters by no later than 09.00 hours Madrid time, on the fourth business day following the end of the Preferential Subscription Period (in accordance with the planned timetable, 25 March 2010).

The Discretionary Allocation Period will then commence, which will last for two business days beginning on the fourth Stock Exchange business day after the end of the Preferential Subscription Period (i.e. in accordance with the planned timetable, 25 March 2010). If the Discretionary Allocation Period commences, the Company will inform the CNMV thereof by notification of a relevant fact.

b) Application for shares in the Discretionary Allocation Period

As described in section 5.4.3 of this Securities Note, on 3 March 2010 an underwriting and placement agreement was signed between the Company, as issuer, and Banco Santander, S.A. ("**Banco Santander**"), Banco Bilbao Vizcaya Argentaria, S.A. ("**BBVA**") and Caja de Ahorros y Monte de Piedad de Madrid ("**Caja Madrid**") as underwriters and placement agents (the "**Underwriters**") (the "**Underwriting and Placement Agreement**").

During the Preferential Subscription Period, the Period for Allocation of Additional Shares and the Discretionary Allocation Period, the Underwriters will carry out active promotion and dissemination activities in respect of the capital increase for the purpose of maximising the volume of New Shares subscribed for.

Durante the Discretionary Allocation Period (i.e. according to the planned timetable, 25 and 26 March 2010), those persons having the status of qualified investors in Spain (as the term is defined in Section 39 of Royal Decree 1310/2005, of 4 November), and those who have the status of qualified investors outside Spain in accordance with applicable legislation in each country, may submit proposals for subscription of remaining shares after the Preferential Subscription Period and the Period for Allocation of Additional Shares to any of the Underwriters. These proposals for subscription will be firm and irrevocable and include the number of shares which each investor is prepared to subscribe for at the subscription price.

Without prejudice to the foregoing, qualified investors may, at any time after commencement of the Preferential Subscription Period, make requests for subscription of surplus shares after the Preferential Subscription Period and the Period for Allocation of Additional Shares to any of the Underwriters for allocation during the Discretionary Allocation Period, if this period commences. In this event, proposals for subscription, which must be firm and irrevocable, will in any event be subject to the existence of surplus shares after the Preferential Subscription Period and the Period for Allocation of Additional Shares and their final and discretionary allocation to each of the applicants by the Company.

c) Allocation of shares in the Discretionary Allocation Period

By no later than 18.00 hours Madrid time, on the fifth business day after the end of the Preferential Subscription Period (in accordance with the planned timetable, 26 March 2010), (i) BBVA and Caja Madrid will inform Banco Santander of applications to subscribe for shares received during the Discretionary Allocation Period, and (ii) Banco Santander will send to the Company the order book with all requests for subscription received by the Underwriters and a proposal for allocation.

Within two hours from receipt of the said proposal, the Company, after hearing the opinion of Banco Santander, will evaluate proposals for subscription received and, applying criteria of quality and stability of investment, admit or reject the said proposals for subscription in whole or in part, in its sole discretion and without the need to give any reasons, but acting in good faith and avoiding unjustified discrimination between proposals of the same ranking and characteristics.

If the Company does not complete the allocation of shares pending subscription within the period referred to in the previous paragraph, Banco Santander may proceed with allocation thereof to qualified investors in its entire discretion. In no event shall it be possible for the Company to reject any request for subscription if it means that the Underwriters must meet their respective underwriting commitments.

The Company, or Banco Santander, as the case may be, shall give notice of final allocation of shares allocated by discretion to the Agent by no later than 21.00 hours Madrid time on the fifth Stock Exchange business day after the end of the Preferential Subscription Period (i.e. in accordance with the planned timetable, 26 March 2010). In turn the Agent will immediately notify this allocation to the Underwriters.

For their part, each of the Underwriters will notify the qualified investors who have made requests through them of the number of shares which have been allocated to them in the Discretionary Allocation Period, by no later than 09.00 Madrid time on the sixth Stock Exchange business day after the end of the Preferential Subscription Period (i.e. in accordance with the planned timetable, 29 March 2010). After notifying discretionary share allocations to investors, their proposals will automatically be converted to firm subscription orders, unless prior to the date of payment up termination takes place of the Underwriting and Placement Agreement on the grounds stipulated therein.

The said qualified investors must, by no later than noon on the sixth Stock Exchange business day after the end of the Preferential Subscription Period (i.e. in accordance with the planned timetable, 29 March 2010), confirm to the Underwriters their instructions for settlement and payment up, detailing the Participating Entity through which they will make the said payment. The Underwriters shall send these instructions to the Agent. The Participating Entities indicated for settlement by the investors must confirm to the Agent this status and accept the debit for the corresponding amount for payment up of the New Shares through the means made available to them by IBERCLEAR by no later than 11.00 hours on the seventh Stock Exchange business day after the end of the Preferential Subscription Period (i.e. in accordance with the planned timetable, 30 March 2010).

Payment up in full of the Subscription Price of each New Share subscribed for during the Discretionary Allocation Period must take place in accordance with the provisions of the following 5.1.8.

The Underwriters must send to the Agent the electronic file transfers or, in default, magnetic media with information on shares subscribed for during the Discretionary Period, and applications, which must comply with the specifications of Leaflet number 61, format Al, of the AEB Issuer Operating Manual in 120 position format, incorporating the modifications made by AEB Circulars 857 and 875, by no later than 16.00 hours Madrid time on the sixth Stock Exchange business day following the end of the Preferential Subscription Period (i.e. in accordance with the planned timetable, 29 March 2010). These electronic file transfers, or magnetic media in default, must contain the total volume of New Shares allocated in the discretionary period of the capital increase made with them, and a full list of subscribers and, as the case may be, applicants, with the content, period, form and requirements detailed in this Securities Note and in the operating instructions issued in respect thereof. The files or magnetic media or electronic transfers, as the case may be, must be received by the Agent with details of investors (including the identifying details required by current legislation for this type of operation: first and last names or company name, address and tax ID number or, in the case of non-residents who do not have a tax ID number, passport number and nationality, and in the case of non-residents in Spain, their registered office, and in particular the provisions of AEB Leaflet 61), and in no event shall the Agent be responsible for verifying the integrity and accuracy of the data provided by the Underwriters. The Underwriters will be solely responsible for errors or omissions in the information provided by the Underwriters, defects in the files or magnetic media sent or electronic transfers made, and in general for failure by them to comply with the provisions of this section, and the Agent shall be under no liability.

The Agent may not admit those communications from Underwriters which have been transmitted on a date or at a time after that indicated, or those which do not comply with any of their requirements in this Securities Note or in current legislation, with no liability on the part thereof or on the part of ENCE, and without prejudice to the possible liability which the infringing Underwriter may incur to those giving orders submitted in due time and manner to the said Underwriter.

In addition, the total number of New Shares underwritten pursuant to the Underwriting and Placement Agreement entered into on 3 March 2010 between the Underwriters and the Company is 40,822,960 which represent 49.12% of the New Shares. The Underwriters have underwritten subscription for the following shares in the following proportions:

Underwriters	**Shares Underwritten**	
	No.	**%**
Banco Santander	25,552,777	62.59%
BBVA	12,776,796	31.30%
Caja Madrid	2,493,387	6.11%

Total Underwriting Commitment	**40,822,960**	**100%**

The total number of shares to be underwritten pursuant to the Underwriting and Placement Agreement entered into on 3 March 2010 between the Underwriters and ENCE, and consequently the number of shares to be underwritten by each Underwriter in the proportion corresponding to its participation in the underwriting commitment, will be the difference between the number of shares to be issued and the number of shares which the principal shareholders indicated in the following section 5.2.2 have irrevocably and unconditionally undertaken to subscribe for and pay up in accordance with the provisions of the said section (hereinafter the "**Shares Underwritten**"). This underwriting commitment is subject to the conditions described in the following section 5.4.3. Without prejudice to the foregoing provisions, if at the end of the Period for Allocation of Additional Shares surplus shares exist, the Underwriters may at any time during the Discretionary Allocation Period decide to subscribe directly for the said shares in proportion to their underwriting commitment and at the Subscription Price, bringing the capital increase to an early end.

b) Early closing and incomplete subscription

Notwithstanding the provisions of the previous sections, the Company may at any time treat the capital increase as concluded early after the end of the Preferential Subscription Period and, as the case may be, the Period for Allocation of Additional Shares, provided that the capital increase has been subscribed for in full or, even if not subscribed for in full, if the Period for Allocation of Additional Shares has ended and there is agreement between the Company and the Underwriters. If at the end of the Preferential Subscription Period, or the Period for Allocation of Additional Shares and the Discretionary Allocation Period, as the case may be, the full amount of the capital increase has not been subscribed for as a result of termination of the Underwriting and Placement Agreement or the underwriting obligations have not come into effect as stipulated therein, the public offering for subscription shall remain in force and the Company shall declare incomplete subscription of the capital increase.

c) Estimated timetable

The Company estimates that the process described will take place in accordance with the following estimated timetable:

ACTION	DATE
Registration of capital increase Prospectus.	4 March 2010
Publication of the capital increase announcement in the BORME.	5 March 2010
Commencement of the Preferential Subscription Period and period for application of Additional Shares (First Turn).	6 March 2010
Commencement of listing of preferential subscription rights on the Stock Exchange.	8 March 2010
Final day of listing of preferential subscription rights on the Stock Exchange.	19 March 2010
End of the Preferential Subscription Period (First Turn).	20 March 2010
Period for Allocation of Additional Shares (Second Turn).	24 March 2010
Commencement, as the case may be, of the Discretionary Allocation Period (Third Turn).	25 March 2010
Payment up of shares subscribed for in the Preferential Subscription Period and Period for Allocation of Additional Shares by Participating Entities.	26 March 2010
End of the Discretionary Allocation Period (Third Turn).	26 March 2010
Payment up of shares subscribed for in the Discretionary Allocation Period by qualified investors.	30 March 2010
Resolution to execute the capital increase / Relevant Fact to the CNMV (final subscription result).	30 March 2010
Execution of notarised deed of capital increase.	30 March 2010
Registration of the notarised deed of capital increase in the Commercial Registry.	30 March 2010
Allocation by IBERCLEAR of the book entry references for the New Shares.	30 March 2010
Verification by the CNMV.	30/31 March 2010
Admission to listing of the New Shares.	1 April 2010

Notwithstanding the foregoing, it is recorded that the periods previously indicated may not be complied with and consequently execution delayed of the operations described, which will be notified by ENCE by a relevant fact.

5.1.4. Withdrawal and revocation of this capital increase

No grounds for withdrawal or revocation of the capital increase covered by this Securities Note have been provided, apart from those which may result from application of the law or compliance with a judicial or administrative decision.

Notwithstanding the foregoing, if, between approval of the Prospectus and the end of the Preferential Subscription Period, any of the events stipulated in Section 22 of Royal Decree 1310/2005, of 4 November, in implementation of the Securities Market Act in the field of admissions to listing of securities and public offerings, the Company must submit to the CNMV for approval a supplement to the Prospectus, after publication of which, in accordance with Section 40.f) of the said Royal Decree, an extraordinary period will begin for revocation of subscription orders or applications for subscription made during the capital increase for a period of not less than two business days from publication of the said Supplement.

Furthermore, it is recorded that the Underwriting and Placement Agreement may be terminated by joint decision of the Underwriters in the event that any of the events of termination occur described in the following section 5.4.3. Furthermore, this Agreement is subject to fulfilment of several conditions precedent, normal in this type of operation, which are also described in the said section 5.4.3.

5.1.5. Reduction in subscriptions

No provision has been made for the possibility of reducing subscriptions in the Preferential Subscription Period.

Nevertheless, the possibility exists of pro rata allocation in the Period for Allocation of Additional Shares, as provided in the foregoing section 5.1.3. In such event, the Participating Entity will be obliged to return to the said applicant, free of any commissions or expenses, the amount of the provision of funds corresponding to the Additional Shares requested and eventually not allocated by no later than the business day following the end of the Period for Allocation of Additional Shares, with value date on the same day, in accordance with the procedures it has established, and in the event that it takes place subsequently, the Participating Entity must pay interest at the legal interest rate.

The Agent may not admit those communications in exercise of preferential subscription rights or applications for Additional Shares which do not fulfil the requirements laid down, or which have been transmitted on a date or at a time after that previously indicated, without prejudice to the possible liability which the infringing Participating Entity may incur to those giving subscription orders submitted to the said entity in due time and manner.

5.1.6. Details of the minimum and maximum application amount (whether by number of securities or total amount of investment)

In the Preferential Subscription Period the maximum amount of shares which Shareholders or Investors may subscribe for in accordance with the preferential subscription rights exercised shall be that resulting from applying the exchange ratio set out in the foregoing section 5.1.3. (i.e. for each twenty one (21) preferential subscription rights ten (10) New Shares may be subscribed for).

Shareholders or Investors who have made the corresponding application may subscribe for Additional Shares on the terms indicated in the foregoing sections 5.1.3.a) 1. and 5.1.3.a) 2. The number of Additional Shares which they may subscribe for will depend on the Additional Shares which they have requested, the total number of surplus shares and the rules for allocation of surplus shares described in the foregoing section 5.1.3.a).2.

In the Discretionary Allocation Period there will be no maximum or minimum number for subscription proposals by the investors in question.

5.1.7. Indication of the period in which an application may be withdrawn, provided that investors are permitted to withdraw their subscription

Applications for subscription of New Shares made during the Preferential Subscription Period in exercise of preferential subscription rights will be deemed to be firm subscription orders and therefore firm and irrevocable.

Without prejudice to the fact that they may not be met in full, orders relating to application for Additional Shares will be deemed to be made on a firm, irrevocable and unconditional basis.

Furthermore, proposals for subscription of Discretionary Allocation Shares shall likewise be firm and irrevocable, except in the event that the Underwriting and Placement Agreement is terminated as a result of the occurrence of any event of *force majeure* or does not enter into force as a result of failure to comply with the conditions precedent to which it is subject. In such cases, proposals for subscription of Discretionary Allocation Shares shall be revoked and the capital increase shall be subscribed for and paid up in the amount subscribed for in the Preferential Subscription Period and Period for Allocation of Additional Shares, which will give rise to an incomplete subscription.

5.1.8. Method and periods for payment for shares and their delivery

a) Payment up of shares subscribed for in the Preferential Subscription Period

Payment up in full of the nominal amount and issue premium of each of the shares subscribed for in exercise of preferential subscription rights by Shareholders and Investors who exercise the corresponding preferential subscription rights during the Preferential Subscription Period must be made at the time of subscription, through the Participating Entities who have forwarded the corresponding subscription orders.

Participating Entities to whom subscription orders for New Shares have been given shall pay the amounts corresponding to payment up thereof to the Agent, through the means made available to them by IBERCLEAR, with value date on the same day, by no later than 11.00 hours on the fifth business day following that of the end of the Preferential Subscription Period (i.e. in accordance with the planned timetable, 26 March 2010). The Agent shall pay the said funds into the account of the Company opened with Santander Investment, S.A. for these purposes, with value date on the same day, by no later than 12.15 Madrid time.

If any of the Participating Entities who have notified the Agent of exercise of preferential subscription rights in accordance with the provisions of the foregoing section 5.1.3.a) 1.f) does not pay up in full the corresponding amounts of the said subscriptions within the period established for the purpose, the Agent shall allocate the New Shares in the name of the said Participating Entity, which shall be obliged to pay the corresponding amounts of the said New Shares, without any liability on the part of the Agent or Company, and without prejudice to possible liability which the infringing Participating Entity may incur to those giving subscription orders for New Shares submitted in due time and manner to the said entity.

If any of the Participating Entities, after payment up has been made of the corresponding amounts for subscription of shares in the Preferential Subscription Period within the time established for the purpose, does not notify the Agent of the list of subscribers on the terms laid down, the Agent shall allocate the New Shares paid up in the name of the said Participating Entity, all without any liability on the part of the Agent or the Company, and without prejudice to the possible liability which the infringing Participating Entity may incur to those giving subscription orders for New Shares submitted to the said entity in due time and manner.

b) Payment up of shares subscribed for in the Additional Allocation Period

In relation to subscription orders for Additional Shares which are allocated, as the case may be, to Shareholders or Investors in the Period for Allocation of Additional Shares, Participating Entities may request a provision of funds from Shareholders and Investors in the amount requested for subsequent payment up of these shares after they have been allocated.

In any event, if the number of Additional Shares eventually allocated to each applicant is less than the number of Additional Shares requested by the same, the Participating Entity shall be obliged to return to the said applicant, free of any expense or commission, the corresponding amount of the provision of funds or of the excess not allocated on the business day following the end of the Period for Allocation of Additional Shares.

During the first business day following the end of the Period for Allocation of Additional Shares, Participating Entities must notify Shareholders and/or Investors of the Additional Shares which have been finally allocated to them. In the event that a provision of funds has been made, the Participating Entity shall apply the provision to payment of the subscription price of the said shares. If a provision of funds has not been made, the Shareholder or Investor must pay the amount of the subscription at the time of the notification of allocation given to them by the Participating Entity.

Participating Entities to which applications have been given for subscription for Additional Shares in the Period for Allocation of Additional Shares must pay the amounts corresponding to payment up thereof to the Agent, through the means made available to them by IBERCLEAR, with value date on the same day, by no later than 11.00 hours on the second business day following the end of the Period for Allocation of Additional Shares (i.e. in accordance with the planned timetable, 26 March 2010), with value date on the same day. The Agent shall pay the said funds into the account of the Company opened with Santander Investment, S.A. for the purpose, with value date on the same day, by no later than 12.15 hours Madrid time.

If any of the Participating Entities which have notified the Agent of application for Additional Shares in accordance with the foregoing section 5.1.3.a) 1.f) does not pay up the said subscriptions in full within the period established for the purpose, the Agent shall allocate the New Shares in the name of the said Participating Entity, which will be obliged to pay the corresponding amounts of the New Shares, all without any liability on the part of the Agent of the Company, and without prejudice to possible liability which the infringing Participating Entity may incur to those giving subscription orders for Additional Shares submitted in due time and manner to the said entity.

If any of the Participating Entities, after payment is made of the corresponding amounts of Additional Shares within the period laid down for the purpose, does not notify the Agent of the list of subscribers on the terms laid down, the Agent shall allocate the New Shares paid up in the name of the said Participating Entity, all without any liability on the part of the Agent or Company, and without prejudice to possible liability which the infringing Participating Entity may incur to those giving orders for subscription of Additional Shares submitted in due time and manner to the said entity.

c) Payment up of shares subscribed for in the Discretionary Allocation Period

Payment up in full of the subscription price of each share allocated in the Discretionary Allocation Period must be made by investors allocated the same through the Participating Entities designated by the said investors in accordance with the provisions of the foregoing section 5.1.3.a) 3.c).

The Participating Entities designated by investors allocated shares in the Discretionary Allocation Period shall accept debiting of the amounts corresponding to payment up by them to the Agent through the means made available to them by IBERCLEAR, with value date on the same day, by no later than 11.00 hours on the second business day following the end of the Discretionary Allocation Period (i.e. in accordance with the planned timetable, 30 March 2010), with value date on the same day. The Agent shall pay the said funds into the account of the Company opened with Santander Investment, S.A. for the purpose, with value date on the same day, by no later than 12.15 hours Madrid time.

If any of the said Participating Entities does not make payment up in full within the period indicated, the Agent shall allocate the New Shares in the name of the said Participating Entity, which shall be obliged to pay the amounts corresponding to the said New Shares, all without any liability on the part of the Agent or the Company, and without prejudice to the possible liability which the infringing Participating Entity may incur to those making requests for subscription.

After payment up of the capital increase and issue of the certificate or certificates evidencing payment in of the funds relating to the whole of the New Shares covered by the Issue, on the same day, 30 March 2010, the capital increase shall be declared closed and subscribed and ENCE shall execute the corresponding deed of capital increase for subsequent registration in the Commercial Registry.

After the said registration the deed of capital increase shall be delivered to the CNMV, to IBERCLEAR and to the Governing Company of the Madrid Stock Exchange, as lead exchange. Furthermore, the Company undertakes to apply for admission to listing of the shares on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges through the Stock Exchange Interconnection System (Continuous Market).

Under normal conditions, delivery of the deed of capital increase to IBERCLEAR and execution of the increase shall take place on 30 March 2010. In this event, admission to trading would take place on 1 April 2010.

Notwithstanding the foregoing, it is recorded that the aforesaid periods indicated in this section 5.18 may not be complied with, and consequently execution of the operations described delayed.

d) Delivery of the New Shares

Each of the subscribers for the ENCE New Shares covered by this capital increase shall be entitled to obtain from the Participating Entity with which the subscriptions thereof have been processed, a signed copy of the subscription receipt, in accordance with the terms laid down in Section 160 of the Companies Act.

The said subscription receipt shall not be negotiable and shall remain in force until the book entry references are allocated corresponding to the New Shares subscribed for, without prejudice to their validity for evidentiary purposes in the event of potential claims or incidents.

Since the New Shares are securities represented by book entry, they will be created by virtue of their registration in the central registry maintained by IBERCLEAR. On the same day of registration in the central registry of IBERCLEAR Participating Entities shall make the corresponding entries in their book entry records in favour of subscribers of the New Shares covered by the capital increase.

The new shareholders shall be entitled to obtain certificates from the Participating Entities with which the New Shares are registered of corresponding accreditation of the said shares in accordance with the provisions of Royal Decree 116/1992, of 14 February. Participating Entities shall issue the said certificates before the end of the business day following that on which they are requested by subscribers.

5.1.9. <u>Notification of the results of the capital increase</u>

The Company shall notify the market of the following circumstances by relevant fact:

- After the Period for Allocation of Additional Shares, the number of shares subscribed for in the Preferential Subscription Period, and in the event that the Period for Allocation of Additional Shares commences, the number of Additional Shares allocated, the pro rata coefficient used and, if commenced, the Period for Placement of Shares Underwritten. ...coefficient used in the Period for Placement of Shares of Shares Underwritten, if such period is commenced.

- After the Discretionary Allocation Period, if commenced, the result of the capital increase detailing the number of New Shares subscribed for in each of the periods.

5.1.10. <u>Procedure for exercising any preferential subscription right, their negotiability and treatment of unexercised subscription rights</u>

a) Holders

Shareholders and Investors who, as a result of acquiring them, are holders of preferential subscription rights New Shares, shall be entitled to preferential subscription, all in accordance with the provisions of the foregoing section 5.1.3.

b) Negotiability

In accordance with the provisions of Section 158.3 of the Companies Act, preferential subscription rights for the New Shares shall be transferrable on the same conditions as the shares from which they derive, i.e. they may be traded on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges and included in SIBE.

c) Unexercised subscription rights

The preferential subscription rights which have not been exercised shall automatically be extinguished at the end of the Preferential Subscription Period.

d) Theoretical value of the preferential subscription rights

The theoretical value of each preferential subscription right shall be calculated on the closing price of the ENCE share on the Madrid Stock Exchange on the day prior to commencement of the Preferential Subscription Period in accordance with the following formula:

$$VTD = \frac{(PC - PS) * NNA}{NAP + NNA}$$

VTD: Theoretical value of the preferential subscription right.

PC: Closing price of the ENCE shares on the Madrid Stock Exchange corresponding to the stock exchange session on the day prior to commencement of the Preferential Subscription Period.

PS: Subscription price for each new share, i.e. 1.565 euros (0.9 euros nominal value and 0.665 euros issue premium).

NNA: Number of New Shares to be issued (83,112,890 shares).

NAP: Number of shares prior to the capital increase excluding own shares held (174,537,075 shares).

The theoretical value of preferential subscription rights at the close of trading of ENCE shares on 3 March 2010 (2.81 €) was equal to 0.4016 €.

5.2. Placement and allocation plan

5.2.1. Investors

The New Shares are offered to (i) Shareholders, i.e. those shareholders who are such at the closing of markets on the business day immediately prior to commencement of the Preferential Subscription Period and who have not transferred all of their preferential subscription rights during the said Preferential Subscription Period, and (ii) Investors, i.e. investors other than Shareholders who acquire sufficient preferential subscription rights in the market in the necessary proportion (i.e. twenty one (21) preferential subscription rights for ten (10) New Shares) during the Preferential Subscription Period and, if shares remain unsubscribed at the end of the Period for Allocation of Additional Shares, (iii) any national or foreign qualified investor.

Furthermore, in the event that after the end of the Preferential Subscription Period, the Period for Allocation of Additional Shares, and the Discretionary Allocation Period, shares remain unsubscribed, they will be subscribed for by the Underwriters.

The Underwriters undertake not to bring any action in any country or jurisdiction other than Spain demanding compliance with special legislation, in order to carry out a public offering of shares.

Consequently, the Underwriters are obliged to abstain from engaging in any activity which could be interpreted as aimed at promoting offers for subscription for shares covered by the capital increase in any country or jurisdiction other than Spain or with respect to nationals or residents of any country without complying with the requirements established in applicable local legislation for their promotion, offering, placement, mediation or sale.

Nevertheless, if despite the provisions of the previous paragraph any Underwriter makes a public offering of the Shares in any jurisdiction other than Spain and does not comply with the legal restrictions for the purpose established by the said country or jurisdiction, the liabilities which the action described may give rise to shall be borne exclusively by the Underwriter who has carried out the said action.

In particular, it is recorded that this document and the information contained in it are not aimed at investors in Australia, Canada, the United States of America or Japan, and do not constitute an offer for securities nor may be communicated to any person within the said countries. No security may be offered or sold within Australia, Canada, the United States of America or Japan in the absence of prior registration under applicable securities market legislation, or an exception from registration is obtained for the said offering or sale. ENCE has no intention of registering the offer or sale of its New Shares in Australia, Canada, the United States of America or Japan, nor making a public offering in the said countries. Consequently, neither the preferential subscription rights nor the New Shares may be offered, exercised, sold or delivered in the said countries.

In the specific case of US investors, no share subscription may be accepted from an investor within the United States of America nor from any persona acting on behalf or for account of an investor within the United States of America. It shall be deemed that each investor (or the financial institution representing the same) makes the following declaration at the time of exercising their preferential subscription rights or subscribing for New Shares:

"*I confirm that (i) I have not received within the United States of America either the Prospectus (comprising the registration document, securities note and summary) nor any other document connected with the capital increase of Grupo Empresarial ENCE, S.A. or the exercise of preferential subscription rights corresponding to the shares of Grupo Empresarial ENCE, S.A.; and (ii) at the time when I exercise my preferential subscription rights I am outside the United States of America, do not act for or on behalf of persons within the United States of America and I am acquiring the shares of Grupo Empresarial ENCE, S.A. in the framework of an offshore transaction in accordance with the provisions of Regulation S of the US Securities Act of 1933*".

Authorised financial intermediaries must not accept the exercise of preferential subscription rights or requests for subscription for New Shares made by clients who are domiciled in the United States of America. Any envelope containing a request for subscription and sealed (whether physically, by fax or electronically) in the United States of America shall not be accepted and the subscription price returned without interest.

5.2.2. Indication of the principal shareholders or members of the administration, management or supervisory bodies of the Company who intend to subscribe to the capital increase, or whether any person proposes to subscribe for more than five percent

Each of the principal shareholders (the "**Reference Shareholders**") have individually undertaken irrevocably and unconditionally to subscribe and pay up the minimum number of New Shares established below ("**Shares Committed**"):

Entity	No. of Shares	%
Retos Operativos XXI, S.L.	18,410,728	22.15%
Alcor Holding, S.A. / Imvernelin Patrimonio, S.L.	16,947,447	20.39%
Atalaya Inversiones, S.R.L.	2,776,111	3.34%
Cantábrica de Inversiones de Cartera, S.L. / Norteña Patrimonial, S.L.	4,155,644	5.00%
TOTAL	**42,289,930**	**50.88%**

The said subscription shall be made in the Preferential Subscription Period, without prejudice to the ability of the principal shareholders in the Preferential Subscription Period to give orders for subscription for additional shares for allocation in the Period for Allocation of Additional Shares, which would, as the case may be, increase the number of shares and percentages indicated above.

The Company undertakes to inform the market by publication of a relevant fact by no later than noon on 19 March 2010, confirming that the Reference Shareholders have given orders and paid up the corresponding amount of subscription for the shares subject to the subscription commitment described in this section.

Apart from the commitment by the Reference Shareholders previously referred to, the Company is unaware whether other significant shareholders intend to exercise their preferential subscription rights.

Furthermore, all members of the Board of Directors of the Company (other than the Reference Shareholders) who are holders of ordinary shares therein have stated their intention to take part in the capital increase, subscribing for the shares corresponding thereto in exercise of the preferential subscription rights held by them.

The senior management members of the Company have not given the Company any indication regarding their intention to exercise preferential subscription rights which they may hold.

5.2.3. Disclosure of re-assignment

a) Division of the offering into tranches, including institutional and retail tranches and for employees of the issuer and other tranches.

Not applicable.

b) Conditions on which tranches may be re-assigned, maximum size of this re-assignment and, as the case may be, minimum percentage applicable to each tranche.

Not applicable.

c) Method or methods for assignment which must be used for the retail tranche and for that of employees of the issuer in the event of over-subscription for these trances.

Not applicable.

d) Description of any predetermined preferential treatment granted to certain classes of investors or certain similar groups (including programmes for friends and family) in allocation, the percentage of the offering reserved for this preferential treatment and criteria for inclusion in the said classes or groups.

Not applicable.

e) Whether the treatment of subscriptions or offers for subscription in the assignment depends on the undertaking which makes them or through which they are made.

Not applicable.

f) Minimum amount of allocation, as the case may be, in the retail tranche.

Not applicable.

g) Conditions for closing the offering and the nearest date on which the offering can be closed

In accordance with the provisions of the foregoing section 5.1, ENCE may treat the offering as concluded in any event after the end of the Preferential Subscription Period at any time, provided that the whole of the capital increase covered by this Securities Note has been subscribed for and paid up in full.

h) Whether multiple subscriptions are allowed, and if not allowed how multiple subscriptions are handled.

Not applicable.

5.2.4. Process for notifying applicants of the amount allocated and indication whether trading may commence before notification is given

The process is established in section 5.1.3.

5.2.5. Over-allocation and Subscription Option ("Green Shoe")

Not applicable.

5.3. Prices

5.3.1. Indication of the price at which the securities will be offered. If the price is unknown or if there is no established and/or liquid market for the securities, indicate the method for determining the offer price, including a declaration as to who has established the criteria or is formally responsible for its determination. Indication of the amount of all expenses and taxes specifically charged to the subscriber or purchaser

The nominal value of each of the New Shares which will be issued as a result of the capital increase is 0.9 euros, with an issue premium of 0.665 euros each. Consequently, the subscription price for the New Shares will be 1.565 euros for each new share.

The Company will not charge any expenses to subscribers. Expenses will not accrue to shareholders or investors who take part in the capital increase for first registration of the New Shares in the book entry records of IBERCLEAR and Participating Entities. Nevertheless, Participating Entities through which subscription is made may, in accordance with current legislation, establish recoverable commissions and expenses in respect of processing orders for subscription for securities and sale and purchase of preferential subscription rights as they freely determine. Being securities represented by book entry, the registration of which is entrusted to IBERCLEAR and the Participating Entities (double level system), holders must bear the commissions which IBERCLEAR and the Participating Entities have established in accordance with current legislation for the maintenance of balances or administration of securities.

The Underwriters may not charge any expenses to investors who make requests through them for New Shares during the Discretionary Allocation Period.

5.3.2. Process of disclosure of the offer price

As indicated in the foregoing section 5.1.2, the subscription price for the New Shares will be 1.565 euros per share.

5.3.3. If those with holdings in the issuer have preferential purchase rights and this right is restricted or suppressed, indication of the issue price base if it is in cash together with the reasons and beneficiaries of this restriction or suppression

It is not appropriate to mention anyone since preferential subscription rights are acknowledged for shareholders of the Company in relation to the New Shares covered by the capital increase.

5.3.4. In cases in which there is or may be a material disparity between the issue price and actual cash cost to members of administrative, management or supervisory bodies or senior management or affiliated persons in respect of the securities acquired by them in transactions carried out during the last year, or which they are entitled to acquire, a comparison must be included of the public contribution in the issue and the actual contributions in cash of these persons

Members of the Board of Directors of the Company and management or supervisory bodies or senior management of the Company or affiliated persons who subscribe for New Shares, will do so at the subscription price, as the case may be.

During the last year the Company was notified of acquisition of the following shares:

- Mr. Antonio Palacios Esteban notified the Company of purchase of 45,000 shares since 1 January 2009, with the maximum unit purchase price being 3.10 € and the minimum 1.70 €.
- Mr. Pedro José López Jiménez notified the Company of direct purchase of one share.

5.4. Placing and subscription

5.4.1. Name and address of the coordinator or coordinators of the global offer and of certain parts thereof and, to the extent that the issuer or offeror is aware thereof, of the placers in the different countries where the offer takes place

Banco Santander, S.A., with registered office at Paseo de Pereda 9-12, 39004 Santander, has been designated as coordinating entity for the capital increase. For placement of the New Shares covered by the capital increase a placement syndicate has been formed the composition of which is indicated below, detailing the name and address of each of the Underwriters:

Name	Address
Banco Santander, S.A.	Paseo de Pereda 9-12, 39004 Santander
Banco Bilbao Vizcaya Argentaria, S.A.	Plaza de San Nicolás 4, 48005 Bilbao
Caja de Ahorros y Monte de Piedad de Madrid	Plaza de Celenque 2, 28013 Madrid

In accordance with applicable legislation, the Underwriters may operate for own account in preferential subscription rights, shares and instruments in respect of shares of the Company to the extent that the said transactions are carried out in the ordinary course of business. The Underwriters do not intend to publish these transactions unless so provided by applicable legislation.

5.4.2. Name and address of any payment agent and depository agents in each country

Santander Investment, S.A., with registered office at Avenida Cantabria s/n, 28660 Boadilla del Monte (Madrid) has been designated Agent of the capital increase covered by this Securities Note pursuant to an agency agreement signed between it and the Company on 3 March 2010.

5.4.3. Name and address of the entities who agree to subscribe to the issue with a firm commitment or a "best efforts" agreement. Indication of the major characteristics of the agreements, including "quotas". In cases in which the issue is not wholly subscribed, declaration of the part not covered. Indication of the global amount of the subscription commission and placement commission

As mentioned in the foregoing section 5.2.2, Retos Operativos XXI, S.L., Alcor Holding, S.A., Imvernelin Patrimonio, S.L., Atalaya Inversiones, S.R.L., Cantábrica de Inversiones de Cartera, S.L. and Norteña Patrimonial, S.L. have expressly, unconditionally and irrevocably undertaken to the Company to exercise the preferential subscription rights assigned to shares in the Company which they hold, subscribing for and paying up for the New Shares corresponding to the said rights.

Consequently, it is anticipated that during the Preferential Subscription Period, the said shareholders will subscribe for 42,289,930 New Shares, representing 50.88% of all of the New Shares to be issued.

Furthermore, on 3 March 2010 the Underwriting and Placement Agreement was signed between the Company, as issuer, and Banco Santander, S.A., Banco Bilbao Vizcaya Argentaria, S.A. and Caja de Ahorros y Monte de Piedad de Madrid, as Underwriters, the principal terms of which are as follows:

a) Underwriting commitment

The New Shares which the Reference Shareholders have not undertaken to subscribe for are subject to underwriting by the Underwriters under the Underwriting and Placement Agreement. The number of Shares Underwritten by each Underwriter and the percentage which they represent of the total number of Shares Underwritten are as follows:

Underwriter	No. of Shares Underwritten	% of Shares Underwritten
Banco Santander	25,552,777	62.59%
BBVA	12,776,796	31.30%
Caja Madrid	2,493,387	6.11%
Total Underwriting Commitment	**40,822,960**	**100%**

The underwriting commitment of each Underwriter will be reduced by the number of New Shares which, in addition to the Shares Underwritten, have been subscribed for and paid up in the Preferential Subscription Period, in the Period for Allocation of Additional Shares and in the Discretionary Allocation Period.

Thus, in the event that 100% of the New Shares are subscribed for and paid up in the three periods referred to, the Underwriters will be released from their respective underwriting commitments.

Consequently, in the event that after the Discretionary Allocation Period the sum of New Shares subscribed for by Accredited Shareholders and Investors in the Preferential Subscription Period and the Period for Allocation of Additional Shares, and, as the case may be, by qualified Spanish or foreign investors in the Discretionary Allocation Period, is less than the total number of New Shares, the Underwriters undertake to subscribe for and pay up in their own name and behalf the Shares Underwritten subscription of which corresponds to them in exercise of their respective underwriting commitments in the amount and proportions indicated in this section.

The foregoing commitments are subject, amongst others, to the condition that, in accordance with the foregoing section 5.2.2, the Reference Shareholders have subscribed for and paid up the Shares Committed in exercise of their preferential subscription rights in the framework of the capital increase.

The underwriting obligations assumed by the Underwriters are joint pro rata.

b) Commissions

As remuneration for the services provided in relation to the capital increase, the Company must pay to the Underwriters an underwriting commission in a total aggregate amount of 3,194,396.62 equivalent to applying of 5% to the total amount of the Shares Underwritten, which will be distributed amongst the Underwriters pro rata to their respective Underwriting Commitments. This commission has been determined taking into account the series of activities to be carried out by the said Underwriters and the denomination thereof does not imply that one specific activity is being remunerated in isolation.

The commissions will be paid to the Underwriters by the Agent acting on behalf of the Company on the Payment Date with value date on the same day.

c) Provisions for termination and conditions precedent

The Underwriting and Placement Agreement may be terminated by joint decision of the Underwriters on prior non-binding consultation with the Company insofar as reasonably possible, in the event that, in the view of the Underwriters and at any time from signature until 0.9.00 hours Madrid time, on 30 March (the "**Payment Date**"), any event has occurred of *force majeure* or extraordinary alteration in market conditions which makes the capital increase or compliance in general with the Underwriting and

Placement Agreement by the Parties exceptionally onerous. For these purposes the following will be considered grounds of *force majeure*:

(i) A substantial adverse alteration in the condition (financial, operational, legal or of other type) or profits or business of the Company or companies in its Group, whether arising in the ordinary course of business or otherwise.

(ii) A substantial adverse alteration in financial markets in Spain, United States of America, United Kingdom or in any other Member State of the European Economic Area or in the exchange rates of national or international currencies or their control systems.

(iii) Major suspension or restriction on the trading of shares declared by competent authorities on the Madrid, Barcelona, Bilbao or Valencia (including the Continuous Market), London or New York Stock Exchanges.

(iv) Suspension or restriction on trading in shares of the Company declared by the competent authorities in the Madrid, Barcelona, Bilbao or Valencia (including the Continuous Market) Stock Exchanges (a) for a period exceeding 24 consecutive hours if taking place in the first three calendar days of the Preferential Subscription Period, or (b) for a period exceeding two hours if taking place from the final calendar day of the Preferential Subscription Period until the Payment Date, for reasons other than opening of the Discretionary Allocation Period, as the case may be.

(v) Any moratorium or general suspension in banking activities in Spain, the United States of America, the United Kingdom or in any other Member State of the European Economic Area declared by the competent authorities or a substantial alteration in banking activities or those of clearing and settlement of securities in Spain, the United States of America, the United Kingdom or in any Member State of the European Economic Area.

(vi) An outbreak of worsening of hostilities or of any conflict of similar nature or a large-scale terrorist act or declaration of war or national emergency, provided that it has a substantial adverse effect on the indices of the Spanish, London or New York Stock Exchanges.

(vii) Modification of legislation in Spain or the European Union or the promulgation of any bill or regulation which involves a foreseeable modification of the said legislation which could have a material negative effect on the activities of the Company and companies in its Group, the capital increase, the shares of the Company or their transferability or the rights of holders of the said shares.

Furthermore, the Underwriting and Placement Agreement may be terminated jointly by the Underwriters at any time from signature until 09.00 hours Madrid time on the Payment Date in any of the following events:

(i) Any breach, lack of truthfulness or incorrectness is verified of any of the representations and warranties made and given by the Company in the said Agreement.

(ii) A breach occurs of any of the obligations or commitments of the Company under the said Agreement.

(iii) The CNMV or any other relevant authority suspends or revokes the necessary authorisation for the capital increase.

(iv) New significant factors, material errors or inaccuracies come to light relating to the information contained in this Prospectus, susceptible of affecting valuation of the shares of the Company, which determine the need to publish a Supplement to the Prospectus.

In the event of termination of the Agreement, the Company will publish the same by the relevant fact to the CNMV and the capital increase will not be underwritten. In this event, the following consequences will apply depending on the date of termination of the Agreement:

(i) If the Agreement is terminated on or before 0.900 hours Madrid time on the date of publication of the announcement of capital increase in the BORME, the Company may decide whether to withdraw from the capital increase or, alternatively, continue with the increase but in such event without any underwriting commitment on the part of the Underwriters.

(ii) If the Agreement is terminated after 09.00 hours Madrid time on the day of publication of the announcement of capital increase in the BORME, requests for subscription, if any, submitted by qualified investors during the Discretionary Allocation Period and those submitted by the Underwriters in compliance with their Underwriting Commitments shall be deemed to be revoked and terminated, irrespective of whether New Shares have already been allocated. In this event, if the amount of the New Shares acquired by the Accredited Shareholders and Investors during the Preferential Subscription Period and Period for Allocation of Additional Shares are insufficient to cover the whole of the New Shares covered by the capital increase, the Company shall declare the subscription incomplete and capital will be increased by the amount of subscriptions made.

The underwriting obligations of the Underwriters are subject to compliance, before 09.00 hours on the Payment Date, with several conditions precedent normal in this type of operation, consisting in summary of: (i) delivery to the Underwriters of a copy of the irrevocable subscription commitments of the Reference Shareholders on the terms described in this Securities Note, (ii) delivery to the Underwriters of separate legal opinions from the legal advisors of the Company, both on the Date of Registration of the Prospectus and on the Payment Date, (iii) delivery to the Underwriters by the auditors of the Company of separate comfort letters with respect to the financial information contained in the Prospectus and changes in the financial position of the Company, both on the Date of Registration of the Prospectus and on the Payment Date, (iv) delivery to the Underwriters, both on the Date of Registration of this Prospectus and on the Payment Date, of separate certificates duly signed by an authorised representative of the Company confirming that (a) the representations and warranties of the Company contained in the Underwriting and Placement Agreement are truthful and correct, (b) the Company has complied with all its obligations under the Underwriting and Placement Agreement, and (c) no judicial order or decision has been issued suspending or aimed at suspending utilisation of the Prospectus, nor is there knowledge that actions for this purpose have commenced, (v) no material or significant change or modification has been made to the draft of the Prospectus (in accordance with the version of 3 March 2010) from the date of the Underwriting and Placement Agreement until the date of approval of the Prospectus by the CNMV the effect of which is, in the reasonable view of the Underwriters, so material and adverse that it could make it inviable or inadvisable to proceed with the capital increase or delivery of the New Shares on the terms and in the manner contemplated in the Prospectus, (vi) written confirmation from the Agent to the Underwriters verifying receipt of the funds relating to payment up of all New Shares subscribed for or applied for and allocated during the Preferential Subscription Period or the Period for Allocation of Additional Shares, (vii) confirmation by the Agent to the Underwriters before commencement of the Discretionary Allocation Period of subscription by the Reference Shareholders of all Shares Committed, and (ix) that the agency agreement has not been terminated.

d) Commitment not to transfer shares (lock-up)

In the Underwriting and Placement Agreement signed on 3 March 2010 a commitment was included by ENCE not to issue, offer, sell, encumber, resolve to issue or sell or in any other manner directly or indirectly dispose of or carry out any operation which could have a similar economic effect to the issue or sale or announcement of issue or sale of ENCE shares, convertible securities or securities exchangeable for shares of ENCE, warrants or any other instruments which could grant entitlement to subscription or acquisition of ENCE shares, including by transactions in derivatives, except with the prior written consent of the Underwriters, which may not be unreasonably withheld, from the date of the Underwriting and Placement Agreement until 180 days following the date of official admission to trading of the New Shares of ENCE on the Spanish Stock Exchanges.

Furthermore, the principal shareholders of ENCE, Retos Operativos XXI, S.L., Alcor Holding, S.A., (and its subsidiary Imvernelin Patrimonio, S.L.), Atalaya Inversiones, S.R.L., Cantábrica de Inversiones de Cartera, S.L. and Norteña Patrimonial, S.L., have undertaken during the 90 days following the date of official admission to trading of the New Shares of ENCE on the Spanish Stock Exchanges not to sell, agree to sell or otherwise dispose directly or indirectly or carry out any transaction which could have a similar economic effect to the sale or announcement of sale of ENCE shares, convertible securities or securities exchangeable for ENCE shares, warrants or any other instruments which could grant entitlement to the subscription or acquisition of ENCE shares, including by transactions in derivatives, without the prior written consent of the Underwriters, which may not be unreasonably withheld.

Finally, the possibility has been provided for incomplete subscription to the capital increase covered by this Securities Note in accordance with the provisions of Section 161.1 of the Companies Act in the event that the underwriting and placement commitment assumed by the Underwriters does not or ceases to have effect in accordance with the terms and conditions of the Underwriting and Placement Agreement.

5.4.4. <u>If an underwriting agreement has or will be reached</u>

See foregoing section 5.4.3.

6. RESOLUTION FOR ADMISSION TO LISTING AND TRADING

6.1. Indication whether the securities offered are or will be subject to an application for admission to trading with a view to distribution on a regulated market or on other equivalent markets, indicating the markets in question. This must be referred to without creating the impression that admission to trading will necessarily be approved. If known, the earliest dates must be given on which the securities will be admitted to trading

In exercise of the authorisation granted by the Shareholders General Meeting held on 25 June 2008, the Board of Directors of the Company held on 3 March 2010 resolved to apply for admission of trading of all newly issued shares covered by the capital increase of this Securities Note on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges and their inclusion in the Stock Exchange Interconnection System (Continuous Market).

After the deed of capital increase has been registered in the Madrid Commercial Registry, a notary copy thereof has been filed with IBERCLEAR and the New Shares have been registered as book entries by IBERCLEAR and the Participating Entities, admission to trading of the New Shares will immediately be processed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges.

In this respect, the Company estimates that in the absence of unforeseen events the New Shares will be admitted to trading on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges through the Continuous Market within the three Stock Exchange business day following registration of the New Shares as book entries with IBERCLEAR. The Company will in any event use its best efforts in order that the New Shares are admitted to trading within the ten Stock Exchange business days following that of execution of the deed of capital increase.

If delays occur in admission to trading within the period of ten Stock Exchange business days indicated in the previous paragraph, the Company undertakes to immediately publicise the reasons for the delay by relevant fact communicated to the CNMV.

It is recorded that the Company is aware of the requirements and conditions for admission, continuation and exclusion of shares representing its capital on the aforesaid organised market.

6.2. All regulated or equivalent markets in which, to the knowledge of the issuer, securities of the same class as the securities to be offered or admitted to listing are already admitted to listing

The shares are admitted to listing on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, and traded through SIBE.

6.3. Whether simultaneously or almost simultaneously with creation of the securities for which admission is sought on a regulated market securities of the same class are subscribed for or placed privately, or if securities of other classes are created for public or private placements details must be given of the nature of these operations and the number and characteristics of the securities to which they relate

Not applicable.

6.4. Details of entities who have a firm commitment to act as intermediaries in secondary trading, contributing liquidity through bid and offer rates and description of the principal terms of their commitment

Not applicable.

6.5. Stabilisation in cases in which an issuer or seller shareholder has granted an over-allotment option or it is proposed that price stabilising activities may take place in relation to an offering

Not applicable.

7. HOLDERS SELLING SECURITIES

7.1. Name and professional address of the person or entity offering to sell securities, nature of any position or other important relationship which the Sellers have had in the last three years with the issuer or with any of its predecessors or affiliates

Not applicable since the New Shares are offered by the Company.

7.2. Number and class of the securities offered by each of the holders selling securities

Not applicable.

7.3. Deadlock agreements. Parties involved. Content and exceptions from the agreement. Indication of deadlock period

In the Underwriting and Placement Agreement signed on 3 March 2010 a commitment by ENCE was included not to issue, offer, sell, encumber, resolve to sell or in any other manner dispose directly or indirectly or engage in any transaction which could have a similar effect to sale or announcement of sale, ENCE shares, convertible securities or securities exchangeable for ENCE shares, warrants or any other instruments which could grant entitlement to subscription or acquisition of ENCE shares, including by transactions in derivatives, without the prior written consent of the Underwriters, which may not be unreasonably withheld, during the 180 days following the date of admission to official trading of the New Shares of ENCE on the Spanish Stock Exchanges.

Furthermore, the principal shareholders of ENCE, Retos Operativos XXI, S.L., Alcor Holding, S.A., (and its subsidiary Imvernelin Patrimonio, S.L.), Atalaya Inversiones, S.R.L., Cantábrica de Inversiones de Cartera, S.L. and Norteña Patrimonial, S.L., have undertaken during the 90 days following the date of official admission to trading of the New Shares of ENCE on the Spanish Stock Exchanges not to sell, agree to sell or otherwise dispose directly or indirectly or carry out any transaction which could have a similar economic effect to the sale or announcement of sale, ENCE shares, convertible securities or securities exchangeable for ENCE shares, warrants or any other instruments which could grant entitlement to the subscription or acquisition of ENCE shares, including by transactions in derivatives, without the prior written consent of the Underwriters, which may not be unreasonably withheld.

The foregoing must be taken to be without prejudice to the possibility that the principal shareholders transfer, without any restriction other than that deriving from the commitments assumed by the principal shareholders indicated in the foregoing section 5.2.2, their preferential subscription rights in whole or in part in the event that they do not exercise them or they exercise them in part. Furthermore, the said principal shareholders may transfer ENCE shares between themselves without any restriction.

8. EXPENSES OF THE OFFERING

8.1 Total net income and calculation of total expenses of the issue/offering

In the event that the capital increase is subscribed for in full, the maximum amount of entire income which the Company would receive would be 130,071,672.85 euros. In any event, the final amount to be paid in by the Company will depend on the final number of New Shares which are subscribed for.

Given the difficulty of specifying precisely the definitive amount thereof at the date of this Securities Note, for purely indicative purposes an approximate forecast is included below of the expenses connected with the capital increase which will be for account of the Company without in any case including Value Added Tax:

Item (1)	**Euros (Estimated amount)**
Capital Transfer Tax – Stamp Duty	1,300,000
Notary, Commercial Registry and legal publicity	60,000
IBERCLEAR fees	30,000
Fees and levies of Spanish Stock Exchanges	12,000
CNMV levies (issue and admission)	19,000
Legal and other expenses (printing, legal and financial advice, auditing, agency commission)	600,000
Underwriting commission	3,194,396
TOTAL	**5,215,396**

(1) Estimated amounts assuming that the New Shares covered by this Securities Note are subscribed for in full at the Subscription Price.

The amount of the expenses indicated in relation to the total issue is approximately 4% of the cash amount of the capital increase. It is forecast that these expenses will be financed from ordinary funds of the Company without the need to resort to external financing.

9. DILUTION

9.1. Amount and percentage of immediate dilution resulting from the capital increase

As indicated in section 5.1.10 of this Securities Note, the shareholders of the Company are entitled to preferential subscription for the New Shares issued. Consequently, there will be no dilution for shareholders of the Company in the event that they exercise their corresponding preferential subscription rights (i.e. twenty one (21) subscription rights for each ten (10) New Shares).

9.2. In the case of an offer for subscription to current holders, amount and percentage of immediate dilution if they do not subscribe for the new offer

The capital increase covered by the Securities Note involves the issue and circulation of a maximum of 83,112,890 new ordinary shares with a nominal value of 0.9 euros each, representing up to a maximum of 47.52% of the capital of ENCE in existence prior to this capital increase.

10. ADDITIONAL INFORMATION

10.1. If the Securities Note refers to the advisors connected with an issue, a declaration of the capacity in which the advisors have acted

In relation to this capital increase the entities which have participated as advisors are detailed below:

- Banco Santander, S.A. acts as Lead Manager.
- Santander Investment, S.A., acts as Agent.
- Banco Santander, S.A., Banco Bilbao Vizcaya Argentaria, S.A. and Caja de Ahorros y Monte de Piedad de Madrid act as Underwriters.
- Uría Menéndez Abogados, S.L.P. acts as legal and tax advisor of ENCE.
- Pérez-Llorca Abogados, S.L.P. y Cía. S.Com.P. acts as legal and tax advisor of the underwriting syndicate formed by Banco Santander, S.A., Banco Bilbao Vizcaya Argentaria, S.A. and Caja de Ahorros y Monte de Piedad de Madrid.

10.2. Indication of other information contained in the Securities Note regarding the securities which has been audited and reviewed by the auditors and whether the auditors have submitted a report. Reproduction of the report or a summary thereof with the permission of the competent authority

Not applicable.

10.3. If the Securities Note includes a declaration or report attributed to a person in the capacity of expert, provide the name of these persons, professional address, qualifications and material interest in the issuer, as appropriate. If the report is presented at the request of the issuer, a declaration for these purposes that the said declaration or report includes the form and context in which it is included with the consent of the person who has authorised the contents of the Securities Note

Not applicable.

10.4. In cases in which the information derives from a third party, provide confirmation that the information has been reproduced accurately and that insofar as the issuer is aware and can determine based on the information published by that third party, no facts have been omitted which make the information reproduced inaccurate or misleading. Furthermore, the issuer must identify the source or sources of the information

Not applicable.