



Note on the economic impact of the new
regulatory framework for renewable energy,
cogeneration and waste

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1. ENERGY REFORM: SUMMARY OF IMPACTS

In 2013, a set of regulatory provisions was approved modifying the remuneration outline and applicable tax regime for renewable energy power generation, including biomass generation:

- Law 15/2012 of 27 December, on fiscal measures for energy sustainability for which, **as from 1 January 2013**, a new general tax was imposed on electricity output equivalent to 7% of revenue from power generation. Likewise, tax rates established for natural gas and fuel consumption are modified, removing exemptions for energy products used in electricity production and electricity cogeneration.

Application of this regulation since 1 January 2013 has had a negative impact on Group energy cost, net of electricity taxes, of -€20.6 M in the fiscal year.

- Royal Decree Law 2/2013 dated 1 February, regarding urgent measures in the electricity and financial sectors, which establish the replacement of the core CPI with the underlying CPI (for constant taxes not including non-processed food or energy products) as a formula to update tariffs.

These two regulatory changes were fully registered in 2013 audited results.

- Royal Decree Law 9/2013, dated 12 July, regarding urgent measures to ensure Spanish Electricity System stability, which repealed RD 661/2007 and introduced a new economic regime for renewable energies that ensures generators a return equivalent to the yield on 10-year bonds plus 300 basis points, calculated before taxes and based on the operating costs and investments for a standard facility for its entire useful regulatory life. In addition, payment of the efficiency and reactive energy bonuses has been eliminated in anticipation of the approval of the mentioned new financial regime **starting on 14 July 2013**.

Elimination of these complements means a reduction of electricity energy revenue net of electricity tax of -€11.4 M for the 14 July 2013 – 31 December 2013 period.

- Royal Decree 413/2014, of 6 June 2014, which establishes the regulatory framework for renewable energy sources, cogeneration and waste and Ministry of Industry, Energy and Tourism Order IET/1045/2014, of 16 June 2014, which establishes the remuneration parameters for such energy; both of which are retroactively effective from 14 July 2013. This framework amends the regulatory environment applicable to the company's energy generation activities in three main aspects: (i) elimination of a specific tariff for energy crops, the remuneration of which is equal that the one applied to forest and agricultural waste; (ii) establishment of a maximum number of hours with right to a premium price for facilities generating electricity from renewable energy, equal to a nominal plant availability of 6,500 hours per year; and (iii) reduction of premium prices paid for generating electricity with biomass and gas, in particular the premium price relating to renewable energy cogeneration with black liquor, a by-product of the cellulose production process. These premiums are

added to the direct income for the sale of energy at market price ("pool" price). The application of this new tariff framework represents a reduction in energy income (in addition to the impact of eliminating supplements), net of electricity tax, of -12 million euros for the period from 14 July to 31 December of 2013. Of this reduction, -6 million euros do not have a recurring impact on the company's future results as the company both produced energy in the 50MW plant in Huelva with energy crops, which higher production cost has not been recognized with a higher premium, and operated the 50MW plant above the maximum 6,500 hours per year eligible for premium tariff. Similarly, the impact of this latest reform on the valuation of certain assets of the Group, in particular flights of energy crops, represents the recognition of an impairment loss amounting to a total of 67 million euros, 35 million euros of which were accounted for in the 2013 annual accounts. The company plans to post the remaining impact of the reform on the financial statements of 1H14 (€ 37M).

OM recurrent impact - reduction of income (€ million)	2013			1Q14			Impact to register in 1H14
	Impact of the OM published 16/06/14	Recognised in the 2013 financial statements	Impact to register in 1H14	Impact of the OM published 16/06/14	Recognised in the 1Q14 quarterly report	Additional impact on 1H14	
2013 Sales (net of electricity tax)	12.2	6.6	5.6	8.8	7.6	1.2	6.8
Total impact	12.2	6.6	5.6	8.8	7.6	1.2	6.8

OM recurrent impact - assets impairment (€ million)	2013			1Q14			Impact to register in 1H14
	Impact of the OM published 16/06/14	Recognised in the 2013 financial statements	Impact to register in 1H14	Impact of the OM published 16/06/14	Recognised in the 1Q14 quarterly report	Additional impact on 1H14	
Impairment of energy crops	60.6	26.9	33.7				33.7
Impairment of industrial investments	5.7	5.7	-				-
Other	1.0	2.9	(1.9)				(1.9)
Total impact	67.3	35.5	31.8	-	-	-	31.8

- In terms of pro forma EBITDA, regulatory changes approved since 1 January 2013 have an annual negative impact of € 59M (*), in line with the estimate provided by the company after the publication of the draft OM in February 2014.

(*) The calculation is based on the sum of the 2012 EBITDA (previous year to the energy reform) and the EBITDA of 50MW (Huelva) and 20MW (Mérida) biomass plants, calculated using the rates defined in the RD 661 May 25, 2007 (previous regulatory framework).

2. PROFORMA RESULTS FOR 3Q13, 4Q13 AND 1Q14

Results and cash cost of 3Q13, 4Q13 and 1Q14 included in the quarterly reports of results published by Ence, were calculated based on the company's best estimate according to the tariffs defined in the proposed "Order to approve remuneration parameters for facilities producing electricity from renewable energy sources, cogeneration and waste", sent by the Ministry of Industry, Energy, and Tourism to the Spanish National Commission for Markets and Competition (CNMC) on 3 February 2014, which is retroactively effective as of 14 July 2013 pursuant to Royal Decree-law 9/2013.

The following table shows the proforma result of the main aggregates in the 3Q13, 4Q13 and 1Q14 accounts, based on final tariffs set by the approved Order of 16 June 2014:

figures in €M	1Q13	2Q13	Proforma 3Q13	Proforma 4Q13	Proforma 2013	Proforma 1Q14 (*)
Electricity sales	64.7	60.7	52.5	49.7	227.7	33.9
Average electricity sale price (€/MWh)	131	133	108	105	120	93
Cash cost (€/t)	359	355	391	423	382	415
Total sales	217.4	221.7	210.1	203.9	853.1	171.5
Adjusted EBITDA	44.2	54.0	35.6	18.6	152.4	12.5
EBITDA	43.5	48.3	34.4	15.8	142.0	8.5

(*) The pool price stayed at an exceptionally low level of €26 / MWh in the first quarter of 2014 compared to an average of €42 / MWh for the last 5 years.

3. REMUNERATION PARAMETERS OF THE FACILITIES OF THE ENCE GROUP

Facility	Type of facility	MW	Remuneration to investment 2014 (Ri; €/MW)	Type of fuel	Remuneration to operation 2014 (Ro; €/MW)	Maximum of sale hours per MW under tariff
Navia	Biomass co-generation	40.3	-	Black liquor	30.123	-
	Biomass generation	36.7	230,244	Forestry waste	54.361	6,500
Pontevedra	Biomass co-generation	34.6	49,945	Black liquor	30.123	-
				Forestry waste	54.126	6,500
Huelva	Biomass co-generation	27.5	-	Black liquor	30.123	-
	Natural gas co-generation	49.9	-	Natural gas	43.634	-
	Biomass generation (b)	41.1	305,543	Forestry waste	59.793	6,500
Huelva 50MW	Biomass generation	50.0	266,452	Forestry waste	52.721	6,500
Mérida 20MW	Biomass generation	20.0	293,579	Forestry waste	51.106	6,500

(a) The turbine operates according to a combination of steam from a recovery boiler and a biomass boiler

The income arising from the new remuneration scheme is calculated as follows:

- **Ri (Investment remuneration)** represents annual remuneration per gross installed MW, generating annual income equal to the result of multiplying this remuneration by the facility's gross capacity (MW).

$$\text{Income from investments} = \text{MW} * \text{Ri}$$

- **Ro (Operating remuneration)** represents remuneration per MWh sold in addition to the price of the electricity market ("pool"), generating income equal to the result of adding this remuneration to the market price and multiplying it by the volume of MWh sold.

$$\text{Operating income} = (\text{Ro} + \text{pool}) * \text{MWh}$$

For a given year, the volume of MWh cannot exceed the result of multiplying the facility's gross capacity (MW) by the established limit of hours. There is no limit in the case of cogeneration facilities.

$$\text{MWh} < \text{MW} * 6,500 \quad (\text{for generating electricity with biomass})$$

Production above the aforementioned limit would be sold at market prices, without the right to receive an additional premium.

- Based on the approved regulatory framework, the company revenues from sales of electricity in a given period will depend on the evolution of market prices ("pool"). Deviations from the average price of the "pool" compared to the estimate contained in the ministerial order (€49.16 / MWh for the period 2014-2016, €52 / MWh in the following years) within a certain range of fluctuation will be reversed in the following regulatory half periods (three-year) through adjustments in the compensation parameters. In 2013, electricity sales totalled 1,895,540 MWh and purchases of electricity (consumption) totalled 738,389 MWh.

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