Report on Ence Energia y Celulosa, S.A. and its subsidiaries as of December 31, 2012

Ence Energia y Celulosa, S.A.

Paseo de la Castellana 35, 28046 Madrid, Spain

(Address of Principal Executive Offices)

Securities for which there is a reporting obligation under the Indenture:

€250,000,000 7.25% Senior Secured Notes Due 2020

(Issued by Ence Energía y Celulosa, S.A.)

April 26, 2013

FORWARD-LOOKING STATEMENTS

This Report contains “forward-looking statements” within the meaning of the securities laws of certain jurisdictions, including statements under the headings “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and in other sections. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the words “aims,” “believes,” “estimates,” “anticipates,” “expects,” “intends,” “may,” “will,” “plans,” “continue” or “should” or, in each case, their negative or other variations or comparable terminology or by discussions of strategies, plans, objectives, targets, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and dividend policy, and the industry in which we operate.

By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. In addition, even if our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this Report, those results or developments may not be indicative of results or developments in future periods. You should not place undue reliance on these forward-looking statements.

Any forward-looking statements are only made as of the date of this Report and we do not intend, and do not assume any obligation, to update forward-looking statements set forth in this Report.

Many factors may cause our results of operations, financial condition, liquidity and the development of the industries in which we compete to differ materially from those expressed or implied by the forward-looking statements contained in this Report.

These factors include, among others:

- the impact of global economic conditions on worldwide demand for our products and services and on our access to financing;
- the deterioration of Spanish economic conditions;
- cyclicality in the market prices for our pulp products;
- increases in the cost of wood, certain chemicals, energy and oil, which are the main raw materials used in our activities;
- volatility in market electricity prices;
- failure to adjust pulp production volumes in a timely or cost-efficient manner in response to changes in demand;
- failure to keep up with technological changes, as well as changes in prices, industry standards and other factors;
- economic, political and social risks in foreign countries;
- significant competition in the industries in which we operate;
- the expiration of the administrative concession related to our Pontevedra facilities in 2018;
- competition for land use;
- significant interruptions to our operations at the pulp production, energy generation, transportation, storage, distribution and port facilities we own or utilize, including those resulting from mechanical failures or difficulties or unplanned or planned shutdowns at our pulp production facilities;

- catastrophes, natural disasters, adverse weather conditions, unexpected geological or other physical conditions, or criminal or terrorist acts;

- interest rate and currency risks;

- risks related to hedging activities;

- any insufficiency of our insurance coverage;

- regulatory changes affecting our electricity generating operations;

- exposure to various administrative controls and extensive governmental regulation;

- the costs of compliance with environmental, health and safety laws and regulations;

- liability and costs in connection with hazardous substances present at certain of our facilities;

- concerns about the effects of climate change;

- changes in the financing conditions for biomass projects;

- failure to satisfy requirements related to substantial capital investments, suitable sites, qualified suppliers and administrative permits and authorizations in our electricity generating activity;

- delays in the completion of our biomass energy projects;

- adverse effects to our electricity generating operations resulting from adverse circumstances affecting our pulp production operations;

- the social, economic and environmental side effects of our electricity generating operations;

- failure to retain key employees;

- wage increases or work stoppages by our unionized employees;

- credit risk of our counterparties;

- risks associated with acquisitions or investments in joint ventures with third parties;

- risks in connection with divestitures; and

- other factors beyond our control.

These risks and others described under "Risk Factors" are not exhaustive. Other sections of this Report describe additional factors that could adversely affect our results of operations, financial condition, liquidity and the development of the industries in which we operate. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

This Report includes the audited consolidated annual financial statements of the Issuer and its subsidiaries as of and for each of the years ended December 31, 2011 and December 31, 2012, including the accompanying notes thereto. The audited consolidated financial statements for the years ended December 31, 2011 and December 31, 2012 are herein referred to as the "Consolidated Financial Statements.".

The Consolidated Financial Statements of the Company and its subsidiaries as of and for the years ended December 31, 2011 and December 31, 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). Except as otherwise indicated, the financial statements and financial information included herein are presented in euro. The euro is the common legal currency of the Member States participating in the third stage of the European Economic and Monetary Union, including Spain.

In this Report, we present certain non-GAAP measures, including Adjusted EBITDA, Cash Costs, EBITDA, Gross debt, Mid-cycle EBITDA, Net debt, Other Cash Costs, Unlevered free cash flow (excluding expansion capital expenditure), Wood Costs and Working capital, and certain leverage and coverage ratios that are not required by, or presented in accordance with, IFRS. Our management believes that the presentation of these non-GAAP measures and ratios is helpful to investors because these and other similar measures are widely used by certain investors, security analysts and other interested parties as supplemental measures of performance and liquidity. However, you should not construe these non-GAAP measures and ratios as alternatives to profit and loss from operations determined in accordance with IFRS or to cash flows from operations, investing activities or financing activities, or to any other measure or ratio required by, or presented in accordance with, IFRS. In addition, our non-GAAP measures and ratios may not be comparable to similarly titled measures or ratios used by other companies.

As used in this Report, the following terms have the following meanings:

- "Adjusted EBITDA" means EBITDA adjusted for severance payments, for provisions and other items, for capitalized interest expenses, for results from sale of fixed assets and other extraordinary items and for operational hedging.

- "Cash Costs" means Wood Costs plus Other Cash Costs.

- "EBITDA" means profit and loss from operations adjusted for depreciation and amortization and for impairment and gains or losses on disposals of non-current assets.

- "Gross debt" means current and non-current financial debt plus other financial liabilities. We present our gross debt both including and excluding project finance indebtedness.

- "Mid-cycle EBITDA" means, at any time, senior management's good faith estimate of the consolidated EBITDA of the company based on an estimate of average historical peak and trough pulp prices through the economic cycle.

- "Net debt" means gross debt less cash and cash equivalents. We present our net debt both including and excluding project finance indebtedness.

- "Other Cash Costs" means the cost of chemicals, non-biomass fuels, energy costs (net of energy revenues), commercial expenses, logistics, packaging, fixed production costs and other cash overhead.

- "Unlevered free cash flow (excluding expansion capital expenditure)" means net cash flow from operating activities adjusted for interest paid, interest received, income tax paid (recovered) and maintenance capital expenditure.

- "Wood Costs" means the cost of timber at the mill gate plus the forestry depletion charge.

- "Working capital" means inventories, plus trade and other receivables plus receivables from public authorities, plus other current financial assets, plus other current assets, less trade and other payables, less corporate income tax payable, less other accounts payable to public authorities and less other current liabilities.

Certain data contained in this Report, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables may not conform exactly to the total figure given for that column, row or table, or the sum of certain numbers presented as a percentage may not conform exactly to the total percentage given.

The financial information included in this Report is not intended to comply with the applicable accounting requirements of the U.S. Securities Act and the related rules and regulations of the SEC which would apply if the Notes were being registered with the SEC.

Pursuant to Spanish regulatory requirements, "directors' reports" are required to accompany our Consolidated Financial Statements and the related auditors' report and are included in this Report only in order to comply with such regulatory requirements. Investors are strongly cautioned that the directors' reports contain information as of various historical dates and do not contain a current description of our business, affairs or results. The information contained in the directors' reports has been neither audited nor prepared for the specific purpose of this Report. Accordingly, the directors' reports should be read together with the other sections of this Report, and particularly "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Any information contained in the directors' reports is deemed to be modified or superseded by any information contained elsewhere in this Report that is subsequent to or inconsistent with it. Furthermore, the directors' reports include certain forward-looking statements that are subject to inherent uncertainty (please see "Forward-Looking Statements"). Accordingly, investors are cautioned not to rely upon the information contained in such directors' reports.

DEFINITIONS

In this Report:

- References to "Collateral" are to the collateral as described under "Description of the Notes—Credit Enhancement—Security."

- References to "Consolidated Financial Statements" are to the audited consolidated annual accounts of the Issuer and its consolidated subsidiaries as of and for the years ended December 31, 2011 and December 31, 2012.

- References to "dollar," "U.S. dollar" or "$" are to the currency of the United States.

- References to "euro" or "€" are to the currency of the Member States of the European Union participating in the third stage of the Economic and Monetary Union.

- References to "ENCE," "we," "us" and "our" and the "Group" are to the Issuer and its consolidated subsidiaries, unless the context otherwise requires or the meaning is clear from the context.

- References to "EURIBOR" are to the Euro Interbank Offered Rate.

- References to "Existing Credit Facilities" are to (i) the credit agreement dated April 2, 2008 entered into by and among ENCE Energía y Celulosa, S.A., as borrower, certain subsidiaries within its group, as guarantors, and a syndicate of lenders acting Banco Bilbao Vizcaya Argentaria, S.A., as agent thereof, as amended from time to time; (ii) the credit agreement dated October 14, 2010 entered into by and among ENCE Energía y Celulosa, S.A., as borrower, Celulosas de Asturias, S.A.U., as guarantor, and a syndicate of lenders acting Banco Bilbao Vizcaya Argentaria, S.A. as agent thereof; (iii) the credit agreement dated February 19, 1990 between Norte Forestal, S.A.U., as borrower, and Banco Gallego, S.A., as bilateral lender, as amended from time to time; (iv) the mortgage-secured loan agreement dated December 12, 2005 entered into by and between Silvasur Agroforestal, S.A.U. as borrower, and Caja Rural del Sur, Sociedad Cooperativa de Crédito, as lender, as amended from time to time; and (v) the mortgage-secured loan agreement dated April 1, 2009 entered into by and between Silvasur Agroforestal, S.A.U., as borrower, and Caja Rural del Sur, Sociedad Cooperativa de Crédito, as lender.

- References to "GAAP" are to Generally Accepted Accounting Principles as used in accordance with IFRS as issued by the International Accounting Standards Board and adopted by the European Union.

- References to the "Guarantees" are to the senior secured guarantees by the Guarantors to guarantee the payment obligations of the Issuer under the Notes.

- References to the "Guarantors" are, collectively, to Celulosa Energía, S.A.U.; Celulosas de Asturias, S.A.U.; Norte Forestal, S.A.U.; and Silvasur Agroforestal, S.A.U., as guarantors of the Notes.

- References to "IFRS" are to International Financial Reporting Standards as adopted by the European Union.

- References to the "Indenture" are to the indenture between, among others, the Issuer, the Security Agent and the Trustee under which the Notes will are issued.

- References to the "Initial Purchasers" are to the firms referred to under the "Plan of Distribution" section in the Offering Memorandum.

- References to the "Intercreditor Agreement" are to the Intercreditor Agreement to entered between, among others, the Issuer, Deutsche Bank AG, London Branch, Banco Español de Crédito, S.A., Bankia, S.A., Banco de Sabadell, S.A., Barclays Bank PLC, CaixaBank, S.A., Citibank International PLC, London and

Bankinter, S.A., as revolving lenders; Deutsche Bank AG, London Branch, as facility agent, original issuing bank and security agent; and Deutsche Trustee Company Limited, as secured notes trustee. Please see "Description of Other Indebtedness—Intercreditor Agreement."

- References to the "Issue Date" are to the date on which the Notes offered hereby were issued.
- References to the "Issuer" are to ENCE Energía y Celulosa, S.A.
- References to "LIBOR" are to the London Interbank Offered Rate.
- References to the "Luxembourg Listing Agent" are to Deutsche Bank Luxembourg S.A.
- References to the "Market Tariff" are to the option of receiving the sale price set by the organized market (the pool price) or the price freely negotiated by the owner or representative of the facilities, supplemented, as the case may be, by a premium, subject to applicable caps and floors, for all electricity sold.
- References to the "Notes" are to the 7.25% Senior Secured Notes of the Issuer offered hereby.
- References to the "Offering" are to the offering of the Notes hereby.
- References to the "Paying Agent" are to Deutsche Bank AG, London Branch.
- References to the "Registrar" are to Deutsche Bank Luxembourg S.A.
- References to the "Regulated Tariff" are to the option of receiving a regulated single tariff for all scheduling periods for all electricity sold.
- References to the "Revolving Credit Facility" are to the Super Senior Multicurrency Revolving Facility Agreement entered between, among others, the Issuer, certain subsidiaries of the Issuer, Deutsche Bank AG, London Branch, Banco Español de Crédito, S.A., Bankia, S.A., Banco de Sabadell, S.A., Barclays Bank PLC, CaixaBank, S.A., Citibank International PLC, London and Bankinter, S.A., as arrangers, certain financial institutions listed in Schedule 1 thereto, as original lenders, and Deutsche Bank AG, London Branch, as facility agent, original issuing bank and security agent, providing for a €90.0 million revolving credit facility. Please see "Description of Other Indebtedness."
- References to the "Security Agent" are to Deutsche Bank AG, London Branch, as security agent under the Indenture.
- References to the "Security Documents" are to the Security Documents defined in the Indenture.
- References to the "Transfer Agent" are to Deutsche Bank Luxembourg S.A.
- References to the "Trustee" are to Deutsche Trustee Company Limited, as trustee under the Indenture.

For a glossary of certain industry-related terms used in this Report, please see "Glossary of Selected Terms."

TABLE OF CONTENTS

RISK FACTORS

An investment in the Notes involves a high degree of risk. In addition to the other information contained in this Report, you should carefully consider the following risk factors before purchasing the Notes. If any of the possible events described below occurs, our business, financial condition, results of operations or prospects could be adversely affected. If that happens we may not be able to pay interest or principal on the Notes when due and you could lose all or part of your investment. The risks and uncertainties below are not the only ones we face, but represent the risks that we believe are material. However, there may be additional risks that we currently consider not to be material or of which we are not currently aware that could have the effects set forth above.

This Report also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including the risks we face that are described below and elsewhere in this Report.

Risks Relating to Our Business

Difficult conditions in the global economy and in the global markets have caused, and may continue to cause, a sharp reduction in worldwide demand for our products and services, including global demand for our pulp products, and negatively impact our access to the levels of financing necessary for the successful development of our existing and future biomass projects.

Our results of operations have been, and continue to be, materially affected by conditions in the global economy and in the global capital markets. Recently, concerns over commodity prices, energy costs, geopolitical issues and the availability and cost of financing have contributed to increased volatility and diminished expectations for the economy and global markets going forward. These factors, combined with declining global business and consumer confidence and rising unemployment, have precipitated an economic slowdown and have led to a recession. The economic instability and uncertainty is affecting the willingness of companies to make capital expenditures and investment in the markets in which we operate. Poor economic conditions that have impacted, and continue to affect, government budgets also threaten the continuation of certain government subsidies which have benefitted our business. These events and continuing disruptions in the global economy and in the capital markets may, therefore, have a material adverse effect on our business, financial condition and results of operations. Moreover, even in the absence of a market downturn, we are exposed to substantial risk of loss due to market volatility with certain factors, including consumer spending, business investment, government spending and the volatility and strength of financial markets. Generalized or localized downturns in our key geographical areas, such as Western Europe, could also have a material adverse effect on the performance of our business.

In addition, continued disruptions, uncertainty or volatility in capital and credit markets may limit our access to additional capital required to operate our business, including our access to project finance which we use to fund many of our biomass projects. Such market conditions may limit our ability to replace, in a timely manner, maturing liabilities and access the capital necessary to grow our business. As a result, we may be forced to delay raising capital, issue shorter-term securities than we prefer, or bear an unattractive cost of capital which could decrease our profitability and significantly reduce our financial flexibility.

Furthermore, demand for our pulp products is linked to overall economic activity within those international markets in which we sell our products. After a steady period of growth between 2003 and 2007, during which period pulp demand increased with a CAGR of 3.7%, the marked drop in demand resulting from the global economic crisis of 2008, when pulp demand declined by 1.0% year on year, demonstrated the vulnerability of the pulp market to international economic conditions. Through 2010, the global economy continued its recovery and provided improved conditions for the pulp market. In 2011, however, the pulp market had two distinct phases, with demand in the global pulp market increasing during the first half of the year, primarily as a result of strong Chinese demand, but decreasing in the second half of the year, primarily as a result of economic concerns in Europe and the impact of such concerns on the global economy. In 2012, rising demand in China led prices to increase in the first half of the year, although at the same time a decrease in demand in Europe coupled with a decline in imports in Europe resulted once again in an increase in producer inventories. More recently, demand for pulp has increased, along with prices. A decline in the level of activity in either the domestic or the international markets within which we operate could adversely affect both the demand for and the price of our pulp products and have a material adverse effect on us.

The deterioration of Spanish economic conditions could adversely affect our business.

In 2012, we made 12.9% of our sales of pulp by volume in Spain, and we sell all of our electricity in Spain, where the global economic crisis, together with a domestic real estate crisis, has caused a significant deterioration in the economy since 2009. While our sales are diversified throughout the European Union and Asia, a portion of our business is concentrated in Spain, and we may be significantly affected by the general economic conditions in Spain.

In addition, Spain has recently experienced high unemployment and government debt which we believe could adversely affect our operations in the near future. If Spain's economic conditions deteriorate further, our business, financial condition and results of operations may be adversely affected. Furthermore, economic instability and difficult economic conditions in Spain have resulted in a decline in tax revenue obtained by the Spanish public administration, which has resulted in higher effective tax rates and reduced local financing availability.

The market prices for our pulp products are cyclical.

The prices we are able to obtain for our pulp products, from which we derived 72.1% and 72.3% of our total revenues during the years ended December 31, 2012 and December 31, 2011, respectively, depend on the prevailing world prices for market pulp. The price of pulp is established in an active market, the evolution of which significantly affects our revenues and our earnings. World pulp prices have been considerably volatile in recent years as a result of periodic supply/demand imbalances in the pulp and paper industries and subject to significant fluctuations over short periods of time depending on a number of factors, including: global demand for pulp products; global pulp production capacity and inventories; strategies adopted by major pulp producers; and the availability of substitutes for our pulp products. All of these factors are beyond our control. Price fluctuations occur not only from year to year but also within a given year as a result of global and regional economic conditions, capacity constraints, facility openings and closures, and the supply of and demand for both raw materials and finished products, among other factors. The timing and magnitude of price increases or decreases in the pulp and paper markets have generally varied by region and by type of pulp and paper. Discounts from list prices are frequently granted by sellers to significant purchasers. Although we have long-term relationships with many of our customers, no assurance can be given that prices for pulp will stabilize or not decline further in the future, or that demand for the pulp that we produce will not decline in the future. Furthermore, while most of our pulp sales contracts are one-year sales contracts, the pricing is generally based on a formula linked to the BHKP price and reset on a monthly basis. As a result, no assurance can be given that we will be able to operate our pulp production facilities in a profitable manner in the future. A significant decline in the price of one or more of our pulp products could have a material adverse effect on our net operating revenues, cash flows, operating income and net income.

Increases in our Wood Costs, the cost of certain chemicals or the cost of energy or oil could significantly increase our operating costs.

Some of our activities require significant consumption of wood, chemicals (mainly caustic soda), electricity and energy and oil, and we are vulnerable to material fluctuations in their prices. Eucalyptus timber is the main raw material input for the production of cellulose pulp. Presently, we supply our production facilities mostly with local timber acquired from third-party suppliers in Spain and Portugal and, to a lesser extent, with timber imported from South America and Africa.

If there is an insufficient supply of eucalyptus timber to meet our demand in certain markets where our facilities are located, we may be required to seek timber from alternative markets at increased purchase prices or with increasing logistical costs. A number of factors can affect the supply of available timber, including climate conditions, fires, pests, droughts, floods, disease, ice, wind storms and other nature and man-made causes, substantial changes in the demand for pulp or other products whose raw material is timber as well as environmental litigation aimed at protecting forests and species habitats or regulatory restrictions that may reduce the amount of timber available for commercial harvest. In addition, future claims and regulations concerning the promotion of forest health and the response to and prevention of wildfires could affect timber supplies in the jurisdictions in which we operate. Any changes or disruptions in the supply of timber due to these or other factors could increase the price of timber and, depending on the availability of alternative sources, make it difficult to find replacement supply channels. In addition, in accordance with our focus on corporate responsibility and the promotion of sustainable forest management, we aim to source a significant proportion of the timber we use from forests that have been certified as managed according to certain international standards of sustainability. In the event of pulp capacity increases or supply disruptions, we may face difficulties finding alternative sources of certified timber in particular. Moreover, increases in the price of timber, whether certified or not, may have a materially adverse effect on our profits and cash flows.

Furthermore, approximately 80% of the chemicals used for the cooking and bleaching process of our products tend to have their prices closely linked to that of petroleum. Significant increases in our Wood Costs, the cost of chemicals (especially caustic soda) or the cost of energy or oil, or shortages of the supply of any such products, could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to adjust pulp production volumes in a timely or cost-efficient manner in response to changes in demand.

If we have to operate at significant idle capacity during periods of weak pulp demand, we may be exposed to higher Cash costs since a significant portion of our cost structure is fixed in the short term due to the high capital investment required for our pulp operations. This will also result in lower co-generation of energy. In addition, efforts to reduce costs during periods of weak demand could be limited by labor regulations or previous labor or government agreements. Conversely, during periods of high demand, our ability to rapidly increase production capacity is limited, which could render us unable to satisfy the demand for our pulp products. If we are unable to satisfy excess customer demand, we may lose market share.

We may fail to keep up with and effectively incorporate technological changes into our pulp production and energy-generation processes, as well as changes in prices, industry standards and other factors.

The markets in which our businesses operate change rapidly because of technological innovations and changes, prices, industry standards, product instructions, customer requirements and the economic environment. New technology or changes in industry and customer requirements may render existing products obsolete, excessively costly or otherwise unmarketable. As a result, we must continuously enhance the efficiency and reliability of our existing technologies and seek to develop new technologies in order to remain at the forefront of industry standards and customer requirements. In addition, our renewable energy products and services rely, to a significant extent, on governmental subsidies to remain competitive with conventional energy sources. If we are unable to introduce and integrate new technologies into our products and services in a timely and cost-effective manner, our competitive position will suffer and our prospects for growth will be impaired.

The primary pulp production process applied in our facilities is known as the Kraft or sulphate process (the "Kraft 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. We cannot guarantee that a new product replacing cellulose pulp will not emerge or that a more competitive production process than the current Kraft process will not be invented. Any new product that competes or replaces cellulose pulp or any innovation in any component of the Kraft process may render our installations less competitive or obsolete and may require substantial investments to update and replace them.

Our exports of pulp expose us to economic, political and social risks in foreign countries.

Our pulp sales outside of Spain, primarily to the European Union and Asia, accounted for 87% and 86% of our total revenue from the sale of pulp during the years ended December 31, 2012 and December 31, 2011, respectively. Our exports expose us to risks not faced by companies operating solely in Spain or in any other single country. For example, our exports may be affected by import restrictions and tariffs, other trade protection measures, import or export licensing requirements, payment collection difficulties, and the absence, loss or non-renewal of favorable treaties or similar agreements with local authorities, or political, social and economic instability. Our future financial performance will depend significantly on economic conditions in our principal export markets. Other risks associated with our international activities include: adapting to the regulatory requirements of such countries, lower global demand for pulp, which could result in a reduction of our sales, operating income and cash flows; changes in foreign currency exchange rates (particularly against the U.S. dollar), currency control measures and inflation in the foreign countries in which we operate; exchange and international trade controls; changes in a specific country's or region's economic conditions, particularly in developing markets; adverse consequences deriving from changes in regulatory requirements, including environmental rules, regulations and certification requirements; difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex international laws, treaties, and regulations; adverse consequences from changes in tax laws; and logistics costs, disruptions in shipping or reduced availability of freight transportation. While we attempt to manage certain of these risks through the use of risk management programs, they cannot and do not fully eliminate these risks. An occurrence of any of these events may negatively impact our ability to transact business in certain existing or developing markets and have a material adverse effect on our business.

We face significant competition, which may adversely affect our market share and profitability.

The pulp industry is highly competitive. In the international pulp market, certain of our competitors may have greater financial strength and access to cheaper sources of capital, and consequently have the ability to support strategic expenditures directed to increase their market share. Our market share may be adversely affected to the extent we are unable to continue to successfully expand our production capacity at the same pace as our competitors.

In addition, most markets for pulp are served by several suppliers, often from different countries. Many factors influence our competitive position, including mill efficiency and operating rates and the availability, quality and cost of wood, energy, water, chemicals, logistics, labor and exchange rate fluctuations. Some of our competitors may have greater financial and marketing resources, operate mills that are lower-cost producers of pulp products than our mills, receive government subsidies or have a greater breadth of product offerings than we do. Some of our competitors may have advantages over us, including lower raw material, energy and labor costs and fewer environmental and governmental regulations with which to comply. As a result, we cannot assure you that each of our mills will remain competitive or that we will be able to take advantage of consolidation opportunities that may arise, or that any failure to exploit opportunities for growth would not make us less competitive. If we are unable to remain competitive with these producers in the future, our market share may be adversely affected. Furthermore, increased competition, including a decrease in import duties in accordance with the terms of free trade agreements, could cause us to lose market share, increase expenditures or reduce pricing, any of which could have a material adverse effect on the results of our operations. In addition, competition may result in our inability to increase the selling prices of our products sufficiently or in time to offset the effects of increased costs without losing market share and aggressive pricing by competitors may force us to decrease prices in an attempt to maintain market share.

We may also face competition in the future from other renewable energy providers in Spain. Legislation in Spain currently limits payment of incentives to generators of 50 MW or below, but in the future parties may bring increased political pressure to reduce subsidies paid to increase the generation threshold or larger market participants could become beneficiaries of such subsidies. For example, in the United Kingdom the absence of a maximum threshold has allowed larger competitors to be eligible to receive payments of incentives.

Although we endeavor to maintain our competitiveness, no assurance can be given that we will be able to succeed in doing so in the face of current or future competition. Any such failure to compete successfully would negatively impact our ability to grow our business and generate revenue, which could have a material adverse effect on our business, financial condition and results of operations.

Our Pontevedra facilities are constructed on land subject to an administrative concession that is expected to expire in 2018, which may have a material adverse effect on our operations.

Our Pontevedra facilities are constructed on land over which there is a right of use covered by an administrative concession which, pursuant to article 66 of the Coasts Act of 1988 (the “Coasts Act”) will expire in 2018. The facilities comprise a biomass co-generation installation with a total installed nominal power of 34.57 MW. We are seeking to extend our Pontevedra land concession beyond 2018. A new law which would amend the Coasts Act of 1988 is currently being debated in the Spanish Parliament. Among other things, this new law would extend the limits of the concessions up to 75 years, provided that the activities undertaken are compatible with maritime-terrestrial public use. The draft law also foresees a special extension for concessions granted before its entry into force. In relation to the Pontevedra concession, the approval of this law would enable an extension of up to 75 years from 2018. Nevertheless, if the proposed law is not passed and if we otherwise fail to achieve the extension of our Pontevedra land concession, we may be required to cease the operation of our Pontevedra facility, which will have a material adverse effect on our business, financial condition and results of operation. Please see “Business—Our Sites and Facilities—Pontevedra.”

Furthermore, the non-governmental organization (“NGO”) *Asociación Salvemos Pontevedra* has requested the General Directorate of Coasts to declare the expiration of the concession, due to an alleged infringement of the terms of the concession. These proceedings resulted in a favorable judgment for this NGO before the Spanish courts. However, we and the General Directorate of Coasts have appealed this judgment, with the appeal currently pending before the Spanish Supreme Court. In addition, the extension of the Integrated Environmental Authorization granted to our Pontevedra facilities on December 31, 2011 has been challenged by another NGO, the *Asociación por la Defensa da Ría da Pontevedra*, and the town council of Pontevedra, although the government of Galicia subsequently confirmed the extension of this authorization. The town council of Pontevedra and the NGO have appealed these decisions.

Competition for land for use as eucalyptus forests for the purposes of pulp production or for other crops, such as soy beans, sugar cane and other commodities, may affect our expansion.

Greater global demand for certain commodities, especially for grains and biofuel, may impact our forestry operations such that greater competition for land could impact the price of such commodities. Grain and biofuel production generally are economically superior to forestry activities and, as a result, prospective increases in land values may inhibit expansion of new forests. For the same reason, we may face difficulties in convincing third-party partners to begin or to expand eucalyptus production for use in the pulp industry.

We may be materially adversely affected if operations at the pulp production, energy generation, transportation, storage, distribution and port facilities we own or utilize were to experience significant interruptions or suffer any mechanical failures or difficulties. In addition, our operations may be affected by unplanned and planned shutdowns at our pulp production facilities.

Our operations are dependent upon the uninterrupted operation of pulp production, energy generation, transportation, storage, distribution and port facilities that we own or utilize. Operations at these facilities could be partially or completely shut down, temporarily or permanently, as a result of any number of circumstances that are not under our control, including catastrophic events, strikes or other labor difficulties and transportation disruptions. Furthermore, we may face issues related to our connection to the main network due to congestion or other factors, mechanical failures or difficulties and the suspension or termination of public concessions (*concesiones administrativas*) granted to us or to our commercial partners or independent contractors relating to the right to provide a specific service. Any significant interruption at any of our facilities or any inability to transport products to or from these facilities (including through exports) or to or from our customers for any reason may materially adversely affect us.

We also depend on connection and access to electricity grids for the sale and transport of the energy we produce. We do not own or control the electricity transport and distribution installations. If the transport and distribution grids suffer from technical capacity restrictions, whether temporary or permanent, our ability to sell electricity will be adversely affected and our operations, revenue and financial condition may suffer as a result.

On occasion, we experience unplanned shutdowns, interruptions or reductions in the rate of pulp production in our pulp production facilities located. For example, in May 2012, an unexpected outage at our Huelva pulp production facility resulting from a mechanical failure led to a shutdown of our pulp production at this facility for 16 days. In addition, every year the pulp production in all three of our facilities is stopped in order to enable us to undertake planned operations and annual maintenance work. Such planned works are carried out during a period of approximately 15 days, with no pulp being produced in the affected facility during such periods. Once the planned works have been completed, it typically takes around one to two days to return the facility to its normal rate of pulp production. Such unplanned and planned shutdowns and interruptions at our pulp production facilities have the effect of reducing the level of income we generate from our pulp production operations, and may affect our business, financial condition and results of operations.

Our business may be adversely affected by catastrophes, natural disasters, adverse weather conditions, unexpected geological or other physical conditions, or criminal or terrorist acts at one or more of our sites or facilities.

If one or more of our sites were to be exposed in the future to fire, flood or a natural disaster, adverse weather conditions, terrorism, power loss or other catastrophe, or if unexpected geological or other adverse physical conditions were to develop at any of our sites, we may not be able to carry out our business activities at those locations or such operations could be significantly reduced. This could result in lost revenue at these sites during the period of disruption and costly remediation, which could have a material adverse effect on our business, financial condition and results of operations. In addition, despite security measures taken by us, it is possible that our sites relating to our pulp facilities or energy generation facilities, or other sites, could be affected by criminal or terrorist acts. Any such acts could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, the Spanish landscape is prone to, and ecologically adapted to, frequent fires. The risk of uncontrolled fires entering and burning significant areas of plantation is high, but under normal weather conditions this risk is managed through comprehensive fire prevention and protection plans. In the last decade, Spain has experienced certain disastrous fires across vast areas of its territory. Furthermore, there is some cause for concern that abnormal weather conditions that lead to such fires may occur more frequently as a result of the impact of climate change. In addition, other catastrophic events, such as pathogen and pest infestations may occur. As a consequence, the risk of plantation fires or other catastrophic events remains high and may be increasing. Continued or increased losses of our wood source could jeopardize our ability to supply our mills with timber from the region.

We are exposed to interest rate and currency risks.

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes and foreign currency exchange rate fluctuations. Some of our indebtedness, including our Revolving Credit Facility, bears interest at variable rates, generally linked to market benchmarks such as EURIBOR and LIBOR. Any increase in interest rates would increase our finance costs relating to our variable rate indebtedness and increase the costs of refinancing our existing indebtedness and issuing new debt. Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk—Commodity Price Risk.”

Furthermore, while the majority of our sales are made in the European market, revenues from sale of cellulose pulp are affected by the U.S. dollar/euro exchange rate, because the benchmark sale price on the international market is in U.S. dollars per tonne and we invoice our customers in U.S. dollars. Insofar as our cost structure is mainly in euro, changes in the U.S. dollar/euro exchange rate can have a significant adverse effect on our earnings. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Quantitive and Qualitative Disclosures About Market Risk—Foreign Exchange Risk."

Our business may be adversely impacted by risks related to hedging activities.

We enter into hedging transactions using financial derivatives instruments to protect against risks related to the fluctuation of interest rates, exchange rates, the price of pulp, the price of gas, fuel oil and electricity used in the production process, equity swaps related to our share price and CO2 forward agreements related to our greenhouse gas emission rights. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operation—Quantitive and Qualitative Disclosures About Market Risk." Among interest rate derivatives, we mostly use financial interest rate swaps. Pulp price derivatives and those of certain energy products are principally swaps and options. Our hedging transactions may not sufficiently or adequately protect us against these risks. Market changes in the future may not be consistent with historical data or our assumptions. If markets move adversely, we may incur financial losses on these hedging transactions.

We account for our derivative instruments in accordance with IFRS. Such methodology could imply a change in the value of the derivative instruments that could have an impact on the profit and loss account. In addition, the value of such instruments may increase or decrease due to fluctuations resulting from changes in economic conditions, investor sentiment, monetary and fiscal policies, the liquidity of global markets, international and regional political events and acts of war or terrorism.

Our insurance coverage may be insufficient to cover our losses.

Our insurance coverage may be insufficient to cover losses that we might incur. We have comprehensive insurance with leading insurers to cover our receivables, damage to our facilities caused by fire, general third-party liability for accidents and operational risks, and international and domestic transportation. We do not maintain insurance coverage against all risks related to our forests, in particular with respect to forest fires. The occurrence of losses or other damages not covered by insurance, or that exceed our insurance limits, could result in unexpected additional costs.

In addition, our insurance policies are subject to review by our insurers. If the level of premiums were to increase in the future, we might not be able to maintain insurance coverage comparable to that currently in effect at a comparable cost, or at all. If we were unable to pass any increase in insurance premiums on to our customers, such additional costs could have a material adverse effect on our business, financial condition and results of operations.

Regulatory changes may have an adverse effect on our electricity generating operations.

Our electricity generating operations have relied on a favorable regulatory regime in Spain and have grown to become increasingly important to our business, because they represent an increasing proportion of our overall sales. Regulatory changes relating to electricity generation may have an adverse effect on our electricity generating operations and ultimately our revenue and financial condition. In particular, on January 27, 2012, the Spanish Council of Ministers approved the Moratorium, temporarily suspending further generation capacity from being registered under Royal Decree 661/2007, which had provided economic incentives for the construction of new energy facilities that used co-generation, renewable energy sources and waste. Please see "Regulation." Nonetheless, those facilities that had already been registered prior to the passing of the Moratorium, including all of the facilities we currently operate or are in the process of constructing (including our Huelva and Mérida facilities), will continue to benefit from the economic incentives provided by Royal Decree 661/2007. While the Moratorium allows the Spanish government to set up a new economic incentive regime for co-generation facilities and other energy facilities using primary energy sources, nonconsumable and non-hydraulic renewable energy, biomass, biofuels and agricultural waste, this new economic incentive regime has not yet been established. The Moratorium, so long as it remains in effect, therefore removes incentives for growing our electricity generating operations and introduces uncertainty with regard to the development of new facilities, as the suspension period is open-ended and may extend indefinitely.

On December 28, 2012, a new law aimed at reducing the deficit within Spain's subsidized electricity production industry and ensuring the sustainability of Spain's energy supply through the imposition of certain tax measures was published in the Spanish Official Gazette (the "Energy Tax Law"). Please see "Regulation." The Energy Tax Law, which became effective as of January 1, 2013, provides for, *inter alia*:

- a direct tax on energy generators equal to 7% of the total annual revenues of each energy generation facility; and

- the implementation of a “green cent” (*céntimo verde*) tax on natural gas under certain circumstances (including for the purposes for which natural gas is used in our energy generation facilities) at a rate of €0.65 per gigajoule and on fuel oil (which we use in small amounts to start the boilers necessary to our energy operations) used for the production of electric energy at a rate of €12.00 per tonne.

Although both taxes are deductible and we expect the electricity market to pass a portion of these new taxes through the electricity pool prices, the Energy Tax Law is likely to increase our cost of production of energy.

On February 1, 2013, the Royal Decree Law 2/2013 on emergency measures for the electrical sector and the financial system, modified the reference index applicable to RD 661/2007 annual tariff adjustment from the general CPI index to the underlying CPI at constant taxes (excluding tax increases, unprocessed foods and energy products); and the prime economic regimen will be based only on the regulated tariff option (with the pool+premium option eliminated). This regulation is likely to increase our cost of production of energy.

Our business is conducted under various administrative controls and subject to extensive governmental regulation.

Our operations are subject to the general supervision of various public administrative authorities, including labor, tax and environmental authorities, as well as to extensive regulation of our business. Such laws and regulations require licenses, permits and other approvals to be obtained in connection with the operations of our business. This regulatory framework imposes significant actual, day-to-day compliance burdens, costs and risks on us. Non-compliance with such regulations could result in the revocation of permits, sanctions, fines or even criminal penalties. Compliance with regulatory requirements may result in substantial costs to our operations that may not be recovered. In addition, we cannot predict the timing or form of any future regulatory or law enforcement initiatives. Changes in existing energy, environmental and administrative laws and regulations may materially and adversely affect our business, products, services, margins and investments. Furthermore, such changes in laws and regulations could increase the size and number of claims and damages asserted against us or subject us to enforcement actions, fines and even criminal penalties.

We believe that we manage our business in a manner that conforms to general practice in our industry and that complies with applicable administrative rules, regulations and procedures. However, we cannot assure you that our interpretation and application of such rules, regulations and procedures will not differ from the views of the relevant public authorities as to their appropriate interpretation and application. These public authorities may audit, review or inspect our activity.

To the extent any such audit, review or inspection reveals discrepancies between the interpretations and applications made by us and those made by the relevant public authority, we may experience a material adverse effect on our business, financial condition, results of operations and cash flows.

In particular, our biomass renewable energy generation facilities are subject to strict international, national, state and local regulations relating to their development, construction and operation (including, among other things, land acquisition, leasing and use, and the corresponding building permits, landscape conservation, noise regulation, environmental protection and environmental permits and energy transmission and distribution network congestion regulations). In addition, the turnover that we generate from our biomass renewable energy projects is significantly dependent on regulated tariffs. Under our agreements with the Spanish public administration, a tariff structure is established, and we have limited, or no, possibility of independently raising tariffs beyond the established rates. In addition, we may be unable to adjust our tariffs as a result of fluctuations in the prices of raw materials, exchange rates, labor and subcontractor costs or any other variations, which may reduce our revenue. Moreover, in some cases, if we fail to comply with certain pre-established conditions, the Spanish government may reduce tariffs payable to us. In addition, during the life of a concession, the Spanish government may unilaterally impose additional restrictions on our tariff rates. The Spanish government may also postpone annual tariff increases until a new tariff structure is approved without compensating us for lost revenue. In the case that any one or more of these events occur, there could be a material adverse effect on our business, financial condition and results of operation.

In addition, we may decide to pursue biomass renewable energy projects in the future in countries in Europe other than Spain. Regulations applicable to the generation of electricity in such countries may vary substantially vis-à-vis Spain, and may be more restrictive or unfavorable to us.

We may face high costs related to compliance with environmental, health and safety laws and regulations.

Our business is subject to extensive environmental, health and safety laws and regulations relating to controlling discharges and emissions of pollutants to land, water and air, the use and preservation of natural resources, the noise impact of our operations and the use, disposal and remediation of hazardous materials. Compliance with these laws and regulations is a significant aspect of our industry, and substantial legal and financial resources are required to ensure compliance and to manage environmental risks. Moreover, environmental laws and regulations applicable to us are likely to become more stringent in the future.

For example, the EU Emissions Trading Scheme, which implements the Kyoto Protocol of 1997 in the countries in which our mills operate, is expected to require progressively increased reductions of carbon dioxide and other greenhouse gas emissions during its third phase of regulation from 2013 to 2020. Until January 2013, under the EU Emissions Trading Scheme, greenhouse gas emission allowances were allocated to us largely free of charge. However, from January 2013 to January 2020, our regulatory allocation of CO_2 rights will be reduced. Currently, it is estimated that such allocation will amount to 128,544 tonnes of CO_2 rights annually, which creates a deficit for our operational requirements. This reduction and any further limitations applicable to us may require additional material expenditures. In addition, most of our facilities in Spain have been licensed under the EU Integrated Pollution Prevention and Control regime, and conditions imposed by authorities as part of this licensing scheme, or the licensing scheme under its successor, could become more stringent over time and require material capital and other expenditures.

Our industry also faces increasing public and community pressure to consume energy more efficiently, including through the use of renewable fuels, and to reduce waste. In addition, the European paper industry faces increasing pressure to procure wood and pulp from sustainably managed forests through a number of certification schemes. While approximately 27% of the wood used to manufacture our products currently comes from such forests, we may be required to implement additional measures in an effort to address these concerns in the future, which may require us to invest substantial resources in adjusting and modifying our production processes.

The risk of substantial environmental costs and liabilities is inherent in our industry, and there can be no assurance that any incurrence by us of such costs and liabilities, or the adoption of increasingly strict environmental laws, regulations and enforcement policies and practices, will not have a material adverse effect on our financial condition, results of operations or cash flows.

Although we strive to ensure that our facilities comply with all applicable environmental laws and permits required for our operations, we have in the past been, and may in the future be, subject to governmental enforcement actions for failure to comply with environmental regulations. Impacts from historical operations, including the land or water disposal of waste materials, or our own activities may require costly investigation and clean up. In addition, we could become subject to environmental liabilities resulting from personal injury (including from exposure to hazardous materials in the workplace), property damage or natural resources damage and governmental authorities may impose fines, penalties and sanctions, together with tax or other liens on the responsible parties to secure the parties' reimbursement obligations. Expenditures to comply with future environmental requirements and the costs related to any potential environmental liabilities and claims could have a material adverse effect on our business and financial condition.

Environmental regulations also require us to perform environmental impact studies as a condition of obtaining the necessary regulatory licenses, permits and other approvals for future projects. There can be no assurance that governmental authorities will approve these environmental impact studies; or that laws or regulations will not change or be interpreted in a manner that increases our costs of compliance, or materially or adversely affect our operations, facilities or our plans for the companies in which we have an investment or to which we provide our services.

We may incur liability and costs in connection with hazardous substances present at certain of our facilities.

Some of our properties are located on land with a long history of industrial use by us and other companies before us, which has resulted in spills and other releases of hazardous materials (including asbestos) over time. The limited testing for contamination that has taken place at certain of our properties may not be sufficient to ascertain the extent of our obligations with respect to any contamination relating to any of our facilities.

Should we face claims relating to any such hazardous substances, we could incur significant costs defending such claims or damages awards arising from them. Such expenses could have a material adverse effect on our business, financial condition and results of operations.

Concerns about the effects of climate change may have an impact on our business.

Concerns about global warming and carbon footprints, as well as legal and financial incentives favoring alternative fuels, are causing the increased use of sustainable, non fossil fuel sources for electricity generation. Electricity generation companies are competing in the same markets as us for the same raw materials we use in our pulp production process, namely wood and wood chips, driving prices for such materials upwards, especially during the winter in the Northern hemisphere. Climate change could also cause the spread of disease and pestilence into our plantations and fiber sources, far beyond their traditional geographic spreads, increasing the risk that the wood supply necessary to our operations may be negatively impacted. If either of these phenomena intensifies, additional costs or supply shortages could have a material adverse effect on our business, financial condition and results of operations.

Financing conditions for biomass projects may change, affecting the growth and profitability of our electricity generating operations.

Implementation of the electricity generating biomass projects that form part of our growth plan requires the negotiation and closing of project finance structures, reducing future capital commitments. Currently, low interest rates favor the profitability of renewable energy projects, including biomass, and limit the financial attractiveness of alternative investments. We have been and believe that we will continue to be able to reach project finance agreements on favorable terms to us. However, any change in the expected project finance conditions and an increase in interest rates could lead to a reduction of the profitability of new biomass projects and, as a result, negatively affect the prospects for developing this growth opportunity.

Our electricity generating business requires substantial capital investments, suitable sites, qualified suppliers, and administrative permits and authorizations, and we may fail to satisfy these requirements.

The development of electricity production requires a substantial investment of capital, and the period to recover this investment may be long. Under concessions and other agreements, we have committed to make certain future capital expenditures. Any recovery of our capital expenditures and research and development, especially those made in respect of our concessions, will occur over a substantial period of time. Moreover, we may be unable to recoup our investments in these projects due to delays, cost overruns and general timing issues as to when revenue can be derived from these projects. Electricity production also requires the supply and assembly of several technical components, such as turbines and biomass boilers, which are supplied by a small number of suppliers, and large areas of land, which enable the cultivation of bioenergy products as raw materials for the production of energy. A significant increase in the development and construction costs of new installations, difficulties in acquiring or repairing technical equipment and difficulties in finding suitable sites for electricity production could have a significant adverse effect on our business, results of operation and financial condition.

We are also required to obtain administrative permits and authorizations to conduct these activities from various central, regional and local government bodies. We cannot guarantee that the corresponding authorities will approve or grant the necessary permits, licenses and authorizations for our activities or that legislation will not be amended or interpreted in a manner that increases the costs of compliance or causes delays to our projects and investment plans.

Delays in the completion of our biomass projects may have adverse consequences on our business, including the acceleration of the relevant project finance loans and the loss of the preferential tariff.

We may experience delays in the completion of our projects, which in turn may have negative consequences, including the acceleration of the relevant project finance loans and government fines. For example, although we have obtained guarantees from the contractor under our EPC contract for the construction of our new independent biomass energy facility in Mérida, Spain, that the facility will be operational during the fourth quarter of 2014, in the event that this deadline is not met we would not only become subject to a mandatory prepayment of debt under the Mérida project finance loan but may also lose our entitlement to the preferential tariff. Please see “Description of Other Indebtedness—Project Financings—Project Financing for the Mérida Facility” and “Regulation.”

Our electricity generating operations may be adversely affected by any adverse circumstances affecting our pulp production operations.

In 2012, 67.3% of our electricity generation activities were connected with the production of pulp. Consequently, a shutdown, interruption or reduction in the rate of pulp production at any of our facilities could result in a reduction in the volume of electricity production and, as a result, a reduction in the level of income we generate from our electricity generating operations.

The social, economic and environmental impact of our electricity generating operations may have an adverse effect on our business.

Our electricity generating operations may produce environmental side effects. For example, the forestry component of these projects requires devoting large areas of forest for the cultivation of bioenergy products, which occasionally can displace traditional economic activities and affect the local populations, as well as the native animal and plant species of the area. In addition, forest activities necessary for producing timber, such as clearing forests, felling trees and applying chemical treatments to timber, can lead to the loss of natural habitats for local wildlife. Moreover, electricity production facilities may produce negative effects on the environment in the form of atmospheric emissions, waste, water and noise. Public and political opposition to our electricity generating projects based on their real or perceived economic, social and environmental impact may obstruct or increase the cost of obtaining necessary permits to implement projects, and our existing permits and authorizations may be subject to legal challenges by persons who consider that they have been prejudiced by our projects. The real or perceived economic, social or environmental impact of our activities may expose us to negative publicity and to compliance, litigation and reputation costs and, as a result, have an adverse effect on our business, results of operation and financial condition.

As a result, we cannot guarantee that all of the biomass renewable energy generation facilities that we may develop in the future will ultimately be authorized by local authorities or accepted by the local population. For example, the local population could oppose the construction of a biomass renewable energy generation facility at the local government level, which could in turn lead to the imposition of more restrictive requirements.

In certain jurisdictions, if a significant portion of the local population were to mobilize against the construction of a biomass renewable energy generation facility, it may become difficult, or impossible, for us to obtain or retain the required building permits and authorizations. Moreover, such challenges could result in the cancellation of existing building permits or even, in extreme cases, the dismantling of, or the retroactive imposition of changes in the design of, existing biomass renewable energy generation facilities.

Our operations could be adversely affected if we are unable to retain key employees.

We depend on our senior management. Our performance and our ability to implement our strategy depend on the efforts and abilities of our executive officers and key employees. Our operations could be adversely affected if, for any reason, a number of these officers, key employees or valuable local managers with significant experience in a specific market do not remain with us. There may be a limited number of persons with the requisite skills to serve in these positions and we may be unable to replace key employees with qualified personnel on acceptable terms. In addition, our future success requires us to continue to attract and retain competent personnel.

A large percentage of our employees are unionized and wage increases or work stoppages by our unionized employees may have a material adverse effect on our business.

A large percentage of our employees are represented by labor unions under collective bargaining agreements, which need to be renewed from time to time. We are due to renegotiate and/or renew five of our current union agreements in 2013, four of which expired in 2012 and one in 2010. We will seek but may not be able to negotiate more favorable terms for our business and may renew the agreement on the same or similar terms to those currently in place, a result that may be more favorable to our employees. In addition, we have in the past and may in the future seek, or be obligated to seek, agreements with our employees regarding workforce reductions, closures and other restructurings. Furthermore, recent labor law reforms in Spain have reduced the automatic extension of union agreements from two years to only one year from the date of such agreements' respective expiration dates, thus increasing employees' incentive to negotiate for more favorable terms since the expiration of such extension would result in the employees becoming subject to the less favorable general labor regulations. The company is also negotiating with the unions an workforce reduction in order to lessen the negative impact of the energy reforms in our profitability. We may not be able to negotiate acceptable new collective bargaining agreements or future restructuring agreements, which could result in labor disputes. We may also become subject to material cost increases or additional work rules imposed by agreements with labor unions. This could increase expenses in absolute terms and/or as a percentage of net sales. Although we believe we have good relations with our employees, work stoppages or other labor disturbances may occur in the future which could adversely impact our business. For example, in August 2012, a strike occurred at the work center located in Navia, Spain and, in November 2012, a one-day strike occurred at our pulp production facility in Pontevedra, Spain.

Transactions with counterparties expose us to credit risk which we must effectively manage to mitigate the effect of counterparty defaults.

We are exposed to the default risk of counterparties (a customer, provider, partner or financial entity), which could impact our business, financial condition and results of operations. Although we actively manage this credit risk through the use of nonrecourse factoring contracts, which involve banks and third parties assuming a counterparty's credit risk, and credit insurance, our risk management strategy may not be successful in limiting our exposure to credit risk, which could adversely affect our business, financial condition and results of operations.

We may be adversely affected by risks associated with acquisitions or investments in joint ventures with third parties.

If we decide to make certain acquisitions or financial investments in order to expand or diversify our business, we may take on additional debt to pay for such acquisitions. Moreover, we cannot guarantee that we will be able to complete all, or any, such external expansion or diversification transactions that we might contemplate in the future. To the extent we do, such transactions expose us to risks inherent in integrating acquired businesses and personnel, such as the inability to achieve projected synergies; difficulties in maintaining uniform standards, controls, policies and procedures; recognition of unexpected liabilities or costs; and regulatory complications arising from such transactions. Furthermore, the terms and conditions of financing for such acquisitions or financial investments could restrict the manner in which we conduct our business, particularly if we were to use debt financing. These risks could have a material adverse effect on our business, financial condition and results of operations.

In addition, we may pursue significant investments in certain strategic development projects with third parties. In certain cases, these projects may be developed pursuant to joint venture agreements over which we only have partial or joint control. Investments in projects over which we have partial or joint control are subject to the risk that the other shareholders of the joint venture, who may have different business or investment strategies than we do or with whom we may have a disagreement or dispute, may have the ability to block business, financial or management decisions, such as the decision to distribute dividends or appoint members of management, which may be crucial to the success of the project or our investment in the project, or otherwise implement initiatives that may be contrary to our interests. Our partners may be unable, or unwilling, to fulfill their obligations under the relevant joint venture agreements and shareholder agreements or may experience financial or other difficulties that may adversely impact our investment in a particular joint venture.

We are subject to risks in connection with divestitures.

We are examining the potential sale of some of our forestry assets. In light of the ongoing and possibly worsening economic crisis, we may be unable to realize such divestitures at all or only at lower than anticipated valuation levels. These risks could have material adverse effects on our business, financial condition and results of operations.

Risks Relating to the Notes and Our Structure

Market perceptions concerning the instability of the euro, the potential re-introduction of individual currencies within the countries that utilize the euro as an official currency (the "Eurozone"), or the potential dissolution of the euro entirely, could adversely affect the value of the Notes.

As a result of the credit crisis in Europe, particularly in Greece, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility (the "EFSF") and the European Financial Stability Mechanism (the "EFSM") to provide funding to Eurozone countries in financial difficulties that seek support. In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent stability mechanism, the European Stability Mechanism (the "ESM"), to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries after June 2013.

On February 2, 2012, the Treaty Establishing the European Stability Mechanism (the "ESM Treaty") was signed by each Member State of the Eurozone. The ESM Treaty includes a package of measures, including the provision of financial assistance to its signatories experiencing or being threatened by severe financing problems, where such financial assistance is necessary for the safeguarding of financial stability in the Eurozone as a whole, and entered into force on September 27, 2012. On March 2, 2012, a new fiscal compact, the Treaty on Stability, Coordination and Governance in the Economic Monetary Union (the "Fiscal Compact"), was signed by all Member States of the European Union (the "Member States") (except the Czech Republic and the United Kingdom) and will enter into force on the first day of the month following its ratification by the twelfth Eurozone country. To date, the European Council had received 10 ratification instruments from Eurozone countries. The Fiscal Compact will place deficit restrictions on Member State budgets (other than the United Kingdom and Czech Republic), with associated sanctions for those Member States that violate the specified limits.

Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual Member States. These and other concerns could lead to the re-introduction of individual currencies in one or more Member States, or, in more extreme circumstances, the possible dissolution of the euro entirely. Should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues, could adversely affect the value of the Notes.

Creditors under the Revolving Credit Facility and certain hedging debt are entitled to be repaid with the proceeds of Collateral sold in any enforcement sale in priority to the holders of Notes.

The obligations under the Notes and the Guarantees are secured on a first-ranking basis with security interests over Collateral that also secures our obligations under the Revolving Credit Facility. The Indenture will also permit the Collateral to be pledged to secure additional indebtedness permitted to be incurred and secured, including on an equal and ratable basis or subordinate or junior to the Notes, the Guarantees and the Revolving Credit Facility, in accordance with the terms thereof and of the Intercreditor Agreement.

Pursuant to the Intercreditor Agreement, the liabilities under the Revolving Credit Facility will have priority over any amounts received from the sale of the Collateral pursuant to an enforcement action taken with respect to the Collateral. As such, in the event of a foreclosure of the Collateral, you may not be able to recover on the Collateral if the then outstanding claims under the Revolving Credit Facility and certain hedging arrangements are greater than the proceeds realized. Any proceeds from an enforcement sale of the Collateral by any creditor will, after all obligations under the Revolving Credit Facility and certain hedging arrangements have been discharged from such recoveries, be applied in repayment of the Notes and any other obligations secured by the Collateral on a *pro rata* basis. The Intercreditor Agreement will provide that a common Security Agent, who will also serve as the security agent for the lenders under the Revolving Credit Facility and any additional secured debt permitted to be incurred by the Indenture whose representative accedes as a party to the Intercreditor Agreement, will act only as provided for in the Intercreditor Agreement. In general, there are limitations on the ability of the holders of the Notes to take enforcement action with respect to the Collateral, including a specified consultation period that is required to be observed before enforcement action can commence. For additional details regarding the ability of the holders of the Notes to enforce, please see "Description of Other Indebtedness—Intercreditor Agreement."

The Notes are secured only to the extent of the value of the Collateral that has been granted as security for the Notes and the Guarantees, and such security may not be sufficient to satisfy the obligations under the Notes and the Guarantees.

The holders of the Notes will be secured only by the Collateral. While the Indenture limits the amount of additional debt that can be incurred by the Issuer and its Restricted Subsidiaries, any such debt can be secured by the Collateral, including on an equal and ratable and *pari passu* basis or on a junior or subordinated basis. If there is an Event of Default (as will be defined in the Indenture) on the Notes, there is no guarantee that the value of the Collateral will be sufficient to enable the Issuer to perform its obligations under the Notes. There is no requirement to provide funds to enhance the value of the Collateral if it is insufficient. The proceeds of any sale of the Collateral following an Event of Default with respect to the Notes may not be sufficient to satisfy, and may be substantially less than, amounts due under the Notes as well as other indebtedness secured by the Collateral, including indebtedness under the Revolving Credit Facility as well as *pari passu* debt. The amount of proceeds realized upon the enforcement of the security interests over the Collateral or in the event of liquidation will depend upon many factors, including, among others, whether or not our business is sold as a going concern, the jurisdiction in which the enforcement action or sale is completed, the ability to readily liquidate the Collateral, the availability of buyers and the condition of the Collateral, and exchange rates. Furthermore, there may not be any buyer willing and able to purchase our business as a going concern, or willing to buy a significant portion of its assets in the event of an enforcement action. The book value of the Collateral should not be relied on as a measure of realizable value for such assets. Portions of the Collateral may be illiquid and may have no readily ascertainable market value. In addition, the Collateral excludes leases as well as intellectual property rights, licenses, concessions, contracts or other agreements. Some of these contracts may be material to the Issuer or the Guarantor or may be necessary to operate essential facilities, or conduct to its business operations, and such exclusion or termination could have a material adverse effect on the value of the Collateral or the ability to enforce or realize it.

By its nature, some or all of the Collateral may not have a readily ascertainable market value or may not be salable or, if salable, there may be substantial delays in its disposal. To the extent that liens, security interests and other rights granted to other parties encumber assets owned by the Issuer or the Guarantors, those parties have or may exercise rights and remedies with respect to the property subject to their liens, security interests or other rights that could adversely affect the value of that Collateral and the ability of the Security Agent, acting on behalf of the Trustee or investors as holders of the Notes to realize or enforce that Collateral. If the proceeds of any sale of Collateral are not sufficient to repay all amounts due on the Notes and the Guarantees, investors (to the extent not repaid from the proceeds of the sale of the Collateral) would have only an unsecured claim against the Issuer's and the Guarantors' remaining assets. Each of these factors or any challenge to the validity of the Collateral or the Intercreditor Agreement could reduce the proceeds realized upon enforcement of the Collateral. In addition, there can be no assurance that the Collateral could be sold in a timely manner, if at all. Proceeds from enforcement sales of capital stock and assets that are part of the Collateral must first be applied in satisfaction of obligations under the Revolving Credit Facility and certain hedging arrangements and thereafter towards repayment of the obligations of the Issuer and the Guarantor under the Notes on a *pari passu* basis. In addition, the Indenture will allow the incurrence of certain additional permitted debt in the future that is secured by the Collateral on a priority or *pari passu* basis. Such additional secured debt may be substantial. The rights of a holder of Notes to the Collateral may be diluted by any increase in the debt secured by the Collateral or a reduction of the Collateral securing the Notes.

To the extent that other first-priority security interests, preexisting liens, liens permitted under the Indenture and other rights encumber the Collateral securing the Notes, those parties may have or may exercise rights and remedies with respect to the Collateral that could adversely affect the value of the Collateral and the ability of the Security Agent to realize or foreclose on the Collateral.

The Issuer and the Guarantors have control over the Collateral securing the Notes, and the sale of particular assets could reduce the pool of assets securing the Notes.

The Security Documents will allow the Issuer and the Guarantors to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from the Collateral securing the Notes. So long as no default or event of default under the Indenture would result therefrom, the Issuer and the Guarantors may, among other things, without any release or consent by the Security Agent, conduct ordinary course activities with respect to the Collateral, such as selling, factoring, abandoning or otherwise disposing of Collateral and making or collecting ordinary course cash payments, including repayments of indebtedness.

The value of the Collateral may decrease because of obsolescence, impairment or certain casualty events.

The value of the properties that the Issuer and the other Guarantors own or lease and the real estate serving as Collateral may be adversely affected by depreciation and normal wear and tear or because of certain events that may cause damage to these properties. Although the Security Documents contain certain covenants in relation to the maintenance and preservation of assets, the Issuer and the are not required to improve the Collateral. The Issuer is obligated under the Security Documents to maintain insurance with respect to the Collateral, but the proceeds of such insurance may not be sufficient to rebuild or restore such properties to their original condition prior to the occurrence of the events that caused the insured damages. Those insurance policies will most certainly not cover all the events that may conceivably result in damage to the Collateral.

It may be difficult to realize the value of the Collateral securing the Notes.

The Collateral securing the Notes is subject to any and all exceptions, defects, encumbrances, liens and other imperfections permitted under the Indenture and/or the Intercreditor Agreement and accepted by other creditors that have the benefit of first priority security interests in the Collateral securing the Notes from time to time, whether on or after the Issue Date. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral securing the Notes, as well as the ability of the Security Agent to realize or foreclose on such Collateral. Furthermore, the first-priority ranking of security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or recharacterization under the laws of certain jurisdictions.

The security interests of the Security Agent may be subject to practical problems generally associated with the realization of security interests over real or personal property such as the Collateral. For example the Security Agent may need to obtain the consent of a third party to enforce a security interest. We cannot assure you that the Security Agent will be able to obtain any such consents. We also cannot assure you that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. Accordingly, the Security Agent may not have the ability to foreclose upon those assets, and the value of the Collateral may significantly decrease.

In addition, we are required to register our various operations with national regulators. Such requirements may prohibit foreclosure on the share capital of the Guarantors or may require us to incur significant cost and expense due to such requirements. Furthermore, there can be no assurance that any applicable governmental authorities will consent to such action. If any regulatory approvals that are required are not obtained or are delayed, the foreclosure may be delayed, a temporary shutdown of operations may occur and the value of the Collateral may be significantly decreased.

The security interests in the Collateral are not directly granted to the holders of the Notes.

The security interests in the Collateral that secure the obligations of the Issuer under the Notes and the obligations of the Guarantors under the Guarantees are not granted directly to the holders of the Notes but are granted only in favor of the Trustee and the holders of the Notes in accordance with the Indenture and the Intercreditor Agreement, holders of the Notes will not have direct security interests and will not be entitled to take enforcement action in respect of the Collateral securing the Notes, except through the Trustee, who will (subject to the provisions of the Indenture) provide instructions to the Security Agent in respect of the Collateral.

The enforcement of the Collateral may be restricted by Spanish law.

Spanish Insolvency Law imposes a moratorium on the enforcement of secured creditors' rights (*in rem* security) in the event of insolvency. Once the debtor is declared insolvent, the enforcement of security interests over assets owned by the debtor and used for its professional or business activities (presumably most of the debtor's assets) is stayed until the first of the following circumstances occurs: (a) approval of a creditors' composition agreement (unless the content has been approved by the favorable vote of the secured creditors, in which case it will be bound by whatever has been agreed in the composition agreement); or (b) one year has elapsed since the declaration of insolvency without liquidation proceedings being initiated. Enforcement will be stayed even if at the time of declaration of insolvency the notices announcing the public auction have been published. The stay will only be lifted when the court hearing the insolvency proceedings determines that the asset is not used for the debtor's professional or business activities or is not necessary for the survival of the debtor's business. When it comes to determining which assets of the debtor are used for its professional or business activities, courts have generally embraced a broad interpretation and will likely include most of the debtor's assets. Finally, enforcement of the Collateral will be subject to the provisions of Spanish Procedural Law and Spanish Insolvency Law (where applicable) and this may entail delays in the enforcement.

Applicable law requires that a security interest in certain assets can only be properly perfected (or registered or other foreign equivalent) and its priority retained through certain actions undertaken by the secured party. The liens on the Collateral securing the Notes from time to time owned by us or the Guarantors may not be perfected (or registered or other foreign equivalent), which may result in the loss of the priority, or a defect in the perfection (or registration or other foreign equivalent), of the security interest for the benefit of the Trustee and holders of the Notes to which they would have been otherwise entitled. Neither the Security Agent nor the Trustee will be obligated to create or perfect any of the security interests in the Collateral.

Spanish law does not contemplate the concept of "security agent." Although this by itself does not prohibit this agent to be set in place, the fact that there is a lack of regulation on the matter provides uncertainty as to how a Spanish court would recognize the acting of the Security Agent in an enforcement situation. Since holders of the Notes will not have any independent power to enforce the Collateral securing the Notes, except through the Security Agent following the instructions of the Trustee, there is some uncertainty as to whether a Spanish court would recognize the authority of the Security Agent or whether lack of recognition would entail delays in the enforcement or even the consequence of the Collateral not being able to be enforced on the same terms as provided for in the Security Documents.

For more information, please see "Offering Memorandum- Certain Insolvency Law and Enforceability Considerations."

The Collateral may be released without the consent of the holders of the Notes.

The Collateral may be released in certain circumstances, including in the event the Collateral is sold pursuant to an enforcement sale in accordance with the Intercreditor Agreement. If such Collateral consists of all of the shares of a Guarantor, then such Guarantor's Guarantee might also be released under such circumstances. Please see "Description of the Notes—Credit Enhancement—Release of Guarantees" and "Description of the Notes—Credit Enhancement—Release of Collateral."

Additionally, the Indenture will permit us to release and retake the security interest granted over the Collateral in order to issue additional Notes pursuant to the Indenture. Upon the issuance of additional Notes pursuant to the Indenture, there may be a time period imposed by applicable laws between the release and retaking of the security interest during which there is no security interest over the Collateral. In some circumstances, such as if we were to file for bankruptcy after the issuance of additional Notes, a hardening period may apply and retroactively void the retaking of the security interest in favor of the holders of the Notes. Accordingly, there is a risk that, should we issue additional Notes pursuant to the Indenture, the Collateral could be released and its subsequent retaking voided. Please see "Description of the Notes—Certain Covenants—Impairment of Security Interest."

Our substantial indebtedness may make it difficult for us to service our debt, including the Notes, and to operate our business.

We have a significant amount of indebtedness. As of December 31, 2012, as adjusted to give effect to the Notes issue, we would have had €352.6 million of indebtedness, of which €250.0 million would have been represented by the

Notes. We anticipate that our substantial indebtedness will continue for the foreseeable future. Our substantial indebtedness may have important negative consequences for you, including:

- making it more difficult for us and our subsidiaries to satisfy our obligations with respect to our debt, including the Notes and other liabilities;
- requiring that a substantial portion of the cash flow from operations of our operating subsidiaries be dedicated to debt service obligations, reducing the availability of cash flow to fund internal growth through working capital and capital expenditures, and for other general corporate purposes;
- increasing our vulnerability to economic downturns in our industry;
- exposing us to interest rate increases;
- placing us at a competitive disadvantage compared to our competitors that have less debt in relation to cash flow;
- limiting our flexibility in planning for or reacting to changes in our business and our industry;
- restricting us from pursuing strategic acquisitions or exploiting certain business opportunities; and
- limiting, among other things, our and our subsidiaries' ability to borrow additional funds or raise equity capital in the future and increasing the costs of such additional financings.

In the worst case, an actual or impending inability by us or our subsidiaries to pay debts as they become due and payable could result in our insolvency.

In addition, the Indenture and the Revolving Credit Facility contain restrictions that substantially limit our financial and operational flexibility and that of our subsidiaries. In particular, these agreements place limits on our ability to incur additional indebtedness; grant security interests to third persons; dispose of material assets; undertake organizational measures such as mergers, changes of corporate form, joint ventures or similar transactions; and enter into transactions with related parties.

Despite our current substantial indebtedness, we may be able to incur more debt in the future, including on a secured basis over the Collateral or otherwise, which could further exacerbate the risks of our indebtedness.

We may incur more debt in the future. The Revolving Credit Facility provides for total commitments of up to €90.0 million, and no cash drawings will be outstanding on the date the Notes are issued. The Indenture will limit our ability to incur additional debt but will not prohibit us from doing so. We may incur additional debt in the future, secured by the Collateral or otherwise, which could mature prior to the Notes, and such debt could be secured on an equal, ratable and *pari passu* basis with the Notes and the Guarantees. Any non-Guarantor subsidiary could also incur additional debt, and the Notes and Guarantees would be structurally subordinated to any such debt.

Furthermore, while our management intends to stand by its publicly communicated strategy, as of the date of this Report, to maintain a maximum leverage of 2.5x net debt/Mid-cycle EBITDA going forward, since 2010, when management first announced this strategy, our leverage ratio has been subject to significant movements. We cannot be sure that we will be able to implement our strategy, which is subject to numerous known and unknown risks and uncertainties.

Future defaults under our project finance indebtedness could adversely affect us.

Under the terms of our existing project financing guarantees related to the Huelva and Mérida facilities, the Issuer undertakes under certain circumstances the obligations of the respective project companies, including in the event of cost overruns related to the construction of the facilities, non-completion of the facilities by a specified date or failure to meet certain requirements under the EPC contracts. In addition, in connection with each of the Huelva and Mérida project finance debt, we have agreed to maintain a minimum biomass stock equivalent to 670,000 tonnes and 200,000 tonnes, respectively, and, in the event stocks fall below these limits, we have undertaken to set aside in a special account sufficient funds to purchase the difference, with a cap of €25.0 million and € 4.3 million, respectively. Even though we now have back-to-back guarantees with the contractor under our EPC contracts, we may not be able to enforce these back-to-back guarantees against the EPC contractor and the EPC contractor may not be able to fulfill those guarantees. For a more detailed description of the terms of these project financing agreements, please see "Description of

Other Indebtedness—Project Financings—Project Financing for the Huelva Facility" and "Description of Other Indebtedness—Project Financings—Project Financing for the Mérida Facility."

As of December 31, 2012, we had €344.6 million of outstanding indebtedness on a consolidated basis, of which €96.2 million (net of €4.2 million of unamortized transaction costs) was project finance debt.

Defaults by our project finance companies can have important consequences for the Issuer and the restricted group, including, without limitation: (i) reducing the restricted Group's receipt of dividends, fees, interest payments, loans and other sources of cash since the project company will typically be prohibited from distributing cash to the Issuer and its restricted subsidiaries during the pendency of any default; (ii) causing the Issuer to record a loss in the event the lender forecloses on the assets; and (iii) causing the loss or impairment of investor confidence in the Issuer.

The Issuer is dependent on payments from its subsidiaries in order to be able to make payments on the Notes, and the Issuer's subsidiaries may not be permitted or otherwise able to make payments to the Issuer.

Even if our subsidiaries generate sufficient cash from their operations, their ability to provide funds to the Issuer is subject to, among other things, local tax restrictions and local corporate law restrictions related to earnings, the level of legal or statutory reserves, losses from previous years and capitalization requirements for our subsidiaries. As a result, although we may have sufficient resources, on a consolidated basis, to meet our obligations, our subsidiaries may not be able to make the necessary transfers to us to permit us to satisfy our obligations under the Notes or otherwise. In particular, our subsidiaries may be restricted from providing funds to us under some circumstances. These circumstances include:

- restrictions under the corporate law of the jurisdictions in which our subsidiaries are based. The relevant laws could require, among other things, that our subsidiaries retain a certain percentage of annual net income in a legal reserve, that our subsidiaries maintain the share capital of a limited liability company and that, after payment of any divided, the relevant subsidiary's shareholders' equity exceed its share capital. For example, Spanish law limits our subsidiaries' ability to provide funds to the Issuer due to restrictions that require, among other things, each of our Spanish subsidiaries to retain at least 10% of its annual net income in a legal reserve until the reserve reaches at least 20% of such company's share capital and that, after payment of any dividend, shareholders' equity (after subtracting goodwill and start-up expenses) must exceed the company's share capital. Moreover, the by-laws of each of our Spanish subsidiaries may provide for additional reserves that must be retained prior to providing funds to us;

- restrictions under foreign exchange laws and regulations that could limit or tax the remittance of dividends or transfer payments abroad; and

- existing and future contractual restrictions, including restrictions in credit facilities, cash pooling arrangements and other indebtedness that affect the ability of our subsidiaries to pay dividends or make other payments to us in the future.

We require a significant amount of cash to service our debt and for other general corporate purposes. Our ability to generate sufficient cash depends on many factors beyond our control.

Our ability to make payments on our debt, and to fund working capital and capital expenditures, will depend on our future operating performance and ability to generate sufficient cash. This depends, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control, as well as the other factors discussed in these "Risk Factors" and elsewhere in this Report.

Our business may not generate sufficient cash flows from operations, and additional debt and equity financing may not be available to us in an amount sufficient to enable us to pay our debts when due, including the Notes, or to fund our other liquidity needs. For a discussion of our cash flows and liquidity, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

If our future cash flows from operations and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities and capital expenditures;

- sell assets;

- obtain additional debt or equity financing; or

- restructure or refinance all or a portion of our debt, including the Notes, on or before maturity.

We may not be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. In addition, the terms of our debt, including the Revolving Credit Facility and the Notes, and any future debt that we may incur, may limit our ability to pursue any of these alternatives.

The Guarantees are significantly limited by applicable laws and are subject to certain limitations or defenses.

The Guarantors will guarantee the payment of the Notes as described in "Description of the Notes—Credit Enhancement—Guarantees." The Guarantees provide the holders of the Notes with a direct claim against the relevant Guarantor. However, the obligations of each Guarantor under its Guarantee are limited under the Indenture to an amount that has been determined so as to ensure that amounts payable will not result in violations of laws relating to corporate benefit, capitalization, capital preservation (under which, among others, the risks associated with a guarantee or grant of security on account of a parent company's debt need to be reasonable and economically and operationally justified from the guarantor's or grantor's perspective), thin capitalization, corporate purpose, financial assistance or transactions under value, or otherwise cause the Guarantor to be deemed insolvent under applicable law or such Guarantee to be deemed void, unenforceable or *ultra vires*, or cause the directors of such Guarantor to be held in breach of applicable corporate or commercial law for providing such Guarantee. If these limitations were not observed, the Guarantees and the grant of security interests by the Guarantors could be subject to legal challenge.

As a result, a Guarantor's liability under its Guarantees could be materially reduced or eliminated depending upon the amounts of its other obligations and upon applicable laws. In particular, in certain jurisdictions, a guarantee issued by a company that is not in that company's corporate interests or the burden of which exceeds the benefit to the company may not be valid and enforceable. It is possible that a Guarantor, a creditor of a Guarantor or the insolvency administrator, in the case of an insolvency of a Guarantor, may contest the validity and enforceability of the respective Guarantee and that the applicable court may determine that the Guarantee should be limited or voided. In the event that any Guarantee is deemed invalid or unenforceable, in whole or in part, or to the extent that agreed limitations on the Guarantee apply, the Notes would not be guaranteed by such Guarantee.

For more information on the specific limitations under applicable law of the respective jurisdictions of incorporation of the Guarantors and certain contractual limitations to be confirmed in the Indenture, please see "Offering Memorandum-Certain Insolvency Law and Enforceability Considerations."

Fraudulent conveyance laws may limit your rights as a holder of Notes.

Although laws differ among various jurisdictions, in general, under fraudulent conveyance laws, a court could subordinate or void a Guarantee if it found that:

- the Guarantee was incurred with an actual intent to hinder, delay or defraud creditors or shareholders of the Guarantor;
- the Guarantee was granted within two years prior to the insolvency declaration of the Guarantor and it is detrimental for the Guarantor's state; or
- the Guarantor did not receive fair consideration or reasonably equivalent value for the Guarantee and the Guarantor:
    - was insolvent or was rendered insolvent because of the Guarantee;
    - was undercapitalized or became undercapitalized because of the Guarantee; or
    - intended to incur, or believed that it would incur, debts beyond its ability to pay at maturity.

The measure of insolvency for purposes of fraudulent conveyance laws varies depending on the law applied. Generally, however, a Guarantor would be considered insolvent if it could not pay its debts as they become due. If a court decided that any Guarantee was a fraudulent conveyance and voided such Guarantee, or held it unenforceable for any other reason, you would cease to have any claim in respect of the Guarantor of such Guarantee and would be a creditor solely of the Issuer and the remaining Guarantors. Please see "Offering Memorandum-Certain Insolvency Law and Enforceability Considerations."

In an insolvency proceeding, it is possible that creditors of the Guarantors or the appointed insolvency administrator may challenge the Guarantees, and intercompany obligations generally, as fraudulent transfers or conveyances or on other grounds. If so, such laws may permit a court, if it makes certain findings, to: (i) avoid or invalidate all or a portion of a Guarantor's obligations under its Guarantee; (ii) direct that holders of the Notes return any amounts paid under a Guarantee to the relevant Guarantor or to a fund for the benefit of the Guarantor's creditors; and (iii) take other action that is detrimental to you.

Local insolvency laws may not be as favorable to you as U.S. bankruptcy laws or those insolvency laws of another jurisdiction with which you may be more familiar.

The Issuer is incorporated in Spain, and the Guarantors are organized under the laws of Spain. Accordingly, any insolvency proceedings against the Issuer and the Guarantors would likely be based on Spanish insolvency laws. The insolvency laws of Spain may not be as favorable to holders of the Notes as the laws of the United States or some other jurisdictions. Certain provisions of Spanish Insolvency Law could affect the ranking of the Notes and the Guarantees or claims relating to the Notes and the Guarantees on an insolvency of the Issuer or the Guarantors, as the case may be. In particular, under Spanish law, a creditor's rights will be subordinated to the preferential and ordinary debts of a debtor in an insolvency proceeding if such creditor is determined to be a "specially related" party to the debtor. One factor considered in determining if a party is "specially related" is (i) whether such party holds more than 10% of the capital of the debtor (for companies that are not listed) or 5% (for companies that are listed, as in the case of the Issuer) by the time the credit right under dispute in the insolvency scenario arises; or (ii), in the event of companies pertaining to the same group as the insolvent debtor and their common shareholders, provided that such shareholders meet the minimum shareholding requirements set forth before. Payments made under an equitably subordinated loan preceding the bankruptcy of an obligor may in certain circumstances be clawed back. Please see "Offering Memorandum-Certain Insolvency Law and Enforceability Considerations—Spain—Spanish Insolvency Law."

Not all of our subsidiaries will guarantee the Notes, and any claim by us or any of our creditors, including the holders of the Notes, against such non-Guarantor subsidiaries will be structurally subordinated to all of the claims of creditors of those non-Guarantor subsidiaries.

Not all of our existing and future subsidiaries will guarantee the Notes. On a consolidated basis as of December 31, 2012, we had total assets of €1,376.8 million and total debt of €344.6 million. On an aggregated basis, we estimate that the Issuer and the Guarantors together would have accounted for approximately 80.0% of the total assets, 88.3% of the revenue and 95.4% of the EBITDA of the Issuer and its subsidiaries as of and for the twelve months ended December 31, 2012. In addition, the subsidiaries of the Issuer that will not guarantee the Notes would have had €96.2 million of debt outstanding as of December 31, 2012 on a consolidated basis. The Indenture does not limit the transfer of assets to, or the making of investments in, any of our restricted group members, including our non-guarantor subsidiaries. Please see "Description of the Notes—Certain Covenants." Accordingly, even though any subsidiary whose EBITDA for the most recently completely fiscal year represents the greater of: (i) 5% or more of the consolidated EBITDA of the Issuer and the subsidiaries that will be Restricted Subsidiaries under the Indenture; or (ii) €5.0 million, will be required to provide an additional Guarantee for the benefit of the Notes, non-Guarantor subsidiaries could account for a higher portion of our assets, liabilities, revenues and net income in the future.

In the event that any of our non-Guarantor subsidiaries becomes insolvent, liquidates, reorganizes, dissolves or otherwise winds up, the assets of such non-Guarantor subsidiary will not be subject to claims from the holders of the Notes to satisfy their respective credits against us and will be used first to satisfy the claims of the non Guarantor subsidiary's creditors, including trade creditors, banks and other lenders. Consequently, any claim by us or our creditors against a non-Guarantor subsidiary will be structurally subordinated to all of the claims of the creditors of such non-Guarantor subsidiary.

We may not have the ability to raise the funds necessary to finance a change of control offer.

Upon the occurrence of certain change of control events as described in the Indenture, we will be required to offer to repurchase all of the Notes in cash in an amount equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase. The requirement that we offer to repurchase the Notes upon a change of control is limited only to the transactions specified in the definition of "Change of Control" within the Indenture. Please see "Description of the Notes—Change of Control." We may not have sufficient funds at the time of any such event to make the required repurchases. Additionally, certain change of control events would be prepayment events under the Revolving Credit Facility. In the event this results in an event of default thereunder, the lenders under the Revolving Credit Facility may accelerate such debt, which could also cause an event of default under the Indenture.

The source of funds for any repurchase required as a result of any such event will be available cash or cash generated from operating activities or other sources, including borrowings, sales of assets and sales of equity or funds provided by subsidiaries. Sufficient funds may not be available at the time of any such events to make any required repurchases of the Notes tendered.

You may be unable to enforce judgments against us, the Guarantors or our respective directors and officers.

Neither the Issuer nor any of the Guarantors are incorporated in the United States. In addition, all of the Group's assets are outside the United States and all of the Group's directors and officers live outside the United States, primarily in Spain. The Issuer's and the Guarantors' auditors are also organized outside the United States. As a result, it may be difficult or impossible to serve process against any of these persons in the United States. Furthermore, because all or substantially all of the assets of these persons are located outside of the United States, it may not be possible to enforce judgments obtained in courts in the United States predicated upon civil liability provisions of the federal securities laws of the United States against these persons. Additionally, there is doubt as to the enforceability in many foreign jurisdictions, including Spain, of civil liabilities based on the civil liability provisions of the federal or state securities laws of the United States against the Issuer, the Guarantors, the directors, controlling persons and management and any experts named in this Report who are not residents of the United States. Please see "Service of Process and Enforcement of Civil Liabilities."

Our significant shareholders may sell their stake in the near future, which may ultimately affect our results of operations and increase the volatility of our share price.

Some of our current significant shareholders may suffer financial distress and may need to sell their stake in the Issuer in the market. In order to avoid negative distortions to and minimize the volatility of our share price derived from any such sales, we may decide from time to time to acquire such shares for our treasury stock, which would result in a substantial cost for us and may affect our results of operations.

There are risks related to withholding tax in Spain, including in conjunction with the collection of certain documentation from the Paying Agent.

Under new Spanish tax regulations established by Royal Decree 1065/2007, as amended by Royal Decree 1145/2011, income obtained in respect of the Notes will not be subject to withholding tax in Spain only if certain requirements are met, including that the Paying Agent provides us, in a timely manner, with a duly executed and completed statement providing certain details relating to the Notes (the "Payment Statement"). Accordingly, if we do not receive the Payment Statement from the Paying Agent in a timely manner, income in respect of the Notes will be subject to withholding tax in Spain, currently at the rate of 21%. Please see "Offering Memorandum-Certain Tax Considerations—Spanish Tax Considerations" for a more detailed explanation. The Issuer will not gross up payments in respect of any such withholding tax.

It is expected that the Paying Agent will follow certain procedures to facilitate the timely provision by the Paying Agent to us of a duly executed and completed Payment Statement in connection with each payment of income under the Notes. Please see "Offering Memorandum-Certain Tax Considerations—Spanish Tax Considerations." If such procedures are not followed, however, the Issuer will withhold tax at the applicable rate (currently 21%) from any income payment in respect of the Notes. Such procedures may be revised from time to time in accordance with changes in the applicable Spanish laws and regulations or administrative interpretations thereof. Accordingly, while the Notes are represented by a Global Note (as defined herein), holders of the Notes must rely on such procedures in order to receive payments under the Notes free of any Spanish withholding tax, to the extent applicable. Prospective investors should note that neither the Issuer nor the Underwriters will be liable for any damage or loss suffered by any beneficial owner who would otherwise be entitled to an exemption from Spanish withholding tax because these procedures prove ineffective. Moreover, the Issuer will not pay any additional amounts with respect to any such withholding. Therefore, to the extent a payment of income in respect of the Notes is not exempt from Spanish withholding tax, including due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, beneficial owners may have to apply directly to the Spanish tax authorities for any refund to which they may be entitled.

There are certain risks relating to the Euro MTF Market not being regarded as an organized secondary market.

Pursuant to Law 13/1985 of May 25 on Investment Ratios, Own Funds and Information Obligations of Financial Intermediaries, as amended ("Law 13/1985"), the application of the tax regime described under "Offering Memorandum-Certain Tax Considerations—Spanish Tax Considerations" requires, among other conditions, that the Notes be listed on an organized secondary market (*mercado secundario organizado*). However, Law 13/1985 does not clarify how this term should be interpreted and neither the Spanish tax authorities nor the Spanish courts have issued an opinion with respect to this matter so far. While there is a reasonable basis to believe that multilateral trading facilities, such as the Euro MTF Market of the Luxembourg Stock Exchange, satisfy the requirements for such a facility to be considered an "organized secondary market," there is a possibility that the Spanish tax authorities could take a different position and assert that only "regulated markets" (as this term is defined by the EU Directive 2004/39/EC) meet the "organized secondary market" requirement established by Law 13/1985. If the Notes are not deemed to be listed on an organized secondary market, Law 13/1985 will not apply to the Notes, which may have a material adverse effect on our results of operations.

There are certain risks relating to the interplay between certain provisions of U.S. and Spanish law.

In Spain, issuers of debt securities such as the Notes are generally required to have a syndicate of holders (*Sindicato de Obligacionistas*) that is represented by a commissioner (*Comisario*). However, because the Indenture governing the Notes will contain mandatory provisions relating to the appointment of a Trustee, there will be neither a Syndicate of Holders nor a commissioner. As a result, a holder of Notes will not benefit from: (i) any rights as a holder of Notes arising from Article 411 of the Spanish Capital Companies Law (*Ley de Sociedades de Capital*); (ii) the constitution of a Syndicate of Holders; and (iii) the appointment of a commissioner (with respect to (ii) and (iii), both as regulated by Articles 419 and 429 *et seq*. of the Spanish Capital Companies Law), and will be deemed to have irrevocably instructed the Trustee to take any action and/or to execute and deliver any documents or notices that may be necessary or desirable to comply with, and give effect to, the preceding sentence. Notwithstanding the foregoing, the effectiveness of certain amendments, consents, waivers or other actions of the holders of the Notes taken pursuant to the Indenture or the lack of a syndicate of holders or of an express appointment of a commissioner may be challenged under Spanish law.

There is no existing public trading market for the Notes and the ability to transfer them is limited, which may adversely affect the value of the Notes.

There is no existing trading market for the Notes and there can be no assurance that a trading market for the Notes will develop. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market or how liquid that trading market might become. Although the Initial Purchasers have advised us that they intend to make a market in the Notes, they are not obligated to do so and may stop at any time. The market price of our Notes may be influenced by many factors, some of which are beyond our control, including:

- changes in demand, the supply or pricing of our products;
- general economic conditions, including raw material prices;
- the activities of competitors;
- our quarterly or annual earnings or those of our competitors;
- investors’ perceptions of us and the pulp industry;
- the failure of securities analysts to cover our Notes or changes in financial estimates by analysts;
- the public’s reaction to our press releases or our other public announcements;
- future sales of Notes; and
- other factors described under these “Risk Factors.”

As a result of these factors, you may not be able to resell your Notes at or above the purchasing price. In addition, securities trading markets experience extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of a particular company. These broad market fluctuations and industry factors may materially reduce the market price of our Notes, regardless of our operating performance. If an active trading market does not develop, you may have difficulty selling any Notes that you buy.

The Notes have not been and will not be registered under the U.S. Securities Act or any U.S. securities laws and we have not undertaken to effect any exchange offer for the Notes in the future. You may not offer the Notes for sale in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws, or pursuant to an effective registration statement. The Notes and the Indenture will contain provisions that will restrict the Notes from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other exceptions under the U.S. Securities Act. Furthermore, we have not registered the Notes under any other country’s securities laws. It is your obligation to ensure that your offers and sales of the Notes within the United States and other countries comply with applicable securities laws. Please see “Offering Memorandum-Notice to Investors.”

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations as of and for the years ended December 31, 2011 and December 31, 2012. The following discussion contains certain forward-looking statements that reflect our plans, estimates and beliefs. Our results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Report.

Overview

Our Company

We are the largest BHKP producer in Europe, with an annual maximum installed capacity of 1.34 million tonnes of pulp as of December 31, 2012. We also have a significant co-generation and renewable energy generation business, with an installed capacity of approximately 230 MW as of December 31, 2012 (excluding our new 50 MW independent biomass energy facility in Huelva, Spain, which became operational in September 2012 and whose ownership has been transferred from our EPC contractor to us in February 7, 2013) and total energy sales of 1,543 GWh for the twelve months ended December 31, 2012. Our integrated pulp and energy business model takes advantage of our strong positioning in forestry supply management, both with respect to managing forest plantations and crops for the production of wood and cultivated biomass and with respect to sourcing wood from third-party sources as required for our business. As of December 31, 2012, we managed approximately 87,924 hectares of plantations (excluding our forestry assets in Uruguay, which were sold in December 15, 2012), of which we owned approximately 59%.

We are publicly listed on the Madrid Stock Exchange (*Bolsa de Valores de Madrid*) with a market capitalization of €533.1 million as of December 31, 2012. For the twelve months ended December 31, 2012, we generated revenue of €827.6 million, Adjusted EBITDA of €175.3 million and unlevered free cash flow (excluding expansion capital expenditure) of €70.6 million.

Key Factors Affecting Our Results of Operations

Our results of operations are driven by a combination of factors affecting the pulp and energy industries, including, in addition to general macroeconomic conditions, cyclicality in the pulp industry, costs of raw materials such as wood, non-biomass fuels and chemicals, energy costs, the effects of currency fluctuations and government incentives relating to renewable energy production and co-generation. Our results of operations are also impacted by company-specific structural and operational factors, as well as acquisitions, dispositions and changes in business focus. Set forth below is an overview of the key drivers that have affected the historical results of operations of our business and/or are expected to affect our consolidated results of operations in future periods.

Cyclicality in the Pulp Industry

Our results of operations are affected significantly by cyclicality in the pulp industry. Long-term demand for pulp is driven by global economic and demographic trends, technological developments and trends in end-user preferences and therefore the demand for paper products and the adjustment of production capacity to changes in demand. In addition, greater pulp production capacity, and hence an increased amount of available pulp supplies, on a global basis can also impact the supply and demand balance. Profitability in the pulp industry is highly sensitive to changes in prices, and industry cycles reflect the constantly shifting balance between supply and demand for pulp, as well as changes in inventory levels. Periods of industry-wide investment in new production capacity or significant contractions in demand due to weak economic conditions have in previous industry cycles led to decreases in product prices. Over the last three years, BHKP prices in Europe fluctuated from $700 per ton to $920 per ton during 2010; from $648 per ton to $877 per ton during 2011; and from $649 per ton to $786 per ton during 2012.

We are dependent on pulp sales which as of 2012, accounted for 72.1% of our revenues. The international market prices of pulp have historically fluctuated significantly, and we believe that they will continue to do so due to global economic developments, such as changes in demand for pulp in China and in other countries which are significant consumers of pulp. Significant increases in the international market price of pulp, and consequently, the prices that we are able to charge customers, would likely increase our net revenues and our results of operations to the extent that we are able to maintain our operating margins and such increased prices do not reduce sales volumes of the pulp that we produce. Conversely, however, significant decreases in the international market price of pulp, and consequently, the prices that we are able to charge customers, would likely reduce our net revenues and our results of operations to the extent that we are not able to increase our operating margins and/or such reduced prices do not result in increased sales volumes of our products.

Costs of Raw Materials

Our results of operations are impacted by the prices we pay for the raw materials used to manufacture our products, including, in particular, for wood sourced from third parties, certain non-biomass fuels and chemicals (including caustic soda). Raw material costs are a significant component of our Cash Costs (defined as Wood Costs plus Other Cash Costs).

The principal raw materials used in the manufacture of our products are as follows:

- *Wood.* Wood Costs accounted for more than half of our Cash Costs 2011 and 2012. Eucalyptus wood is the principal raw material used by us to manufacture pulp. Of the total amount of wood supplied 73.9% and 84.9% was obtained from local suppliers or landowners in the Iberian Peninsula in the years ended December 31, 2011 and December 31, 2012, with for these same periods 4.6% and 3.7%, respectively, coming from our own plantations in the Iberian Peninsula and 21.5% and 11.4%, respectively, being imported from South America or Africa (including our plantations in Uruguay). The price we pay for local wood is dependent on a number of factors related to local supply and demand dynamics (including the demand for wood from other industries that consume wood and the potential impact on wood supply of natural phenomena such as forest fires and insect infestations) as well as the species of eucalyptus from which the wood was obtained, the characteristics of the land the wood is grown upon, the type of forestry sustainability certifications provided and, more generally, pulp prices on the current local market. The price we pay for imported wood, by contrast, is more dependent on global macroeconomic conditions, the current demand for wood from certain emerging markets with limited local supplies and fluctuations in the value of the U.S. dollar, the reference currency for trading in wood pulp.

- *Non-biomass fuels.* Non-biomass fuels are comprised primarily of fuel-oil, propane and petroleum coke. Non-biomass fuels accounted for approximately 6.8% of our Cash Costs in both years ended December 31, 2011 and December 31, 2012. Although our increased focus on developing our biomass-fuelled energy generation capacity in recent years currently enables us to self-supply all of the electricity and heat we require for our industrial operations, our energy production activities require us to complement the biomass being used as fuel with certain fossil fuels which, unlike biomass, are not generated through our other activities.

- *Chemicals.* Chemicals accounted for approximately 10.7% and 11.0% of our Cash Costs in the years ended December 31, 2011 and December 31, 2012, respectively. We use a number of chemicals, including caustic soda, cryogenic oxygen, ethylenediaminetetraacetic acid (“EDTA”), sodium chlorate, hydrogen peroxide, sulfate and lime, during the conversion of wood into pulp, particularly during the cooking and bleaching stages of this process. A small amount of various antifoaming and dispersion agents is also necessary to complete the pulp production process. Approximately 80% of the chemicals we use tend to have their prices closely linked to that of petroleum.

We are focused on tightly controlling our raw material costs as well as diversifying our supplier base and reducing our dependency on imports. We are in the process of implementing a number of cost-saving measures focused on the continuous improvement of our operations, as part of our “Total Quality Management” program first introduced in 2011, a strategic program aimed at ensuring maximum efficiency and quality in all of our business processes, including through the reduction of wood, non-biomass fuel, chemical and energy costs as well as the total consumption thereof. For example, the program intends to reduce the use of higher-cost imported wood in our pulp production processes by diversifying our local supply sources through the increased use of small suppliers, as well as increasing the volume of standing timber purchased directly from landowners and forest proprietors’ associations. These measures allow us to better control our harvesting and transportation logistics costs which would otherwise be included in the price of already-cut wood purchased by us from other suppliers.

Energy Costs

Energy costs for electricity and natural gas also constitute a significant component of our costs, particularly for our pulp production processes. Due to our energy generation activity, in general, as our energy costs increase, so do our revenues. In 2012, energy costs were equivalent to 18.1% of our consolidated revenues.

We do not currently enter into any hedging activities in relation to electricity in 2012, as we had a natural hedge given that we generate a surplus of electricity and we are mainly selling in 2012 at a Market Tariff (pool plus premium scheme), thus eliminating the impact of pool prices on the consumption of electricity. However, as all our generation assets will received in the future a Regulated Tariff after Royal Decree 2/2013 approved in February 2013, we could consider engaging in electricity hedging activities.

We acquire natural gas under one-year agreements with prices updated on a quarterly basis, linked to crude oil, on a "take or pay" basis. We do not currently enter into any hedging activities in relation to natural gas. This is because the tariff for natural gas co-generation is linked to natural gas prices and adjusted on a quarterly basis, providing a natural hedge to natural gas price volatility.

Effect of Currency Fluctuations

Our sales of pulp are primarily denominated in U.S. dollars. Because our principal product, pulp, is a commodity whose reference sale price in the international market is denominated in U.S. dollars per ton, our revenues from pulp sales are impacted by the U.S. dollar/euro exchange rate since the price of pulp even when denominated in euro per ton is a reflection of this price in U.S. dollar per ton. Our sales of energy, as well as most of our costs, are primarily denominated in euro.

As such, when the U.S. dollar appreciates against the euro, assuming international market prices of pulp remain constant in U.S. dollars, our net sales revenue from pulp sales would increase. By contrast, when the U.S. dollar depreciates against the euro, our net sales revenue from pulp sales would decrease.

We continuously analyze our U.S. dollar/euro exchange rate risk based on our net cash flow expectations in U.S. dollars over the subsequent twelve months, and selectively enter into hedging agreements to mitigate this risk.

Renewable Energy Production Incentives

Our energy generation segment depends significantly on regulations and economic incentives and subsidies aimed at promoting the greater use of renewable energies. Currently, the income obtained from our production of electricity depends to a large extent on the economic regime established in Spain to incentivize renewable energy generation and co-generation. New regulations reducing or eliminating these incentives, such as those adopted in part in response to the current fiscal crisis in Spain, could have a negative impact on our financial condition and result of operations.

For example, the Moratorium suspended proceedings for the registration of special regime energy facilities benefiting from regulated tariffs and premiums, thus freezing the development of new renewable energy facilities in Spain. The Moratorium has not had an impact on our existing biomass projects in Huelva and Mérida, Spain, because the regulation does not affect energy facilities that were in operation or registered with a pre-allocation registry before the Moratorium's entry into force. However, the Moratorium could affect our future plans to further expand into biomass energy facilities in order to reduce the cyclicality of our operations, which have been put on hold until the Moratorium is lifted. In the interim period, we intend to continue to work on the development and promotion of biomass electricity projects, including in countries other than Spain.

Operational Productivity and Efficiency

Our profitability can be affected by the productivity and efficiency of our operations. Accordingly, we are implementing our "Total Quality Management" program across our different business activities in order to optimize our cost structure and increase the productivity, efficiency and fully leverage the complementary nature of our pulp manufacturing, energy generating and forestry activities. We are also optimizing capital expenditure in our pulp production facilities and co-generation and renewable energy generation facilities scheduled for maintenance and environmental upgrades in the near future, and more generally focusing on preventive maintenance versus corrective maintenance to enhance the stability of our production processes.

In terms of direct cost savings from raw material costs, we have diversified, and intend to continue diversifying, our base of raw material suppliers, and particularly wood suppliers, thereby allowing us to benchmark our suppliers' pricing more broadly. Diversification away from larger suppliers has been achieved by creating a team focused on developing relationships with forest owners and small suppliers, including through offering support to forest owners to improve their plantations (including through the use of more advanced clone trees and silviculture techniques), which in turn enables us to better understand the forest resources available in the areas supplying our facilities and to improve the quality of our wood supply and the competiveness of our production costs. The diversification of suppliers has also been facilitated by our ongoing initiatives to increase the number of different eucalyptus species. In addition, we continue our efforts to develop rapid-growth clone trees and energy crops better adapted to climatic conditions and the soil of both us and our third-party suppliers, thereby reducing the costs associated with producing such wood and energy crops.

In addition, in our complementary forestry activity, we have developed and implemented mechanized harvesting techniques, in lieu of the manual felling that was commonly used in the sector, aimed at improving overall productivity and reducing operating costs. We have also sought to improve the logistics for the transportation of the wood and energy crops to our production facilities, including through increased monitoring of the transportation of such materials by subcontractors in order to decrease inefficiencies.

Acquisitions, Dispositions and Changes in Business Focus

Acquisitions and dispositions can have a substantial impact on our results of operations. In recent years, we have acquired and disposed of significant assets, particularly assets used in conjunction with our forestry activities. For example, in 2009 and 2010, we divested forestry-related assets in Uruguay and, most recently, in December 2012, we entered into an agreement to fully divest our remaining forestry-related assets in Uruguay. These disposals are in line with our strategy to optimize and diversify our local forestry supply management with a focus on reducing wood imports and fixed assets.

More generally, changes in our business focus can also impact our results of operations. Currently, we are expanding our presence in the biomass energy sector, including through a new independent biomass energy facility in Huelva, Spain for which we expect transfer of ownership in the first quarter of 2013, and a second independent biomass energy facility, in Mérida, Spain, which is expected to become operational during the fourth quarter of 2014. We anticipate that each of these facilities, once fully commercially operational, will impact our results of operations. Moreover, in our forestry activity, in addition to our focus on reducing fixed assets, we are also gradually disengaging from sales of wood to third parties and our forestry consultancy services business, including through our 2011 restructuring of Ibersilva, S.A.U., our forest services and civil works subsidiary, to enable an increased focus on the provision of intragroup forestry services.

Other Financial Measures

In this Report, we present certain non-GAAP measures, including Adjusted EBITDA, Cash Costs, EBITDA, Gross debt, Mid-cycle EBITDA, Net debt, Other Cash Costs, Unlevered free cash flow (excluding expansion capital expenditure), Wood Costs and Working capital and certain leverage and coverage ratios that are not required by, or presented in accordance with, IFRS. Our management believes that the presentation of these non-GAAP measures and ratios is helpful to investors because these and other similar measures and ratios are widely used by certain investors, security analysts and other interested parties as supplemental measures of performance and liquidity. However, you should not construe these non-GAAP measures and ratios as an alternative to net income determined in accordance with IFRS or to cash flows from operations, investing activities or financing activities, or to any other measure or ratio required by, or presented in accordance with, IFRS. In addition, our non-GAAP measures and ratios may not be comparable to similarly titled measures or ratios used by other companies.

Explanation of Line Items

Our pulp production activities are inseparably associated with our energy generation, because the process by which we generate energy is integrated with our pulp production process. In addition, the wood we use to produce pulp is sourced by our forestry activities and we have independent energy generation facilities that use biomass fuel sourced through our forestry activities. Because our pulp production and energy generation activities are so closely integrated, the results of the activities carried out by each of them are analyzed jointly by our management, and, except for revenue, there is no separate financial information for each of them. Furthermore, because the majority of our revenues from forestry activities is generated within the Group, it is not possible and would not be representative to indicate an EBITDA figure exclusively associated with sales to third parties.

The following is a brief description of the line items that are included in our consolidated income statements.

Revenue

Our revenue represents the combined results of our three business activities: pulp, energy and forestry.

Revenue from pulp is calculated from the volume of pulp sold in the period multiplied by a net price in euros. The net price, in turn, is calculated through the conversion of the reference price in U.S. dollars agreed with the customer into euros and applying the agreed commercial discount.

Revenue from energy is calculated by multiplying the volume of electricity sold to the grid at either a Regulated Tariff or a Market Tariff. Current regulations allow us to sell 100% of our electricity production at the regulated price and buy the energy we consume from the grid at market prices (plus an access toll). During 2012, we produced approximately twice the amount of electricity than we consumed.

Revenue from forest management relates to our sales to third parties and is comprised of revenues derived from our forestry services, civil works activities, wood trading activities (which, historically, have primarily been comprised of sales of wood from Uruguay to third parties), and wood swaps with Spanish and Portuguese companies. The impact of this activity on our operating profit has historically been marginal, and we expect our revenue from our forest management activity to further reduce with the agreed sale of our Uruguayan forestry assets in December 2012, as well as the restructuring of Ibersilva, S.A.U., our forest services and civil works subsidiary, in 2011, to enable it to focus on intragroup forestry services.

Gains or losses on hedging operations

Gains or losses on hedging operations represents the results of our hedging operations, primarily our foreign exchange hedging operations, which we enter into to protect against exchange rate volatility between the U.S. dollar (the currency in which our pulp sales are conducted) and the euro (with the general exception of imported wood, petrochemicals and certain fuels, the currency in which most of our costs are incurred). Our foreign exchange hedges are short term, typically for approximately twelve months. To a lesser extent, and although we currently do not have any material hedging arrangements in place, we also sometimes enter into hedging arrangements to reduce our exposure to pulp prices.

Changes in inventories of finished goods and work in progress

Change in inventories of finished goods and work in progress consists of variations in the level of inventories of finished goods and work in progress at the end of the most recent period compared with the end of the prior period.

Procurements

Procurements are comprised primarily of costs relating to purchases of raw materials, including wood, from third-party suppliers, as well as non-biomass fuels and chemicals.

Group work on non-current assets

Group work on non-current assets includes the capitalization of expenses related to our property, plant and equipment and biological assets (eucalyptus plantations and energy crop plantations). Items capitalized in relation to plantations include rental properties, treatments related to the clearing and preparation of land, irrigation, the phytosanitation of land, the planting and replanting of land, herbicides, and fertilizer.

Other operating income

Other operating income includes rental income and other extraordinary income, compensation provided by insurance on property damage for loss of profits and reversals of provisions that were not applied.

Capital grants transferred to profit and loss

Capital grants transferred to profit and loss relate to investments in our production centers, certain grants related to greenhouse gas emissions and, to a lesser extent, subsidies for operations. The most significant subsidy recently received in this regard is a subsidy granted by IDEPA (the regional government of Asturias) in 2011 for €8.5 million in conjunction with expansion works that were undertaken in our Navia pulp production facility. We also receive free CO_2 rights on an annual basis pursuant to the Spanish National Allocation Plan (Law 1/2005). These are recorded as a capital grant at the value of the CO_2 rights as of January 1.

Staff costs

Staff costs include wages and salaries, social security costs and other personnel costs. Staff costs also include the termination benefits to employees terminated under certain circumstances. The termination benefits that can be reasonably quantified are recognized as an expense in the year in which the decision to terminate the employment relationship is taken.

Depreciation and amortization charges

Depreciation and amortization charges are comprised primarily of the depreciation of our industrial assets, together with the depreciation of wood originating on our own plantations, which is considered a reduction in the value of our biological assets, also known as forestry depletion. Forestry depletion is the cost allocated to felled timber, based on the aggregate costs incurred to the date of felling and the residual value of the plantation.

Impairment and gains or losses on disposals of non-current assets

Impairment and gains or losses from disposal of non-current assets relates to the impairment loss in respect of, or gains/losses upon disposal of, intangible assets, property, plant and equipment and investment property.

Other operating expenses

Other operating expenses includes cost of transport, freight and marketing, utilities, repairs and maintenance, leases and royalties, insurance, costs associated with the CO_2 emission rights used, professional services, communication and indirect taxes. The key line items included in the other operating expenses are: (i) transport, freight and marketing costs (primarily comprised of the delivery cost of wood and other raw materials to our industrial facilities, and the supply of finished pulp to our end-customers); (ii) utilities and supplies (primarily comprised of electricity costs incurred to run our industrial operations); and (iii) repairs and maintenance costs (incurred for the general upkeep and maintenance of our production facilities).

Finance income

Finance income includes income from cash deposits.

Change in fair value of financial instruments

Change in fair value of financial instruments includes the gains or losses derived from changes in the fair value of financial instruments mainly related to: (i) interest rate swap derivative used to hedge our bank debt, which due to a repayment during 2009, ceased to qualify for hedge accounting and (ii) an equity swap we entered into in 2007 for the purpose of hedging the potential increase in the value of stock options awarded to the management that were subsequently not granted, although the equity swap remained in place.

Finance costs

Finance costs include expenses due to interest and similar expenses, including interest on our outstanding corporate indebtedness. Finance costs also include the costs related to factoring and confirming lines entered into in the ordinary course of business.

Exchange differences

Exchange differences include gains and losses originating from exchange differences related to assets and liabilities denominated in currencies other than euro (primarily related to our Uruguay operations).

Income tax

Income tax includes all current and deferred taxes, as calculated in accordance with relevant tax laws in force in the jurisdictions in which we operate.

Results of Operations

Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

The following table sets out selected items from our consolidated income statements for the periods indicated and the percentage change from period to period, and shows these items as a percentage of total revenues.

	2011	2012	Percentage change
			(%)

Operating Data:			
Pulp sales (’000 tonnes)	1,232	1,249	1.3%
Electricity sales (GWh)	1,490	1,543	3.5%
Wood supply to the industrial process (’000 m^3)	3,699	3,643	-1.5%
Income Statement Data:			
Revenue	**825.5**	**827.6**	**0.3%**
Gains or losses on hedging operations	(10.4)	(27.6)	165.1%
Changes in inventories of finished goods and work in progress	(1.7)	0.8	-148.9%
Procurements	(390.8)	(408.0)	4.4%
Gross Margin	**422.6**	**392.8**	**-7.1%**
Group work on non-current assets	27.2	24.2	-11.1%
Other operating income	5.2	2.3	-56.4%
Capital grants transferred to profit and loss	7.4	4.3	-42.2%
Staff costs	(89.4)	(82.1)	-8.2%
Depreciation and amortization charge	(63.5)	(63.4)	-0.2%
Impairment and gains or losses on disposals of non-current assets	4.4	6.3	43.8%
Other operating expenses	(233.9)	(202.1)	-13.6%
Profit/(Loss) from operations	**80.0**	**82.3**	**2.8%**
Finance income	1.4	0.7	-46.5%
Change in fair value of financial instruments	1.6	6.8	324.9%
Finance costs	(28.1)	(24.4)	-13.3%
Exchange differences	2.1	(1.8)	-185.9%
Financial Loss	**(23.0)**	**(18.6)**	**-19.0%**
Net results from the valuation of non-current assets classified as held for sale		**(0.7)**	
Profit/(Loss) before tax	**57.0**	**63.0**	**10.5%**
Income tax	(15.8)	(19.9)	26.2%
Profit/(Loss) for the period from continuing operations	**41.2**	**43.0**	**4.5%**
Profit/(Loss) for the period	**41.2**	**43.0**	**4.5%**

Revenue

Our revenues increased by €2.1 million to €827.6 million in the year ended December 31, 2012 from €825.5 million in the year ended December 31, 2011, a 0.3% increase. The increase in energy sales thanks to better volumes (+3.5%) and prices (+6.6%), was offset by the decreasing sales from forestry-related activities to third parties.

The table below shows the split of our total consolidated revenue generated by each of our three business activities—pulp, energy and forestry—for the year ended December 31, 2012 and the year ended December 31, 2011, respectively:

	Year ended December 31, 2011		**Year ended December 31, 2012**		
	Revenue by activity	**Revenue by activity**	**Revenue by activity**	**Revenue by activity**	**Percentage Change**
	(€ in millions)	**(%)**	**(€ in millions)**	**(%)**	**(%)**
Pulp sales	596.9	72.3%	597.0	72.1%	0.0%
Electricity sales	184.3	22.3%	208.4	25.2%	13.1%
Wood and forestry services	44.3	5.4%	22.3	2.7%	(49.7)%
Revenue	**825.5**		**827.6**		**0.3%**

Our revenues from pulp sales amounted to € 597.0 million in 2012 in line with 2011. The decline in average sale prices by 1.3% to 478.6 €/ton in 2012 from 484.7 €/ton in 2011 was offset by an increase in sales volumes of 1.3% to 1,249 thousand tons in 2012 from 1.232 thousand tons in 2011.

Our revenues from energy sales increased by €24.1 million to €208.4 million in 2012 from €184.3 million in 2011, a 13.1% increase. This increase is attributable to a 6.6% increase in average electricity sale price to 128.0 €/MWh in 2012 from 120.0 €/MWh in 201, a 3.5% increase in electricity sold to the grid to 1,543 GWh in 2012 from 1,490 GWh in 2011 (as a result of improved efficiency in electricity generation) and €10.8 million contribution from the new 50MW power plant in Huelva (operational since September), that are capitalized until the reception of the plant.

Our revenues from forestry sales decreased by €22.0 million to €22.3 million in 2012 from €44.3 million in 2011, a 49.7% decrease. This decrease is attributable to our decision to gradually disengage from this activity.

Gains or losses on hedging operations

We recorded a €27.6 million loss in the year ended December 31, 2012, compared to a €10.4 million loss in the year ended December 31, 2011. During the year ended December 31, 2012, we realized a loss when we settled forward pulp sale contracts in respect of 48,000 tonnes of pulp at an average strike price of $720 per tonne (compared to an average pulp price of $752 per tonne) and $516 million of foreign exchange contracts at an average strike price of 1.374 ($/€) (compared to an average exchange rate of 1.285 ($/€)).

During the year ended December 31,2011, we realized a loss when we settled forward pulp sales contracts in respect of 333,300 tonnes of pulp at an average strike price of €551 per tonne (compared to an average pulp price of €575 per tonne) which was partly offset by a small gain when we settled $233 million of foreign exchange contracts at an average strike price of 1.379 ($/€) (compared to an average exchange rate of 1.39 ($/€)).

Changes in inventories of finished goods and work in progress

Changes in inventories of finished goods and work in progress were a € 0.8 million increase in the year ended December 31, 2012 compared to a €1.7 million decrease in the year ended December 31, 2011.

Procurements

Procurements during the year ended December 31, 2012 increased by €17.2 million to €408.0 million from €390.8 million in the year ended December 31, 2011, a 4.4% increase. This increase was due to the increase in other external expenses, related to increased harvesting activity as a result of the increase of standing timber purchased directly from landlords. Despite a 0.5% increase in pulp production from 1,243 thousand tons in 2011 to 1,250 thousand tons in 2012, purchases declined by 6.2% being mainly compensated by a reduction of inventories of raw, auxiliary and commercial materials and other external expenses.

The following table sets forth the items that constituted our procurements in the periods presented:

	Year ended December 31,	
	2011	**2012**
	(€ in millions)	
Purchases	358.3	336.2
Changes in inventories of raw materials, other materials and merchandise	(10.9)	16.7
Other external expenses	43.4	55.2
Total	**390.8**	**408.0**

Group work on non-current assets

Group work on non-current assets decreased by €3.0 million to € 24.2 million in the year ended December 31, 2012 from €27.2 million in the year ended December 31, 2011, an 11.1% decrease. This decrease was primarily attributable to our increased investments in energy crops for the supply to our energy generation facilities, which was partially offset by lower investments in our Uruguay assets held for sale.

Other operating income

Other operating income decreased by €2.9 million to €2.3 million in year ended December 31, 2012 from €5.2 million in year ended December 31, 2011, a 56.4% decrease.

Capital grants transferred to profit and loss

Capital grants transferred to profit and loss decreased by €3.1 million to €4.3 million in the year ended December 31, 2012 from €7.4 million in the year ended December 31, 2011, a 42.2% decrease. This decrease was primarily attributable to the decrease in the price for CO_2 rights on January 1, 2012 compared to January 1, 2011, which resulted in a lower valuation of our CO_2 rights grant.

Staff costs

Staff costs decreased by €7.3 million to €82.1 million in year ended December 31, 2012 from €89.4 million in the year ended December 31, 2011, a 8.2% decrease. This decrease was primarily due to a reduction in the average number of workers to 1,270 in the year ended December 31, 2012 from 1,575 in the year ended December 31, 2011 as a result of the restructuring of Ibersilva, S.A.U., our forestry and civil works subsidiary, and our Uruguay operations.

The following table sets forth the items that constituted our staff costs in the periods presented:

	Year ended December 31,	
	2011	**2012**
	(€ in millions)	
Wages and salaries	63.6	60.0
Social security costs	15.2	13.9
Pension contributions and other employee benefit costs	3.8	3.5
Termination benefits	6.8	4.7
Total	**89.4**	**82.1**

Depreciation and amortization charge

Depreciation and amortization charge decreased by €0.1 million to €63.4 million in year ended December 31, 2012 from €63.5 million in the year ended December 31, 2011, a 0.2% decrease.

Impairment and gains or losses on disposals of non-current assets

We recorded a €6.3 million gain in the year ended December 31, 2012 compared to a €4.4 million gain in the year ended December 31, 2011. The gain in year ended December 31, 2012 and 2011 was primarily due to a reversal of provisions.

Other operating expenses

Other operating expenses decreased by €31.8 million to €202.1 million in the year ended December 31, 2012 from €233.9 million in year ended December 31, 2011, a 13.6% decrease. This decrease was primarily attributable to a reduction in transport, freight and marketing costs due to lower volumes of imported timber. Also to the decrease of electricity purchases thanks to better efficiencies and lower use of grid charges in Navia.

The following table sets forth the items that constitute our other operating expenses in the periods presented:

	Year ended December 31,	
	2011	**2012**
	(€ in millions)	
Outside services:		
Transport, freight and marketing costs	87.8	60.4
Utilities	64.4	60.8
Repairs and maintenance	18.7	16.5
Leases and royalties	8.6	7.7
Insurance premiums	6.1	5.3
Independent professional services	5.8	6.9
Banking and similar services	2.5	2.5
Advertising, publicity and public relations	0.8	1.0
Research and development expenses	0.1	0.1
Other services	19.9	26.1
Total outside services	**214.7**	**187.3**
Emission rights used	5.6	3.0
Other taxes and operating expenses	5.0	6.8
Change in operating provisions	8.5	5.1
Total	**233.8**	**202.1**

Profit from operations

Profit from operations increased by €2.3 million to €82.3 million in the year ended December 31, 2012 from €80.0 million in the year ended December 31, 2011, an 2.8% increase. This increase was primarily attributable to a decline in production cost per ton, which was partially offset by lower pulp prices.

Finance income

Finance income decreased by €0.7 million to €0.7 million in year ended December 31, 2012 from €1.4 million in the year ended December 31, 2011, a 46.5% decrease.

Change in fair value of financial instruments

We recorded a €6.8 million gain in the year ended December 31, 2012 compared to a €1.6 million gain in the year ended December 31, 2011. The gains in both periods were primarily due to the settlement of the interest rate swap related to our syndicated credit facility, partially offset in 2011 by losses on our equity swap due to a decrease in our share price.

In May 2008, we entered into an interest rate swap to hedge 60% of our bank debt. This debt substantially changed in 2009 due to a repayment (from the Uruguay disposal proceeds). As a result, the interest rate swap ceased to qualify for hedge accounting on October 16, 2009. Since that date, changes in the value of this instrument have been recognized in the change in fair value of financial instruments. These changes are due to interest payments or movements of the interest rate curve.

In 2007, we entered into an equity swap to hedge against the potential increase in the value of stock options awarded to our management. The stock options were subsequently not granted to management; however, the equity swap remained in place. The subsequent changes in the fair value of this equity swap have been recognized in the change in fair value of financial instruments.

Finance costs

Finance costs decreased by €3.7 million to €24.4 million in year ended December 31, 2012 from €28.1 million in the year ended December 31, 2011, a 13.3% decrease. This decrease was primarily attributable to a decrease in interest rates.

Exchange differences

We recorded a €1.8 million loss in the year ended December 31, 2012 compared to a gain of €2.1 million in the year ended December 31, 2011. Both the loss and the gain were primarily attributable to the translation impact of foreign exchange fluctuations in relation to our Uruguayan assets.

Financial gain/(loss)

Financial loss decreased by €4.4 million to €18.6 million in the year ended December 31, 2012 from €23.0 million in the year ended December 31, 2011, an 19.0% decrease, primarily due to lower finance costs.

Profit before tax

Profit before tax increased by €6.0 million to €63.0 million in the year ended December 31, 2012 from €57.0 million in the year ended December 31, 2011, a 10.5% increase. This increase was primarily due to the increase profit from operations.

Income tax

Income tax increased by €4.1 million to €19.9 million in year ended September 31, 2012 from €15.8 million in the year ended December 31, 2011, a 26.2% increase. This increase was primarily attributable to the increase in profit before tax.

Profit from continuing operations

Profit from continuing operations increased by €1.8 million to €43.0 million in the year ended December 31, 2012 from €41.2 million in the year ended December 31, 2011, a 4.5% increase.

Liquidity and Capital Resources

Overview

Liquidity and capital resources describe the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations, including working capital needs, capital expenditures, debt service obligations, other commitments, contractual obligations and acquisitions. Our principal sources of liquidity have historically been cash generated from our operating activities, cash raised through bank borrowings and from the equity capital markets. For example, in 2010 we completed an equity raising in which we issued 83,112,890 ordinary shares of the company in exchange for gross proceeds of €130 million, which were used to reduce our indebtedness. Our principal uses of cash are for capital expenditure related to the maintenance of our pulp production and energy generating facilities, the improvement of the productivity and efficiency of our pulp production facilities, our further expansion into the biomass energy sector and distributions to our shareholders.

Cash flows

We believe that our operating cash flows and our borrowing capacity under our credit facilities, will be sufficient to meet the cash requirements of our business operations for the foreseeable future.

However, our ability to generate cash from our operations depends on future operating performance, which in turn depends, to a certain extent, on general economic, financial, competitive market, legislative, regulatory and other factors, many of which are beyond our control, as well as other factors discussed in the sections “Risk Factors” and “Business.” Moreover, we cannot assure you that future debt or equity financing will be available to us. If our cash flows are lower than expected or the cash requirements of our business exceed our projections, we may be required to seek additional financing, which may not be available on commercially reasonable terms, if at all. Our ability to arrange financing generally and our cost of capital depend on numerous factors, including general economic conditions, the availability of credit from banks, other financial institutions, and the capital markets, restrictions in the instruments governing our debt, and our general financial performance.

	Year ended December 31,	
	2011	2012
	(€ in millions)	
Cash Flow Data:		
Cash flows from/used in operating activities:		
Consolidated profit for the year before tax	57.0	63.0
Adjustments for:		
Depreciation and amortization charge	53.7	53.3
Depletion of forestry reserve	8.5	9.1
Amortization of intangible assets	1.3	1.0
Changes in provisions and other deferred expenses (net).	(3.6)	3.7
Gains/losses on disposal of non-current assets	(4.2)	(3.0)
Finance income	(5.3)	(0.7)
Finance costs	29.3	18.0
Grants and subsidies transferred to profit and loss	(1.1)	(1.2)
Changes in working capital:		
Trade and other receivables	28.0	(24.0)
Current financial and other assets	(10.8)	18.2
Current liabilities	(8.0)	(13.8)
Inventories	(8.3)	18.3
Other cash flows from operating activities:		
Interest paid	(28.1)	(21.5)
Interest received	5.2	0.7
Income tax recovered (paid)	(2.9)	(9.4)
Net cash flows from/used in operating activities	**110.7**	**111.6**
Cash flows from/used in investing activities:		
Investments:		

Property, plant and equipment	(94.9)	(104.4)
Intangible assets	(0.4)	(16.1)
Other financial assets	-	(0.2)
Disposals:		
Property, plant and equipment	4.3	0.4
Other financial assets	1.7	0.2
Net cash flows from/used in investing activities	**(89.3)**	**(120.1)**
Cash flows from financing activities:		
Proceeds and payments relating to equity instruments:		
Purchase of treasury shares	(53.7)	(41.7)
Disposal of treasury shares	7.2	1.3
Proceeds and payments relating to financial liability instruments:		
Increase/(decrease) in bank borrowings, net of loan arrangement costs	43.1	37.4
Grants and subsidies received	8.5	-
Dividends	(25.8)	(16.5)
Financial instruments (equity swaps)	-	(3.3)
Translation difference		(0.2)
Net cash flows from financing activities	**(20.8)**	**(22.9)**

Net cash flows from operating activities

During year ended December 31, 2012, our cashflow from operating activities was €111.6 million, compared to €110.7 million during the year ended December 31, 2011. This €0.9 million increase was primarily due to a increase in working capital of €1.3 million in the year ended December 31, 2012, compared to a €0.9 million working capital decrease in the year ended December 31, 2011.

Net cash flows from Investing Activities

During year ended December 31, 2012, our cashflow used in investing activities was €120.1 million, compared to €89.3 million during the year ended December 31, 2011. The increase in mainly related to higher payments to the EPC contracts for the construction of Huelva and Merida power plants (€58.9M in 2012 vs €50.8M in 2011), higher investments in energy crop plantations for the future supply needs of these plants (€17.6M in 2012 vs €10.6M accounted in 2011) and repurchase of CO2 emission rights (€12.5M).

Net cash flows from Financing Activities

During the year ended December 31, 2012, our cashflow used in financing activities was €22.9 million, compared to €20.8 million for the year ended December 31, 2011, or €2.1 million higher. Our principal sources and uses of cash in the financing activities were:

- a €41.7 million purchase of treasury shares in year ended December 31, 2012, compared to €53.7 million in the year ended December 31, 2011.

- a €16.5 million dividend payment to our shareholders in the year ended December 31, 2012 compared to €25.8 million in the year ended December 31, 2011;

- €8.5 million of grants received in the year ended December 31, 2011 primarily from the Asturias regional government related to the modernization plan for our Navia plant located in Asturias;

- €37.4 million net borrowing in the year ended December 31, 2012, resulting from a € 41.3 million drawing under our project finance arrangements offset by €3.8 million of debt repayments in the year ended September 31, 2012 compared to €43.1 million net borrowing in the year ended December 31, 2011 when we borrowed € 54.9 million under our project finance arrangements partly offset by €11.9 million of debt repayments; and

Working Capital

The movement in components of net working capital is as shown in the table below for each of the periods indicated.

	2011	2012
	(€ in millions)	
Inventories	112.5	87.6
Trade and other receivables	122.8	138.6
Receivables from public authorities	13	29.7
Other current financial assets	22.8	7.6
Other current assets	0.9	0.9
Trade and other payables	(182.0)	(201.9)
Corporate income tax payable	(0.4)	(1.3)
Other accounts payable to public authorities	(17.7)	(8.5)
Other current liabilities	(0.1)	(0.5)
Working capital	**71.9**	**52.1**
Change in working capital as per cash flow statement	**0.8**	**(1.3)**

We define "working capital" as inventories, plus trade and other receivables, plus receivables from public authorities, plus other current financial assets, plus other current assets, less trades and other payables, less corporate income tax payable, less other accounts payable to public authorities and less other current liabilities. Our working capital levels vary as a result of several factors, including the impact of raw material prices and selling prices, production stoppages and maintenance works, changes in payment terms in the case of key suppliers, foreign exchange rates, our decisions to hold inventories and the operating level of our business.

As of December 31, 2012 we had nonrecourse factoring facilities in place under which we are allowed to factor up to €85.0 million of which €33.5 million was drawn. As of December 31, 2012 we also had confirming lines (reverse factoring) in place with an aggregate limit of €83.5 million of which €62.8 million was drawn.

Capital Expenditures

	Year ended December 31,	
	2011	2012
Capital expenditures	101,6	113,0
of which maintenance capital expenditure	40,2	36,5

Our principal uses of cash are for capital expenditures related to maintenance capital expenditure, development of biomass energy plants at Huelva and Mérida, and the capacity expansion at the Huelva and Navia new power plants. During 2012, capital expenditures increased by €11.4 million, or 11.2%, to €113.0 million, compared to €101.6 million in 2011. This increase was primarily related to investments in our 50 MW independent biomass energy facility in Huelva and Merida, both in the industrial project and in the energy crop plantations that will supply these projects. Investments related to the maintenance of our pulp activity and to our biomass expansion totaled €36.5 million and €40.2 million for 2012 and 2011 respectively.

Financial Liabilities

Our financial liabilities increased to €344.6 million as December 31, 2012 from €304.4 million as of December 31, 2011. This increase is due to the higher capex activity in energy although it does not take into account the $77.3 million proceeds from the sale of assets in Uruguay, that was closed in March 7, after getting the permits from the Uruguayan authorities.

Financial and Other Material Contractual Obligations

Financial Obligations

The following table summarizes the aggregate principal amount of our financial liabilities as of December 31, 2012 and the related amounts falling due within the periods indicated, as adjusted to give effect to the issuance of the Notes offered hereby and the use of the proceeds therefrom:

Pro Forma Maturities of Financial Liabilities	Payments Due by Period		
	Until December 31, 2013	Between January 1, 2014 and December 31, 2019	After January 1, 2020
		(€ in millions)	
Notes offered hereby	—	—	250.0
Project finance[(1)]	1.2	48.2	50.9
CDTI and other indebtedness	2.0	8.5	3.1
Total Financial Liabilities	**3.2**	**56.6**	**304.0**

(1) Represents the project finance arrangements for the Huelva and Mérida independent biomass energy facilities.

Other Material Contractual Obligations

We are party to a long-term take-or-pay contract for the supply of natural gas. Under the terms of that contract, we are committed to acquire 201 GW of natural gas per annum. The contract expires in February 2016.

As of December 31, 2012, our lease payments until December 31, 2017 will be €26.9 million and thereafter €29.2 million (not including common expenses, future increases for inflation or future contractual rent rises). As of December 31, 2012, we leased 28,256 hectares of forest land for the cultivation of standing timber. These leases have an average term of 30 years.

In addition to the above obligations, we enter into a large number of short- and long-term agreements for the purchase of standing timber. However, we do not consider that any of these agreements individually to be a material obligation.

Our ability to make scheduled payments of principal of, or to pay the interest on, or to refinance, our indebtedness (including the Notes), or to fund our other contractual obligations, will depend on our future operating performance, which in turn depends, to a certain extent, on general economic, financial, competitive market, legislative, regulatory and other factors, many of which are beyond our control, as well as other factors discussed in "Risk Factors" and "Business."

Off-Balance Sheet Arrangements

Under the Spanish Greenhouse Regulations, we are required to obtain certain greenhouse gas emission authorizations. We have entered into EUA daily future contracts to purchase 601,000 tonnes of CO_2 rights, which are settled on a daily basis, and which we may roll over totally or partially to cover our CO_2 rights needs in the future. These contracts have their final settlement date on December 31, 2013. Going forward, we will continue to enter into forward contracts to acquire additional CO_2 rights, and management believes we have contracted, or will be able to contract, sufficient rights to meet our operational needs for 2013 through 2016. Please see "Summary—Recent Developments—Greenhouse Gas Emissions Rights" and "Regulation."

Other than this forward contract for CO_2 emission authorizations, we do not have any material off-balance sheet finance activities.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed in varying degrees to a variety of market risks. The Board of Directors, with the assistance of senior management, defines our risk management criteria and approves the specific policies applied to manage commodity price, exchange rate, interest rate, credit and liquidity risks, and the use of derivative financial instruments for risk management purposes.

The following table summarizes our estimated derivative positions as of December 31, 2012, as adjusted to give effect to the issuance of the Notes issued hereby and the use of the proceeds therefrom:

Liabilities/Assets	As of December 31, 2012 Current Assets	Non-current liabilities	Current liabilities
		(€ in millions)	
Huelva interest rate swap	-	8.1	2.4
Mérida interest rate swap	-	1.5	0.3
Equity swap	-	8.1	2.0
Foreign currency hedges	10.7	-	-
Total	**10.7**	**17.8**	**4.7**

The main financial risks facing the Group, and the policies and controls adopted to mitigate them, are as follows.

Commodity Price Risk

Pulp price

The price of pulp is established in an active market, the evolution of which significantly affects our revenues. Changes in pulp prices affect the cash flows obtained from sales. Pulp prices display a cyclical nature, and there has been considerable price volatility in recent years. Price movements are associated with changes in volumes or the conditions dictating supply and demand, as well as the financial situation of firms operating in the market.

In order to mitigate this risk, we have made significant investments in recent years to raise productivity and improve the quality of the products we sell to the market. We estimate that a 5% increase in the international pulp price in euro would have increased our consolidated revenues by approximately 3.9% in the year ended December 31, 2011.

As of December 31, 2012, the Group had no pulp price hedge agreement.

Timber supplies

Eucalyptus timber is the main raw material input in the production of pulp, and its price is subject to fluctuations due to regional changes in the balance of supply and demand, and the need to access markets in other regions when local supplies are insufficient to meet demand, resulting in higher logistical costs. We also maximize the value added in our products by increasing our use of certified timber, which is more costly. We estimate that a 5% increase in the price per cubic meter of eucalyptus timber used in the production process would have reduced our operating margin by approximately 15%.

Foreign Exchange Risk

Although the majority of our sales are made in the European market, revenues from sales of pulp are affected by the U.S. dollar/euro exchange rate because the benchmark sale price of pulp on the international market is calculated in U.S. dollars per tonne. Since our cost structure is primarily in euros, changes in the U.S. dollar exchange rate can have a significant impact on earnings volatility. We estimate that a 5% appreciation of the U.S. dollar against the euro would have increased our consolidated revenues by approximately 3.6%.

We continuously monitor our foreign exchange risk and enter into hedging transactions if deemed appropriate to minimize our exposure to currency fluctuations. All hedging schemes are subject to the approval of our Board of Directors. As of December 31, 2012, the notional amount of these hedges amounted to $222 million.

Interest Rate Risk

We have limited exposure to floating interest rate debt. To the extent we are exposed to floating rate debt, we use interest rate swap contracts to manage our exposure to interest rate movements on portions of our existing debt. We have entered into hedges associated with the project financing of our Huelva and Mérida plants. As of December 31, 2012, these hedges amounted to a liability of €12.3 million.

Equity Swap

On October 25, 2007, the Issuer arranged an equity swap with Bankia, S.A. for a total amount of 5.1 million shares of the Issuer, at a base price of €4.40 per share, in order to comply with certain terms and conditions set forth in the management incentive plan of our senior management. The terms of this equity swap were amended in March 2010 as a result of our share capital increase, at a base price of €4.11 per share, and in June 2012, by extending its term until 2015, with partial cancellation of 1.0 million shares in each of March 2013 and March 2014 and 1.8 million shares in March 2015. In addition, March 15, 2015 was designated as the new termination date. As of December 31, 2012, the fair value of the instrument was negative €10.2 million.

Credit Risk

We are exposed to credit risk in respect of outstanding balances receivable from customers, particularly in our pulp business. We manage this risk by entering into credit insurance policies, which assign credit limits to each of our customers based on their credit quality as determined by the insurer. These policies provide cover for between 75% and 90% of our trade receivables associated with the sale of pulp. Provisions are made for overdue balances where there is evidence of impairment, as well as for all receivables overdue by twelve months or more that are not covered by credit insurance policies. With respect to credit risk relating to our energy generation business, payment is obtained from the Iberian electricity system.

Liquidity and Asset Management Risk

We are exposed to both liquidity and asset management risk. We manage these risks by closely monitoring the maturities of our bank borrowings and ensuring that there are sufficient committed loan facilities (including refinancing, if necessary) to cover forecasted cash requirements, as well as taking such risks into account in our consideration of any dividends to be distributed.

Critical Accounting Estimates and Judgments

Our consolidated financial statements are prepared in accordance with IFRS. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates and judgments could cause actual results to differ.

Our accounting policies are more fully described in Note 4 to our audited consolidated financial statements for the year ended December 31, 2012. We believe the following policies to be the most significant policies that require management to consider matters that are inherently uncertain or to make subjective and complex judgments.

Assessment of Possible Impairment Losses on Certain Assets

We test tangible and intangible assets for impairment to determine whether the recoverable amount of the assets has been reduced below their carrying amount. The recoverable amounts are calculated for each of our cash-generating units. The recoverable amount is the higher of fair value less costs to sell and value in use. In order to calculate value in use, the estimated cash flows from the cash-generating unit are discounted applying a discount rate representing the cost of capital, taking into account the cost of borrowing and business risks. Where it is estimated that the recoverable amount of an asset is less than its carrying amount, the latter is written down to the recoverable amount and an impairment loss is recognized in the consolidated income statement. If an impairment loss subsequently reverses, the carrying amount of the cash-generating unit is increased to the revised estimate of the recoverable amount such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years. A reversal of an impairment loss is recognized as income.

Useful Life of Property, Plant and Equipment and Intangible Assets

We calculate the depreciation of our property, plant and equipment on a straight-line basis at annual rates based on the years of estimated useful life of the assets, as follows:

	Estimated Years of Useful Life
Buildings	20–40
Plant and machinery	11–16
Other fixtures, tools and furniture	11
Other items of property, plant and equipment	11

While land is considered to have an indefinite useful life and is therefore not depreciated, investments made in buildings constructed on land granted under administrative concessions are recognized under “Buildings.” This cost and the cost of any other permanent fixtures located on concession land is depreciated over the shorter of the asset’s useful life or the term of the concession.

Fair Value of Financial Assets, Financial Instruments and Derivatives

Financial Assets

We classify our financial assets into two categories:

(i) *Loans and receivables*: trade receivables and financial assets with fixed or determinable payments arising from non-trade operations arising from the sale of goods or the provision of services.

(ii) *Available-for-sale financial assets*: these include debt securities and equity instruments of other companies that are not classified in any other category.

Financial assets are initially recognized at the fair value of the consideration given plus any directly attributable transaction costs. Loans and receivables are measured at amortized cost. We also recognize impairment losses in the consolidated income statement where it is determined that the financial assets present recoverability risks.

Available-for-sale financial assets are measured at fair value, and the gains and losses arising from changes in fair value are recognized in consolidated equity until the asset is disposed of or it is determined that it has become permanently impaired, at which time the cumulative gains or losses previously recognized are taken to the net consolidated profit or loss for the year.

We derecognize a financial asset when it expires or when the rights to the cash flows from the financial asset have been transferred and substantially all the risks and rewards of ownership have been transferred. However, in transfers of financial assets in which substantially all the risks and rewards of ownership are retained, we do not derecognize such financial assets and recognize a financial liability for an amount equal to the consideration received.

Financial Liabilities

Financial liabilities include accounts payable by us that have arisen from the purchase of goods and services in the normal course of business, and those which, not having commercial substance, cannot be classified as derivative financial instruments.

Accounts payable are initially recognized at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortized cost. We derecognize financial liabilities when the obligations giving rise to them cease to exist.

Derivative financial instruments and hedge accounting

We use financial derivative instruments to hedge against exposures to certain financial and market risks, including foreign exchange, commodity and interest rate risks. These financial instruments are initially recognized at their cost of acquisition and the necessary valuation adjustments are subsequently made to reflect their fair value at any given time. Write-downs are recognized under “Derivatives” in the consolidated balance sheet, and any eventual write-backs are recognized under “Financial assets—Derivatives.” The gains or losses on these changes in value are recognized in the consolidated income statement, unless the derivative has been designated as a hedging instrument, in which case it is recognized as follows:

(i) *Fair value hedges*: both the hedged item and the hedging instrument are measured at fair value, and any changes in the value of either are recognized in the consolidated income statement. Effects are offset in the same caption of the consolidated income statement.

(ii) *Cash flow hedges*: Changes in the fair value of financial derivatives are recognized in “Equity—Valuation adjustments.” The cumulative loss or gain recognized under this heading is transferred to the consolidated income statement to the extent the underlying has an impact on the consolidated income statement, so that both effects are offset.

In order for these financial instruments to qualify for hedge accounting, they are initially designated as such and the hedging relationship is documented. We also verify, both at inception and periodically over the term of the hedge, that the hedging relationship is effective, i.e., that it is prospectively foreseeable that changes in the fair value or cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument, and that, retrospectively, the gain or loss on the hedge was within a range of 80–125% of the gain or loss on the hedged item. The part of the hedging instrument that is determined to be ineffective is immediately recognized through the consolidated income statement.

The fair values of the different financial derivative instruments is calculated by discounting expected cash flows based on conditions in both spot and futures markets at the calculation date. All of the methods used are generally accepted by financial instrument analysts.

Hedge accounting is discontinued when the hedge is no longer highly effective. In this case, the cumulative gain or loss arising on the hedging instrument that was recognized directly in equity is maintained until the expected commitment or transaction materializes, when it is transferred to the consolidated income statement. Where the commitment or transaction envisaged is not expected to occur, any accumulated gain or loss previously recognized in equity is taken to the consolidated income statement.

The fair value of financial instruments of this kind which are not traded on an active market is calculated applying measurement techniques that maximize the use of observable market data, and to a lesser extent, estimates. On this basis, the measurement techniques applied to derivative financial instruments are, in general, second-level methods, because the key data employed to calculate fair value (interest rate curves and the cellulose pulp price curve) are observable.

Equity instruments

An equity instrument represents a residual ownership interest in the equity of the Issuer once all of its liabilities have been deducted. The equity instruments issued by the Issuer are recognized in equity for the amount of the proceeds received, net of issuance costs. Treasury shares acquired by the Issuer are recognized at the value of the consideration paid and are presented as a reduction in equity. The gain or loss arising on the purchase, sale, issue or redemption of treasury shares is recognized directly in equity. No amounts are recognized in the income statement in this respect.

Commitments with Employees

The fair value of the the Special Variable Executive Compensation Plan, our management incentive plan, has been determined using the Black-Scholes method, which is generally accepted for financial instruments of this type. The fair value of the equity swap we arranged with Bankia, S.A. on October 25, 2007 is calculated based on the discounted cash flows of the share component and the discounted cash flows generated by the accrual of interest. This instrument does not meet the criteria to qualify as a hedging instrument, and changes in fair value must therefore be recognized in the consolidated income statement as they occur.

Provisions

The consolidated financial statements include all provisions where there is a likelihood an obligation will have to be settled. Contingent liabilities are not recognized in the consolidated financial statements but rather are disclosed in the accompanying notes, unless the possibility of an outflow in settlement is not considered remote.

Provisions, including variable employee remuneration, are measured based on the present value of the best estimate possible of the sum necessary to cancel or transfer the obligation, taking into account the information available on the event and its consequences. Adjustments to provisions are recognized as finance costs as they are accrued.

Deferred tax assets

Deferred tax expenses or income relate to the recognition and derecognition of deferred tax assets and liabilities. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability settled. Deferred tax assets are recognized to the extent that it is considered probable that the Group will have taxable profits in the future against which the deferred tax assets can be utilized. Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognized in equity. The deferred tax assets recognized are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that they will be recovered through future taxable profits.

Recent Developments

Current Trading Update

Although our financial results for the first quarter of 2013 are not yet available, we believe our revenue and EBITDA for the first quarter of 2013 will be higher than our revenue and EBITDA for the fourth quarter of 2011. This is primarily due to higher pulp prices and energy sales in the first quarter of 2013 after the consolidation of the Huelva 50MW power plant whose ownership has been transferred from the EPC contractor to Ence as of February 7, 2013.

Increase in the Sale Price of Pulp

We have announced an increase of our pulp sale price to $820 per tonne effective from March1, 2013. This decision was made in light of the upward trend in pulp prices for the last six months, and reflects the rising demand worldwide for short-fiber pulp, such as BHKP, which is in turn used to produce tissue and other products.

New Energy Taxes in Spain

On January 1, 2013, a new statute became effective (the "Energy Tax Law"), which, among other things, provides for:

- a direct tax on energy generators equal to 7% of the total annual revenues of each energy generation facility; and

- the implementation of a "green cent" (*céntimo verde*) tax on natural gas under certain circumstances (including for the purposes for which natural gas is used in our energy generation facilities) at a rate of €0.65 per gigajoule and on fuel oil (which we use in small amounts to start the boilers necessary to our energy generation operations) used for the production of electric energy at a rate of €12.00 per tonne.

Both taxes are tax-deductible. Although we expect the electricity market to pass a portion of these new taxes through the electricity pool prices, the Energy Tax Law is likely to increase our cost of production of energy.

On February 1, 2013, the Royal Decree Law 2/2013 on emergency measures for the electrical sector and the financial system, modified the reference index applicable to RD 661/2007 annual tariff adjustment from the general CPI index to the underlying CPI at constant taxes (excluding tax increases, unprocessed foods and energy products); and the prime economic regimen will be based only on the regulated tariff option (with the pool+premium option eliminated). This regulation is likely to increase our cost of production of energy.

The effect estimated by the financial institutions of the joint implementation of Law 15/2012 of 27 December, on tax for energy sustainability and Royal Decree Law 2/2013 of 1 February, on urgent measures in the electricity sector and in the financial system, is potentially a reduction in the funding available for 20MW Merida project and 50 MW Huelva project, of EUR 20 million euros and EUR 29 million euros, respectively.

Currently the Group's management is analysing the reasonableness of the assumptions used by financial institutions, mainly the evolution of costs and the core CPI. While we have just initiated negotiations with our project finance lenders, we believe that the reduction of the available amount under these project finance facilities may be significantly less due to the impact of revised operational and cost assumptions.

Update on Uruguay Assets Disposal

On December 14, 2012, we entered into an agreement to sell, subject to certain closing conditions, 27,780 hectares of land and related forestry assets owned by us in Uruguay for a total consideration of $77.3 million. Closing has taken place as of March 7, 2013, after the reception of regulatory approvals. This divestiture of our Uruguayan forestry assets is in line with our strategy to divest our forestry assets in order to enable us to focus on sourcing wood locally at more competitive prices from land which we do not own and at the same time to reduce our dependence on more expensive imports for part of our wood supply.

Approval of a dividend of € 0.07 per share and 1 share for every 25 shares

On February 19, the Board of Directors resolved to propose at the 2013 General Shareholders Meeting a dividend payment of €0.07 per share against the 2012 results as well as a dividend on treasury shares drawn down from the share premium in the proportion of one treasury share for every 26 shares that the shareholder hold. At the date of approval, both dividends amounted to a dividend yield of 7.4%. The dividend was approved by the General Meeting of Shareholders held on March 21, 2013.

BUSINESS

Our Company

We are the largest BHKP producer in Europe, focused on eucalyptus pulp, with an annual maximum installed capacity of 1.34 million tons in our three pulp production facilities in Huelva, Navia and Pontevedra (Spain) and an aggregate production of 1.25 million tons in 2012, representing a utilization rate of 93%. We exported 87% of our eucalyptus pulp sales by volume, primarily to the European market, the largest global pulp market and a net importer of market pulp, where we have a market share of 14%. We also have a significant co-generation and renewable energy generation business, with an installed capacity of approximately 230 MW as of December 31, 2012 (excluding our new 50 MW independent biomass energy facility in Huelva, Spain, which became operational in September 2012 and whose ownership has been transferred from our EPC contractor to us in February 7, 2013) and total energy sales of 1,543 GWh for the twelve months ended December 31, 2012. Our integrated pulp and energy business model takes advantage of our strong positioning in forestry supply management, both with respect to managing forest plantations and crops for the production of wood and cultivated biomass and with respect to sourcing wood from third-party sources as required for the sustainability of our business. As of December 31, 2012, we managed approximately 87,924 hectares of plantations (excluding our forestry assets in Uruguay), of which we owned approximately 59%.

We are publicly listed on the Madrid Stock Exchange (*Bolsa de Valores de Madrid*) with a market capitalization of €533.1 million as of December 31, 2012. For the twelve months ended December 31, 2012, we generated revenue of €827.6 million, Adjusted EBITDA of €175.3 million and unlevered free cash flow (excluding expansion capital expenditure) of €88.8 million.

Formation

The origins of our company date back to 1957, when Empresa Nacional de Celulosa de Pontevedra, Empresa Nacional de Celulosa de Huelva and Empresa Nacional de Celulosa de Motril were created by the *Instituto Nacional de Industria* (an industrial holding institute owned and managed by the Spanish government). In 1968, these companies merged, creating Empresa Nacional de Celulosa, S.A., our predecessor company. Our predecessor company was set up at its inception with an export focus that we continue to maintain today. In 1987, the Motril facility was sold, and, in 1999, we acquired full ownership of Celulosas de Asturias, S.A.U., the owner of the Navia facility. We underwent two partial privatizations in 1990 and 1995 (which included public listings), and were fully privatized in 2001. The configuration of our pulp production and forestry activities took place in 1995, and we started generating renewable energy in 1997.

Company Transformation Process

Our company has undergone a significant transformation and change in strategy over the last five years. Between 2007 and 2009, our management was focused on several capital intensive growth projects running in parallel (including a brownfield pulp and energy capacity expansion at Navia and Huelva, Spain and a greenfield pulp production project in Uruguay, as well as a pipeline of biomass projects), which were managed with internal financial and construction resources, with only limited focus on the efficiency and profitability of the existing operations. With respect to our energy generation business, our energy generation revenue represented approximately 10% of our total revenue in 2007 and we financed our biomass expansion projects on our balance sheet. As a consequence of this focus on growth, we also had high financial leverage. Additionally, we operated a forestry ownership business model with a lesser focus on wood sourcing from third parties.

From 2010 onwards, our management's focus and strategy shifted from capacity expansion to cost optimization and efficiency improvements across our pulp production facilities to exploit the business cash flow potential and to better protect our financial performance from cyclicality. As a result, we reduced fixed costs and introduced our Total Quality Management program in 2011, which was designed to drive operational efficiencies, balance maintenance capital expenditure requirements across our facilities and significantly improve utilization rate and productivity levels.

In forestry, we now operate a forestry supply management business model, sourcing our supplies of wood through various local third parties (primarily forest owners and traders), and acting across the value chain (from standing timber through to harvesting and transportation) in order to reduce costs and to ensure the sustainability and security of our wood supply. Our revenue from energy generation has increased, and, for the twelve months ended September 30, 2012, it represented 25% of our total revenue, enabling us to improve our cost competitiveness in the pulp production business as well as providing greater stability and long term visibility to our future cash flow generation capabilities. With respect to growth projects, which are limited to independent biomass energy generation expansion opportunities, we have started outsourcing their execution to EPC providers in order to improve our risk profile. We currently finance independent biomass energy generation projects under long-term project finance arrangements. We also operate a forestry consultancy services business, although, in line with the restructuring of our Ibersilva, S.A.U. subsidiary in 2011, we intend to exit this business in the near future.

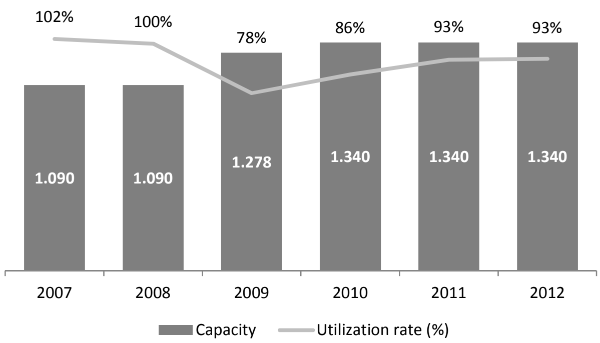
Through cash proceeds from internal cash flow generation, selected asset disposals in 2009 (including divestment of the Uruguayan companies Eufores, S.A., Celulosa y Energía Punta Pereira, S.A., Zona Franca Punta Pereira, S.A. and Zona Franca Bopicua, S.A.) and a € 130 million capital increase, which we implemented in 2010, we have also successfully reduced our net debt from €471.8 million, or 5.3x net debt/Adjusted EBITDA, as of December 31, 2008 to €227.7 million, or 1.7x net debt/Adjusted EBITDA (including 0.6x in relation to our project finance debt), as of December 31, 2012. In December 2012, we also entered into an agreement for the sale of the remaining 27,780 hectareas of forest plantations that we owned in Uruguay, being March 7 the final closing of the transaction after receiving approval from the Uruguayan authorities. We operate a conservative financial policy, characterized by low leverage and adequate liquidity, which is a fundamental element of our strategy to further enhance the resilience of our business. The company's financial strategy is to maintain, going forward, a maximum leverage of 2.5x net debt/Mid-cycle EBITDA, including project finance debt. We define "Mid-cycle EBITDA" as, at any time, senior management's good faith estimate of the consolidated EBITDA of the company based on an estimate of average historical peak and trough pulp prices through the economic cycle. Any strategy is forward-looking in nature, and as such is subject to risk and uncertainties. Please see "Forward-Looking Statements."

Industrial Footprint

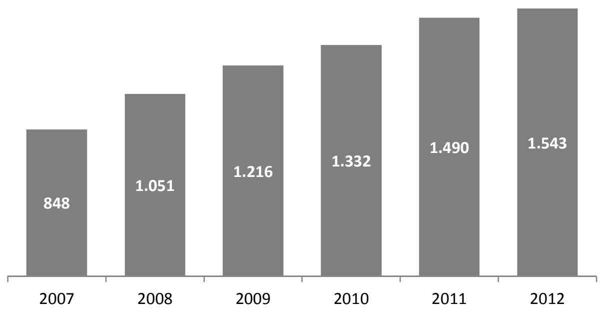
We have a high-quality asset base underpinning our strong operating and environmental performance, having invested over €530 million in our asset base since 2007, excluding our investments in our new independent biomass energy facilities at Huelva and Mérida, Spain and Uruguay assets.

Our installed pulp production capacity has increased by 23% since 2007, with a historically stable pulp production profile. In addition, our energy sales have increased consistently year-on-year since 2007 and our renewable energy generation business continues to grow, with 848 GWh of energy sold in 2007, 1,490 GWh of energy sold in 2011 and 1,543 GWh of energy sold in 2012, the highest level that we have ever sold.

Pulp Production Capacity and Utilization Rate(1)



Energy Sold (GWh)



(1) The decline in the 2009 utilization rate for pulp production was driven by stoppages at the Navia pulp production facility due to capacity expansion works we undertook, as well as a temporary, extraordinary shutdown of one of our two production lines at our Huelva pulp production facility due to low pulp prices.

Source: Company.

Our industrial infrastructure is comprised of three pulp production facilities located in Huelva, Navia and Pontevedra, Spain, where we also own and operate seven energy facilities which co-generate and generate energy by taking advantage of synergies from the industrial process. Each of these facilities is also strategically located in close proximity to our forestry assets and to shipment ports, in order to allow us to operate our business with reduced inventory levels as well as to allow efficient and timely deliveries of our pulp products at a competitive cost. In addition, the ownership of the independent 50 MW biomass energy facility in Huelva, Spain was transferred from our EPC contractor to us in the February 7, 2013. This new independent biomass energy facility is located in close proximity to our pulp production facility in Huelva, Spain. Furthermore, we are currently constructing another independent biomass energy facility in Mérida, Spain, which is expected to become operational by the fourth quarter of 2014.

We comply with internationally recognized standards on health and safety and with respect to the environment and pollution prevention, and internationally recognized guidelines on corporate responsibility and sustainability. As of August, 2012, 71% of our forestry assets were certified under the PEFC scheme and 27% under the FSC scheme (excluding Uruguay), both of which are internationally recognized certification schemes promoting sustainable forest management. We intend to continue focusing on the sustainability of our production as well as to comply with strict environmental standards.

Excluding expansion programs, our maintenance capital expenditure (including investment in pulp facilities, energy and forestry activities to produce wood for pulp) have remained consistently in the €40 million per annum range during the period from 2007 to 2012.

Our Sites and Facilities

Navia

Our Navia facilities are situated on land owned by us which measures approximately half a million square meters. The pulp production facility has a capacity of approximately 500,000 tonnes of pulp annually. Two electricity facilities with a total installed nominal power of 76.98 MW are also located on-site: CEASA NAVIA I (an electrical biomass co-generation facility, with a) and BIOMASA CEASA (an electrical biomass co-generation facility, with a nominal installed power of), with a nominal installed power of 40.33 MW and 36.65 MW respectively.

Pontevedra

Our pulp production facility has a maximum production capacity of 430,000 tonnes of pulp annually. At the Pontevedra site, we also have two electrical biomass co-generation facilities (95 MW and 26.62 MW, respectively) with a combined total installed nominal power of 34.57.

The Pontevedra facilities are situated on a maritime terrestrial public concession awarded to us under a Ministerial Order issued on June 13, 1958. The concession deed did not specify a fixed term for the concession itself, although Article 66 of the Coasts Act later established a maximum term of 30 years for maritime terrestrial public concessions, which, for any concession granted prior to the entry into force of the Coasts Act, would start as from the date of the entry into force of the Coasts Act. Because the Coasts Act entered into force on July 29, 1988, our concession is thus scheduled to expire on July 29, 2018. We are seeking to extend our Pontevedra concession beyond this expiration date. A law that would amend the Coasts Act is currently being debated in the Spanish Parliament. Among other things, the new law would extend the limits of the concessions up to 75 years, provided that the activities undertaken are compatible with maritime-terrestrial public use. The draft law also foresees a special extension for concessions granted before its entry into force. In the case of the concession granted over the site of our Pontevedra facilities, the approval of this law would allow for an up to 75-year extension of this concession which would run from the expiration date of the initial concession in 2018. However, there is no guarantee that the proposed amendment to the Coasts Act will pass, or that we will otherwise be able to extend our Pontevedra land concession. Please see "Risk Factors—Risks Relating to Our Business—Our Pontevedra facilities are constructed on land subject to an administrative concession that is expected to expire in 2018, which may have a material adverse effect on our operations."

Huelva

Our Huelva pulp production facility has a maximum production capacity of approximately 410,000 tonnes annually. We also have three electricity generation facilities situated on this site: CENER I (a natural gas co-generation facility with an installed nominal power of 49.94 MW), CBIO (electrical biomass co-generation facility, with a nominal installed power of 27.50 MW) and CENER II (a condensation installation which uses biomass as fuel, with a nominal installed power of 40.95 MW), with a combined total installed nominal power of 118.39 MW and total energy sales in 2012 of 813.3 GWh.

In September 2012, a new 50 MW independent biomass generation facility at Huelva, Spain became operational following the completion of its construction, through ENCE Energía Huelva, S.L.U. This facility was specifically designed to produce electricity from energy crops and forestry waste, and has a projected annual production of approximately 340 GWh. The test phase for this facility was completed in December 2012 and its ownership has been transferred from our EPC contractor to us in the February 7, 2013. This new independent biomass renewable energy generation facility in Huelva is not impacted by the Moratorium.

Mérida

We are currently constructing, through ENCE Energia Extremadura, S.L.U., a second independent biomass generation facility at Mérida, Spain, which is expected to enter into production by the fourth quarter of 2014. This facility, like our independent biomass generation facility in Huelva which recently entered into production, is also designed to produce electricity from energy crops and forestry wastes, and will have a projected annual production of

158 GWh. This facility will have a capacity of 20 MW. Our independent biomass generation facility at Mérida is not impacted by the Moratorium.

Other Assets

The headquarters of the Issuer are located in Madrid, Spain, at Paseo de la Castellana, 35. This property was leased in 2009 for a term of five years, with the possibility of extending it by an additional three years.

Business Activities

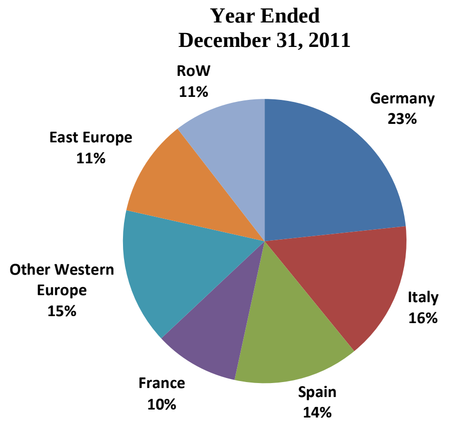
We organize our economic activities into three distinct but closely interrelated and complementary business areas:

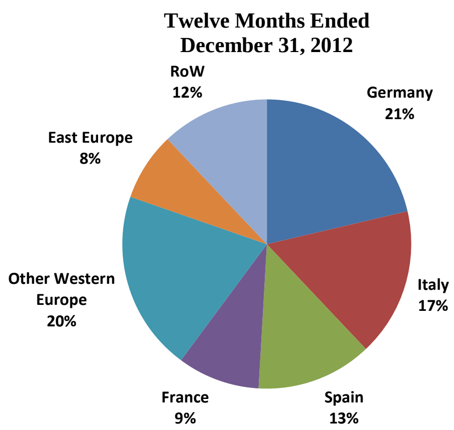
Pulp Activity

Our pulp activities comprise managing the production of pulp at our three pulp production facilities in Spain, located in Navia, Huelva and Pontevedra, as well as the sales of the produced pulp. The combined nominal production capacity of our three pulp production facilities is 1.34 million tonnes/per annum and, during 2012, the combined utilization level was 93% (including maintenance stoppages). For the twelve months ended December 31, 2012, our pulp production activities generated revenue of €597.0 million, representing 72% of our total revenue.

We principally sell to European countries where we are able to better leverage our logistical advantages with a strategy aim to diversify our customer base. In the twelve months ended December 31, 2012, we exported 87% of our eucalyptus pulp sales by volume, primarily to the European market, the largest global pulp market and a net importer of market pulp, where we have a market share of 14%. We held a significant market share by volume for BHKP in each of Germany, Italy, Spain and France, the principal markets for our pulp products, which accounted for 21%, 17%, 13% and 9% of our volume, respectively, for the twelve months ended December 31, 2012. During the same period, we also exported our pulp products to other Western European countries (20%) and to Eastern Europe (8%), as well as selectively outside of Europe (12%, primarily to China).

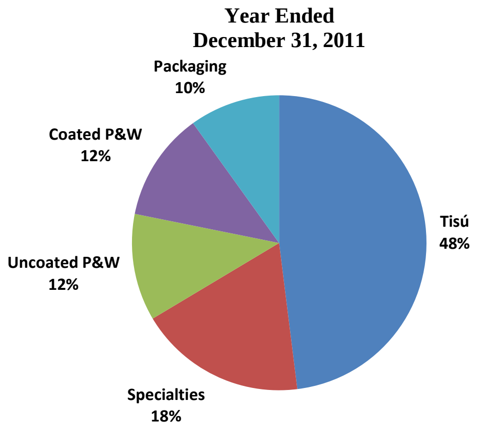
The destination markets of our pulp products during the twelve months ended December 31, 2012 compared to the year ended December 31, 2011, were as follows:

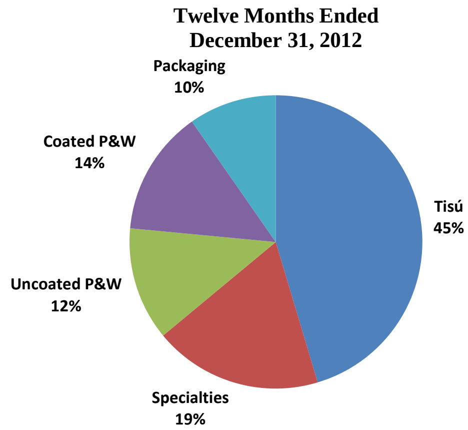




Our sales are focused on end-market paper segments with high forecasted growth rates. Our biggest end-market by volume is the tissue segment (the end products of which mainly include paper towels for kitchen, bathroom and toilet paper), which represented 45% of our pulp sales by volume for the twelve months ended December 31, 2012. According to RISI, the tissue segment benefits from a resilient and stable end-customer demand, and is forecasted to grow globally at a compound annual growth rate ("CAGR") by volume of 4.1% per annum over the period from 2011 to 2016, which is, according to RISI, the highest forecasted CAGR among the various paper segments by global demand during such period. Of the remaining 53% of our pulp sales by volume for the twelve months ended December 31, 2012, 28% came from certain specialty paper and packaging segments (including packaging for beauty products, labels, cigarette papers, currency, coasters and décor paper), including beauty products and white-top packaging, while approximately 26% came from the printing and writing paper ("P&W") segment, which, according to RISI, are expected to grow globally at a CAGR by volume of 2.8% and 0.9%, respectively, over the period from 2011 to 2016.

The following charts show the percentage of our sales by volume generated from each end-market in the twelve months ended December 31, 2012 compared to the year ended December 31, 2011:





Customers

In 2012, our top ten customers by pulp volume sold accounted for 53.7%, and our top 50 customers accounted for 91.4%, of our consolidated revenues from sales of pulp.

We have long-term sales relationships with most of our pulp customers in the domestic and international markets. Generally, we sign contracts with customers during the last quarter of the year for their requirements during the next year, which can account for up to 100% of our yearly pulp sales. These contracts outline agreed sales volumes and also provide the basis for any agreed commercial discounts that will be applied to any purchases by a particular customer. These contracts usually provide for prices to be reviewed on a monthly basis and linked to a certain benchmark such as the listed market price of the pulp or a foreign exchange rate. Our prices are usually set on a Cost, Insurance and Freight ("CIF") basis, i.e., including freight and insurance, meaning that if a certain customer wants us to arrange the logistics for the actual delivery of the pulp, an additional fee is charged to that customer.

Logistics

Most of our pulp deliveries are to customers within Europe and we use third parties to transport our products in Europe by sea, truck or rail. We also use third parties to ship our products by sea to customers outside of Europe.

Our pulp production facilities are strategically located near well-invested port terminals to cover the European market. Due to our presence on the ground in Europe, we can offer certain logistical solutions that increase our competiveness over Latin American producers, such as the use of coastal vessels of a size more adapted to customer demand, enabling a quicker response to their needs. Furthermore, the north-south flow of goods around Spain and Portugal is greater than the reverse, which enables us to operate in a market with a surplus of logistical resources otherwise forced to return to northern Europe under ballast, enabling us to obtain lower logistics costs.

Our Huelva pulp production facility is located ten kilometers from the port of Huelva, which enables this facility to competitively supply the Mediterranean zone. Our Pontevedra pulp production facility is located two kilometers from the port of Marín where there is a covered terminal, which enables large cargo ships to be loaded on their arrival, irrespective of weather conditions. There is also container shipping capacity in this port. Finally, the Navia pulp production facility is 35 kilometers from the port of Ribadeo, which to date has acted as the logistics base for the dispatch of products sold by this particular facility.

We also use warehouses in different European ports, from which we can efficiently distribute products to our customers' installations by land or by a combination of trucks and barges.

Our three-pulp production facility layout, in combination with our relative proximity to the majority of our clients, provides us with the manufacturing flexibility to tailor our pulp products to the specifications of our clients. This gives us an advantage over our Latin American competitors, who, given their logistical difficulties in accessing Europe, tend to ship pulp of a single grade in bulk.

Production Process

We produce short fiber chemical pulp exclusively from eucalyptus timber. We use the Kraft process, which consists of treating the wood chips with a mixture of sodium hydroxide and sodium sulfide to break the bonds linking the lignin to the cellulose, in our pulp production facilities. Our pulp production facilities in Huelva and Navia, Spain produce pulp by using the elemental chlorine free ("ECF") process, a technique that uses chlorine dioxide instead of elemental chlorine gas during the bleaching process, preventing the formation of dioxins and other carcinogens. Our pulp production facility in Pontevedra, Spain, on the other hand, produces pulp by using the totally chlorine free ("TCF") process, a technique that bleaches pulp through the use of an oxygen bleaching process (typically using hydrogen peroxide) instead of the chlorine dioxide that is used in the ECF process. Both the ECF and TCF processes were developed during the 1990s to replace a chlorine gas-based process, which was more harmful to the environment.

The installed capacity, production and percentage utilization as of and for the twelve months ended September 30, 2012 for each of our facilities are detailed below:

Type of Bleaching Process Used/Facility	Installed capacity (tonnes/year)	Production (tonnes)	Percentage utilization (twelve-month average)
Huelva[(i)]	410,000	357,008	87%
Navia	500,000	485,906	97%
Total ECF	**910,000**	**842,914**	**93%**
Pontevedra	430,000	406,722	95%
Total TCF	**430,000**	**406,722**	**95%**
Total	**1,340,000**	**1,249,636**	**93%**

(i) The decline in the utilization rate at our Huelva pulp production facility during 2012 was driven by a mechanical failure at this facility in May 2012, which led to a shutdown of pulp production for 16 days.

In addition to eucalyptus timber, received in the form of logs (mainly with bark) or in the form of chippings (typically timber imported from South America), the principal raw materials used in the pulp production process are as follows:

- *Non-biomass fuels.* These fuels consist primarily of fuel oil. Small amounts of propane and petroleum coke are also used.

- *Chemicals.* These primarily consist of oxygen produced on site and cryogenic oxygen, oxygenated water, caustic soda, sulphuric acid, sodium chlorate, EDTA, lime and sulphur dioxide. In addition, small quantities of additives such as talc, antifoaming and dispersion agents are also used.

The timber received at the facility is debarked and chipped prior to being subjected to a controlled steaming process, which uses an alkali additive produced on site. The steaming dissolves the lignin (a component that holds together the cellulose fibers) present in the wood, thus causing the cellulose fibers to separate. The resulting mixture is washed with water in a virtually closed circuit, separating the dissolved lignin from the suspended cellulose fibers and leaving a residual cellulose paste. The cellulose paste is then subjected to a bleaching process prior to being dried, cut and packaged in order to facilitate its transportation to its point of use as raw material in the production of paper, cardboard, card, packaging and related materials.

The separated lignin together with the chemical products used in the steaming of the wood are concentrated in a multiple-effect evaporation train in order to facilitate combustion. We harness the energy generated during the combustion process, in the form of steam, in our co-generation facilities. Additionally, we use the bark of the wood as fuel for our biomass generation facilities. Finally, the processes we use allow us to regenerate the alkali component necessary for the steaming of the wood from our waste streams with minimum contributions to the circuit to replace losses.

Each pulp production facility undergoes, on an annual basis, an approximately 15-day-long maintenance shutdown.

Regulation

We continuously monitor environmental parameters at each of our pulp production facilities in terms of their liquid and atmospheric effluents (for example, waste and noise), 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 forth in our pulp production facility management systems. Furthermore, since December 2008, all of our pulp facilities have been required to receive a corresponding Integrated Environmental Authorization, certifying that the facility complies with certain environmental and anti-pollution regulations.

We are also subject to Law 13/2010, which modifies Law 1/2005 governing the scheme for greenhouse gas emissions trading and Royal Decree 1722/2012, approved on December 28, which develops certain aspects of the allocation of allowances (the “Spanish Greenhouse Regulation”) implementing Directive 2009/29/EU with regard to greenhouse gas emission rights for carbon dioxide. Under the Spanish Greenhouse Regulations we are required to obtain certain greenhouse gas emission authorizations. We were allocated 657,970 tonnes of emission rights annually for the 2008 to 2012 period. However, from January 2013 to January 2020, our regulatory allocation of CO_2 rights will be reduced to 128,544 tonnes of CO_2 rights annually, which creates a deficit for our operational requirements. However, we have secured, and we expect to secure in the future, sufficient emissions rights to conduct our activities, including through the purchase of such rights. In December 2012, we acquired 506,202 tonnes of greenhouse gas emission rights for CO_2 emissions at a price of €24.7 per right in settlement of a forward agreement entered into in June 2008, for purposes of meeting our emissions rights consumption requirements arising from our production activities in 2012 and going forward. We have entered into EUA daily future contracts to purchase 601,000 tonnes of CO_2 rights, which are settled on a daily basis, and which we may roll over totally or partially to cover our CO_2 rights needs in the future. These contracts have their final settlement date on December 31, 2013. Going forward, we will continue to enter into forward contracts to acquire additional CO_2 rights, and management believes we have already contracted sufficient rights to meet our operational needs for 2013 through 2016.

Energy Activity

Energy Generation

With respect to our energy generation activities, we are primarily a biomass renewable energy generator. We generate renewable energy in two ways: (i) co-generation of electricity and steam (that are used in the pulp production processes) integrated with our existing pulp production facilities, given the nature of the pulp production process, mainly fuelled through the use of the black liquor produced in the extraction of cellulose; and (ii) electricity generation independent from our pulp production, using biomass from energy crops and forestry residues (primarily consisting of wood barks and other wood-based residues related to harvesting activities). In addition, we co-generate electricity and steam using natural gas. All electricity produced by us is sold to the national electricity grid in Spain. All of our facilities use an “all-all” sale and purchase system, such that all energy generated at our plants is sold at a regulated inflation-adjusted preferential rate and all electricity required by the facilities to cover production needs is subsequently repurchased at a market rate (plus an access toll). The regulated inflation-adjusted preferential rate is governed by Royal Decree 661/2007 and Royal Decree 2/2013, which guarantee the sale of the total produced electricity.

We operate seven co-generation and biomass generation assets at each of our three sites in Spain, located at Navia, Pontevedra and Huelva. Our efforts are focused on reducing steam consumption in order to maximize the amount of electricity that will be sold to the grid. In addition, the Navia and Huelva complexes have condensing turbines to maximize the quantity of energy generated from biomass, while Huelva also has a natural gas co-generation installation to support the pulp production process.

Our energy sales by location and installed capacity during 2012, by location, were as follows:

	Twelve months ended December 31, 2012	**Twelve months ended December 31, 2012**
	(total sales in GWh)	**(installed capacity in MW)**
Huelva	813.3	118.4 MW
Pontevedra	218.6	34.6 MW
Navia	510.9	77.0 MW
Total	**1,542.8**	**230.0 MW**

Our energy sales during 2012, by generation type, were as follows:

	Twelve months ended December 31, 2012
	(total sales in GWh)
Generation with biomass(1)	504.0
Co-generation with biomass(2)	663.0
Co-generation with gas(3)	375.8
Total	**1,542.8**

(1) “Generation with biomass” is defined as electricity generated through the use of condensing turbines which are powered by steam produced from the combustion of biomass.

(2) “Co-generation with biomass” is defined as electricity generated through the use of back pressure turbines powered by steam produced from the combustion of biomass.

(3) "Co-generation with gas" is defined as electricity generated through the use of back pressure turbines powered by natural gas.

For the twelve months ended December 31, 2012, our energy generation activities produced revenue of €208.4 million, representing 25% of our total revenue.

On the basis of our position and experience in the forestry sector in the Iberian Peninsula and our expertise in the development of short-rotation energy crops, we have developed a strategy for further expansion into independent biomass plants in order to grow organically and to reduce earnings volatility. These plants are financed under long-term project finance arrangements and built through an EPC contract in order to eliminate the construction risk. The first power plant is a 50 MW biomass energy facility close to our existing facilities in Huelva, which became operational in September 2012. This facility has been specifically designed to produce electricity from energy crops and forestry waste, and has a projected annual production of approximately 340 GWh, which, when fully operational, will make it the largest biomass energy facility supplying energy to the Spanish electricity grid. We took ownership of this facility from our EPC in the February 7, 2013, following the successful completion of a test phase in December 2012. We are also in the process of constructing a further 20 MW biomass energy facility in Mérida, Spain, which we expect to be operational by the fourth quarter of 2014. The renewable energy facilities in Huelva and Mérida are not or will not be affected by the Moratorium imposed by the Spanish government on new renewable energy facilities in Spain. Please see "Regulation."

Regulation

All of our energy generation facilities are included under Royal Decree 661/2007, which enables us to sell the electricity we generate to the Spanish electricity grid at either a Regulated Tariff or a Market Tariff. For further information on this regulation, please see "Regulation." We are able to choose between these two options for every turbine for a period not less than twelve months, a decision that is based on our analysis of market price prospects. (Under the terms of the decree, this remuneration mechanism will remain in place for 15 years and continues at a lower fixed tariff for the life of the installation after the initial 15-year period after installation thereby eliminating possible risks deriving from the income received per MWh sold). Facilities falling under Royal Decree 661/2007 have priority access to the distribution grid, guaranteeing the sale of all of the energy that we produce. Please see "Risk Factors—Risks Relating to Our Business—Regulatory changes may have an adverse effect on our electricity generating operations." For all of our assets except CENER I and CENER II, the fixed tariffs are set to expire in 2024. For CENER I and CENER II, the applicable tariff is set to expire in 2015. After 2015, both CENER I and CENER II will continue to benefit from a fixed preferential tariff, although at a lower rate.

Conversely, we acquire the electricity necessary to supply our production processes at the pool price plus an access toll (payable by persons accessing the grid). Given the positive difference between the price at which we sell electricity and the price at which we buy electricity, all of our facilities use an "all-all" sale and purchase system, meaning that all electricity generated at the facilities is sold to the grid and all electricity required by the facilities to cover production process needs is purchased. During 2012, we produced more than twice the electricity than we consumed.

All facilities with an installed capacity exceeding 10 MW (and groupings of power generation plants amounting to 10 MW or more) must be built or be connected to a generation control center (*centro de control de generación*), which must liaise with the system operator, sending information in real time from the facilities and making sure that the system operator's instructions are executed to ensure reliability of the electricity system at all times. We have our own generation control center which is responsible for the operation as well as the negotiation of energy in the electricity market. Our generation control center participates in the daily power market, making daily and intra-day bids for the purchase and sale of electrical energy to the market operator *Operador del Mercado Ibérico de la Electricidad Polo Español, S.A.* ("OMEL"), responsible for managing the bid system, and also interfaces with the system operator Red Eléctrica de España, S.A.U. ("REE"), the CNE, the Ministry of Industry, Energy and Tourism and other industry public authorities. Please see "Regulation."

Biomass generation process

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, among others.

The biomass which we currently use as raw material for renewable energy generation originates from the following principal sources:

- *Lignin.* This is biomass generated from a delignification process where wood fibers are separated through a cooking process, which is a part of the pulp production process. The resulting black liquor—essentially, lignin mixed with the chemical products used to cook the wood—is used as fuel in recovery boilers generating steam for electricity generation. Additionally, after combustion, the cooking chemicals are recovered in the lime kiln for re-use during the production process, thereby contributing to an elimination of waste generation for the environment and increased efficiency in the pulp production process.

- *Forest wastes (solid biomass).* This is biomass generated during the management and harvesting of the plantations (such as branches and stumps) as well as through the debarking of the timber, before chipping and sending the wood to the digestor for the cooking process. This biomass is burned in a biomass boiler to generate steam for electricity production, thus increasing the efficiency of the process.

- *Energy crops (solid biomass).* Crops (eucalyptus and poplar) specifically cultivated to be used as fuel in order to generate electricity.

We have experience and know-how in management of the biomass supply chain and, with access to our own forest resources and through arrangements with our suppliers, we believe we have guaranteed sufficient biomass resources for our biomass generation assets in the medium and long terms. In addition, since we own or manage more of our biomass resources, we can harvest our forest biomass at a more efficient cost.

Our investment in R&D&I, particularly in energy crops, has also reduced the acquisition cost of our raw materials compared with the cost of purchasing from suppliers. Improvements in productivity of the crops have allowed us to reduce our dependence on suppliers and have given us greater control over our supply chain. As of December 31, 2012, we managed 18,336 hectares planted with ligneous energy crops, out of which we owned 8,847 hectares. Moreover, additional land for crops continues to become available on long-term leasing agreements on price terms lower than those in previous years as existing agricultural crops cease to be economically viable (as a result of low yields combined with the gradual elimination of aid deriving from the European Union's common agricultural policy).

Of the 8,847 hectares owned by us, 7,679 hectares (primarily non-irrigated land) are ring-fenced for the supply of the 50 MW independent biomass energy facility in Huelva, and are equivalent to 45% of our estimated annual requirements for biomass of that installation. The remaining volume relates to the initial activities for development of biomass crops for our remaining projects. For the 50 MW Huelva independent biomass energy facility, our strategy is for around 60% of biomass supply to come from energy crops, while the remaining supply will come from third-party suppliers of forest waste under long-term contracts. Please see "—Project Financings—Project Finance for the Huelva Facility."

For our remaining development in Mérida, Spain, 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 through waste, principally forest waste. Productivity of irrigated land is much higher than that of unirrigated land which, combined with the fact that we expect to use proportionally fewer energy crops in new developments, means that we will need fewer hectares planted with energy crops for new developments as compared to the Huelva independent biomass energy facility.

Development of Biomass Energy Facilities

The process of constructing a new biomass energy facility in Spain usually requires a number of years. First, the proposed biomass energy facility must receive an administrative authorization, including planning permission by the town council in the area where the facility will be built, and an integrated environmental permit from the relevant regional administration. The facility must also obtain a water concession from the relevant water administration, together with a connection to the electricity grid from REE, the Spanish grid manager.

After these permits are granted, the proposed facility then must be registered in the pre-allocation registry of the state Ministry of Industry, guaranteeing that the power plant will sell the electricity at the regulated preferential rate. Before or at approximately the same time as the pre-allocation registration, the project finance documentation, the EPC contract(s) and the operation and maintenance contract in relation to the facility are negotiated with the lenders, the construction company or companies and the operator, respectively. Once all such agreements have been negotiated and signed, the developers of the facility must then construct it so that it may be commissioned, registered on a definitive basis with the registry of the state Ministry of Industry under the Special Regime (*Registro de Instalaciones de Producción en Régimen Especial*) ("RIPRE") and start selling energy. The facility must start selling energy within a period of 36 months as from the date of registration in the pre-allocation registry. After the construction phase is completed and the facility is tested (which occurs after the start of operations), the completed facility is delivered to its owner.

Our presence in all stages of the biomass supply chain and our experience in developing energy crops, including optimizing the productivity of the different types of crop used and their calorific power, together with our knowledge of the forest industry in Spain, where we believe we are the most significant buyer of wood, provides us with an advantage to benefit from the regulatory support given to biomass as a renewable source of energy. However, because the Moratorium recently imposed by the Spanish government pursuant to Royal Decree 661/2007 prevents further renewable generation capacity from being registered, further development of independent biomass energy facilities (aside from the independent biomass renewable energy generation facility that we have recently completed in Huelva, Spain and the independent biomass renewable energy generation facility that we are constructing in Mérida, Spain, both of which were not affected by the Moratorium) has been temporarily put on hold. Please see "Risk Factors—Risks Relating to Our Business—Regulatory changes may have an adverse effect on our electricity generating operations."

Forestry Activity

We have over 55 years of experience in the forestry business. Our forestry activity focuses on three distinct activities: (i) management of eucalyptus plantation assets (which are comprised primarily of the globulus eucalyptus variety) as well as energy crop plantations, which are mainly comprised of eucalyptus or poplar, depending on the location of the land; (ii) facilitating the sourcing, purchase and supply of eucalyptus timber (both from our own forestry assets and the purchase and supply from third parties, sourced both locally and, to a significantly lesser extent, internationally) to our facilities by managing the harvesting and/or transport of such timber to these facilities; and (iii) to a lesser extent, selling timber to third parties. Our forest management activity also provides forestry and environmental consultancy services.

Wood represents the largest portion of the cost of production of pulp. We source wood in several ways, including direct purchases from landowners through large and small suppliers and through imports, and from our own forestry assets. By increasing the proportion of our total wood supply sourced locally, we expect to reduce our reliance on wood imports in the coming years, since, in the recent past, wood imports have proven to be more expensive than locally sourced wood. We also sell timber and provide forestry services to third parties on a limited scale, an activity which generated revenue of € 22.3 million for the twelve months ended December 31, 2012, representing only 3% of our total revenue.

Forestry Management Activities

As of December 31, 2012, we managed approximately 87,924 hectares of forest plantations (excluding Uruguay), of which we owned approximately 59%, with the remainder being managed in collaboration with third parties. Under typical management arrangements, the land continues to be owned by a third party, while we manage the preparation, planting and maintenance of the land only. These arrangements typically have a duration of two to three rotation cycles, or approximately 30 years.

Where we manage forests on behalf of third parties, the owner will retain the ownership of the land while we are typically responsible for land preparation, planting and maintenance. At the time of felling, the owner receives an agreed percentage of the timber extracted from the area, or an amount corresponding to this percentage valued at market price. These arrangements benefit us by ensuring the sustainability of our future supply of timber without requiring us to invest in the underlying property. Although the saplings are normally supplied by us, in some circumstances, the owner will take responsibility for certain planting and/or maintenance tasks in exchange for an additional premium, which is paid to the owner at the time of felling. The duration of these arrangements is typically for two to three rotation cycles, or approximately 30 years, which allows the owner to benefit from our experience and expertise in forestry management and logistics.

The principal activities of the forestry activity are as follows:

- *Nursing and Planting.* We reforest our assets in parallel with the harvesting of the prior crop. Our reforestation program seeks to achieve greater productivity of future assets by applying forestry technology (primarily consisting of planting techniques and treatments, land preparation, fertilization and pest control) and advanced cloning (primarily consisting of the selection of trees, their cloning in nurseries and the raising of the clones in greenhouses). We have greenhouses located in Pontevedra, Huelva and Navia, Spain. We planted 1,831 hectares (excluding Uruguay) during 2012.

- *Maintenance.* We carried out conservation and forestry work on 29,325 hectares (excluding Uruguay) during 2012.

- *Harvesting.* The crop cycle for pulp wood is 10 to 14 years and the crop cycle for wood for energy generation from biomass is 3 to 5 years. We harvested 132 thousand m^3 (excluding Uruguay) from our owned plantations during 2012.

We apply sustainability criteria in managing our forestry assets with the goal of managing and using our plantations while maintaining their biodiversity, productivity and regeneration capacity and viability, as well as enhancing their ecological, social and economic functions.

As of December 31, 2012, our forestry assets under management in Spain and Portugal (excluding forestry assets to be used solely for biomass generation) were as follows:

Geographical area	Hectares under management	Of which hectares owned	% in ownership
Northwest Spain	13,963	2,928	21%
Southwest Spain	51,093	37,534	73%
Portugal	4,532	2,608	58%
Total	**69,588**	**42,972**	**62%**

In addition, as of December 31, 2012, we managed 18,336 hectares, of which we owned 8,847 hectares, of energy crop plantations to be used as fuel for our biomass generation facilities.

During 2012, our total investments in forests in the Iberian Peninsula amounted to €29.3 million. 60% of new investments were allocated to the cultivation of energy crops, primarily through the leasing of land on which to conduct such activities as well as the management of these assets.

Our forestry assets in Uruguay were classified in our financial statements for the year ended December 31, 2011 as held for sale. We entered into an agreement to divest these assets on December 14, 2012 for a total consideration of approximately $77.3 million (€59.1 million) at the applicable €/$ exchange rate on December 14, 2012. Closing was done by March 7, 2013 after the receipt of certain regulatory approvals and the making of required anti-trust notifications to the Uruguayan authorities, as well as other customary conditions (including a customary material adverse change clause).

For the supply of biomass, given the shorter crop cycles (3 to 5 years) of energy crops compared to pulp wood (9 to 12 years) and the availability of highly productive irrigated land for rent due to the reduction of agriculture subsidies, we directly manage our biomass forestry assets and intend to continue to develop energy crops to ensure self-sufficiency for our energy generation facilities.

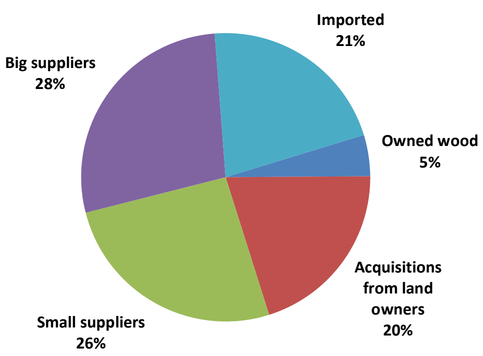
We also engage in research, development and innovation (“R&D&I”) activities related to our forestry activities as well as activities focusing on health and safety at work and environmental, quality and forestry activity sustainability management systems (all of which are fully integrated in the day-to-day management of our forestry activities).

As of December 31, 2012, the net book value of the standing timber in our owned forest plantations (excluding Uruguay) was €171.0 million.

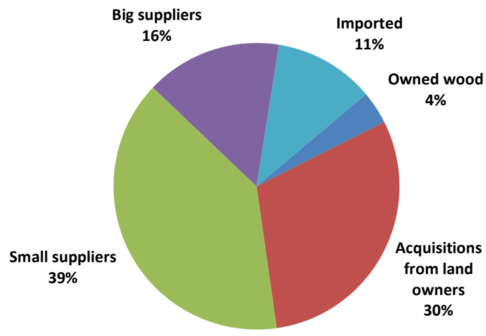
Timber Supply Activities

Our forestry activity also involves the sourcing and supply of timber to our pulp production facilities and biomass generation facilities. We source our timber from our own forestry assets as well as through direct acquisitions from forest owners, imports (historically from South America, particularly Uruguay, and Africa) and certain third-party suppliers. In the twelve months ended December 31, 2012, we sourced our timber as follows as compared to the twelve months ended December 31, 2011:

Forestry Supply in Year Ended December 31, 2011



Forestry Supply in Twelve Months Ended December 31, 2012(1)



(1) We define "small suppliers" as those supplying less than $3{,}000m^3$ of timber per month and "large suppliers" as those supplying more than $3{,}000m^3$ of timber per month.

Source: Company.

The majority of the eucalyptus timber consumed in Spain and Portugal is located in the northern and Atlantic zone, where there is a well-developed market due to the favorable conditions for the development of forest plantations, and where current wood growth and availability is in excess of our timber requirements. However, in the catchment area in which the Huelva facility is located, the eucalyptus timber market is much smaller, resulting in a dependence on timber from other areas to maintain current production levels.

- *Own wood.* Although we have been providing for part of our timber supply requirements from timber from our own land assets since 1977, our current strategy is to reduce the level of timber self-supply in order to reduce the capital investment involved in owning the underlying forestry assets and in order to increase our overall liquidity. Please see "Summary—Our Strategy—Optimize Forestry Supply Management with a Focus on Reducing Fixed Assets."

- *Direct acquisitions from forest owners.* We purchase wood directly from forest owners and meet the costs associated with the harvesting and logistics of transporting this timber to the mill gates. Given the traditionally high fragmentation of land ownership in the Iberian Peninsula, our strategy is to increase the amount of timber sourced directly from forest owners through the development of new purchasing and harvesting teams in order to achieve better knowledge of wood availability, reduce harvesting and logistics costs, and help forest owners increase the productivity of their plantations through the sharing of our experience and expertise, improved eucalyptus clones and best forestry practices (including the implementation of advanced silvaculture techniques). In the longer term, we believe that this strategy will enable us to improve the quality of the wood used in our production processes and the competitiveness of our production process.

- *Imports.* We define "imports" as timber sourced from outside Spain and Portugal. In the case of timber originating from Uruguay and other countries, vessels normally transport both our own timber and that acquired from third parties. Our current strategy is to reduce the level of imports of timber, and correspondingly increase our sourcing of less-expensive wood from smaller local suppliers, given that imports have proven to be more expensive and inefficient than other sources of timber available to us.

- *Small and large suppliers.* We purchase already-harvested timber from suppliers located within Spain and Portugal, which is normally delivered to us at our facilities. The purchase price for such timber typically reflects the costs associated with felling the standing timber through to its transport to our facilities. Our current strategy is to increase the amount of timber sourced from small suppliers versus large suppliers in order to enable us to diversify our supplier base while simultaneously reducing costs. We are not reliant on any particular supplier and we believe we have access to significant quantities of timber for the foreseeable future.

Our forestry activity is also responsible for the harvesting of timber and the logistics of delivering this timber to our facilities in cases in which these services are not provided by the seller of the wood. We are focusing on the mechanization of the harvesting process in order to generate cost savings, and, in cases in which the timber must be manually harvested, outsourcing the harvesting. On the logistics side, we are currently focused on monitoring the transportation of wood by subcontractors in order to decrease inefficiencies. In addition, we are currently implementing a new logistics scheme to supply wood to the Huelva facility from northwestern Spanish woodlands, thereby eliminating the need to import wood from overseas and decreasing our exposure to volatile international markets and currency risks.

Ancillary Activities

In addition to our three primary activities, we also have several ancillary activities, including our R&D&I activity, health and safety at work and environmental, quality and forestry activity sustainability management systems (all of which are fully integrated in the day to day management of our activities) and corporate support activities, including financial, capital and human resources, legal and corporate services activities.

Our R&D&I activity covers the whole spectrum of our activities, from the cultivation of raw materials through to the production process. Our R&D&I activity focuses its efforts on three basic objectives:

- in pulp production, producing ecological paper pastes of improved quality, at competitive costs through the improvement of pulp manufacturing processes;

- in energy generation, optimizing renewable energy products and increasing the productivity of crops devoted to renewable energy production, measured in Kcal per hectare per year, through two principal programs based on the production of short rotation woody crops and another for use of waste biomass; and

- in forest management, increasing forestry productivity measured in tonnes of final cellulose per hectare planted per year.

In addition to the R&D&I activities we conduct in our own centers, we maintain ongoing collaborations with several public and private universities and research centers, both in Spain and internationally, including through the use of research agreements.

Our Strategy

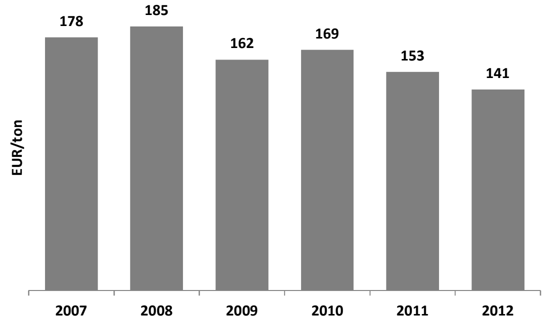
Our overall strategy is to further develop our complementary, integrated business model in terms of cash generation, profitability and return on investment. We intend to achieve this strategy through the continuous improvement of the operational performance of our existing pulp production facilities by focusing on cost reduction and efficiency, stability of production, delivering superior customer satisfaction and maintaining efficient forestry supply management, and by focusing on growth through the selective expansion of our renewable energy generation business. In addition, we intend to continue to maintain our focus on maximizing cash flow generation through controlled capital expenditures and a conservative financial policy.

Maintain Low-Cost, Efficient Pulp Production and focus on Cash Generation

We believe that we are among the lowest-cost pulp producers in Europe, largely as a result of our integrated business model and our significant past investments in our production facilities, resulting in well-invested, cost-efficient production facilities with high utilization rates and expected low maintenance capital expenditure. Our cost leadership is also underpinned by the strategic location of our production facilities. We seek to further optimize our production process and improve the cost efficiency at all of our facilities. Our strategy is to do so by leveraging our integrated business model and our energy generation and forestry activities, thereby minimizing further investments and increasing our competitiveness, profitability and cash generation. We strive to continuously increase the productivity of our pulp business (as measured by tonnes produced per employee) and at the same time maintain the competitive performance of our production facilities against internal and external industry benchmarks relating to key operational indicators and raw material consumption.

Our efficient facilities and production processes allow us to continue to operate during periods of low pulp prices. We have continuously maintained a focus on cost reduction across all our business activities, by improving the cost base and production efficiency of our pulp production facilities, increasing the energy contribution from our renewable energy generation activities, shifting from a forestry ownership to a forestry management business model, divesting non-core assets, increasing and stabilizing production and reducing overhead costs. As a result of these initiatives, since 2007, our Other Cash Costs (our Cash Costs excluding Wood Costs) declined by 21% to €141 per tonne in 2012.

Evolution of Other Cash Costs (Cash Costs Excluding Wood Costs)



Source: Company.

Since 2001, we have not needed to shut down pulp production as a result of economic factors except in 2009 when, as the result of extraordinarily low pulp prices, we temporarily closed one of our two production lines at our pulp production facility in Huelva, Spain.

Increase the Geographical Diversification of Revenues while Focusing on Key Growth Segments of the Paper Market

While we exported 87% of our eucalyptus pulp sales by volume primarily to Western European markets for the twelve months ended December 31, 2012, since 2011 we have focused on further diversifying our revenues by increasing our exposure to high-growth markets in Eastern Europe, particularly Poland and Slovenia, and selectively selling to non-European markets, particularly China, to take advantage of the more favorable supply/demand dynamics in these markets. In parallel, we have reduced our exposure to the Spanish market from 19% of sold volumes in 2010 to 13% during the twelve months ended December 31, 2012.

Our hardwood eucalyptus pulp is highly suited to the tissue segment, which accounted for 45% of our pulp sales by volume in 2012. We will continue to focus on tissue, as this segment is less commoditized, benefitting from a resilient and stable end-customer demand, according to RISI, and is forecasted to grow globally at a CAGR by volume of 4.1% per annum over the period from 2011 to 2016

Selective Further Expansion of Our Renewable Energy Generation Business

We expect biomass energy generation to continue to be a key focus for us. We aim to leverage our extensive experience in building and operating biomass-based renewable energy co-generation and independent generation facilities to optimize efficiency at our existing facilities as well as to grow selectively in the biomass renewable energy sector by developing profitable opportunities that fulfill our requirements both domestically and internationally. In order to guarantee biomass supply in terms of volumes and costs, and structure project finance schemes to lower cash contribution and improve returns, we intend to develop short-rotation energy crop plantations to secure 50% to 60% of our total fuel supply. Until the current moratorium on the development of renewable energy in Spain is lifted, we do not intend to undertake any new renewable energy investments in Spain other than the construction already underway on our 20 MW independent biomass energy facility in Mérida, Spain, which is expected to become operational by the fourth quarter of 2014 and which qualifies for a regulated inflation-adjusted preferential rate. In the meantime, we intend to explore and pursue opportunities in other jurisdictions that offer favorable regulatory regimes for such investments and where we can apply our expertise, with an initial focus on European countries. We intend to continue to finance any potential opportunities on a project finance basis and transfer the execution risk to EPC providers, and we plan to address international opportunities by entering into partnerships in order to reduce equity contribution and minimize risks.

Renewable energy generation is fundamental to our strategy going forward, as a source of recurring stable income, and is underpinned by the European Union’s goal to have renewable energy account for 20% of the European Union’s gross total energy consumption by 2020. Therefore, we intend to gradually further expand our footprint in renewable energy generation while maintaining a conservative financial policy with a view to diversifying our revenue towards a regulated business and to improving the cost competitive position of our pulp production facilities, as well as to provide greater stability and long-term visibility to our future cash flow generation.

Optimize Forestry Supply Management with a Focus on Reducing Fixed Assets

Our Wood Costs are the largest component of our cost base and represented in 2012, more than 50% of our Cash Costs . We intend to continue to focus on increasing direct purchases of standing timber from landowners so as to reduce costs derived across the entire wood value chain and increase our visibility on the availability of wood for our facilities and stimulate supply. Leveraging upon our 55 years of experience in the forestry business, we aim to further increase our collaboration with plantation owners through long term agreements, thereby ensuring the availability of wood from local supplies and sharing our know-how on forestry management and logistics directly with the owners for their benefit. We also intend to continue to focus on increased purchases from small suppliers in order to increase our purchasing power and diversify our wood supply sources. As a result of these measures, the proportion of imported wood (up to 50% more expensive than domestic due to transportation costs) within our total wood supply decreased to 11% of our total wood supply during 2012, compared to 18% of our total wood supply during 2007.

Our increasing ability to source wood at competitive prices from local wood suppliers and landowners and the low contribution of our owned plantations in the supply mix (wood from our plantations accounted for only 3% of our total wood supply during the twelve months ended September 30, 2012) has led us to look for opportunities to divest our forestry asset base. We entered into an agreement to divest 27,780 hectares in Uruguay in December 2012 and will continue to look for opportunities to reduce our forestry asset base in Spain and Portugal.

For the supply of biomass, given the shorter crop cycles (3 to 5 years) of energy crops as compared to pulp wood (9 to 12 years) and the availability of highly productive irrigated land for rent due to the reduction of agriculture subsidies, we directly manage our biomass forestry assets and intend to continue to develop energy crops to ensure self-sufficiency for our energy generation facilities.

Continue to Focus on Strong Cash Flow Generation and Follow a Conservative Financial Policy

Our overall strategy across our three main business activities, underpins our focus on continued strong free cash flow generation, while maintaining a conservative financial policy. We seek to further optimize capital expenditures and working capital so as to maintain our leading cash conversion capabilities among our European peers. Our management has publicly communicated that the company's financial policy strategy, going forward, is to maintain a maximum leverage of 2.5x net debt/Mid-cycle EBITDA, including project finance debt. We define "Mid-cycle EBITDA" as, at any time, senior management's good faith estimate of the consolidated EBITDA of the company based on an estimate of average historical peak and trough pulp prices through the economic cycle.

Over the past five years, through cash proceeds from internal cash flow generation, selected Uruguay asset disposals in 2009 and a €130 million capital increase implemented in 2010, we have successfully reduced our net debt from €471.8 million (or 5.3x net debt/Adjusted EBITDA) as of December 31, 2008 to €297.7 million as of December 31, 2012 (or 1.7x net debt/Adjusted EBITDA, including 0.6x in relation to our project finance debt).

For the twelve months ended December 31, 2012 and for the year ended December 31, 2011, we generated unlevered free cash flow (excluding expansion capital expenditure) of €88.8 million and € 98.4 million, respectively.

Other Business Considerations

Availability of Raw Materials

The principal raw materials used to manufacture our products are wood, energy, water and chemicals. We believe we have access to adequate sources of the raw materials necessary to ensure that there is no interruption to our required supply for the foreseeable future. The prices of certain raw materials are subject to commodity price fluctuations. Due to competitive pressures, the prices of our products are not always correlated with increases and decreases in the cost of raw materials.

Competitors

We sell the majority of the pulp we produce to the European market, due to a shortage of fiber in Europe, which only produces two-thirds of the market pulp that it consumes. This shortage is expected to last for a number of years. Therefore, we face competition from other BHKP producers selling to the European market, particularly Altri and Portucel in Portugal and Fibria, Suzano, Eldorado and Cenibra in Latin America.

While historically Latin American producers have been the low variable cost producers in the industry, inflationary pressures and currency appreciation have closed the gap between Latin American producers and Iberian producers. Although high capital expenditure requirements and increasing costs challenge the development of new pulp production capacity, more pulp production facilities are expected to be built in Latin America in the coming years, thereby increasing the availability of pulp sold in the European market.

Competition in the pulp industry is primarily based on price. Nonetheless, our proximity to European clients is an advantage to us because we are able to offer a better service with lower logistical costs.

In our electricity generating business, we do not compete with other electricity producers, as the current regulatory framework guarantees that all of the renewable energy that we produce will be sold to the Spanish electricity system.

Seasonality

The demand for our pulp is not subject to seasonality in any material way. In addition, since all of the electricity that we generate is sold to the Spanish national grid, our electricity sales also do not experience seasonality.

Intellectual Property

We seek to protect our intellectual property rights in Spain, Portugal and other markets. We also hold various patents relating to our forestry operations, cellulose production operations and our energy generation operations. In addition, we have non registered intellectual property rights, including trade secrets, proprietary technology, know how and processes, many of which are related to our forestry, production and generation operations. Consistent with the industry in which we operate, our operations are not dependent to a significant extent on our protected intellectual property rights. Although our intellectual property portfolio as a whole is material, we do not believe that any individual intellectual property right or group of such rights is material to our business.

Loss Prevention and Insurance

We believe that we maintain insurance coverage that reflects the risks, size and requirements of our business operations and that is comparable to the insurance coverage maintained by other companies operating in our industry. Please see “Risk Factors—Risks Relating to Our Business—Our insurance coverage may be insufficient to cover our losses.” We currently carry property, loss of profits, general liability, product liability, transportation, environmental impairment and management liability insurance.

We maintain insurance coverage for all of our properties and facilities and all of our properties and facilities are valued at their reinstatement value. On a consolidated basis, in 2012, the total amount we paid for insurance premiums in relation to policies held by us was €3.9 million.

We believe that prevention, protection and employee training are key means of defending ourselves against loss from workplace incidents. Please see “Risk Factors—Risks Relating to Our Business—Our insurance coverage may be insufficient to cover our losses.”

Employee Matters

For the twelve months ended December 31, 2012, we had an average of 1,270 employees (excluding Uruguay) as computed on a full-time equivalent basis with 1,040 full-time equivalent employees and 230 temporary employees. Our employees participate in defined contribution and defined benefit post-employment plans. Certain executives also participate in a long-term incentive plan consisting of the granting of options over shares.

We believe that we have good relations with our employees and their representatives. However, in August 2012, a strike occurred at our pulp production facility in Navia, Spain, and in November 2012, a one-day strike occurred at our pulp production facility in Pontevedra, Spain. In addition, the works committees at our Huelva and Pontevedra facilities convened strikes on February 18 and 19, 2010 after raising certain questions in relation to the safety policies implemented within these workplaces. We consider that we have complied with our health and safety at work standards in all material respects, including having applied safety standards higher than those laid down by legislation, as accredited by the certification obtained by us under the OHSAS 18000 series of international standards.

Substantially all of our employees are represented by labor unions pursuant to collective bargaining agreements. We observe local practice and legislation in our labor relations matters and in negotiating collective bargaining agreements, and in this respect we are due to renegotiate and/or renew in 2013 five of our current collective bargaining agreements, four of which expired in 2012 and one in 2010. The recent labor law reforms in Spain have reduced the automatic extension of union agreements to only one year from the date of their expiration date, providing an incentive to employees to negotiate a new labor agreement as the expiration of the previous one would result in such employees becoming subject to less favorable general labor regulations. After the regulatory changes in the electricity sector and due to the negative impact expected in the profitability of the company, the company is negotiating with the Unions changes in the labor agreements conditions and a workforce optimization in order to maintain the competitiveness of the operations. This could lead to strikes during the years as the negotiation process keeps ongoing.

Environmental, Health and Safety Regulation

We operate in industries that are subject to extensive environmental regulation, including those pertaining to the storage, handling, treatment, transportation and disposal of hazardous materials, the construction and operation of our facilities (including the noise and odor impact of our operations), the protection of natural resources and endangered species, and our emissions and discharges of pollutants to air and water. Environmental, health and safety standards applicable to us are established by the laws of the European Union and the Member States in which we operate (primarily Spain), standards adopted by regulatory agencies and our permits and licenses, each of which is subject to periodic and increasingly more stringent modifications and requirements. Violations of these laws, regulations or permits and licenses may result in substantial fines and penalties, as well as orders to cease the violating operations or to conduct or pay for corrective works. In some instances, violations may result in the suspension or revocation of permits and licenses.

All of our pulp production facilities have environmental management systems in place that are presently certified to the ISO 14001 standard of the International Organization for Standardization. Each of our pulp production facilities has also obtained registration of its environmental management standards under the European Union's Eco-Management and Audit Scheme. Nonetheless, the risk of environmental, health and safety infractions is inherent in our industry, and from time to time we have experienced non-compliance with such laws and regulations and may do so again in the future.

In addition, pursuant to the requirements of sustainable forest management and best practices in establishing the chain of custody of wood used, we do not use wood that is not from legitimate sources (including wood that could originate from genetically modified trees or from an area in which the rights of local people to their resources may have been violated). Our forest management subsidiaries in Spain in particular have been pioneers in the implementation of forest certification programs, and were the first companies in the Iberian Peninsula to obtain a certificate from the Programme for Endorsement of Forest Certification, which includes a certification as to the chain of custody.

The environmental management systems in place for our forest management subsidiaries have also been certified to the ISO 14001 standard of the International Organization for Standardization.

We also endeavor to ensure that our suppliers and contractors adhere to the same environmental standards.

The health and safety of persons is a priority objective in our management systems and is included as a fundamental aspect of our day-to-day work at all levels, with our management and training adapted to the different activities carried out by us, both in the forestry and industrial and corporate fields.

We have implemented a system of health and safety at work management that is developed and improved continuously in accordance with the OHSAS 18000 series of international standards. The industrial complexes at our forestry subsidiaries Norte Forestal, S.A.U. and Silvasur Agroforestal, S.A.U. are certified in accordance with these standards, and our remaining workplaces are in the process of receiving such certification.

We operate a health and safety joint prevention service which clearly defines roles and responsibilities at all hierarchical levels within our Group on matters relating to health and safety. This means that there is greater integration of health and safety in all tasks and decisions carried out by us and the system extends to activities and work conducted by contractors and suppliers to ensure compliance with established standards. The joint prevention service covers all four preventative specialties: workplace safety; industrial hygiene; ergonomics and applied psychosociology; and health monitoring.

Our activities in Uruguay are governed by the same health and safety at work management criteria and policies that apply to the Group's other activities.

Legal Proceedings and Tax Audits

We are party to pending legal proceedings, including tax audits, arising in the ordinary course of business. While the results of such proceedings cannot be predicted with certainty, we do not believe any of these matters will be material to our business, financial condition or results of operations, except the matters described below.

The following legal proceedings concern the facilities in Pontevedra:

- Appeal, initially brought before the High Court of Justice of Galicia by a non-profit organization. The court partially considered the appeal and ordered the Administration to initiate the procedure leading to the expiration of ENCE's concession. As far as we are aware, this investigation has not yet started. However, the court ruling would not prejudice the merits of the case. The judgment is based only on procedural matters, rather than substance. Both ENCE and the Administration have filed an appeal to reverse the court ruling before the Supreme Court. Thus, if the appeals filed with the Supreme Court were to be dismissed, this would not be the automatic expiration of the concession granted to ENCE, but only the initiation of the administrative procedure for that purpose, in which case ENCE shall be granted a hearing. The final decision taken within that procedure can be challenged before the administrative courts.

- Judicial review. The matter was referred to the High Court of Galicia for the expiration of the concession granted to ENCE with the argument that a wastewater treatment station was built on the grounds (i.e., land) of ENCE by the Autonomous Community of Galicia. In our opinion, this appeal is unlikely to succeed.

- Judicial review which took place before the High Court of Galicia, which the Superior Court of Justice delivered judgment by dismissing the application for judicial review of the Integrated Environmental Authorization ("IEA") of ENCE. This is a final judgment which recognizes the legality of the IEA 2008.

- Judicial review of an action brought by the town council of Pontevedra and a non-profit organization against the administrative decision of December 21, 2011 by the Government of Galicia granting ENCE the renewal of its IEA. The arguments used by the appellant are similar to those referred to in the preceding paragraph and which were ruled in favor of ENCE.

Eufores, S.A., a former Uruguayan subsidiary which was sold by us pursuant to a share purchase agreement dated May 17, 2009, is involved in various litigation regarding claims for damages resulting from breach of contracts. On the basis of the share purchase agreement dated May 17, 2009, we may be liable for the outcome of these proceedings.

Additionally, claims have been brought against us for breach of representations and warranties under the share purchase agreement dated May 17, 2009 for the aggregate amount of US$3,758,511, and we have opposed these claims. However, no arbitral proceedings have yet started as a result of these claims.

We are also subject to tax audits from time to time. Among other tax audits, the Spanish tax authorities are currently conducting an inspection, which began in 2012, of the corporate income tax (*Impuesto sobre Sociedades*) returns filed by our Group for the tax years 2007, 2008 and 2009.

REGULATION

Overview

Our business is highly regulated. Our activities are subject to both national and international regulatory regimes. Because most of our activities are carried out in Spain, the regulatory environment of our business activities is shaped by EU directives and regulations, which are either implemented in the individual Member States through national legislation or have direct application to the Member States or individuals.

Each of our business activities—pulp production, energy generation and forestry—is subject to a different but sometimes overlapping set of regulations, at both EU and national levels. The following is a description of the primary industry-related regulations applicable to our businesses and currently in force in Spain, which is the principal market in which we operate.

European Union and Spanish Regulation Governing Our Production Processes Generally

IPPC Directive, LCP and IED Directive

The Integrated Pollution Prevention and Control (the "IPPC") Directive" (Directive 2008/1/EC of the European Parliament and of the Council of January 15, 2008 concerning integrated pollution prevention and control, repealing the Council Directive 96/61/EC) mandates a single integrated permit for air and water discharges, soil management, waste management activities, energy efficiency, noise, the use of raw materials, the prevention of accidents, the impact of operations on the environment, plant closure and restoration.

The IPPC Directive has been implemented in Spain through Law 16/2002 approved in July 2002. All of our installations in Spain have been granted permits in accordance with this law.

Our operations are also subject to the EU Large Combustion Plant Directive (the "LCP Directive") (Directive 2001/80/EC on the limitation of emissions of certain pollutants into the air from large combustion plants, as amended). The LCP Directive applies to plants with a thermal input of 50 MW or greater and establishes strict limits on specific emissions values, including for sulfur dioxide, nitrogen oxides and particulates.

In Spain, the LCP Directive has been implemented by Royal Decree 430/2004, as amended by Royal Decree 687/2011. All of our installations with a thermal capacity over 50 MW are in compliance with the limits imposed by Royal Decree 430/2004.

The Industrial Emissions Directive 2010/75/EU (the "IED") was entered into force in January 2011 and will gradually replace the current IPPC Directive and the sectorial directives (including the LCP Directive). The IED had to be implemented into national legislations by January 7, 2013. By January 7, 2014, all existing installations except for LCP installations must comply with the IED but Spain is still in the process of implementing it. LCP installations such as ours must comply with the new requirements, including the new emission standards, by January 1, 2016 (subject to temporary derogation mechanisms associated with the best available techniques provided in the IED).

In Spain, the IED is currently being implemented by means of the amendment of Law 16/2002 approved on July 1, 2002 on integrated pollution prevention and control.

Environmental Liability Directive

Directive 2004/35/EC on environmental liability with regard to the prevention and remedying of environmental damage (the "Environmental Liability Directive") implements a "polluter pays" principle for remedying environmental damage. Its fundamental aim is to hold operators whose activities have caused environmental damage financially liable for remedying the damage. In addition, the Environmental Liability Directive holds those whose activities caused an imminent threat of environmental damage liable to taking preventative actions.

The Environmental Liability Directive was implemented in Spanish law by the provisions of Law 26/2007 on environmental liability, approved on October 27, 2007. Law 26/2007 upholds the polluter pays principle and imposes strict prevention, avoidance and remedy obligations on operators for damage and threat of damage to the environment. The Spanish regulation is stricter than the minimum requirements imposed by the Environmental Liability Directive because it promotes necessary awareness and responsibility within the private sector for damages and risks to the environment that its activities carry. Law 26/2007 has been developed by Royal Decree 2090/2008, approved on December 22, 2008.

Emissions Trading System

Our operations are covered by the EU Emissions Trading System (the "EU ETS"), which is an EU-wide system of trading allowances that are allocated by Member States to cover industrial greenhouse gas emissions. Industrial sites to which the EU ETS applies receive a certain number of allowances to emit carbon dioxide or other greenhouse gases and must surrender one allowance for each tonne of a greenhouse gas emitted. Sites that emit fewer tonnes of greenhouse gases than their allowances cover are able to sell the excess allowances in the open market, whereas those that emit more must buy additional allowances through the EU ETS. Non-compliance is subject to penalties. Phase I of the EU ETS covered emissions in calendar years 2005 to 2007 and Phase II covered the period from 2008 to 2012.

By virtue of Directive 2009/29/EC of the European Parliament and of the Council of April 23, 2009 amending Directive 2003/87/EC, the European Union has extended the EU ETS for a third phase covering emissions in calendar years 2013 to 2020. Our plants will be covered by the EU ETS in this phase. The main changes for Phase III include the introduction of a single EU-wide cap on emissions that will decrease annually, extending the system over other industrial sectors, and the gradual replacement of the free allocation of allowances with an auctioning system pursuant to which, beginning in 2013, Member States will be required to auction all allowances not allocated free of charge. During Phase III, the allocation of allowances will decrease each year at a preset rate, resulting in only 30% of allowances allocated freely by 2020, and none by 2027. Accordingly, as a result of the more stringent emissions limits and the move to the auctioning system, we will be required to purchase an increasing number of our emissions allowances. Please see "Business—Principal Activities—Energy Activity."

In Spain, requirements of the Directive 2009/29/EC are implemented into national law by the amendment of Law 13/2010, approved on July 5, 2010, which modifies Law 1/2005 governing the scheme for greenhouse gas emissions trading and the Royal Decree 1722/2012, approved on December 28, 2012, which develops certain aspects of the allocation of allowances.

Regulation Promoting Renewable Energy and Biomass Generation

European Union Regulation

The Kyoto Protocol, ratified by the European Union and its Member States on May 31, 2002, imposed on the European Union a target of reducing its emissions of greenhouse gasses by 8%. On November 26, 1997, the European Union published a white paper (the "White Paper") which outlined a strategy and a community-wide action plan aimed at doubling energy production from renewable energy sources in the European Union to 12% of total energy consumption by 2010 from 6% in 1996. The White Paper proposed a number of measures to promote the use of renewable energy sources, including measures designed to provide better access for renewable energy sources to the electricity market.

Directive 2001/77/EC of the European Parliament and Council of September 27, 2001 (the "2001 Renewable Energy Directive") encouraged the development of electricity produced from renewable energy sources (non-fossil fuel sources, such as wind, solar, hydropower, biomass and relief gas) by requiring Member States to set indicative national targets for the consumption of electricity produced from renewable energy sources consistent with the European Commission's target of generating 12% of the European Union's energy and 22% of the European Union's electricity from renewable energy sources by 2010.

In 2009, the European Parliament and Council adopted the 2009 Renewable Energy Directive (2009/28/EC), which repealed the 2001 Renewable Energy Directive and set mandatory national overall targets consistent with at least a 20% share of energy from renewable energy sources in the European Union's gross final consumption of energy in 2020. Member States are required to prepare individual action plans for the implementation of their national targets.

A recent directive on energy efficiency, 2012/27/EU, establishes a common framework of measures for the promotion of energy efficiency within the European Union in order to achieve the 20% target on energy efficiency by 2020 and to pave the way for further energy efficiency improvements beyond that date. Each Member State will be obliged to set an indicative national energy efficiency target, based on primary or final energy consumption, primary or final energy savings, or energy intensity.

Directive 2004/8/EC on the promotion of co-generation based on a useful heat and electricity demand in the internal energy market, obliges Member States to analyze the potential of co-generation in their own country and to provide support mechanisms to encourage the technology into the market.

Spanish Regulation

Since the early 1980s, a special regulatory regime has applied to co-generation facilities, mini-hydro power stations and other facilities using renewable energy sources which have an installed capacity of 50 MWs or less. The Electricity Sector Act 54/1997, of November 27 (the "1997 Electricity Law") sets forth the main regulations governing all aspects of the electricity industry. Articles 27 to 31 specifically govern this special generation regime.

1997 Electricity Law

The 1997 Electricity Law included the obligation to establish a development plan for renewable energy to ensure that renewable energy sources provide at least 12% of Spain's total energy demand by 2010. In addition to highlighting the need for a special scheme to support renewables, the 1997 Electricity Law obligated public authorities to take necessary measures to meet these objectives. This prompted the adoption by the Spanish government of the Renewable Energies Development Plan 2000–2010 ("REP 2000–2010") in 1999.

This first REP 2000–2010 sought to incentivize the construction of renewables facilities through various measures, including the establishment of premiums that would make it attractive to developers to develop these facilities. These premiums included certain obligations to purchase renewable energy and the setting of purchase prices at one of two options: a fixed tariff rate or a market price plus premium. On August 26, 2005, the Spanish government updated REP 2000–2010 through the Renewable Energies Plan 2005-2010. In addition, in order to comply with the mandatory renewable energy targets set forth in the 2009 Renewable Energy Directive, the Spanish government approved the Renewable Energy Plan 2011–2020. However, REP 2011–2020 has been affected by the entry into force on January 28, 2012 of the Moratorium, discussed in detail below.

Facilities already registered with a pre-allocation registry or in operation before the Moratorium entered into force on January 28, 2012 are instead mainly regulated by Royal Decree 661/2007. Royal Decree 661/2007 develops in great detail the basic provisions found in the 1997 Electricity Law governing special regime generation facilities.

Royal Decree 661/2007 (subsequently amended by Royal Decree Law 2/2013)

Royal Decree 661/2007 requires that in order to benefit from the tariff or economic system chosen, the project must be registered in the Administrative Registry of Production Facilities under the Special Regime (*Registro Administrativo de Instalaciónes de Producción en Regimen Especial*) ("RAIPRE"), and start selling the electricity output to the grid before a specific deadline. Furthermore, by way of Royal Decree 6/2009, the Spanish government launched a pre-registration requirement of allocation pursuant to which only those projects that have been registered in the relevant pre-allocation registry will be entitled to receive the remuneration as special regime facilities (except for solar photovoltaic projects, which are expressly excluded and governed by Royal Decree 1578/2008).

Royal Decree 661/2007 aims for co-generation with biomass to reach a reasonable degree of profitability both through the feed-in tariff system and a market remuneration system. Generators subject to the special regime may sell their electricity using either of the following options:

(i) delivering their output to the electricity system through the transmission or distribution grid, and in return receiving the Regulated Tariff. Pursuant to Royal Decree 661/2007, the energy so transferred is not acquired by the local distribution company but, instead, is supplied to the transmission or distribution grid; or

(ii) selling electricity in the wholesale power market in which most transactions take place (the "Pool") at the sale price set by the organized market or the price freely negotiated by the owner or representative of the facilities, supplemented, as the case may be, by a premium in euro cents per kilowatt-hour (the Market Tariff), subject to the applicable caps and floors.

Generators have the ability to switch between the two options each year.

Since June 1, 2007, the electricity generated by facilities that have opted to sell their electricity output at the Regulated Tariff has been incorporated into the Pool by assuming that all of such electricity was offered at 0 euro/MWh. The settlement of the special regime payments (regardless of the sale option chosen) is made up of two payment flows: payments from the Pool and the settlement of the equivalent premium (*prima equivalente*) by the Spanish National Energy Commission, or the CNE.

Market Price Settlement

The market operator (*Operador del Mercado Ibérico de la Electricidad Polo Español, S.A.*) ("OMIE") and, for the imbalances, the system operator (*Red Eléctrica de España, S.A.U.*) calculate their respective settlements to generators on a weekly basis. Payments are then carried out by market representatives on a monthly basis within the month following the production month.

Sellers in the Pool are ordinary power stations that are not exempt because of the existence of a physical bilateral contract, and special regime power stations and wholesale suppliers (*comercializadores*). Buyers in that market are direct consumers registered as market agents and wholesale suppliers.

The Pool is structured according to the daily market, the security of supply restrictions, solution of technical restrictions, the allocation of secondary regulation, the intra-daily market and adjustment services. Selling and purchasing bids are normally submitted for each of the 24 hours of the following day by 10:00 a.m. The market operator then matches the different bids through simplified or complex matching methods depending on the type of bids received. The marginal price is determined by the price offered by the last selling unit, the production of which was required to meet the demand for electricity for each trading session. After carrying out different operations (i.e. technical restrictions, adjustment services, etc.) the system operator determines the final program and the settlement is made.

Settlement of the Equivalent Premium and Supplementary Payments by the CNE

Generators receive the pool price from the market operator and system operator for the energy sold and the CNE, then pays the difference between the regulated feed-in tariff and the market price (the difference is known as the equivalent premium (*prima equivalente*).

In order to do this, the CNE requires specific information as follows:

- The system operator must provide the market representatives of generators and the CNE with the *BALDITA* for specific periods, broken down for each market representative or generator. *BALDITA* is an acronym for *Base de Liquidación de la Diferencia con la Tarifa Regulada* (Settlement Basis of the Difference with the Regulated Tariff), which is the amount that a market representative obtains for the sale of the generator's energy on the market and that must be subtracted from the regulated tariff in order to calculate the equivalent premium.

- The market representatives or the generators, using the information received from the system operator, must send the CNE a breakdown of the *BALDITA* for each facility they represent or own.

- The competent company for metering (typically the distribution company) must provide hourly meter readings (real or estimated) of the net active and reactive energy per facility.

- The market operator must inform the CNE of the price of electricity in the daily market and in the intra-day market sessions, as well as the final prices of electricity and the settlement to be made between the market representatives or generators in accordance with the results of the matched bids in the daily and intra-day market.

Based on these data, the CNE determines the payment of the equivalent premium and other supplementary amounts due to each facility by subtracting the *BALDITA* from the regulated feed-in tariff.

Neither the CNE nor the Spanish Government act as guarantors of the tariff payments. Rather, the CNE determines the amount of the equivalent premium and requires the distribution companies to pay the amounts collected from consumers and wholesale suppliers into an account held by the CNE in a capacity analogous to a trustee for this purpose.

As such, a generator receives the pool price directly or through its representative from the market operator and the system operator and the remaining amount, the *BALDITA*, directly from the CNE. The closing of the first provisional settlement from the CNE to the generator for the electricity generated during a certain month occurs on the 28th of the following month, or the next business day thereafter, with any amounts resulting in favor of the generator required to be paid within 31 calendar days following this closing.

Imbalances (desvíos):

The system operator is responsible for the determination and settlement of the imbalances (*desvíos*) whether the generator had opted for the Regulated Tariff or for the Market Tariff.

The company must provide the system operator with a forecast of its electricity generation on a daily basis. As a general rule:

- If the electricity generated is lower than the forecasts, the generator shall pay a penalty but only if the system has suffered an electricity deficit (that is, if as a result of all sale and purchase transactions that have taken place in the relevant settlement period the demand is higher than expected and therefore more electricity is needed to cover the demand). Otherwise, no penalty needs to be paid.

- If the electricity generated is higher than the forecasts, the system operator will pay the generator but the price will be different depending on whether or not the system needs such electricity or not to cover the electricity demand.

The Regulated Tariff and Market Tariff (as well as the caps and floors) are revised every year depending on the type of technology review applicable. The Regulated Tariff applicable to biomass facilities must be updated by reference to the Retail Price Index ("RPI") minus 0.50 % from December 31, 2012. The following table indicates the Market Tariff for our biomass renewable energy generation facilities:

	Evolution of Biomass Generation Remuneration (€/MWh)						
	Year ended December 31,					Nine months ended September 30,	
	2007	2008	2009	2010	2011	2011	2012
Pool price (€/MWh)	39.4	64.4	37.0	37.0	49.9	49.2	48.6
Premium (€/MWh)	39.3	47.7	67.4	68.2	73.7	71.7	79.1

Eligibility Criteria for Remuneration

Royal Decree 661/2007 classifies, as special regime facilities, power stations with an installed capacity of up to 50 MW that fall into any one of the following categories:

- facilities that generate electricity using waste from industrial activities, provided that such generation represents a high efficiency ("Group A");

- facilities that use as a primary energy source any renewable source, such as non-consumable sources (e.g. solar or wind), biomass or any kind of biofuel, provided that the owner of the facilities does not operate under the ordinary regime (e.g. large hydropower stations) ("Group B"); and

- facilities that use municipal solid wastes as a primary energy source ("Group C").

Certain other facilities are also classified as "special regime", such as facilities involved in the treatment and reduction of waste from agricultural and services sectors that have an installed capacity of up to 25 MW, and where certain high efficiency ratios are satisfied.

Efficiency of each of our facilities is calculated based on a formula prescribed by regulation. Not reaching the efficiency levels established may give rise to revocation under the special regime or suspension of the economic regime. Our generation installations comply with the prescribed efficiency requirements.

Royal Decree Law 1/2012

Royal Decree Law 1/2012 (the "Moratorium") came into effect in January 2012 and provides for (i) the elimination of economic incentives for the implementation of special regime energy production facilities; and (ii) the suspension of the proceedings for registration with the pre-allocation registries. The Moratorium will not affect our facilities that are already in operation or registered with the pre-allocation registry before its entry into force.

The amendments introduced by the Moratorium apply to (i) special regime facilities (of any kind of technology) that by the date of entry into force of the Moratorium were not registered in the pre-allocation registry created by virtue of Royal Decree Law 6/2009; (ii) special regime photovoltaic facilities that by the date of entry into force of the Moratorium were not registered in the pre-allocation registry created by virtue of Royal Decree 1578/2008; and

(iii) ordinary regime installations that by the date of entry into force of the Moratorium had not obtained their administrative authorization.

The changes introduced by the Moratorium were mainly motivated by a rapid over-supply of combined cycle power plants and special regime installations projected for the period 2005–2010, and the drop in demand for energy resulting from the economic crisis. The Spanish government is now of the view that there is an imbalance between the current production costs of certain types of special regime facilities and remuneration under the special regime.

On December 31, 2012, we have 230 MW of installed capacity, all of which is already in commercial operation, having already obtained final registration under the special regime, and since the Moratorium is not retroactive, these facilities in operation are not affected by this regulation. In addition, we also have now a 50 MW facility located in Huelva, Spain, which became operational in September 2012, and whose ownership has been transferred from our EPC contractor to us in the February 7, 20133, and a 20 MW facility under construction at Mérida registered in the pre-allocation registry before the Moratorium entered into force which are not affected by this regulation. Notwithstanding the foregoing, the Mérida facility must achieve final registration with the RAIPRE within the 36 months following its registration with the pre-allocation registry. If it fails to do so, it will lose its entitlement to the feed-in tariff that was allocated to the project when it was registered with the pre-allocation registry.

Comparing total installed capacity to the target installed capacity as per REP 2011-2020, biomass is the least developed technology, has better social impact, and is one of the most efficient technologies. The Moratorium expressly allows the Spanish government to establish a new incentive regime for co-generation and biomass, amongst other, facilities. However, such an incentive regime has not yet been approved.

For the reasons outlined above, we believe that, provided that a new incentive regime is finally approved, the Moratorium will not have as negative of an impact on biomass generation as it will on other renewable energy sources.

Law 15/2012 on Tax Measures to Achieve Environmental Sustainability

On December 28, 2012, the Energy Tax Law, aimed at reducing the current funding deficit within Spain’s heavily-subsidized electricity production industry and ensuring the sustainability of Spain’s energy supply through the imposition of certain tax measures, was published in the Spanish Official Gazette. The Energy Tax Law, which became effective as of January 1, 2013, provides for, *inter alia*: (i) the creation of a tax on electricity generation (“TEG”); and (ii) the implementation of a “green cent” (*céntimo verde*) tax on natural gas and oil.

TEG

TEG is a direct tax with an *in rem* nature, levied on the generation and delivery to the Spanish grid of output electricity, measured at a power plants’ busbars (*barras de central*). The main features of this tax can be summarized as follows:

- All types of electricity generation facilities are subject to the TEG. No exceptions are made for any renewable energy producer or nuclear plants, nor is there a minimum installed capacity threshold.

- The taxable base is calculated on the basis of the total proceeds to be received by the taxpayer for the generation and delivery of the output electricity. The taxable base is determined individually for each electricity production facility and referred to the tax period that, in general terms, coincides with the calendar year.

- The applicable rate is 7%.

Green cent (gas and fuel)

This tax is levied on natural gas intended for a use other than as a fuel, and for use as a fuel in stationary engines at a rate of €0.65 per gigajoule, and on fuel oil and diesel used for the production of electric power at a rate of €12.00 per tonne of fuel oil and €29.15 per 1,000 liters of diesel.

Royal Decree Law 2/2013 on Emergency Measures for the Electrical Sector and the Financial System

On February 1, 2013, the Royal Decree Law 2/2013 on emergency measures for the electrical sector and the financial system, modified the reference index applicable to RD 661/2007 annual tariff adjustment from the general CPI index to the underlying CPI at constant taxes (excluding tax increases, unprocessed foods and energy products); and the prime economic regimen will be based only on the regulated tariff option (with the pool+premium option eliminated). This regulation is likely to increase our cost of production of energy.

Forestry Management Regulation

European Union regulation

EU timber regulation 995/2010 imposes the following key obligations:

- It prohibits the placing of illegally harvested timber and products derived from such timber on the EU market, whether they are of domestic or imported origin.

- Timber accompanied by a FLEGT (Forest Law Enforcement, Governance and Trade) or CITES (Convention on International Trade in Endangered Species) license will be accepted as legal. In all other cases, operators must exercise "due diligence" when they sell imported and domestic timber or timber products.

- Traders (those after the operators in the supply chain) must keep records of their suppliers (and customers), so that the operators can always be traced.

Regulation 995/2010 does not need to be implemented into Spanish law because the regulation is binding in its entirety and directly applicable in all Member States. Some of the provisions (mainly related to Members States' obligations) applied from December 2, 2010, but the principal provisions apply from March 3, 2013.

Spanish Regulation

In addition, in Spain the legal framework consists of the Hillside Act 43/2003, approved on November 21, 2003 (*Ley de Montes*) as amended by Law 10/2006, approved on April 28, 2006 (and the Second Additional Provision of Law 10/2006), the Water Royal Decree Law approved on July 20, 2001, Royal Decree Law 1/2008 on Environmental Impact approved on January 11, 2008 and the rules concerning the Organization of Hillsides (*Ordenación de Montes*), both nationwide and at the autonomous community level. Local environmental, waste and labor regulations also apply to activities carried out in rural and forest environments.

Pursuant to these regulations, it is necessary to develop forest management plans that are submitted for public consultation and that must be officially and regularly approved by the Official Hillside Association (*Colegio Oficial de Montes*) and the pertinent public authorities.

Internationally Recognized Initiatives

In addition to European Union and Spanish regulations applicable to forestry management activities, there is a set of sustainable forest management practices and criteria internationally accepted and acknowledged by the FAO since 1981, which have been subsequently promoted since the Río de Janeiro Earth Summit of 1992. Over the years, they have been implemented and broadened on a regulatory and voluntary basis in successive international summits and by means of non-governmental initiatives.

The most common forest certification system worldwide is the PEFC, with 223 million certified hectares. Furthermore, the FSC has 112 million certified hectares.

We have the UNE-EN-ISO 14001-2004 environmental certification with regard to all of our forest activities in Spain. Moreover, our forest assets in Spain are certified in accordance with the PEFC systems and the FSC to a lesser extent.

MANAGEMENT

The Issuer

The Board of Directors of the Issuer

The Board of Directors of the Issuer (the "Board of Directors") has the power and duty to manage our corporate affairs. The Board of Directors elects its president and can select one or more vice presidents. Except for matters reserved by law and the articles of association to the general shareholders' meeting (the "General Shareholders' Meeting"), the Board of Directors is the highest decision-making body of the Issuer.

Meetings shall be called by the president or by directors constituting at least one-third of the Board of Directors. The attendance quorum necessary for a Board of Directors meeting is the majority of the Board of Directors. If the number of directors on the board is uneven, the necessary quorum shall be more than 50% of the board. Resolutions of a Board of Directors meeting are adopted by an absolute majority of the members present at such meeting, unless the law requires a different majority.

The following table sets forth, as of the date of this Report, the name, age and title of each member of the Board of Directors, and is followed by a brief summary of biographical information of each director.

Name	Age	Position
Juan Luis Arregui Ciarsolo	69	Chairman
Ignacio de Colmenares y Brunet	51	Chief Executive Officer
Retos Operativos XXI, S.L., represented by Javier Arregui Abendivar	42	External Director
Pascual Fernández Martínez	52	External Director
Javier Echenique Landiribar	52	External Director
Norteña Patrimonial, S.L., represented by Jesús Ruano Mochales	40	External Director
José Carlos del Álamo Jiménez	61	Independent Director
Fernando Abril-Martorell Hernández	50	Independent Director
Gustavo Matías Clavero	60	Independent Director
José Guillermo Zubía Guinea	66	Independent Director
José Manuel Serra Peris	53	Independent Director
Pedro Barato Triguero	53	Independent Director
Isabel Tocino Biscarolasaga	64	Independent Director

Juan Luis Arregui Ciarsolo is Chairman of the Board of Directors as well as Chairman of the Executive Committee of the Issuer. He joined us in February 2006.

Mr. Arregui Ciarsolo has a degree in technical engineering from the Higher School of Engineering of Bilbao, a diploma in numerical control from Wandsdorf (Germany) and a master's degree in micro-mechanical engineering from Besançon (France). He began his professional career in 1975 by founding Gamesa, a company that would later become the Gamesa group, specializing in aeronautics, robotics, composites and wind turbines. He was Chairman of Gamesa until 1995 and is currently Vice Chairman and a member of both the appointments and remuneration committee and the executive committee of Gamesa. In 1994, following the integration of Gamesa with Iberdrola, he became a board member of Iberdrola, serving until 2009 as Senior Deputy Chairman and a member of its executive committee. In 1995, he took charge of the Guascor company, a manufacturer of internal combustion engines, complementing the engines with co-generation installations. In 1998, he created CESA, a corporation dedicated solely to the production of wind energy. In 2001, he founded Foresta Capital, S.L. for the production of hardwood trees. In 2002, he created Foresta Biomasa, which became the world leader in the production of plants with *in vitro* technology. In 2006, he became our Chairman and has led the diversification of our activities with the production of renewable energy through forest biomass. He has also been Senior Deputy Chairman of Cartera Industrial Rea, S.A. since 2008 and is a board member of various funds that invest in energy and activities related to modern technology.

Ignacio de Colmenares y Brunet is a member of our Board of Directors, our Executive Committee and our Advisory Committee for Forestry and Regulatory Policies. He is also our Chief Executive Officer and president of ASPAPEL (Spanish Association of Pulp and Paper Manufacturers). He joined us in December 2010.

Mr. de Colmenares y Brunet has an undergraduate degree in law from the Central University of Barcelona and a master's degree in Economics and Business Management from IESE. He has extensive experience in the steel and renewable energy industries, having helped to develop international business projects with a focus on revenue growth, investment optimization, process improvements and cost control as a way of increasing competitiveness.

Javier Arregui Abendivar is the legal representative of Retos Operativos XXI, S.L., which is a member of our Board of Directors and our Appointments and Remuneration Committee. He joined us in February 2006.

Mr. Arregui Abendivar has a degree in business administration from Saint Louis University (Missouri, United States). He began his professional career in 1992 in the sales department of the Guascor group, occupying a variety of positions until he was ultimately named managing director in Argentina in 1996. In 2002, he returned to Spain, where until 2005 he held management positions in the Séché group. He also was a member of the boards of directors of CESA, the Guascor group and Foresta Capital and was a controller and chief procurement officer for Campo Noble, S.A. He currently holds the position of sole administrator of the Foresta group.

Pascual Fernández Martínez is currently a member of our Board of Directors, as well as a member and the secretary of our Appointments and Remuneration Committee and a member of the Advisory Committee for Forestry and Regulatory Policies. He joined us in May 2005.

Mr. Fernández Martínez has a doctorate in economics and business and has carried out his professional career primarily in public administration, both as a professor and researcher, at the Autónoma University of Madrid, Rey Juan Carlos University and the University of Valladolid, and in management for the autonomous communities of Castilla y León and Madrid as well as for the Spanish Ministry of the Economy and Treasury and the Ministry of Environment. He is a lecturer of applied economics at Rey Juan Carlos University, a lecturer in the Executive Master in Public Administration (EMPA) program at the Instituto de Empresa Business School, a lecturer in the Master's program in Infrastructure and Public Service Management of the School of Civil Engineering at the Universidad Politécnica de Madrid; director of the "Economy of Madrid" Center for Studies at the Rey Juan Carlos University, Chairman of the Economics and Environment Commission of the Association of Economists of Madrid, and a member of the Association of European Conjuncture Institutes (*l'Association D'Instituts Européens de Conjoncture Economique (AIECE)*). He has served on the boards of directors of a number of companies, including Sodical, Renfe (serving as Chairman from 1997 to 2001), Instituto de Crédito Oficial (ICO), Gran Telescopio de Canarias, Sociedad Gestora de Planes de Pensiones de Caja Madrid and Gamesa (serving as chairman of the appointments and remuneration committee from 2006 to 2010).

Javier Echenique Landiribar is an external proprietary member of our Board of Directors and a member of our Executive Committee and Audit Committee. He joined us in December 2005.

Mr. Echenique Landiribar has a degree in economics and actuarial sciences and has been a board member and managing director of Allianz-Ercos and managing director of the BBVA group. He is currently Vice-Chairman of Banco Sabadell, S.A., Chairman of Banco Guipuzcoano, S.A. and a board member of Repsol S.A., ACS Actividades de Construcción y Servicios, S.A., ACS Servicios, Comunicaciones y Energía, S.L., Telefónica Móviles México y Celistics S.L. and Calcinor, S.A. He is also a member of the advisory council of Telefónica Europa and a delegate of the board of Telefónica, S.A. in the Basque country and trustee of the Novia Salcedo Foundation and the Altuna Foundation.

Jesús Ruano Mochales is a member of our Board of Directors and our Audit Committee. He joined us in June 2002.

Mr. Ruano Mochales has a degree in economics and business from CUNEF and a specialization in finance from the University of Deusto. He held the position of assistant manager at Chase Manhattan Bank from 1997 to 2000 and the position of deputy director of mergers and acquisitions at N M Rothschild & Sons from 2000 to 2005. He is currently director of the Investees division of Cajastur and a member of the management and financial management committees. He is also the representative of Caja de Ahorros de Asturias (currently Liberbank, S.A.) on the board of directors of various companies, such as Itinere, Telecable, CAPSA, General de Alquiler de Maquinaria, S.A. and Sedes.

José Carlos del Álamo Jiménez is an independent external member of our Board of Directors and a member of the Advisory Committee for Forestry and Regulatory Policies. He joined us in June 2009.

Mr. del Álamo Jiménez has a degree in forestry from Madrid Polytechnic University and a diploma from ESADE. He is also a lecturer in the Energy Efficiency and Climate Change Master Degree at the Environmental Sciences University Institute, part of Madrid's Complutense University, a lecturer in the Environmental Project Engineering Master degree at the Universidad Politécnica of Madrid and a lecturer in Carolina Foundation's Higher Course on Forestry Management Policies and Instruments as well as a professor at the San Pablo CEU University and other academic institutions.

He has held positions of responsibility both in the central government, for which he served as Director-General of Nature Conservation (Ministry of Environment), and at the autonomous community level, where he founded the Regional Ministry of Environment of Galicia and was board member from 1997 to 2003 and Director General of Forest and the Natural Environment from 1990 to 1996. He was also Vice-Chairman of the Autonomous National Parks

Authority, president of the trusteeship of the Islas Atlánticas National Park, member of the Environmental Advisory Board of the Ministry of Environment and Chairman of the Galician Environmental Council. He is also president of the Professional Union of Engineering Associations (UPCI), president and dean of the College and Association of Forestry Engineers, secretary of the "Forests and Climate Change" forum, president of the "Environmental Forum for Economic and Social Progress" and a board member of the Regional Hunting Council of the regional government of Castilla y León. He is currently Chairman and CEO of Tecnoma, S.A., an environmental consulting and engineering firm, Chairman of Tecnoma Energía Sostenible, S.A., Chairman of Tecnoma Aprovechamientos Energéticos, S.L. and Chairman of Estadística y Servicios, S.A., all of which belong to the TYPSA group, of which he is also a board member.

Fernando Abril-Martorell Hernández is an external member of our Board of Directors, Chairman of our Appointments and Remuneration Committee and a member of our Executive Committee. He joined us in March 2007.

With a degree in law and economics and business from the Pontifical Comillas University, Mr. Abril-Martorell Hernández began his professional career at JP Morgan where he held various positions in the company's financial markets division from 1986 to 1996. In 1996, he joined the Telefónica group as its CFO. In 1998, he was named president of TPI Páginas Amarillas, and in 2000 he was made managing director of the group, a position he held through the end of 2003. In 2002 he was named managing director of the Credit Suisse group in Spain and Portugal. He currently holds the position of Chief Executive Officer to the managing director of the Prisa group and is a member of the board of directors of Telecomunicaciones de São Paulo. He is also a trustee of the Comillas University Foundation, the Familia Foundation and the Fernando Abril-Martorell Foundation.

Gustavo Matías Clavero is an independent external member of our Board of Directors and a member of our Appointments and Remuneration committee. He joined us in March 2007.

Mr. Matías Clavero has a doctorate in economics and business from the Universidad Autónoma of Madrid and a degree in information sciences from the Complutense University of Madrid. He is a lecturer on international economic organization at the Universidad Autónoma of Madrid, where he has been teaching since 1986, and for the Balance Sheet Analysis Master Degree of the Instituto de Empresa Business School (1982). He is a member of various expert panels on economic client and economic consensus, an evaluator of three scientific publications and a regular contributor to the magazine *Consejeros* and the digital publication *Intercampus*. As a consultant and researcher, he is primarily concerned with the new economy of information and knowledge (about which he taught doctoral courses for ten years at the Universidad Autónoma of Madrid and has published a dozen books and pamphlets), healthcare, education and sustainable development.

He was a visiting professor at CUNEF for three years, at Universidad de Nebrija for another three years, at the European Business School, at the School of Industrial Organization (*Escuela de Organización Industrial*) and at the School of Telecommunications Engineers (*Escuela de Ingenieros de Telecomunicación*). He has co-directed or taught summer courses at Universidad Autónoma of Madrid, the Complutense University, the Universidad del País Vasco, Valladolid University, and UIMP and Segovia universities. A managing advisor to the Telematics master's program (Caixa Galicia), and he has also directed a dozen courses for the European Social Fund and others on sustainable development and its indicators. He has been a member of the group for Regulation of Telecommunications (GRETEL), vice-president of the Spanish Telecommuting Association, director of the Spanish Association of Telecommunications and Information Technology Law, an economics journalist for *Europa Press*, *El País* and *Gaceta de los Negocios* as well as a columnist for *El Mundo-Nueva Economía*, media for which he has published more than 3,000 articles.

In 1978, he was awarded the Order of Agricultural Merit and has received a number of national awards from the National Institute of Statistics and for economic journalism.

José Guillermo Zubía Guinea is an independent external member of our Board of Directors and is a member of our Executive Committee and Chairman of our Audit Committee. He joined us in March 2007.

Mr. Zubía Guinea has a degree in law from the Complutense University in Madrid. He also studied economics at the Complutense University and taxation at the Center for Economics and Tax Studies (*Centro de Estudios Económicos y Tributarios*). He has been a business owner and consultant and board member for various public and private firms. He was secretary general of the Alava Business Union (SEA) from 1979 to 1995. He was general secretary of the Basque business confederation (Confebask) from October 1995 to March 2011. He also regularly participates in various courses and conferences at the Universidad Internacional Menéndez Pelayo University, the summer courses of El Escorial and the summer university of the País Vasco University. He is also a member of the standing committee at the Andalusia School of Economics, a member of the Economic and Social Council of Spain and of its economic and labor relations committees.

José Manuel Serra Peris is an independent external member of our Board of Directors and a member of our Audit Committee. He joined us in October 2000.

Mr. Serra Peris received a degree in law from Valencia University in 1981 and has been a state attorney since 1984. He was active in the administration, first as a state attorney in the regional office of the Spanish treasury in Valencia and in the courts of the regional government of Valencia (1986 to 1996), and later held various positions in the state administration, primarily in the Ministry of Industry, Trade and Tourism, where he served as general technical secretary (1996–1998), undersecretary (1998) and finally Secretary of State for Industry and Energy (1998–2000), a position he left at his own behest. He has also been president of the Spanish Patent and Trademark Office, president of the Center for Energy, Environment and Technology Research (CIEMAT) and president of the Spanish Center for Industrial and Technological Development (CDTI).

He has sat on the boards of directors of Sociedad Estatal de Participaciones Industriales (SEPI) and Sociedad Estatal de Participaciones Patrimoniales (SEPPA), companies responsible for the privatization of public companies such as Iberia Líneas Aéreas de España, S.A., Endesa, Red Eléctrica de España, S.A., Uralita, S.A. and Cable y Televisión de Cataluña, S.A. (MENTA) of the Auna group. He has also sat on the boards of Líneas Aéreas de España, S.A. and Bankia, S.A.

Pedro Barato Triguero is an independent external member of our Board of Directors and a member of the Advisory Committee for Forestry and Regulatory Policies. He joined us in June 2008.

Mr. Barato Triguero has a degree in law and has been a member of the National Confederation of Farmers and Livestock Owners since 1978 and the national president of the Agricultural Association of Young Farmers (ASAJA) since 1990. He is also a board member of the Spanish Confederation of Business Organizations (CEOE), a member of the presidium of the Committee of Agricultural Organizations (COPA) of the European Union, a member of the CAP advisory committee of the European Commission, president of the Inter-trade Organization of Spanish Olive Oil, president of the Occupational Accident Insurance Association (AMAT), president of the National Confederation of Beet and Sugar Cane Growers and president of the Spanish Federation of Self-employed Persons (CEAT). He was a member of the European Economic and Social Committee from 1997 to 2007 and a member of the Spanish Economic and Social Council from 1991 to 2007.

Isabel Tocino Biscarolasaga is an independent external member of our Board of Directors and a member of the Advisory Committee for Forestry and Regulatory Policies. She joined us in March 2013.

Ms. Isabel Tocino Biscarolasaga is Doctor in Law and has undertaken graduate studies in business administration at IESE and the Harvard Business School. She has been Spanish Minister for the Environment, chairwoman of the European Affairs Committee and of the Foreign Affairs Committee of the Spanish Congress and chairwoman for Spain and Portugal and vice-chairwoman for Europe of Siebel Systems. She is currently a full professor at Universidad Complutense de Madrid, an elected member of the Spanish State Council, non-executive director of Grupo Santander, member of the Advisory Board of Accenture a member of the Royal Academy of Doctors.

The Senior Management of the Issuer

Our senior management team is led by Juan Luis Arregui Ciarsolo. The following table sets forth our current senior management team and their respective ages and positions.

Name	Age	Position
Juan Luis Arregui Ciarsolo	69	Chairman
Ignacio de Colmenares y Brunet	51	Chief Executive Officer
Diego Maus Lizariturry	43	Chief Financial Officer
José Manuel Zarandona de la Torre	49	Director General of the Pulp Business
Jacinto Lobo Morán	61	Director General of the Energy Business
Álvaro Eza Bernaole	38	Director of the Forestry Business
María José Zueras Saludas	52	Director General of Human Resources
Guillermo Medina Ors	45	Vice Secretary and General Counsel
Luis Carlos Martínez	53	Director General of Communications

The following is the biographical information for each of the members of our senior management team who do not also serve on our Board of Directors:

Diego Maus Lizariturry is our Chief Financial Officer. He joined us in June 2007 as advisor to the Chairman and Head of Corporate Development.

Mr. Maus Lizariturry holds a business degree from the Colegio Universitario de Estudios Financieros (CUNEF) in Madrid and is a Certified European Financial Analyst (CEFA). Prior to joining us, he occupied several roles at Telefónica, including Sub-director for Investment Control and Analysis of Telefónica Internacional, Director of Investor Relations of Telefónica and controller of Telefónica.

José Manuel Zarandona de la Torre is the Director General of our pulp business. He joined us in April 2010.

Mr. Zarandona de la Torre holds a degree in industrial engineering from the Escuela Superior de Ingenieros Industriales in Bilbao as well as a postgraduate degree in Business from the Universidad de los Andes in Bogotá, Colombia. Prior to joining us, he worked from 2000 to 2010 at Grupo SCA in Spain, where he was most recently Director of Energy for Europe, and from 1996 to 2000 at Papeles Nacionales in Colombia, where he was plant director and engineering director. Mr. Zarandona has also had experience working as an engineer for ENERTEC, Fort James España and Sidenor.

Jacinto Lobo Morán is the Director General of our Energy business. He joined us in May 2011.

Mr. Lobo Morán holds a degree in energy engineering from ETSII Bilbao. Prior to joining us, he was Director of Business Development for the Iberian Market at ESB Internacional from 2000 to 2011, Executive Vice-President of Ente Vasco de Energía (EVE) from 1994 to 1998 and Senior Manager for Utilities at Andersen Consulting. He was also Director of Energy and Environment at SENER from 1974 to 1980, 1991 to 1994 and 1998 to 2000.

María José Zueras Saludas is the Director General of our Human Resources department. She joined us in November 2007.

Ms. Zueras Saludas holds law degrees from the Facultad de Derecho de Zaragoza and the Universidad Complutense in Madrid and a Masters degree in Human Resources Management from CESEM. She has also completed a general management course at ESADE in Barcelona. Prior to joining us, over the course of her career she held senior human resource management and labor relations roles at AXA Winterthur, Telefónica de España, Arcelor and Aceralia. She has also held roles at TENEO and the State Industrial Agency in Spain.

Alvaro Eza Bernaole is the Director of our Forestry Business. He joined us in November 2011.

Mr. Eza holds a BSc in Electrical Engineering, and an MBA in the IESE Business School in Navarra. Prior to joining us, he was the Managing Director of Cosidesa (part of the Celsa group) between 2004 and 2008. Prior to that, he was the Procurement Director at Celsa.

Guillermo Medina Ors is our General Counsel and Vice Secretary. He joined us in June 2009.

Mr. Medina Ors holds degrees in law and in business administration from ICADE-Pontificial University of Comillas (Madrid, 1990) as well as master's degrees in Financial Economy (ICADE–Madrid) and Political and Institutional Communication (Carlos III University–Madrid). He has also undertaken doctoral studies in law at Universidad Complutense and Universidad San Pablo-CEU (Madrid) and participated in postgraduate courses on various legal matters (competition, corporate law, mergers and acquisitions, communications and media) in different universities (including Harvard University and the University of Amsterdam). He worked as an associate at the law firm Iberforo–Alzaga, Caro, Marañón, Sánchez-Terán & Asociados and a partner at the law firm Cremades & Calvo-Sotelo. Previously, he served as in-house legal counsel at the Spanish branch of Commerzbank and at Telefónica, where he held the positions of Deputy Director of Legal and Regulatory Affairs at Telefónica Internacional (Madrid, Spain) and Deputy General Counsel at Unisource (Zürich, Switzerland).

Luis Carlos Martínez is our Director General of Communications and Public Affairs. He joined us in January 2012.

Mr. Martínez holds a degree in economics and business from the Universidad Complutense de Madrid and an Executive MBA from the Instituto de Empresa in Madrid. Prior to joining us, from 1986 to 2011, he held a number of positions at Iberdrola (formerly Hidroeléctrica Española), including Director of the Iberdrola Foundation and Director of Communications Strategy.

Corporate Governance

The Board of Directors comprises executive directors (*consejeros executivos*), representative external directors (*consejeros dominicales*) and independent external directors (*consejeros independientes*). Executive board members are the managing directors and those others who carry out executive functions or maintain a stable contractual relationship with us or our subsidiaries other than as a director. Representative external directors are those proposed by shareholders by reason of a stable holding in our capital. Finally, independent external directors are professionals of acknowledged prestige who can contribute their experience and knowledge to corporate governance and who fulfill the remaining conditions required by the regulations, including not being connected to the executive team or to significant shareholders.

Our Board of Directors believes that its actions, composition, organization, remuneration and responsibilities comply with existing corporate governance recommendations in accordance with the specific indications set forth in our annual corporate governance report.

We include all documentation relating to our annual corporate governance report on our website, *www.ence.es*, in accordance with the provisions of the Transparency Act (Order ECO/3722/2003), Circular 1/2004 of March 17, of the Spanish Securities and Exchange Commission, Article 539 of the Spanish Companies Law on annual reports on corporate governance and the Unified Code of Good Governance approved by the board of the Spanish Securities Commission.

Board Practices

According to our by-laws, our Board of Directors consists of a minimum of eight and a maximum of sixteen directors. The term of office of directors is three years. The annual General Shareholders' Meeting has the power to appoint and remove directors. The Board of Directors may fill any vacancies that may arise from among the shareholders using the co-option procedure on an interim basis until the next annual General Shareholders' Meeting is held.

In any event, the proposals for the appointment of directors submitted by the Board of Directors to the annual General Shareholders' Meeting and the appointment decisions adopted by the Board of Directors in accordance with its powers of co-option legally attributed to the same shall be preceded by the relevant proposal to the Appointments and Remuneration Committee. Where the Board of Directors opts not to follow the recommendations of the Appointments and Remuneration Committee, it shall explain the reasons for its actions and shall include the same in the minutes.

The Board of Directors and the Appointments and Remuneration Committee shall seek to ensure the candidates selected are persons of recognized solvency, competence and experience, and shall proceed with due caution in relation to procedures to cover vacancies for independent directors.

In accordance with applicable board regulations, the Board of Directors shall seek to ensure that independent and non-executive directors represent an ample majority among the members of the Board of Directors and, in general, that the different categories of directors are in line with best corporate governance practice in terms of proportionality and characteristics. In order to establish a reasonable balance between proprietary and independent directors, the Board of Directors shall consider our ownership structure so that the ratio of each class of directors to each other shall reflect the relationship between stable and floating capital.

In addition, in accordance with applicable board regulations, the Board of Directors is required to evaluate its own functioning and the quality and effectiveness of its work at least once per year, as well as the performance of the Chairman of the Board of Directors and our Chief Executive Officer, as well as the functioning of the board committees based on the reports submitted by the same. On February 28, 2012 the Board of Directors proceeded with the self-assessment procedure in accordance with the terms of the applicable board regulations.

Board Committees

The Board of Directors has established four committees to conduct our operations: the Executive or Delegate Committee; the Audit Committee; the Appointments and Remuneration Committee; and the Advisory Committee for Forestry Regulatory Policies.

Executive or Delegate Committee

The Executive Committee is in charge of all of the tasks delegated by the Board of Directors, which can delegate all the responsibilities allowed to be delegated by it according to Spanish law, our by-laws and board regulations.

In accordance with our by-laws, the Executive Committee shall be composed of a minimum of four directors and a maximum of eight, including the Chairman. Within these limits, the number of committee members shall be decided by our Board of Directors in view of changing circumstances, seeking at all times to ensure that the Executive Committee reproduces a reasonable balance between the different types of directors.

The Executive Committee is currently comprised of Juan Luis Arregui Ciarsolo (Chairman), Ignacio de Colmenares y Brunet, Javier Echenique Landiríbar, Fernando Abril-Martorell Hernández, and José Guillermo Zubía Guinea.

Audit Committee

The Audit Committee assists the Board of Directors in the functions of oversight and control, supervising the effectiveness of our internal controls, internal audits and the processes involved in the preparation and presentation of financial information.

In accordance with our by-laws, the Audit Committee shall be composed of a minimum of three and a maximum of seven directors, the majority of whom must be non-executive directors. In addition, at least one of the members of the Audit Committee shall be an independent director and shall have competence in accounting and/or auditing. Within these limits, the number of committee members shall be decided by the Board of Directors, which shall ensure that independent directors are appropriately represented.

The Audit Committee is currently comprised of José Manuel Serra Peris (Chairman), Jesús Ruano Mochales, Javier Echenique Landiríbar and José Guillermo Zubía Guinea.

Appointments and Remuneration Committee

The Appointments and Remuneration Committee's role is to propose a system and an amount of annual remuneration for directors to the Board of Directors; oversee compliance with our remuneration policy; and propose measures to safeguard the transparency of remuneration and compliance therewith.

In accordance with the board regulations, the Appointment and Remuneration Committee shall be formed by non-executive directors and shall have the number of members decided by the Board of Directors, with a minimum of three members. The committee's membership shall include appropriate representation of independent directors.

The Appointments and Remuneration Committee is currently comprised of Fernando Abril-Martorell Hernández (Chairman), Javier Arregui Abendivar, Gustavo Matías Clavero, and Pascual Fernández Martínez.

Advisory Committee for Forestry and Regulatory Policies

The Advisory Committee for Forestry and Regulatory Policies' role is to advise on the policies and regulations related to our activities, to establish the strategies relating to such policies and regulations, and to promote and develop relationships with policymakers and regulators as well as the related administrations and institutions.

The Advisory Committee for Forestry and Regulatory Policies is currently comprised of Juan Luis Arregui Ciarsolo, Ignacio de Colmenares y Brunet, Pedro Barato Triguero, José Carlos del Álamo Jiménez, Jesús Ruano Mochales, and Pascual Fernández Martínez.

Director and Executive Compensation

Director Compensation

The office of director is remunerated by way of a regular allocation of fixed remuneration and allowances for attendance at meetings of the Board of Directors and of the board committees. The amount of remuneration payable by the Company on an annual basis to its directors in respect of these items may not exceed the sum earmarked for such purposes by the annual General Shareholders' Meeting, without prejudice to conditions related to the system for pensions payable in the case of death, superannuation, invalidity, incapacity to hold office or retirement and to the share options or other financial instruments which may be approved by the General Shareholders' Meeting. The amount so determined shall be maintained until such time as it may be modified by a new resolution of the annual General Shareholders' Meeting.

The exact amount payable within that limit, the distribution thereof among the directors and the timing of payments shall be decided by the Board of Directors. The annual General Shareholders' Meeting held on June 29, 2006 established a maximum annual limit on directors' remuneration of €1,500,000, and this limit currently remains in force because it has not been changed by any subsequent annual General Shareholders' Meeting.

In accordance with applicable board regulations, a director shall be entitled to receive the remuneration set by the applicable board regulations in accordance with the provisions of the by-laws and subject to a prior report of the

Appointments and Remuneration Committee. The Board of Directors shall ensure that the director's remuneration is moderate in view of market circumstances and that it is in line with such circumstances. Where the Board of Directors understands in any given year that strict application of the statutory rules would result in remuneration that might not be in line with moderate criteria, it shall resolve to waive the payment of the amount considered excessive. Such waiver shall be submitted to the annual general meeting responsible for deciding on remuneration.

The remuneration of each director shall be transparent. For this purpose, the Board of Directors shall prepare an annual report on the remuneration of directors in addition to the annual corporate governance report, the contents and structure of which shall be as established by law. This report shall inform the shareholders at the General Shareholders' Meeting and it shall be subjected to a vote at the same on a consultative basis as a separate item on the agenda. In accordance with this requirement, the Board of Directors prepared and approved the annual report on directors' remuneration policy for 2011 at its meeting of February 28, 2012.

With regard to the remuneration of independent directors, the board regulations require the Board of Directors to adopt all available measures, with the advice of the Appointments and Remuneration Committee, to ensure that the remuneration of independent directors is appropriate and offers incentives for their dedication but without impairing their independence.

Finally, in accordance with the by-laws, the directors may be compensated, in addition to and independently of the remuneration referred to above, by way of the delivery of shares or share options, or using any other remuneration system that is based on the value of our shares. The application of such remuneration systems shall be agreed by the General Shareholders' Meeting in accordance with the Spanish Companies Law (*Ley de Sociedades de Capital*), which was approved by the Legislative Royal Decree 1/2010 dated July 2, 2010 (the "Spanish Companies Law"). Statutory limits on remuneration of this kind payable in general to executive directors are regulated in the applicable board regulations. Exceptionally, our shares may be delivered to non-executive directors by way of remuneration, providing the same are held until these directors cease to hold office.

Management Incentive Plan

On March 30, 2007, our Board of Directors approved a Management Incentive Plan (the "First Plan"), which was modified and restated during the shareholders meeting held on November 30, 2010.

The purpose of the First Plan is to incentivize management for the achievement of objectives that were set out for the financial years 2010, 2011 and 2012, and shall be in force until June 30, 2015, the date on which all the granted options shall be exercised (and all non-exercised options will expire). For such purposes, each year the Beneficiaries (as defined below) will receive a number of options over shares of the Company, subject to certain limits for each member of management. The Beneficiaries of the First Plan include our Chief Executive Officer, members of our Management Committee, managers within the so-called "second rank management level" (*Segundo Nivel Directivo*), as well as any other manager that the Board of Directors may designate from time to time (the "Beneficiaries").

The maximum number of shares granted to the Beneficiaries of this First Plan is limited to 3,850,000 shares, which represent approximately 1.5% of our total share capital. The maximum number of options over shares to be granted in favor of our Chief Executive Officer is limited to 1,000,000 shares. The strike price for the options corresponding to the 2010 financial year will be the average price of the stock of the Issuer within the 20 business days prior to June 22, 2010. For the options corresponding to financial years 2011 and 2012, the strike price will be the average price of the stock of the Issuer within the first 20 days of March 2011 and the first 20 days of March 2012, respectively. The options shall be cumulative for the Beneficiaries, and may be exercised after the second anniversary from the date in which such options were granted, only if (i) the Beneficiary maintains a work or service relationship with the Issuer, from the time of joining the First Plan to the date on which the options are exercised (i.e., two years after the granting of such options), and (ii) at the time of exercising the option, the Issuer has reestablished a regular dividend policy.

Additionally, the approval of the was approved in General Shareholders' Meeting held on March 21, 2013 approved a new Management Incentive Plan (the "Second Plan").The purpose of the Second Plan is to incentivize management for the achievement of objectives that were set out for the financial years 2013, 2014 and 2015, and shall be in force until December 31, 2015. The amount of the long term incentive shall be as determined by the board of directors according to the level of goal achievement by the Company and the level of management occupied by the beneficiary. In any case, the maximum amount of incentive that beneficiaries may receive shall never exceed 120% of a yearly payment of average compensation over years 2013, 2014 and 2015 for each level of management. The Beneficiaries of the Second Plan include our Chief Executive Officer and the chief directors of the Company to be determined by the board of directors at the proposal of the appointments and remuneration committee, according to their ability to directly influence the success of the strategic plans (the "Beneficiaries").

The criteria for awarding of the incentive, whose consideration will fall to the board of directors, shall be as follows: a) The increase in the value of Ence stock in the periods, percentages and other terms to be determined by the board of directors (the baseline of the Ence stock for purposes of calculating the incentive shall be the average value of Ence shares in the last quarter of 2012 in terms of market capitalization); b) The increase in the value of Ence stock (calculated to the baseline mentioned in the preceding section) in comparison to the increase in stock value of the companies in the sector on the terms and conditions as established by the board of directors; and c) The increase in the value of the Company as to 31 December 2015 calculated on the terms agreed to by the board of directors taking into account the EBITDA achieved and the outstanding debt respect to market value of the Company at 31 December 2012.

The board of directors of the Company is given the authority, with express powers by proxy in the Executive Committee, to adopt any agreements and sign any documents, public or private, as may be necessary or convenient to develop, execute and formalize the Incentive Plan, being particularly able, though not limited to: a) Implement the Incentive Plan as it sees fit and in the specific manner it deems appropriate; b) identify what persons in their role as directors of the company will be designated as beneficiaries of the Incentive Plan, and specify what levels to which each one will be added; c) develop and set the specific terms of the Incentive Plan where the agreement does not specify, including particularly but not limited to, the development of the criteria for awarding the incentive, the specific terms of payment of the incentive beneficiaries, the possibility of establishing events that lead to early payment of the Incentive Plan and the power to set the requirements that beneficiaries must meet in order to receive the incentive.

Employment Agreements

Several of the members of our senior management team have employment agreements that include provisions for special severance payments in addition to those required under applicable law. The aggregate value of the severance payments under these agreements was €1.6 million as of September 30, 2012.

PRINCIPAL SHAREHOLDERS

Our major shareholders as of the date of this Report remain fully committed to the business. They participated in our €130 million capital increase implemented in March 2010, which underscored their continued conviction and confidence in our business. Our two largest shareholders, Retos Operativos XXI, S.L. and Alcor Holding, S.A., have each held a shareholding interest in excess of 20% of our shares since 2007. In addition, Juan Luis Arregui, who represents the interests of our largest shareholder, Retos Operativos XXI, S.L., which owns 24.5% of our shares, is currently the Chairman of our Board of Directors.

As of December 31, 2012 the authorized share capital of ENCE Energía y Celulosa, S.A. was €225,245,250, consisting of 250,272,500 fully paid-up shares, forming part of the same series, each with a par value of €0.9. The following table sets forth information regarding the beneficial ownership of ENCE Energía y Celulosa, S.A. as of September 30, 2012.

	As of December 30, 2012	
Owner	**Number of Shares held**	**Percent**
Retos Operativos XXI, S.L. (Juan Luis Arregui Ciarsolo)	61,360,032	24.5%
Alcor Holding, S.A. (Alberto Alcocer and Alberto Cortina)[a]	57,009,740	22.8%
Liberbank, S.A[a].	17,217,140	6.9%
Public float	95,881,616	38.3%
Treasury stock[b]	18,803,972	7.5%
Total	**250,272,500**	**100.0%**

(a) Alcor Holding, S.A. and Liberbank, S.A. are under no legal obligation to disclose their shareholdings, unless they cross a certain threshold; figures are based on the information provided in the annual accounts

(b) Treasury Stock as disclosed in the most recent notification to the Spanish Securities and Exchange Commission (*Comisión Nacional del Mercado de Valores*) on December 11, 2012.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In the ordinary course of our business, we carry out transactions with related parties in accordance with established market practice and specific legal requirements.

We carried out the following transactions with related parties in the nine months ended September 30, 2012 and the years ended December 31, 2011, December 31, 2010 and December 31, 2009:

Acquisition of the Foresta Group's Energy Crops Technology

On December 20, 2012, we entered into an agreement to acquire the energy crops-related technology of the Foresta Group, including certain technology related to research and development, *in vitro* technology and a poplar clone for an initial payment of approximately €3.4 million to be paid at signing, with up to €3.1 million in additional consideration to be paid subject to certain agreed terms and conditions.

We will also be required to make a payment of €0.25 million per year under the services agreement for the next two years.

Share Repurchase from Fidalser, S.L.

On December 7, 2012, we acquired a total of 12,815,353 shares, representing 5.12% of our share capital, from our former shareholder Fidalser, S.L. These shares, which were purchased for a total consideration of €25.3 million, will be kept as treasury shares pending further action by our Board of Directors.

Transaction with Atalaya de Inversiones, S.L.

In July 2011, we acquired a total of 9,701,770 shares, representing 3.76% of our share capital, from our former shareholder Atalaya de Inversiones, S.L. for a total consideration of €26.4 million at a price of €2.72 per share.

DESCRIPTION OF OTHER INDEBTEDNESS

The following summary of the material terms of certain financing arrangements to which the Issuer and certain of its subsidiaries are a party does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents. For further information regarding our existing indebtedness, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Senior Notes due 2020

€250.0 million 7.25% senior secured notes due 2020.

In February 2013, Ence Energia y Celulosa SA issued €250 million Senior Notes due 2020, maturing in February 15, 2020 and priced at 100%. The notes pay an interest rate of 7.25% per annum with payment dates being Semi-annually in arrears on February 15 and August 15 of each year, commencing August 15, 2013.

Ranking of the Notes

The Notes will:

- be general, senior obligations of the Issuer, secured by first-ranking security interests in the Collateral as set forth below under "—Security";
- rank pari passu in right of payment with any existing and future indebtedness of the Issuer that is not subordinated to the Notes (including the Revolving Credit Facility);
- rank senior in right of payment to any existing and future obligations of the Issuer that are expressly subordinated to the Notes;
- be effectively subordinated to any existing and future secured indebtedness of the Issuer and its subsidiaries that is secured by property or assets that do not secure the Notes, to the extent of the value of the property or assets securing such indebtedness, including our project finance debt; and
- be structurally subordinated to any existing and future indebtedness of the subsidiaries of the Issuer that do not guarantee the Notes.

Please see "Risk Factors—Risks Relating to the Notes and Our Structure—Local insolvency laws may not be as favorable to you as U.S. bankruptcy laws or those insolvency laws of another jurisdiction with which you may be more familiar."

Guarantees

The Notes will be guaranteed on a senior secured basis (the "Guarantees") by the following subsidiaries of the Issuer (the "Guarantors") on the Issue Date:

- Celulosa Energía, S.A.U.;
- Celulosas de Asturias, S.A.U.;
- Norte Forestal, S.A.U.; and
- Silvasur Agroforestal, S.A.U.

On an aggregated basis for the twelve months ended December 31, 2012, the Issuer and the Guarantors have generated 95.4% of our EBITDA and 88.3% of our revenue and would have held 80.0% of our total assets.

Any other subsidiary (other than a subsidiary engaged in biomass renewable energy generation) the EBITDA of which in any completed fiscal year after the Issue Date represents the greater of (i) 5% or more of the consolidated EBITDA of the Issuer and its restricted subsidiaries; or (ii) €5.0 million, will also be required to provide an additional Guarantee.

The obligations of each Guarantor under its Guarantee will be limited to an amount that can be guaranteed under applicable laws, and will not apply to the extent a Guarantee would be illegal or unenforceable under applicable local and bankruptcy laws. Please see "Risk Factors—Risks Relating to the Notes and Our Structure—Local insolvency laws may not be as favorable to you as U.S. bankruptcy laws or those insolvency laws of another jurisdiction with which you may be more familiar" and Annex A of this Offering Memorandum.

Ranking of the Guarantees

Each Guarantee will:

- be a general senior obligation of the relevant Guarantor, secured by first ranking security interests in the Collateral as set forth under "—Security";

- rank pari passu in right of payment with any existing and future indebtedness of that Guarantor that is not subordinated to such Guarantor's Guarantee

- rank senior in right of payment to any existing and future obligations of that Guarantor that are expressly subordinated to such Guarantee; and

- be effectively subordinated to any existing and future indebtedness of that Guarantor that is secured by property or assets that do not secure that Guarantor's Guarantee, to the extent of the value of the property or assets securing such indebtedness

Please see "Risk Factors—Risks Relating to the Notes and Our Structure—Local insolvency laws may not be as favorable to you as U.S. bankruptcy laws or those insolvency laws of another jurisdiction with which you may be more familiar."

The Guarantees will be subject to the terms of the Intercreditor Agreement. Please see "Description of Other Indebtedness—Intercreditor Agreement."

The Guarantees will be subject to release under certain circumstances. Please see "Risk Factors—Risks Relating to the Notes and Our Structure—The Collateral may be released without the consent of the holders of the Notes" and "Description of the Notes—Credit Enhancement—Release of Guarantees."

Security

The Notes and Guarantees will be secured by a first-ranking security interest in the collateral (the "Collateral"), which will include:

- all present and future shares of capital stock of each of the Guarantors;

- all present and future debt of the Issuer or a restricted subsidiary owing to and held by the Issuer or any of the Guarantors (other than debt owed by our subsidiaries engaged in independent biomass renewable energy generation);

- subject to certain exceptions, all present and future receivables (excluding receivables subject, or to be subject, to factoring) owed to the Issuer or any of the Guarantors; and

- all present and future cash and cash equivalents held in bank or investment accounts of the Issuer or any of the Guarantors.

Any additional security interests that may in the future be pledged to the Security Agent (or another security agent to be appointed for this purpose), to secure obligations under the Indenture would also constitute Collateral.

The obligations of the Issuer and of each subsidiary of the Issuer providing a first-ranking security interest in the Collateral (or to perfect any liens on such Collateral) may be limited under applicable laws or in accordance with the terms of the security documents relating to the Collateral and may be released under certain circumstances. Please see "Risk Factors—Risks Relating to the Notes and our Structure—The enforcement of the Collateral may be restricted by Spanish law," "Risk Factors—Risks Relating to the Notes and our Structure—The Collateral may be released without the consent of the holders of the Notes," "Description of Other Indebtedness—Intercreditor Agreement," "Description of the Notes—Credit Enhancement—Release of Collateral" and Annex A to this Offering Memorandum.

Intercreditor Agreement

The first-ranking security interest in the Collateral will also be granted to secure indebtedness under the Revolving Credit Facility and certain hedging obligations. In addition, the Indenture will permit us to secure additional indebtedness with liens on the Collateral under certain circumstances. These intercreditor relationships will be governed by an intercreditor agreement (the "Intercreditor Agreement"). Pursuant to the terms of the Intercreditor Agreement, any liabilities in respect of obligations under the Revolving Credit Facility and certain hedging arrangements will receive priority with respect to any recoveries received upon enforcement over any such Collateral, as described in more detail under "Description of Other Indebtedness—Intercreditor Agreement."

Optional Redemption

At any time prior to February 15, 2016, the Issuer will be entitled, at its option, on one or more occasions to redeem the Notes in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the Notes with the net proceeds of certain equity offerings at a redemption price equal to 107.25% of the principal amount of the Notes plus accrued and unpaid interest and additional amounts, if any, to the date of redemption; provided that at least 65% of the original principal amount of each of the Notes remains outstanding after the redemption.

In addition, at any time prior to February 15, 2016, the Issuer may redeem all or part of the Notes at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest, and additional amounts, if any, to the date of redemption, plus the Applicable Premium (as defined under "Description of the Notes—Optional Redemption").

At any time prior to February 15, 2016, the Issuer may also redeem up to 10% of the principal amount of the Notes in each 12-month period commencing on February 15, 2013 at a redemption price equal to 103% of the principal amount of the Notes plus accrued and unpaid interest, and additional amounts, if any.

At any time on or after February 15, 2016, the Issuer may also redeem all or part of the Notes at the redemption prices listed under "Description of the Notes—Optional Redemption" plus accrued and unpaid interest, if any, to the date of redemption.

Additional Amounts

Any payments made by the Issuer with respect to the Notes or a Guarantor in respect of any Guarantee will be made without withholding or deduction for taxes in any relevant taxing jurisdiction unless required by law. If Spanish withholding or deduction is required by law, subject to certain exceptions (including those referred to under "—Spanish Tax Law Requirements" below), the Issuer or the relevant Guarantor, as applicable, will pay additional amounts so that the net amount you receive is no less than the amount which you would have received in the absence of such withholding or deduction. Please see "Description of the Notes—Additional Amounts."

Spanish Tax Law Requirements

Under regulations established by Royal Decree 1065/2007, as amended by Royal Decree 1145/2011, income obtained in respect of the Notes will not be subject to withholding tax in Spain, provided certain requirements are met, including that the Paying Agent provides the Issuer, in a timely manner, with a duly executed and completed Payment Statement. Please see "Certain Tax Considerations—Spanish Tax Considerations—Compliance with Certain Requirements in Connection with Income Payments."

The Payment Statement shall contain certain details relating to the Notes, including the relevant payment date, the total amount of income to be paid on such payment date and a breakdown of the total amount of income corresponding to Notes held through each clearing agency located outside Spain.

The Issuer and the Paying Agent have entered into an agreement whereby the Paying Agent undertakes to implement certain procedures for the timely provision by the Paying Agent to the Issuer of a duly executed and completed Payment Statement in connection with each payment of income under the Notes. Please see "Certain Tax Considerations—Spanish Tax Considerations—Compliance with Certain Requirements in Connection with Income Payments."

If a payment of income in respect of the Notes is not exempt from Spanish withholding tax, including due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, such payment will be made net of Spanish withholding tax, currently at the rate of 21%. If this were to occur due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, affected beneficial owners will receive a refund of the amount withheld, with no need for action on their part, if the Paying Agent submits a duly executed and completed Payment Statement to the Issuer no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, following the 20th calendar day of the month immediately following the relevant payment date, beneficial owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the "Procedures for Direct Refund from the Spanish Tax Authorities" set forth in Annex B of this Offering Memorandum. The Issuer will not pay Additional Amounts in respect of any such withholding tax.

Beneficial owners should note that none of the Issuer or the Initial Purchasers assume any responsibility relating to the procedures established for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes. Accordingly, none of the Issuer or the Initial Purchasers will be liable for any damage or loss suffered by any beneficial owner who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because these procedures prove ineffective.

Optional Tax Redemption

The Issuer may also redeem the Notes in whole, but not in part, at any time, upon giving proper notice, if certain changes in law impose certain withholding taxes on amounts payable on the Notes. If the Issuer decides to do this, the Issuer must pay you a price equal to the principal amount of the Notes plus accrued and unpaid interest and certain additional amounts, if any, to the date of redemption. Please see "Description of the Notes—Optional Tax Redemption."

Change of Control

If a Change of Control occurs, the Issuer will be required to offer to repurchase the Notes at 101% of their aggregate principal amount, plus accrued and unpaid interest and certain additional amounts, if any, to the date of repurchase. Please see "Description of the Notes—Change of Control."

Certain Covenants

The Issuer will issue the Notes under the Indenture. The Indenture will limit, among other things, the ability of the Issuer and its restricted subsidiaries to:

- incur more debt;
- pay dividends, repurchase stock, and make distributions and certain other payments and investments;
- create or permit to exist certain liens;
- enter into transactions with affiliates;
- transfer or sell assets other than in the ordinary course of business;
- impair security interests for the Notes;
- provide guarantees of other debt;
- agree to restrictions on dividends or other payments by certain subsidiaries to the Issuer; and
- merge or consolidate.

Transfer Restrictions

The Notes have not been, and will not be, registered under the U.S. Securities Act or any state securities law or regulation and may not be offered or sold, except pursuant to an exemption from, or in a transaction not subject to the registration requirements of, the U.S. Securities Act. The Issuer has not agreed, or otherwise undertaken, to register the Notes under the U.S. Securities Act or any state securities law or regulation.

Revolving Credit Facility

The Issuer, as original borrower and guarantor, entered into a Revolving Credit Facility agreement (the "RCF Agreement") between, among others certain subsidiaries of the Issuer listed in Schedule 1 thereto, Deutsche Bank AG, London Branch, Banco Español de Crédito, S.A., Bankia, S.A., Banco de Sabadell, S.A., Barclays Bank PLC, CaixaBank, S.A., Citibank International PLC, London and Bankinter, S.A. as arrangers, and certain financial institutions listed in Schedule 1 thereto as original lenders and Deutsche Bank AG, London Branch, as facility agent, original issuing bank and security agent. The RCF Agreement provides for a €90.0 million committed revolving credit facility (the "Revolving Credit Facility"). In the event that the €90.0 million committed revolving credit facility is reduced by reason of a lender defaulting or it becomes unlawful for a lender to provide or continue to provide funding, the borrower is entitled to request that the aggregate commitments are increased to permit another lender or lenders to provide a commitment equal to the commitment of the defaulting lender. The Issuer may, with 15 business days' prior written notice, request that the amount of the Revolving Credit Facility be increased by up to an additional €5.0 million to up to €95.0 million in total. Such increased commitment (the "Increased Revolving Credit Facility Amounts") will be provided by one or more existing or new lenders of the Revolving Credit Facility and/or by another appropriate entity selected by the Issuer. Debt incurred under the Revolving Credit Facility, including any Increased Revolving Credit Facility Amounts, will rank *pari passu* with the Notes.

Interest and Maturity

The loans under the RCF Agreement will bear interest at LIBOR or, in relation to any loan in euro, EURIBOR, plus a margin of 4.00% per annum (plus the mandatory cost, if any) payable on the last day of each applicable interest period (as determined in accordance with the terms of the RCF Agreement); provided that at the end of the first quarter, following the anniversary of the date of completion of the Offering and at the end of each quarter thereafter, the margin will fluctuate with and be tied to our ratio of net debt to EBITDA (as both terms are defined in the RCF Agreement) at a rate per annum of between 4.00% and 3.00%. The lower margin will be applicable if our ratio of net debt to EBITDA is less than 1.50:1, while the higher margin will be applicable if our ratio of net debt to EBITDA is greater than or equal to 2.00:1.

The termination date of the Revolving Credit Facility is the fifth anniversary of the date the RCF Agreement is signed.

Covenants and Events of Default

The RCF Agreement contains certain restrictive covenants and events of default which, subject to conforming amendments, reflect the covenants and events of default contained in the Indenture. The RCF Agreement also contains certain customary representations and warranties for facilities of this type. In addition, the Issuer shall not, and shall procure that none of its subsidiaries shall, repay, prepay, purchase, defease (or otherwise retire for value) or directly or indirectly acquire any of the Notes or offer to do so unless (to the extent such Notes purchases made since the date of the RCF Agreement have resulted in the aggregate principal amount outstanding under the Notes being 40% or less than the aggregate principal amount outstanding under the Secured Notes on the Issue Date) the commitments under the RCF Agreement are also cancelled in a pro rata amount.

Security and Guarantees

Our obligations under the RCF Agreement will be secured by first-priority security interests over the same assets as those securing the Notes. Guarantees, subject to certain limitations in relation to unlawful financial assistance, will be jointly and severally provided by the same subsidiaries guaranteeing the Notes.

In particular, the obligations and liabilities of any Spanish Guarantor shall not include any obligation which if incurred would constitute financial assistance within the meaning of article 150 of the Spanish Companies Law (*Ley de Socidades de Capital*).

Voluntary Prepayments

The Issuer and the other borrowers of the Revolving Credit Facility (the "Borrowers") have the option to voluntarily prepay or cancel all or part of the Revolving Credit Facility in tranches of at least €250,000 (and in multiples of €250,000 if more) with five business days' notice for each of cancellation and prepayments. The Issuer and the Borrowers have the option to voluntarily prepay an individual lender or issuing bank in the event that any sum payable to that lender or issuing bank is required to be increased due to a tax gross-up or indemnification or where increased costs are payable in certain circumstances.

Mandatory Prepayments

Mandatory prepayment and cancellation of the Revolving Credit Facility will, reflecting the covenants contained in the Indenture, occur upon (i) certain change of control events and a sale of substantially all of our assets or

(ii) it being illegal for a lender to provide or continue to provide funding (such prepayment will be limited to such lender's share). In the case of any prepayment, the Issuer and the other Borrowers would be required to pay accrued interest on the amount prepaid and break costs.

Project Financings

Project Financing for the Huelva Facility

On June 21, 2011, ENCE Energía Huelva, S.L.U., an indirectly wholly-owned subsidiary of the Issuer, entered into a €101.3 million credit facility agreement (the "Huelva Senior Credit Agreement") with Banco Español de Crédito, S.A., Caja de Ahorros y Pensiones de Barcelona (currently, CaixaBank, S.A.), Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., Bankia, S.A., Instituto de Crédito Oficial and Banco Sabadell, S.A. to finance the development, construction and commissioning of its Huelva biomass energy facility. The availability under the Huelva Senior Credit Agreement is expected to be reduced to €99.1 million.

Construction of this facility, which has a capacity of 50 MW and a forecast annual production of approximately 340 million kWh, was completed in September 2012, with a test phase completed in December 2012 and we took possession of the facility in the February 7, 2013. The Huelva Senior Credit Agreement provides for the financing of 75% of the project costs (excluding applicable VAT) with the remainder financed through equity and subordinated debt.

The financing period is twelve years, including two years for the construction period and a ten-year amortization period over the facility's commercial operation. The Huelva Senior Credit Agreement bears an interest rate equal to EURIBOR plus a margin of 3.25% during years 1 through 4, 3.50% during years 5 through 8 and 3.75% from year 9 onwards, and its maturity date is December 22, 2022.

The Huelva Senior Credit Agreement contains certain customary events of default, including, among others, and subject to certain exceptions and grace periods, defaults in the payment or prepayment of any amounts payable, breach of obligations or undertakings provided for in the project finance documentation, misrepresentation, enforcement of security, failure to comply with certain financial covenants, cross-default under other indebtedness related to project finance and occurrence of certain bankruptcy and insolvency events.

In connection with the Huelva Senior Credit Agreement, we granted security over certain assets of particular companies of our Group, including, among others, a pledge over the shares of the project special purpose vehicle (ENCE Energía Huelva, S.L.U.) granted by ENCE Energía, S.L.U., a pledge over the credit rights arising from certain project agreements related to the processing plant and the facility, a chattel mortgage commitment over the processing plant and the facility, a pledge over biomass stock and a pledge on certain bank accounts related to the project.

In addition, we entered into a commitment and guarantee agreement (*contrato de compromisos y garantias*) pursuant to which we granted the following guarantees within the framework of the Huelva Senior Credit Agreement and also undertook to comply with certain obligations customary for this kind of project, many of which are backed by the terms of the EPC contract:

- *Limited Recourse in Force Until the Completion Date:* Under the Huelva Senior Credit Agreement, the Issuer may be required to pay any cost overrun related to the project without any limitation with respect to the amount of liability.

  The Issuer may be required to prepay certain amounts drawn under the Huelva Senior Credit Agreement (including related breakage costs) in the event of (i) the non-completion of the project by June 14, 2013, (ii) acceleration by the lenders under the Huelva Senior Credit Agreement before the Completion Date, and (iii) changes in the tariff applicable to the facility or the approval of amendments to Royal Decree 661/2007 that would have an impact on the economic feasibility of the facility and/or the ability of the project special purpose vehicle to comply with its obligations under the Huelva Senior Credit Agreement.

- *Limited Recourse in Force After Completion but Subject to Expiration Date:* The Issuer may be required to prepay certain amounts drawn under the Huelva Senior Credit Agreement (including related breakage costs) in the event of (i) failure to meet certain requirements under the EPC contract, and (ii) shortfalls in the electricity production of the facility.

In addition, the Issuer may be required to prepay 40% of the amounts drawn under the Huelva Senior Credit Agreement in the event that the plan for growing crops agreed between us and the lenders in connection with the the Huelva Senior Credit Agreement is not complied with, which requirement will expire on January 1, 2014. If certain other technical conditions are met, the guarantee (i) will be reduced to 20% of the amounts drawn under the Huelva Senior

Credit Agreement if 80% of the plan for growing crops has been complied with and (ii) will expire upon completion of 90% or more of the plan for growing crops. As of December 31, 2012, we had complied with approximately 76% of such plan.

- *Limited Recourse Without Applicable Expiration Date:* The Issuer may be required to prepay certain amounts drawn under the Huelva Senior Credit Agreement (including related breakage costs) in the event that the biomass supply plan agreed between us and the lenders in connection with the Huelva Senior Credit Agreement is not complied with, with a maximum amount of liability limited to € 25 million. In addition, the Issuer may be required to increase the amount of biomass supplied to the project special purpose vehicle on an ongoing basis if a regulatory amendment approving a reduction in permitted fossil fuel uses for electricity generation through biomass transformation is enacted.

  The Issuer may be required to guarantee any damages and loss of profits during the whole operation period of the facility arising from a breach of the availability parameters required in connection with the operation and maintenance contract, with a maximum amount of liability equal to the price applicable under the operation and maintenance contract.

  The Issuer may be required to cover the tax consequences of improved profits and/or extra losses as a result of the inclusion of the project special purpose vehicle into the tax group of the Issuer for corporate tax purposes, provided that certain circumstances occur. This guarantee is not subject to any cap on its amount. In addition, the Issuer may be required to pay taxes chargeable to the project special purpose vehicle as a result of the creation of the chattel mortgage over the facility.

Project Financing for the Mérida Facility

On June 15, 2012, ENCE Energía Extremadura, S.L.U., an indirectly wholly owned subsidiary of the Issuer, entered into a €60.7 million credit facility agreement (the “Mérida Senior Credit Agreement”) with Banco Español de Crédito, S.A., Banco Bilbao Vizcaya Argentaria, S.A. and CaixaBank, S.A. to finance the development, construction and commissioning of its Mérida biomass energy facility. The availability under the Mérida Senior Credit Agreement is expected to be reduced to €50.7 million.

The facility, which has a capacity of 20 MW and an expected annual production of 158 GWh, is expected to become operational during the last quarter of 2014. The Mérida Senior Credit Agreement provides for the financing of 75% of the project costs (excluding VAT), with the remainder financed through equity and subordinated debt.

The financing period is 15 years, including two years for the construction period and a 13-year amortization period over the facility’s commercial operation. The Mérida Senior Credit Agreement bears an interest rate equal to EURIBOR plus a margin of 3.5% during years 1 through 5 and 4.0% from year 6 onwards, and its maturity date is June 15, 2027.

The Mérida Senior Credit Agreement contains certain customary events of default, including, among others, and subject to certain exceptions and grace periods, defaults in the payment or prepayment of any amounts payable, breach of obligations or undertakings provided for in the project finance documentation, misrepresentation, enforcement of security, failure to comply with certain financial covenants, cross-default under other indebtedness related to project finance and occurrence of certain bankruptcy and insolvency events.

In connection with the Mérida Senior Credit Agreement, we granted security over certain assets of particular companies of the Group, including, among others, a pledge over the shares of the project special purpose vehicle (ENCE Energía Extremadura, S.L.U.) granted by ENCE Energía, S.L.U., a pledge over the credit rights arising from certain project agreements, a pledge over bank accounts related to the project, a promissory pledge commitment without transfer of possession over biomass stock, a promissory pledge over certain credit rights derived from the sale of energy and a mortgage commitment over the facility’s site.

In addition, we entered into a shareholders’ support agreement (*contrato de apoyo de socios*) pursuant to which we granted the following guarantees within the framework of the Mérida Senior Credit Agreement and also undertook to comply with certain obligations customary for this kind of project, many of which are backed by the terms of the EPC contract.

- *Limited Recourse in Force Until the Completion Date:* Under the Mérida Senior Credit Agreement, the Issuer may be required to contribute equity to the project special purpose vehicle in such amount as is required to ensure that the maximum gearing ratio applicable under the Mérida Senior Credit Facility does not exceed 75/25.

The Issuer may be required to pay any cost overrun related to the project without any limitation with respect to the amount of liability.

The Issuer may be required to prepay certain amounts drawn under the Mérida Senior Credit Agreement (including related breakage costs) in the event of (i) the non-completion of the project by March 31, 2015, (ii) non-registration of the facility with the Spanish Registry of Electricity Production Installations under Special Regime (*Registro de Instalaciones de Producción en Régimen Especial*) (RIPRE) by October 31, 2014, (iii) acceleration by the lenders under the Mérida Senior Credit Agreement before the completion date, and (iv) approval of any changes in the applicable regulatory regime or enactment of any regulation that creates an increase in the project costs (including, *inter alia*, the creation of any tax on revenues from electricity generation) and/or a decrease in the net electricity remuneration. In addition, the Issuer may be required to service any amount owed under the Mérida Senior Credit Agreement until September 30, 2014.

The Issuer may be required to prepay 45% of the amounts drawn under the Mérida Senior Credit Agreement in the event that the plan for growing crops agreed between us and the lenders in connection with the Mérida Senior Credit Agreement is not complied with. If certain other technical conditions are met, this guarantee (i) will be reduced to 20% of the amounts drawn under the Mérida Senior Credit Agreement where 80% of the plan for growing crops has been complied with and (ii) will expire upon completion of 90% or more of the plan for growing crops. As of December 31, 2012, we had complied with approximately 77% of such plan.

- *Limited Recourse in Force After Completion but Subject to Expiration Date:* The Issuer may be required to prepay certain amounts drawn under the Mérida Senior Credit Agreement (including related breakage costs) in the event of shortfalls in the facility's electricity production. The guarantee will expire 24 months after the completion date.

- *Limited Recourse Without Applicable Expiration Date:* The Issuer may be required to prepay certain amounts drawn under the Mérida Senior Credit Agreement (including related breakage costs) in the event that the biomass supply plan agreed between us and the lenders in connection with the Mérida Senior Credit Agreement is not complied with, with the maximum amount of liability being limited to €4.3 million.

The Issuer may be required to cover the tax consequences of improved profits and/or extra losses as a result of the inclusion of the project special purpose vehicle into the tax group of the Issuer for corporate tax purposes. In addition, the Issuer may be required to make payments in order to cover a more-adverse tax treatment and/or position that may result under the interest barrier rules applicable in Spain (as a consequence of including the project special purpose vehicle within the tax group of the Issuer for corporate tax purposes). None of these guarantees have any limitation with respect to amount of liability.

Intercreditor Agreement

In connection with entering into the RCF Agreement and the Indenture, the Issuer and the Guarantors entered into the Intercreditor Agreement to govern the relationships and relative priorities among: (i) the lenders under the Revolving Credit Facility (the "RCF Lenders"); (ii) any persons that accede to the Intercreditor Agreement as providers of hedging which is permitted to be secured *pari passu* with the Revolving Credit Facility (the "Hedge Counterparties") pursuant to certain hedging agreements, as permitted in the relevant finance documents (collectively, the "Hedging Agreements"); (iii) the Trustee, for itself and on behalf of the holders of the Notes (the "Noteholders"); and (iv) subsidiaries of the Issuer which are borrowers or guarantors of the Revolving Credit Facility (each an "Obligor" and together the "Obligors").

The Issuer and each of its restricted subsidiaries that provides a guarantee under the RCF Agreement or the Indenture is referred to in this description as a "Guarantor" and are referred to collectively as the "Guarantors." In this description "Group" refers to the Issuer and its Restricted Subsidiaries.

The Intercreditor Agreement sets forth:

- the relative ranking of certain indebtedness of the Obligors;

- the relative ranking of certain security granted by the Obligors;

- when payments can be made in respect of certain indebtedness of the Obligors;

- when enforcement actions can be taken in respect of that indebtedness;

- the terms pursuant to which certain indebtedness will be subordinated upon the incurrence of certain insolvency events;
- turnover provisions; and
- when security and guarantees will be released to permit a sale of any assets subject to security (the "Collateral").

The Intercreditor Agreement contains provisions allowing future indebtedness that may be incurred by the Obligors or another group company and that is permitted by the RCF Agreement and the Indenture to rank *pari passu* with the Revolving Credit Facility and the Notes and be secured by the Collateral, subject to the terms of the Intercreditor Agreement (such debt being "*Pari Passu* Liabilities" and the creditors of such debt being "*Pari Passu Creditors*").

The Intercreditor Agreement also allows, under certain conditions, additional advances under the Revolving Credit Facility and additional Notes to rank *pari passu* with the Revolving Credit Facility and the Notes and be secured by the Collateral. The Intercreditor Agreement allows for a refinancing in full or in part of the Notes or the Revolving Credit Facility or any *Pari Passu* Liabilities.

The following description is a summary of certain provisions, among others, contained in the Intercreditor Agreement. It does not describe the Intercreditor Agreement in its entirety, and we urge you to read that document because it, and not the description that follows, defines your rights as holders of the Notes.

Ranking and Priority

The Intercreditor Agreement provides that the liabilities of the Obligors with respect to the Revolving Credit Facility (the "RCF Liabilities") and certain hedging agreements (to the extent secured, the "Hedging Liabilities" and, together with the RCF Liabilities, the "Super Senior Liabilities"), the liabilities of the Obligors in respect of the Notes (the "Notes Liabilities"), the *Pari Passu* Liabilities and the liabilities of the Obligors under certain intercompany loans, including those relating to the on-lending of the proceeds of the Notes, the repayment of which is needed to enable an Obligor to repay any of the Notes Liabilities ("Structural Intercompany Liabilities"), will rank in right and priority of payment in the following order:

- first, the Super Senior Liabilities, the Notes Liabilities, the *Pari Passu* Liabilities (together with the Super Senior Liabilities and the Notes Liabilities, the "Secured Liabilities") and the Structural Intercompany Liabilities *pari passu* and without any preference between them; and
- second, certain intercompany liabilities of the Obligors under intercompany loans that are not Structural Intercompany Liabilities (the "Non-Structural Intercompany Liabilities").

Under the Intercreditor Agreement, all proceeds from enforcement of the Collateral will be applied as provided under "—Application of Proceeds."

Permitted Payments of Subordinated Debt

The Intercreditor Agreement permits, among other things, payments to be made by the Obligors in respect of the RCF Liabilities, the Notes Liabilities, the *Pari Passu* Liabilities and Structural Intercompany Liabilities. The Intercreditor Agreement also permits payment of Non-Structural Intercompany Liabilities from time to time when due to members of the Group owed Non-Structural Intercompany Liabilities ("Non-Structural Intercompany Liabilities Payments") if at the time of payment no acceleration event has occurred in respect of any RCF Liabilities, Notes Liabilities or *Pari Passu* Liabilities (an "Acceleration Event"). The Intercreditor Agreement permits Non-Structural Intercompany Liabilities Payments if such an Acceleration Event occurs (i) prior to the date on which all Super Senior Liabilities are discharged in full and the RCF Lenders have no further obligations under the Revolving Credit Facility documents and the hedge counterparties have no further obligations under the agreements governing the Hedging Liabilities (the "Super Senior Discharge Date"), with the consent of the RCF Agent (as defined below); (ii) prior to the date on which all the Notes Liabilities are discharged (the "Notes Discharge Date"), with the consent of the Trustee; and (iii) prior to the date on which the *Pari Passu* Liabilities have been discharged in full and the *Pari Passu Creditors* have no further obligation in respect of the *Pari Passu* Liabilities (the "*Pari Passu* Discharge Date"), with the consent of the creditor representative of the *Pari Passu Creditors* (the "*Pari Passu* Representative").

Creditor Representative

Under the Intercreditor Agreement (or, in respect of the RCF Agent, under the RCF Agreement), the parties appoint various creditor representatives (each a "Secured Representative") being:

(i) in relation to the RCF Lenders, the Revolving Credit Facility agent (the "RCF Agent");

(ii) in relation to the Noteholders, the Trustee; and

(iii) in relation to the *Pari Passu Creditors*, the *Pari Passu* Representative.

Each Hedge Counterparty shall be its own creditor representative.

Entitlement to Enforce Collateral

The Security Agent may refrain from enforcing the Collateral unless otherwise instructed by:

(i) prior to the Super Senior Discharge Date, the *Pari Passu* Discharge Date, the Notes Discharge Date and the date falling six months after the occurrence of any relevant Acceleration Event which is continuing (the "Six Months Date"), the Notes/*Pari Passu* Required Holders (as defined below) and, if the RCF Agent's instructions (acting on instructions from the Majority Super Senior Creditors (as defined below)) are consistent with those of the Notes/*Pari Passu* Required Holders, the RCF Agent (acting on instructions from the Majority Super Senior Creditors);

(ii) after the Super Senior Discharge Date but prior to the Notes Discharge Date and the *Pari Passu* Discharge Date, the Notes/*Pari Passu* Required Holders; or

(iii) prior to the Super Senior Discharge Date but after the first to occur of (A) the Six Months Date and (B) the first date on which both the *Pari Passu* Discharge Date and the Notes Discharge Date have occurred, the RCF Agent (acting on instructions from the Majority Super Senior Creditors),

and *provided* that, so long as neither the Super Senior Discharge Date, nor the *Pari Passu* Debt Discharge Date nor the Notes Discharge Date has occurred, such instructions are consistent with certain principles (the "Security Enforcement Principles"). Please see "—Limitation on Enforcement by Super Senior Creditors and Noteholders." The Security Agent may disregard any instructions from any other person to enforce the Collateral and may disregard any instructions to enforce any Collateral if those instructions are inconsistent with the Intercreditor Agreement. The Security Agent is not obligated to enforce the Collateral if it is not appropriately indemnified (including by way of pre-funding) by the relevant creditors.

"*Pari Passu* Debt Required Holders" means, in respect of any direction, approval, consent or waiver, the *Pari Passu Creditors* of the principal amount of *Pari Passu* Liabilities required to vote in favor of such direction, consent or waiver under the terms of the relevant *Pari Passu* Liabilities documents or, if the required amount is not specified, the holders holding at least the majority of the principal amount of the then outstanding *Pari Passu* Liabilities. For the avoidance of doubt, in determining whether the *Pari Passu Creditors* of the required principal amount of *Pari Passu* Liabilities have concurred in any direction, waiver or consent, *Pari Passu* Liabilities owed by any member of the Group, or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with any Obligor, will be considered as though not outstanding.

"Notes/*Pari Passu* Required Holders" means:

(i) the Notes Required Holders (as defined below); and

(ii) if applicable and if the aggregate amount of *Pari Passu* Liabilities is equal to or more than €50,000,000, the *Pari Passu* Debt Required Holders,

provided that, if the instructions are received from only the Notes Required Holders or (subject to paragraph (ii) above) only the *Pari Passu* Debt Required Holders, the instructions of that responding class will prevail, and in the event that there is an inconsistency in instructions received from the Notes Required Holders and (subject to paragraph (ii) above) the *Pari Passu* Liabilities Required Holders:

(i) if the Notes Liabilities are equal to or greater than the *Pari Passu* Liabilities, the instructions of the Notes Required Holders will prevail; and

(ii) if the *Pari Passu* Liabilities are greater than the Notes Liabilities, the instructions of the *Pari Passu* Liabilities Required Holders will prevail.

"Notes Required Holders" means, in respect of any direction, approval, consent or waiver, the Noteholders of the principal amount of Notes required to vote in favor of such direction, consent or waiver under the terms of the Notes or, if the required amount is not specified, the Noteholders holding at least the majority of the principal amount of the then outstanding Notes, in accordance with the Indenture. For the avoidance of doubt, in determining whether the Noteholders of the required principal amount of Notes have concurred in any direction, waiver or consent, Notes owned by any member of the Group will be considered as though not outstanding.

"Majority Super Senior Creditors" means, at any time, those RCF Lenders and Hedge Counterparties whose Super Senior Credit Participations at that time aggregate more than $66^{2}/_{3}$% of the total Super Senior Credit Participations at that time.

"RCF Discharge Date" means the first date upon which the RCF Liabilities have been unconditionally discharged in full and the RCF Lenders are owed no further obligations under the Finance Documents.

"Super Senior Credit Participation" means, in relation to an RCF Lender or Hedge Counterparty, the aggregate of:

(a) on or prior to the RCF Discharge Date, each RCF Lender's aggregate Commitments (as defined in the RCF Agreement and, in the event of any Refinancing permitted in accordance with the RCF Agreement, "Commitments" as defined in any applicable replacement facility agreement);

(b) in respect of any hedging transaction of a Hedge Counterparty under any Hedging Agreement that has, as of the date the calculation is made, been terminated or closed out in accordance with the terms of the Intercreditor Agreement, the amount, if any, payable to that Hedge Counterparty under any Hedging Agreement in respect of that termination or close-out as of the date of termination or close-out (and before taking into account any interest accrued on that amount since the date of termination or close-out) to the extent that amount is unpaid (that amount to be certified by the relevant Hedge Counterparty and as calculated in accordance with the relevant Hedging Agreement); and

(c) after the RCF Discharge Date only, in respect of any hedging transaction of a Hedge Counterparty under any Hedging Agreement that has, as of the date the calculation is made, not been terminated or closed out:

    (i) if the relevant Hedging Agreement is based on a 1992 ISDA Master Agreement or a 2002 ISDA Master Agreement the amount, if any, which would be payable to it under that Hedging Agreement in respect of that hedging transaction, if the date on which the calculation is made was deemed to be an Early Termination Date (as defined in the relevant ISDA Master Agreement) for which the relevant Obligor is the Defaulting Party (as defined in the relevant ISDA Master Agreement); or

    (ii) if the relevant Hedging Agreement is not based on an ISDA Master Agreement, the amount, if any, which would be payable to it under that Hedging Agreement in respect of that hedging transaction, if the date on which the calculation is made was deemed to be the date on which an event similar in meaning and effect (under that Hedging Agreement) to an Early Termination Date (as defined in any ISDA Master Agreement) occurred under that Hedging Agreement for which the relevant Obligor is in a position similar in meaning and effect (under that Hedging Agreement) to that of a Defaulting Party (under and as defined in the same ISDA Master Agreement),

that amount, in each case, to be certified by the relevant Hedge Counterparty and as calculated in accordance with the relevant Hedging Agreement.

Limitation on Enforcement by Super Senior Creditors and Noteholders

If the RCF Agent or the Trustee or the *Pari Passu* Representative wishes to instruct the Security Agent to commence enforcement of any Collateral in the manner described under "—Entitlement to Enforce Collateral," the RCF Agent, the Trustee and the *Pari Passu* Representative (the "Secured Representatives") must consult with one another and with the Security Agent in good faith with a view to coordinating these instructions for 30 days or such other period as the Secured Representatives may agree.

None of the Secured Representatives shall be obliged to consult before giving instructions to enforce the Collateral in the manner described above if:

(i) the relevant Collateral has become enforceable as a result of any insolvency proceedings relating to the Obligor against which the acceleration action has been taken or the debt accelerated; or

(ii) a Secured Representative determines in good faith (and notifies each other Secured Representative and the Security Agent) that to enter into such consultations and thereby delay the commencement of enforcement of the Collateral could reasonably be expected to have an adverse effect on:

(A) their ability to enforce any of the Collateral; or

(B) the realization proceeds of any enforcement of the Collateral in any material respect.

Until the Notes Discharge Date, if the Security Agent has received conflicting enforcement instructions from the Secured Representatives then the Security Agent will promptly notify the Secured Representatives and such Secured Representatives will consult with each other for a period of 15 days or such other period as the Secured Representatives may agree with a view to resolving the conflict in such instructions (the "Further Consultation Period").

The Further Consultation Period will end immediately if:

(i) the relevant Collateral has become enforceable as a result of insolvency proceedings relating to the Obligor against whom the enforcement action has been taken or the debt has been accelerated; or

(ii) a Secured Representative determines in good faith (and notifies each other Secured Representative and the Security Agent) that to enter into such consultations and thereby delay the commencement of enforcement of the Collateral could reasonably be expected to have an adverse effect on:

(A) their ability to enforce any of the Collateral; or

(B) the realization proceeds of any enforcement of the Collateral in any material respect.

The Security Agent will only enforce Collateral in accordance with instructions the Security Agent has received from the Notes/*Pari Passu* Required Holders to enforce or direct the enforcement of the Collateral (regardless of whether or not the Security Agent has received conflicting instructions or sole instructions from the RCF Agent (acting on instructions from the Majority Super Senior Creditors) to enforce or direct the enforcement of the Collateral (save if the *Pari Passu* Discharge Date and Notes Discharge Date or the Six Months Date has occurred, whereupon the Security Agent shall enforce or direct the enforcement of such Collateral in accordance with the instructions it has received from the RCF Agent)).

A Creditor Representative may only give enforcement instructions that are consistent with the Security Enforcement Principles, including that:

(i) it shall be the primary and overriding aim of any enforcement of the Collateral to achieve the security enforcement objective (being to maximize so far as is consistent with prompt and expeditious realization of value from enforcement of the Collateral, the recovery by the RCF Lenders, the Hedge Counterparties, the Noteholders and the *Pari Passu Creditors* (together the "Secured Creditors") such objective being, the "Security Enforcement Objective");

(ii) the Collateral will be enforced and other enforcement action will be taken such that either:

(A) all proceeds of enforcement are received by the Security Agent in cash for distribution in accordance with the Intercreditor Agreement (please see "—Application of Proceeds"); or

(B) sufficient proceeds from enforcement will be received by the Security Agent in cash to ensure that when the proceeds are applied in accordance with the Intercreditor Agreement (please see "—Application of Proceeds"), the Super Senior Liabilities are repaid and discharged in full (unless the RCF Agent agrees otherwise);

(iii) the enforcement actions are prompt and expeditious to the extent reasonably achievable provided that they are consistent with the Security Enforcement Objective;

(iv) to the extent that the Collateral that is the subject of the proposed enforcement action is:

(A) over assets other than shares in a member of the Group where the aggregate book value of such assets exceeds €10,000,000 (or its equivalent) ("Material Collateral"); or

(B) over some or all of the shares in a member of the Group,

then the Security Agent shall (unless it is unnecessary in respect of enforcement proceedings in a relevant jurisdiction or the enforcement proceedings are by way of public auction or through a court supervised process) appoint a "big four" accounting firm, any reputable and independent international investment bank or other reputable and independent professional services firm with experience in restructuring and enforcement (a "Financial Advisor") to opine (the "Financial Advisor's Opinion") as expert on:

(A) the optimal method of enforcing the Collateral so as to achieve the Security Enforcement Principles and maximize the recovery of any such enforcement action;

(B) that the proceeds received from any such enforcement are fair from a financial point of view after taking account all relevant circumstances; and

(C) that such sale is otherwise in accordance with the Security Enforcement Objective;

(v) the Financial Advisor's Opinion (or any equivalent opinion obtained by the Security Trustee will be conclusive evidence that the Security Enforcement Objective has been met; and

(vi) in the event than an enforcement of the Collateral is over assets or shares referred to in paragraph (iv) above and such enforcement is conducted by way of public or court auction, any equity investors of the Group shall, subject to compliance with applicable law, be entitled to participate in such auction.

The Trustee will be under no obligation to take any action under the Intercreditor Agreement unless it is indemnified or secured to its satisfaction in accordance with the Indenture in respect of all costs, expenses and liabilities which it would in its opinion thereby incur. No provision of the Intercreditor Agreement shall require either of the Trustee or the Security Agent to do anything which might, in its opinion, constitute a breach of any law or regulation of be otherwise actionable at the suit of any person.

Application of Proceeds

The Intercreditor Agreement provides that amounts received from the realization or enforcement of all or any part of the Collateral will be applied in the following order of priority:

(i) first, in payment of the fees, costs, expenses and liabilities of the RCF Agent, the Security Agent, the *Pari Passu* Representative and of any receiver, delegate, attorney or agent appointed under any Collateral documents or the Intercreditor Agreement or the *Pari Passu* Liabilities documents or the Intercreditor Agreement and of the Trustee *pari passu* and ratably between such parties;

(ii) second, in payment of the balance of the costs and expenses of the RCF Lenders and the Hedge Counterparties (together, the "Super Senior Creditors") (other than the Security Agent, any receiver or delegate) in connection with such realization or enforcement *pari passu* and ratably between such parties;

(iii) third, in payment to the RCF Agent and the Hedge Counterparties for application towards the balance of each of the RCF Liabilities and the Hedging Liabilities arising under:

(A) any interest rate and currency swap hedging in respect of debt;

(B) the Revolving Credit Facility; and

(C) certain other hedging arrangements provided that the amount of such hedging arrangements secured (or portion thereof) does not exceed € 95.0 million less the principal amount of the Revolving Credit Facility at the relevant time;

(iv) fourth, in payment pari passu and pro rata of the balance of:

(A) the costs and expenses of the Trustee on behalf of each Noteholder; and

(B) the *Pari Passu* Representative on behalf of each *Pari Passu Creditor*; and

(v) fifth, in payment: pari passu and pro rata to:

(A) the Trustee for application towards the balance of the Notes Liabilities; and

(B) the *Pari Passu* Representative for application towards the balance of the *Pari Passu* Liabilities.

Additional Indebtedness

In the event that any Obligor incurs any additional indebtedness that is permitted under the terms of the Notes and the RCF Agreement to be secured by the Collateral, the creditors in respect of such additional liabilities will share in the proceeds of any enforcement of Collateral on the basis and to the extent permitted under the terms of the Notes and the RCF Agreement.

Release of the Guarantees and the Security

Where a disposal of an asset is being effected, the Intercreditor Agreement provides that the Security Agent is authorized (i) to release the Collateral or guarantee (and the relevant Obligors shall release any Collateral given to them) where such releases are required to give effect to the Intercreditor Agreement and the documents governing the Secured Liabilities and/or where such releases are connected to a sale, transfer or other disposal of any assets, undertaking or business that is not prohibited or is expressly permitted under the terms of the Finance Documents, and (ii) on commencement of enforcement action in order for a disposal of assets or shares in the capital of an Obligor to be fully effective to release that Obligor and any subsidiary of that Obligor from all or any part of its liabilities to a member of the Group or a Secured Creditor such that no Secured Liabilities remain attached to those assets being disposed of or any Obligor or subsidiary of that Obligor in which shares are being disposed of.

Amendment

The Intercreditor Agreement provides that it may only be amended with the consent of the Security Agent, the Notes/*Pari Passu* Required Holders (acting through the Trustee and/or the *Pari Passu* Representative), the RCF Agent, the Trustee and the Hedge Counterparties save in respect of administrative changes or to correct manifest errors on the instructions of the RCF Agent, the *Pari Passu* Representative and the Trustee.

Option to Purchase: RCF Liabilities and Hedging Liabilities

After enforcement action has been taken against an Obligor, the Trustee and the *Pari Passu* Representative, at the direction and expense of the Noteholders and the *Pari Passu* Creditors (as applicable), will, subject to meeting certain conditions, have the right to acquire or procure that a nominee acquires all (but not part only) of the Super Senior Liabilities.

Any such purchase will be on terms which will include, without limitation, payment in full in cash of an amount equal to the Super Senior Liabilities then outstanding, including in respect of any broken funding costs, as well as certain costs and expenses of the Super Senior Creditors; after the transfer, no Super Senior Creditor will be under any actual or contingent liability to any person under the Intercreditor Agreement; the purchasing Noteholders and *Pari Passu* Creditors indemnify each Super Senior Creditor for any actual or alleged obligation to repay or claw back any amount received by such Super Senior Creditor; and the relevant transfer shall be without recourse to, or warranty from, any Super Senior Creditor save as to title and the absence of third-party interests, power and authority and completion of know-your-customer checks.

CDTI Agreements

As of December 31, 2012, we had approximately €10.8 million of principal outstanding relating to loans granted by CDTI, a public institution attached to the Spanish Ministry of Economy and Competitiveness, whose purpose is to encourage the innovation and technological development of Spanish companies by providing financing. Under the terms of these loans, we undertook to comply with certain restrictive covenants, including restrictions on the creation of any personal guarantees, mortgages or pledges on our assets. Furthermore, as a result of such loan agreements, the CDTI was granted *pari passu* status with respect to any security granted in connection with any of our existing and/or future borrowings. The granting of the security over the Collateral securing the Notes, the Revolving Credit Facility and other secured indebtedness of the Issuer will required the consent of the CDTI, which was obtained in January 25, 2013.

Local Facility

We have a small local facility with an aggregate principal amount outstanding as of December 31, 2012 of €1.5 million.

Equity Swap Arrangement

On October 25, 2007, the Issuer arranged an equity swap with Bankia S.A. for a total amount of 5.1 million shares of the Issuer, at a base price of €4.40 per share, in order to comply with certain terms and conditions set forth in the management incentive plan of our senior management. The terms of this equity swap were amended in March 2010 as a result of our share capital increase, at a base price of €4.11 per share, and in June 2012, by extending its term until 2015, with partial cancellations of 1.0 million shares in each of March 2013 and March 2014 and 1.8 million shares in March 2015. In addition, March 15, 2015 was designated as the new termination date. As of December 31, 2012, the fair value of the instrument was negative €9.0 million.

GLOSSARY OF SELECTED TERMS

The following terms used in this Offering Memorandum have the meanings assigned to them below:

"BEKP"	Bleached Eucalyptus Kraft Pulp.
"BHKP"	all grades of Bleached Hardwood Kraft Pulp, including BEKP, birch, SMHW and NMHW.
"biomass"	all materials of biological origin excluding those which have been encompassed in geological formations undergoing a mineralization process, which include coal, oil and gas (in accordance with European Technical Specification CEN/TS 14588).
"BSKP"	Bleached Softwood Kraft Pulp.
"ECF"	Elemental Chlorine Free.
"EDTA"	Ethylenediaminetetraacetic acid.
"EPC"	Engineering, procurement and construction.
"Forestry depletion"	the depreciation of biological assets (plantations) as related to the harvesting of pulp plantations.
"Kraft process"	the process for the conversion of wood into almost pure cellulose fibers through the use of sodium sulfate, which breaks the bonds that link lignin to the cellulose.
"Ktpa"	thousands of tonnes per annum.
"Moratorium"	the elimination of economic incentives for the implementation of special regime energy production facilities and the suspension of the proceedings for registration with the pre-allocation registries, vested by the Royal Degree Law 1/2012.
"NMHW"	Northern Mixed Hardwood (kraft) pulp.
"SMHW"	all Mixed Hardwood kraft pulp produced in the United States.
"TCF"	Totally Chlorine Free.

ENCE ENERGÍA Y CELULOSA, S.A.

Auditor's report, consolidated annual accounts
and consolidated directors' report
at 31 December 2012

pwc

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

AUDITOR'S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

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

We have audited the consolidated annual accounts of ENCE Energía y Celulosa, S.A. (the "Company") and its subsidiaries (the "Group"), consisting of the consolidated balance sheet at 31 December 2012, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As explained in Note 3.1. the Directors of the Company are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2012 present fairly, in all material respects, the consolidated financial position of ENCE Energía y Celulosa, S.A. and its subsidiaries at 31 December 2012 and the consolidated results of its operations and the consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

The accompanying consolidated Directors' Report for 2012 contains the explanations which the Directors of ENCE Energía y Celulosa, S.A. consider appropriate regarding the Group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated Directors' Report is in agreement with that of the consolidated annual accounts for 2012. Our work as auditors is limited to checking the consolidated Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the accounting records of ENCE Energía y Celulosa, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Mar Gallardo
Partner

19 February 2013

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 913 083 566, www.pwc.com/es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

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

ENCE Energía y Celulosa, S.A. and Subsidiaries

Consolidated Financial Statements for 2012 prepared in accordance with the International Financial Reporting Standards adopted by the European Union and consolidated Directors' Report, together with the Independent Auditor's Report

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

GRUPO EMPRESARIAL ENCE, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2012 AND 2011

Thousands of Euros	Note	2012	2011
NON-CURRENT ASSETS:			
Intangible assets	6	21,556	8,127
Property, plant and equipment	7	774,179	770,142
Investment property	4.c	2,078	2,190
Biological assets	8	170,958	180,586
Other financial assets	16	4,144	4,065
Deferred tax assets	18	30,580	42,653
		1,003,495	**1,007,763**
CURRENT ASSETS:			
Non-current assets classified as held for sale	20	59,345	16,544
Inventories	11	87,575	112,462
Trade and other receivables	12	138,580	122,789
Receivable from Public Authorities	18	29,657	13,005
Current financial assets-			
Derivatives	10	10,721	867
Other financial assets	16	7,575	22,824
Cash and cash equivalents	16	40,205	71,629
Other current assets		896	911
		374,554	**361,031**
TOTAL ASSETS		**1,378,049**	**1,368,794**
EQUITY:	13		
Share capital		225,245	232,212
Share premium		230,221	254,328
Parent Company reserves		99,916	106,630
Reserves in fully consolidated companies		112,543	102,454
Valuation adjustments		52,992	33,155
Profit for the year attributed to the Parent Company		43,031	41,192
Translation differences		(2,011)	(591)
Treasury shares		(37,213)	(49,217)
Equity attributable to shareholders of the Parent Company		**724,724**	**720,163**
TOTAL EQUITY		**724,724**	**720,163**
NON-CURRENT LIABILITIES			
Provisions	15	13,258	23,185
Financial debt	16	309,632	274,186
Grants	14	20,076	20,244
Derivatives	10	16,627	25,466
Other financial liabilities	17	9,291	9,183
Deferred tax liabilities	18	31,745	28,289
		400,629	**380,553**
CURRENT LIABILITIES:			
Liabilities associated with non-current assets classified as held for sale	20	-	12,322
Financial debt	16	24,108	20,452
Derivatives	10	14,886	34,610
Other financial liabilities	17	1,562	574
Trade and other payables	12	201,902	181,964
Corporate Income Tax payable	18	1,313	365
Other accounts payable to Public Authorities	18	8,472	17,655
Other current liabilities		453	136
		252,696	**268,078**
TOTAL EQUITY AND LIABILITIES		**1,378,049**	**1,368,794**

The accompanying Notes 1 to 26 are an integral part of the consolidated balance sheet at 31 December 2012.

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

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS FOR 2012 AND 2011

Thousands of Euros	Note	2012	2011
Continuing operations:			
Revenue	19.a	827,578	825,451
Gains or losses on hedging operations	10	(27,567)	(10,434)
Changes in inventories of finished goods and work in progress		831	(1,688)
Procurements	19.b	(408,048)	(390,759)
GROSS MARGIN		**392,794**	**422,570**
In-house work on non-current assets	8	24,183	27,236
Other operating income		2,267	5,173
Capital grants transferred to profit and loss	14	4,280	7,431
Staff costs	19.c	(82,102)	(89,413)
Depreciation and amortisation charge	6, 7 and 8	(63,372)	(63,460)
Impairment and gains or losses on disposals of non-current assets	7	6,329	4,392
Other operating expenses	19.e	(202,113)	(233,850)
PROFIT FROM OPERATIONS		**82,266**	**80,079**
Finance income		747	1,397
Change in fair value of financial instruments	10	6,799	1,554
Finance costs	19.f	(24,371)	(28,101)
Exchange differences		(1,803)	2,085
FINANCIAL LOSS		**(18,628)**	**(23,065)**
Net results from the valuation of non-current assets classified as held for sale	20	(660)	-
PROFIT BEFORE TAX		**62,978**	**57,014**
Income tax	18	(19,947)	(15,822)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**43,031**	**41,192**
PROFIT FOR THE YEAR	19.h	**43,031**	**41,192**
Earnings per share:			
Basic	13	**0.16**	**0.16**
Diluted	13	**0.16**	**0.16**

The accompanying Notes 1 to 26 are an integral part of the consolidated income statement for the year 2012.

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

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR 2012 AND 2011

Thousands of Euros	Note	2012	2011
PROFIT PER CONSOLIDATED INCOME STATEMENT (I)	**13**	**43,031**	**41,192**
Income and expenses recognised directly in equity-			
Cash flow hedges		(2,527)	(34,608)
Conversion differences		(1,420)	(591)
Tax effect		758	10,382
TOTAL INCOME AND EXPENSES RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY (II)	**13**	**(3,189)**	**(24,817)**
Transfers to consolidated profit or loss			
- Arising from cash flow hedges		30,920	14,068
- Other adjustments		(54)	
- Tax effect		(9,260)	(4,220)
TOTAL TRANSFERS TO CONSOLIDATED PROFIT AND LOSS (III)	**13**	**21,606**	**9,848**
TOTAL CONSOLIDATED RECOGNISED INCOME AND EXPENSE (I+II+III)		**61,448**	**26,223**

The accompanying Notes 1 to 26 are an integral part of the consolidated statement of recognised income and expense for 2012.

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

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

STATEMENT OF CHANGES IN TOTAL CONSOLIDATED EQUITY FOR 2012 AND 2011

2012 - Thousands of Euros	Note	Balance at 1-1-2012	Recognised Income / (Expense)	Capital Increases/ Decreases	Distribution of Prior Year's Profit	Distribution of Dividends	Treasury Shares Transactions	Distribution of Treasury Shares	Balance at 31-12-2012
Share capital		232,212	-	(6,967)	-	-	-	-	225,245
Share premium		254,328	-	-	-	(14,484)	-	(9,623)	230,221
Legal reserve		39,766	-	-	3,110	-	-	-	42,876
Other Parent Company reserves		66,864	-	(9,861)	27,993	(23,203)	(356)	(4,397)	57,040
Reserves in fully consolidated companies		102,454	-	-	10,089	-	-	-	112,543
Translation differences		(591)	(1,420)	-	-	-	-	-	(2,011)
Treasury shares		(49,217)	-	16,828	-	21,173	(40,017)	14,020	(37,213)
Valuation adjustments		33,155	19,837	-	-	-	-	-	52,992
Profit for the year attributed to the Parent Company		41,192	43,031	-	(41,192)	-	-	-	43,031
		720,163	**61,448**	**-**	**-**	**(16,514)**	**(40,373)**	**-**	**724,724**

2011 - Thousands of Euros	Note	Balance at 1-1-2011	Recognised Income / (Expense)	Capital Increase	Distribution of Prior Year's Profit	Distribution of Dividends	Treasury Shares Transactions	Distribution of Treasury Shares	Balance at 31-12-2011
Share capital		232,212	-	-	-	-	-	-	232,212
Share premium		254,328	-	-	-	-	-	-	254,328
Legal reserve		31,482	-	-	8,284	-	-	-	39,766
Other Parent Company reserves		150,341	-	-	(83,644)	-	167	-	66,864
Reserves in fully consolidated companies		120,583	-	-	(18,129)	-	-	-	102,454
Prior years' losses		(132,400)	-	-	132,400	-	-	-	-
Translation differences		-	(591)	-	-	-	-	-	(591)
Treasury shares		(2,434)	-	-	-	-	(46,783)	-	(49,217)
Valuation adjustments		47,533	(14,378)	-	-	-	-	-	33,155
Profit for the year attributed to the Parent Company		64,711	41,192	-	(64,711)	-	-	-	41,192
		766,356	**26,223**	**-**	**(25,800)**	**-**	**(46,616)**	**-**	**720,163**

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

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

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR 2012 AND 2011

Thousands of Euros	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated profit for the year before tax	**62,978**	**57,014**
Adjustments for-		
Depreciation and amortisation charge	53,284	53,736
Exhaustion of forestry reserve	9,110	8,455
Amortisation of intangible assets	978	1,269
Changes in provisions and other deferred expenses (net)	3,679	(3,565)
Gains/Losses on disposal of non-current assets	(2,975)	(4,224)
Finance income	(747)	(5,296)
Finance costs	18,044	29,291
Grants and subsidies transferred to profit and loss	(1,243)	(1,124)
	80,130	**78,542**
Changes in working capital-		
Trade and other receivables	(24,047)	(27,953)
Current financial and other assets	18,184	(10,823)
Trade creditors, other payables and other debts	(13,775)	(7,974)
Inventories	18,314	(8,332)
	(1,324)	**824**
Other cash flows from operating activities-		
- Interest paid	(21,542)	(28,036)
- Interest received	747	5,296
- Income tax recovered (paid)	(9,416)	(2,907)
	(30,211)	**(25,647)**
Net cash flows from operating activities (I)	**111,573**	**110,733**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments:		
Property, plant and equipment	(104,387)	(94,895)
Intangible assets	(16,052)	(447)
Other financial assets	(173)	-
	(120,612)	**(95,342)**
Disposals:		
Property, plant and equipment	361	4,338
Other financial assets	161	1,682
	522	**6,020**
Net cash flows from investing activities (II)	**(120,090)**	**(89,322)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds and payments relating to equity instruments:		
Purchase of treasury shares	(41,693)	(53,708)
Disposal of treasury shares	1,309	7,164
	(40,384)	**(46,544)**
Proceeds and payments relating to financial liability instruments:		
Increase / (decrease) in bank borrowings, net of loan arrangement costs	37,428	43,057
Grants and subsidies received	-	8,523
	37,428	**51,580**
Dividends and returns on other equity instruments paid		
Dividends	(16,514)	(25,801)
Financial instruments (Equity swap)	(3,276)	-
	(19,790)	**(25,801)**
Translation differences	**(161)**	**-**
Net cash flows from financing activities (III)	**(22,907)**	**(20,765)**
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)	**(31,424)**	**646**
Cash and cash equivalents at beginning of year	71,629	70,983
Cash and cash equivalents at end of year	40,205	71,629

The accompanying Notes 1 to 26 are an integral part of the consolidated statement of cash flows for 2012.

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

ENCE Energía y Celulosa, S.A. and Subsidiaries

Notes to the consolidated financial statements for the year ended 31 December 2012

1. Activity of the Group and Strategic Plan

Ence Energia y Celulosa, S.A. (hereinafter "ENCE" or the "Parent Company") was incorporated in 1968 under the name Empresa Nacional de Celulosas, S.A. It has its registered offices at Paseo de la Castellana 35, Madrid. On 26 April 2012 the General Meeting of Shareholders of the Parent Company, formerly known as Grupo Empresarial ENCE, S.A., resolved to change its name to the current name.

The corporate purpose established in the by-laws consists of:

a) Manufacture of cellulose pulp and related by-products, obtaining necessary products and items, and exploitation of any sub-products arising from the aforementioned activities.

b) Generation by any means, sale and usage of electricity and of other energy sources, and of the raw materials and primary energy sources required for generating, in accordance with the provisions of prevailing legislation; and marketing, sale and supply of power in any way permitted by law.

c) Cultivation, exploitation and use of forests and timberland, forest plantation work and specialist forestry work and services. Preparation and transformation of forestry products. Commercial use, exploitation and marketing of forest products of all kinds (including biomass and forest energy crops), and their derivatives and by-products. Forestry studies and projects.

d) Design, promotion, development, construction, operation and maintenance of the installations referred to in paragraphs a), b) and c) above.

The Group's principal activity is the production of cellulose pulp BEKP (Bleached Eucalyptus Kraft Pulp) with ECF (elemental chlorine free) and TCF (totally chlorine free) bleaching based on eucalyptus. In order to carry out its activities, the Group operates three mills in Spain, located in the provinces of Asturias, Pontevedra and Huelva, which have combined production capacity of approximately 1.3 million metric tons per year.

In addition to its cellulose pulp production, the Group also generates electricity from biomass and bio-fuels obtained from the pulp production process (mainly lignin), and to a lesser extent using gas and fuel oil. The integrated generating capacity currently in use in the three plants totals approximately 230 megawatts per year from 6 power installation.

The Group likewise using the experience acquired in the forestry sector and in the development of short cycle energy crops is linking its expansion strategy through the electrical generation business with biomass from forest waste and energy crops. The company in January 2013 started up operation of a plant in Huelva with installed power of 50 megawatts, and an installation is currently under construction in Merida which is scheduled for start up in the last quarter 2014 with 20 megawatts power.

In order to assure supplies of timber for the paper pulp manufacturing process and meet the power plants' demand for biomass to generate energy, the Group has 87,924 hectares of managed forest land in the Peninsula, of which it owns 51,918 hectares are its own property (this does not include the forest assets of the Group in Uruguay after its sale was agreed - see Note 20).

The Parent Company's shares are listed on the Madrid Stock Exchange.

2. Group companies

The following subsidiaries in which the Parent Company directly or indirectly owns 100% of share capital were fully consolidated in the consolidated financial statements for 2012:

Fiscal Year 2012

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

(a) Financial statements audited by PwC.

(b) Financial statements to 31 December 2012, which have been subject to a limited review by PwC.

(c) Euro value translated at the year-end rate of exchange.

(d) Formerly known as Eucalipto de Pontevedra, S.A.U.

Fiscal Year 2011

			Thousands of Euros		
			Equity of the Investee Company		
Company	Registered Office	Activity	Share Capital	Premium Emission and Reserves	Profit / (Loss) for the year
Subsidiaries-					
Celulosa Energía, S.A.U. (a)	Ctra Madrid-Huelva Km. 630. (Huelva)	Electricity generating and sale of power	3,756	26,609	7,319
Celulosas de Asturias, S.A.U.(a)	Armental s/n Navia (Asturias)	Production and sale of paper pulp, electricity generating and sale of power	37,863	23,896	25,348
Silvasur Agroforestal, S.A.U. (a)	Avda de Andalucía s/n. (Huelva)	Forest management	39,666	7,409	(7,228)
Ibersilva, S.A.U. (a)	Avda de Alemania, 9 (Huelva)	Forestry services	10,000	(7,101)	(11,298)
Norte Forestal, S.A.U. (a)	Marisma del Lourizán s/n (Pontevedra)	Forest management	2,464	17,630	3,741
Norfor Maderas, S.A.U. (a)	Marisma del Lourizán s/n (Pontevedra)	Forest management	601	449	30
Eucalipto de Pontevedra, S.A.U.	Pontecaldelas (Pontevedra)	Lease of properties	1,208	(653)	(11)
Iberflorestal, S.A.U. (a)	Lisbon (Portugal)	Purchase and sale of wood	55	1,943	262
Las Pléyades, S.A. (SAFI) (b) (a)	Montevideo (Uruguay)	Export of wood	2	2,412	327
Maderas Aserradas del Litoral, S.A. (a) (b)	Montevideo (Uruguay)	Dormant	5,661	(1,970)	(1,950)
Sierras Calmas, S.A. (a) (b)	Montevideo (Uruguay)	Forest management	1,569	7,529	3,785
Ence Energía S.L.U.	Paseo de la Castellana, 35 (Madrid)	Electricity generating and sale of power	6,774	26,595	(383)
Ence Energía Huelva, S.L.U. (a)	Paseo de la Castellana, 35 (Madrid)	Electricity generating and sale of power	6,757	27,016	(658)

(a) Financial statements audited by PwC.

(b) Euro value translated at the year-end rate of exchange.

The Group also includes the following dormant companies, all of which are 100% owned by the Parent Company: Electricidad de Navia, S.L.U, Ibercel Celulosa, S.L.U., Celulosas de M'Bopicuá, S.A., Las Pléyades Argentina, S.A., Las Pléyades Uruguay, S.A., and Zona Franca M'Bopicuá, S.A.

The Group holds minority shareholdings in certain other companies which were not consolidated because the effect would not have been material. These are: 50% of the corporate capital of Imacel, A.E.I.E., an inactive corporation; 6% of the capital of Sociedad Andaluza de Valorizacion de la Biomasa, S.L.; and 5% of Electroquimica de Hernani, S.A.

3. Basis of presentation of the consolidated annual statements and consolidation principles

3.1 Basis of presentation

The consolidated financial statements for fiscal year 2012 were obtained from the books and records and annual statements of the Parent Company and companies members of the Group, and were prepared in accordance with the applicable regulatory framework for financial reporting and, in particular, in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union pursuant to Regulation (EU) 1606/2002 of the European Parliament and Law 62/2003, of 30 December establishing tax, administrative and social measures and, accordingly, they present fairly the Group's equity and financial position at 31 December 2012 and the results of its operations, changes in equity and consolidated cash flows for the Group for the year then ended.

Note 4 presents a summary of the most significant accounting principles and assessment criteria used, the alternatives allowed by the code for these purposes as well as standards and interpretations issued that were not in effect as of the date of preparation of these annual statements.

These consolidated financial statements for the Group for 2012, which were formally prepared by the Parent Company's directors, will be submitted for approval by the shareholders at the Annual General Meeting. It is considered that they will be approved without any changes. The Group's consolidated financial statements for 2011 were approved by the shareholders at the Annual General Meeting of the Parent Company held on 26 April 2012.

The euro is the Group's functional currency, and the consolidated financial statements are therefore expressed in euros.

3.2 Key decisions in relation to IFRS

The Group adopted the following key decisions in relation to the presentation of the consolidated financial statements and the additional information disclosed in the notes thereto:

a. The assets and liabilities recognised in the accompanying consolidated balance sheet are classified as current (short term) and non-current (long term). The items in the accompanying consolidated income statement are presented according to their nature.

b. The Group has opted to present the consolidated cash flow statement using the indirect method.

3.3 Principles of consolidation-

3.3.1 Subsidiaries

"Subsidiaries" are defined as companies over which the Parent Company has the capacity to exercise effective control; control is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when, for example, there are agreements with other shareholders of the investee that give the Parent control. Control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

The financial statements of the subsidiaries are fully consolidated with those of the Parent Company. Accordingly, all material balances and effects of the transactions between consolidated companies are eliminated on consolidation.

The assets and liabilities and contingent liabilities of a subsidiary are calculated at reasonable values on its date of acquisition that led to the form of control indicated in the IFRS 3- business mergers. Any acquisition cost in excess of reasonable values of net assets identified is recognised as goodwill. If the acquisition cost is less than the reasonable value of identifiable net assets, the difference is charged to results on the acquisition date.

The results generated by companies acquired during a year are consolidated considering only those related to the period between the acquisition and closing dates of that year. At the same time the results generated by companies sold during a year are consolidated considering only those related to the period between the beginning and closing dates of that year.

3.3.2 Associates

Associates are companies over which the Parent Company is in a position to exercise significant influence, but not control or joint control. The capacity to exercise significant influence usually exists because the Parent Company directly or indirectly holds 20% or more of the voting power of the investee.

Associates are valued in the consolidated annual accounts using the participation method, that is by the fraction of their net capital that represents their share of capital in the Group, after considering the dividends received for same and other capital write-offs.

3.3.3 Homogenisation

The entities comprising the framework of the consolidation were consolidated from their individual financial statements, which are prepared under the Spanish National Chart of Accounts for companies resident in Spain and according to their own local code for foreign companies. All significant adjustments that were necessary to adapt them to International Financial Reporting Standards and/or to homogenise them with Group accounting criteria were considered in the consolidation process.

3.3.4 Changes in the scope of consolidation and percentage ownership interests

Fiscal Year 2012

Ence Energia Extremadura, S.L.U. was incorporated to the consolidation framework during fiscal year 2012. This company was constituted in 2009, and construction of an electrical generation plant with 20 megawatts installed power was begun in 2012.

Fiscal Year 2011

Ence Energia Huelva, S.L.U. was incorporated to the consolidation framework during fiscal year 2011. This company was constituted in 2009, and construction project of an electrical generation plant with 50 megawatts installed power was acquired in 2011 (see Note 7).

3.4. Comparative information

The information contained in these notes to the 2012 financial statements is presented together with comparative figures for 2011.

The amount of EUR 3,899 thousand was presented in the section "Other financial costs" in the consolidated profit and loss statement for fiscal year 2011, corresponding to capitalised financial costs; in the consolidated financial statements for fiscal year 2011 these were included under the heading "Financial income" in the consolidated profit and loss statement.

3.5. Seasonality of Group transactions

Given the activities of the Group Companies, Group transactions are not cyclical or seasonal. Consequently specific breakdowns are not included in these annual reports.

Nevertheless the production of wood pulp and energy requires stoppages for periods of between 10 and 15 days to undertake maintenance work. Group installations had their general annual shut down in the first half of 2012.

4. Accounting principles and assessment standards

Adoption of new standards and interpretations issued

a) Standards and interpretations taking effect in the current year

The following new standards, amendments and interpretations entered into force on 1 January 2012:

Standard	Contents	Mandatory application in years commencing as of
IFRS 7 Financial instruments: Breakdown	Expands the financial instrument breakdown regarding financial assets transfers when some type of continue involvement remains in the asset transferred	Annual periods commencing as of 1 July 2011

b) Standards and interpretations issued but not yet in force

At the date of preparation of these consolidated financial statements, the main standards and interpretations published by the IASB but not yet adopted by the European Union and, therefore, not in force were:

Standard	Contents	Mandatory application in years commencing as of
IAS 12 – "Profit tax"	Change affects deferred taxes related to real properties according to the reasonable value model of IAS 40 "Real Estate Investments"	Annual periods commencing as of 1 January 2013
IFRS 9 Financial instruments: Classification and measurement	Replaces the classification and measurement requirements established by IAS 39 for financial assets and liabilities	Annual periods commencing as of 1 January 2015
IFRS 1 (Amendment) "Elevated hyperinflation and elimination of fixed dates applicable to first adopters"	Changes related to the high level of hyperinflation provide a guide on first time presentation, or how to summarise with the presentation of financial statements prepared under the IFRS, after a period when the entity could not comply with IFRS requirements because their functional currency was subject to high levels of hyperinflation	Annual periods commencing as of 1 January 2013
IFRS 10 Consolidated financial statements (published in May 2011)	Replaces the current consolidation requirements established in IAS 27	Annual periods commencing as of 1 January 2014
IFRS 11 Joint arrangements (published in May 2011)	Replaces the current IAS 31 on interests in joint ventures	Annual periods commencing as of 1 January 2014
IFRS 12 Breakdown of shareholdings In other entities (published in May 2011)	Separate standard establishing disclosure requirements for ownership interests in subsidiaries, associates, jointly controlled entities and non-consolidated entities	Annual periods commencing as of 1 January 2014
IFRS 13 Fair value measurement (published in May 2011)	Establishes the framework for fair value measurement	Annual periods commencing as of 1 January 2013
IAS 27 (Revised) Separate financial statements (published in May 2011)	Revision of the standard, as only an entity's separate financial statements following the issuance of IFRS 10 .	Annual periods commencing as of 1 January 2014
IAS 28 (Revised) Investments in associates and joint ventures (published in May 2011)	Parallel review in relation to the issue of IFRS 11- Joint ventures	Annual periods commencing as of 1 January 2014
Amendment of IAS 1 – Presentation of Other Comprehensive Income (published in June 2011)	Minor amendment in relation to the presentation of Other Comprehensive Income	Annual periods commencing as of 1 July 2012

Standard	Contents	Mandatory application in years commencing as of
Amendment of IAS 32 – Financial instruments: Presentation-Compensation of assets with financial liabilities (published in December 2011)	Addition clarifications to the IAS 32 rules for compensation of financial assets and liabilities, and introduction of new IFRS 7 breakdowns	Annual periods commencing as of 1 January 2014
Amendment of IFRS 7 – Financial instruments: Presentation-Compensation of assets with financial liabilities (published in December 2011)		Annual periods commencing as of 1 January 2013
Intepretation IFRIC 20: Extraction costs during the production phase of an open-pit mine (published in October 2011)	The International Financial Reporting Interpretations Committee addresses the accounting treatment of the cost of eliminating waste materials in surface mines	Annual periods commencing as of 1 January 2013
Improvements to IFRS Cycle 2009-2011 (published in May 2012)	Exception in consolidation for parent companies that comply with the definition of investment company	Annual periods commencing January 2013
Amendment of IAS 19 Employee benefits (published in June 2011)	Amendments basically affect defined benefits plans, as one of the key changes is the elimination of the "fluctuation corridor"	Annual periods commencing as of 1 January 2013
Amendment, IFRS 10, IFRS 11 and IFRS 12 (Amendment) "Consolidated financial statements, joint agreements and breakdowns of shareholdings in other companies: Transitory provisions"	Amendments to clarify that the first date of application is the first day of the first fiscal year when IFRS 10 is applied for the first time.	Annual periods commencing as of 1 January 2013

Standard	Contents	Mandatory application in years commencing as of
Amendment IFRS 10, IFRS 12 and IAS 27 "Investment entities"	The amendment to IFRS 10 under determined circumstances implies that similar entities and funds will be exempt from consolidation of the parent entities. Instead, they will be assessed at a reasonable value with changes in results. Amendments to IFRS 12 to introduce reporting requirements that a company of this type must include in its consolidated annual accounts.	Annual periods commencing as of 1 January 2014
IFRS 1 (Amendment) "Public loans"	Amendment intended to allow entities adopting the IFRS for the first time, to apply the provisions of IAS 20 "Accounting for official subsidies and information on public entities to be reported", applicable to entities that already use IFRS, with respect to public loans at interest rates below market.	Annual periods commencing as of 1 January 2013

Accounting policies

Following are the principal assessment standards used in preparing the consolidated annual financial statements of the Group according to International Financial Reporting Standards (IFRS) adopted by the European Union:

a) Intangible assets

Intangible assets are initially recognised at cost of acquisition or production. After initial recognition, these assets are carried at cost less the amount of accumulated amortisation and any impairment losses incurred.

The Group's intangible assets are considered to have finite useful lives and are amortised on the straight-line basis over the period representing the best estimate of the said useful lives.

Development costs-

Development costs are capitalised annually providing the amounts concerned are separately identified for each project, and there are sound reasons to expect projects to succeed technically and generate financial returns. These costs are amortised on the straight-line basis over 5 years.

Computer software -

The Group recognises the costs incurred in the acquisition of computer software and software licences under this caption. Computer software maintenance costs are recognised with a charge to the consolidated income statement for the year in which they are incurred.

Computer software is amortised on a straight-line basis over 5 years.

Greenhouse gas emission rights-

Until the year 2012 the Group every year obtained CO2 emission rights, without charge, by virtue of the Spanish National Assignment Plan that was developed under Law 1/2005, which regulates the sale of these rights.

Emission rights equivalent to emissions occurred during the year are delivered during the first months of the following year. If emissions are over the volume of rights assigned, then emission rights must be acquired on the market. And along the same lines if emissions are below the rights assigned, then these can be sold on the market.

Emission rights are registered when assigned at their fair market value under "Intangible assets - Greenhouse gas emission rights", and a non-refundable capital subsidy is recorded at the same time in the same amount.

After initial recognition, emission rights are carried at cost less the amount of any cumulative impairment losses recognised, but they are not amortised.

The costs associated with the greenhouse gases consumed in the period are recognised with a charge to "Other operating expenses" under "Non-current provisions" in the accompanying consolidated balance sheet at the amount for which any available emission rights were granted, or as measured based on best estimates of the possible cost it would be necessary to incur to cover any shortfall in the said rights.

The provision made and the intangible asset recognised when the emission rights were received will be cancelled upon redemption of the rights.

Non-repayable grants associated with the emission rights acquired free of charge are recognised under "Capital grants transferred to profit and loss" in the accompanying consolidated income statement as CO2 emissions are related with the subsidised emission rights.

b) Property, plant and equipment

Property, plant and equipment are initially recognised at acquisition or production cost, and are subsequently presented net of accumulated depreciation and any impairment losses incurred, where appropriate, in accordance with the criteria described in this Note 4.b.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency, or to a lengthening of the useful lives of the assets are capitalised.

Upkeep and maintenance expenses are recognised in the consolidated income statement for the year in which they are incurred.

For non-current assets that necessarily take a period of more than one year to get ready for their intended use, the capitalised costs include such borrowing costs as might have been incurred before the assets are ready to enter service and were charged by the supplier or relate to loans or other specific-purpose or general-purpose borrowings directly attributable to the acquisition or production of the assets. The interest rate used corresponds to the rate for specific financing or, if none, the mean financing rate for the Group.

Group work on non-current assets is measured at accumulated cost, which is calculated as external costs plus in-house costs, determined on the basis of in-house warehouse materials consumption, and manufacturing costs allocated using hourly absorption rates similar to those used for the measurement of inventories.

The Group companies depreciated their property, plant and equipment by the straight-line basis method at annual rates based on the years of estimated useful life of the assets (land is understood to have an indefinite useful life and is therefore not depreciated), as follows:

	Estimated Years of Useful Life
Buildings	20-40
Plant and machinery	11-16
Other fixtures, tools and furniture	11
Other items of property, plant and equipment	11

Investments made in buildings constructed on land granted under administrative concessions are recognised under "Buildings". This cost, and the cost of any other permanent fixtures located on concession land, is depreciated over the shorter of the asset's useful life or the term of the concession.

Assets financed with financing applied to projects

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

These financing structures are applied to projects that in themselves sufficiently guarantee the participating financial entities the reimbursement of the debts undertaken to carry them out. Each of these are therefore normally carried out through specific companies in which the project assets are financed on the one hand by funds contributed by the promoters, which is limited to a determined amount, and on the other by third party funds, generally a larger amount, which comprise long term debt. The service of these credits or loans is backed mainly by the future flows generated by each project, as well as by real guarantees over the project assets.

These assets are valued by costs incurred, net of revenue generated, that are charged directly to its construction until start up in operating condition and include such items as studies and plans, expropriations, replacement of services, project performance, construction administration costs and management, installations, buildings and other similar costs, as well as the part corresponding to other indirect costs incurred during the construction period. Financing costs accrued prior to start up in operating conditions are also included, deriving from the third party financing used to finance construction of the building. Capitalised financial costs are from specific financing used expressly as acquisition of the asset.

Impairment of intangible and tangible assets

On the closing date of each balance sheet the Group reviews the book amounts of its property, plant and equipment, biological assets, real properties and intangible assets to determine if these have suffered any loss or impairment.

Whenever there are indications of impairment, the Group tests tangible and intangible assets for impairment to determine whether the recoverable amount of the assets has been reduced to below their carrying amount. Recoverable amount is the higher of fair value less costs to sell and value in use.

The directors of the Parent Company perform impairment tests as follows:

Recoverable values are calculated for each cash generating unit, which are the cellulose production and electricity generation plants operated by the Group, and include the forest capital planned to supply those units.

Each year, the Group prepares a business plan for each cash-generating unit, generally covering a period of three years. The business plans consists of financial projects prepared by the Group Administration on the basis of past experience and the best available estimates of earnings, investments and working capital.

A residual value is also calculated from the normalised cash flow from the last year projected, and a growth rate applied to perpetuity (generally between 0% and 3%). The cash flow used to calculate residual value includes investments in replacement that are necessary for the business to continue in the future at the estimated growth rate.

For assets that are related to projects with an independent financial structure whose flows can be seen with a certain degree of precision during the construction as well as during the operating phases, expected cash flows are projected to the end of the expected life of the asset. Consequently no terminal value is considered. Projections include both known information (based on project contracts) as well as fundamental hypotheses supported by specific expert studies (for production, etc.). Macroeconomic data (inflation, interest rates, etc.) are also projected and a sensitivity analysis is made around all the variables whose changes could significantly affect the value of the asset.

In order to calculate value in use, the cash flows so estimated are discounted applying a discount rate representing the mean weighted cost of capital, taking into account the cost of borrowing and business risks deriving from the type of asset and market in which it is developed. These discount rates in their minimum range consider the cost of the debt incurred by the Group.

If the recoverable amount of an asset is estimated as below its book value, then the latter is reduced to its recoverable rate, recognising the corresponding discount through in the consolidated profit and loss accounts; except when the relevant asset may have been registered at a revalued amount, in which case the loss due to impairment is considered a reduction in the existing revaluation reserve.

Where an impairment loss subsequently reverses, the carrying amount of the cash-generating unit is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal for an impairment loss is recognised as income.

The directors of the Parent Company find that there is no significant indication of impairment of the Group's non-current assets.

c) Investment property

The section in the attached balance sheet entitled "Real Estate Investments" uses values, net of accumulated amortization, for the land, buildings and other constructions that are kept either for operation under lease, or for a gain upon their sale.

Real estate investments are presented appraised at their acquisition cost, following the same criteria as elements of the same class included in the section "Property, plant and equipment".

d) Biological assets

A part of the Group's activity involves the cultivation of various species of trees, mainly eucalyptus, for use as raw material in the production of wood pulp and energy. Standing timber is treated as a biological asset. Forest land is measured in accordance with IAS 16 "Property, plant and equipment" and is recognised under "Property, plant and equipment" in the consolidated balance sheet (see Note 7).

Currently there are no markets for these tree species in Spain, nor valid information that would allow us to estimate their reasonable value. Also, standing timber matures in an average period of up to 40 years including between 2 and 4 cycles, and a range of other variables may affect valuation using the discounted cash flows measurement, so that it is not possible to calculate fair value reliably using this method. As a consequence of the foregoing, the Group has opted to recognise standing timber at historic cost (i.e. cost less accumulated depreciation, less any accumulated impairment losses). Also, sensitivity analyses are performed to test the value of these assets based on certain indicators. The results of these analyses confirm the measurement criteria currently applied.

Therefore, investments in forestry assets are measured by allocating all costs directly incurred in the acquisition and development of the assets, including leases, clearing and preparation of land, planting, fertilisers, care and upkeep.

Furthermore, a variable and individualised percentage of the carrying amount of standing timber is capitalised as interest up to the limit of its estimated realizable value. The interest rate used is the mean financing rate for the Group.

The cost allocation method applied to harvest is based on the total costs incurred to the date of felling and the residual value of the plantation. Divestments of the lumber of the Group came to EUR 9.107 million during 2012, and EUR 8.635 million during 2011. These amounts are included in the account "Forestry reserves depletion" in the section "Provision for Amortisation" in the consolidated profit and loss statement (see Note 8).

e) Leases

The Group leases certain assets. All of the leases concluded by the Group have been classified as operating leases based on the substance of the contracts, which under no circumstances transfer ownership of the leased assets or any of the rights and risks inherent therein.

Expenses from operating leases are recognised in the consolidated income statement in the year in which they are accrued.

f) Financial instruments

f.1) Financial assets

The financial assets held by the Group are classified into the following categories:

- Credits and accounts receivable: trade receivables and financial assets with fixed or determinable payments arising from non-trade operations arising on the sale or goods or the provision of services.
- Financial assets available for sale: Includes mainly financial shares in other companies as well as the remaining financial assets that have not been classified in the above categories.

No financial assets were reclassified during fiscal year 2012 and 2011, among the categories defined in the above paragraphs.

Initial recognition-

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

Subsequent measurement-

Loans and receivables are measured at amortised cost. The Group also records impairments as charges against the consolidated profit and loss account, when there is an estimated risk of recoverability of same, based on the age of the debt.

Available-for-sale financial assets are measured at fair value, and the gains and losses arising from changes in fair value are recognised in consolidated equity until the asset is disposed of or it is determined that it has become (permanently) impaired, at which time the cumulative gains or losses previously recognised are taken to the net consolidated profit or loss for the year.

Derecognition-

The Group derecognises a financial asset when it expires or when the rights to the cash flows from the financial asset have been transferred and substantially all the risks and rewards of ownership have been transferred.

However, the Group does not derecognise financial assets, and recognises a financial liability for an amount equal to the consideration received, in transfers of financial assets in which substantially all the risks and rewards of ownership are retained.

f.2) Financial liabilities

Financial liabilities include accounts payable by the Group that have arisen from the purchase of goods and services in the normal course of its business, and those which, not having commercial substance, cannot be classed as derivative financial instruments.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost. In this case bank loans are recorded for the amount received, net direct issuance costs. Financial costs including direct issuance costs are recorded following the accrual criteria in the profits and loss account, using the effective interest method, and the book amount of the instrument is added to the degree that it was not liquidated during the period caused.

The Group derecognises financial liabilities when the obligations giving rise to them cease to exist.

f.3) Derivative financial instruments and hedge accounting

The Group's activities expose it mainly to financial and market risks arising from changes in the US dollar/euro exchange rate, which mainly affect its sales because the price of pulp is quoted in US dollars in the international market, and exchange rate fluctuations affecting sales made in foreign currency, as well as changes in the prices of the pulp, fuel oil, gas and electricity, as these are necessary inputs for the production process. The Group is also exposed to the impact of variations in interest rates on its financial liabilities. The Group uses financial derivative instruments to hedge these exposures.

These financial instruments are initially recognised at their cost of acquisition and the necessary valuation adjustments are subsequently made to reflect their fair value at any given time. Write-downs are recognised under "Derivatives" in the consolidated balance sheet, and any eventual write-backs are recognised in "Financial assets – Derivatives". The gains or losses on these changes in value are recognised in the consolidated income statement, unless the derivative has been designated as a hedging instrument, in which case it is recognised as follows:

1. Hedge value coverage: both the hedged item and the hedging instrument are measured at fair value, and any changes in the value of either are recognised in the consolidated income statement. Effects are offset in the same caption of the consolidated income statement.

2. Cash flow hedges Changes in the fair value of financial derivatives are recognised in "Equity – Valuation adjustments". The cumulative loss or gain recognised under this heading is transferred to the consolidated income statement to the extent the underlying has an impact on the consolidated income statement, so that both effects are offset.

In order for these financial instruments to qualify for hedge accounting, they are initially designated as such and the hedging relationship is documented. The Group also verifies, both at inception and periodically over the term of the hedge, that the hedging relationship is effective, i.e., that it is prospectively foreseeable that changes in the fair value or cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument, and that, retrospectively, the gain or loss on the hedge was within a range of 80-125% of the gain or loss on the hedged item. The part of the hedging instrument that is determined to be ineffective is immediately recognised through the consolidated income statement.

The fair values of the different financial derivative instruments is calculated by discounting expected cash flows based on conditions in both spot and futures markets at the calculation date. All of the methods used are generally accepted by financial instrument analysts.

Hedge accounting is discontinued when the hedge is no longer highly effective. In this case, the cumulative gain or loss arising on the hedging instrument that was recognised directly in equity is maintained until the expected commitment or transaction materialises, when it is transferred to the consolidated income statement. Where the commitment or transaction envisaged is not expected to occur, any accumulated gain or loss previously recognised in equity is taken to the consolidated income statement.

Estimation of fair value

Fair value appraisals made of the different financial derivatives are found in level 2 of the hierarchy of fair values established by IFRS 7, as they are referenced to observable variables other than listed prices. More specifically, the fair values calculated for each type of financial instrument (see Note 10) are as follows:

- Interest rate swaps are valued by discounting future liquidations between the fixed and variable rate, according to market conditions, obtained from swap rate curves at long term. The volatility inherent in the calculation is used, through formulas for appraising options, to calculate reasonable fair values of caps and floors.

- Hedge agreements on foreign currency exchange and options hedge agreements are valued using the contract exchange rate listings and interest rate curves for the currencies involved as well as implicit volatility until expiration in the case of options.

- Commodities agreements (fuel) are valued in a similar manner, in this case considering future prices for the underlying asset and the implicit market volatility for options.

- The Group uses the discounted cash flows method in the case of derivatives not negotiable in organised markets to discount expected cash flows and generally accepted options structures, based on both cash as well as future market conditions as of the closing date of the period. However at December 31, 2012 and 2011 the Group had no non-negotiable derivative contracts on organised markets.

f.4) Equity instruments

An equity instrument represents a residual ownership interest in the equity of the Parent Company once all of its liabilities have been deducted.

The equity instruments issued by the Parent Company are recognised in equity for the amount of the proceeds received, net of issue costs.

Treasury shares acquired by the Parent Company are recognised at the value of the consideration paid and are presented as a reduction in equity. The gain or loss arising on the purchase, sale, issue or redemption of treasury shares are recognised directly in equity. No amounts are recognised in the income statement in this respect.

f.5) Classification of current and non-current

Assets and liabilities are classified in the attached consolidated balance sheet according to their expiration; that is, as current with a maturity at or less than twelve months and non-current with maturity greater than twelve months.

g) Inventories

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

Production costs is determined by including the cost of materials, labour, and direct and indirect manufacturing expenses.

The Group uses the weighted average cost method to assign value to its inventories.

Net realizable value is the estimated selling price less the estimated costs of completion and costs to be incurred in marketing, selling and distribution. The Group recognises the appropriate write-downs as an expense in the consolidated income statement when the estimated net realizable value of the inventories is lower than acquisition (or production) cost thereof. These estimates consider the age and degree of turnover of inventories.

h) Cash and cash equivalents

Cash comprises both cash and demand bank deposits. Cash equivalents are highly liquid, short-term investments that are easily converted into cash, have an original maturity of no more than three months and are not subject to any significant risk of change in value.

i) Income tax, assets and liabilities for deferred taxes

Income tax expense for the year is calculated by adding the current tax resulting from application of the tax rate to the adjusted profit for the year, and then applying the tax deductions allowed, plus the variation in assets and liabilities for deferred taxes.

Assets and liabilities for deferred taxes are taxes payable or recoverable for differences between the book value of the assets and liabilities in the financial statements, and their tax value. These are recorded applying the tax rate which is expected for recovery or liquidation.

Corporate tax and variations in deferred taxes recorded as assets or liabilities that do not arise from business mergers, are recorded in the consolidated profit and loss account or in the net equity accounts in the consolidated balance sheet, according to where the profits or losses originated by them were recorded.

Variations from business mergers that are not recognised in the takeover as recovery is not insured, are reduced, as applicable, from the goodwill value recognised in the accounting for the merger, or using the above criteria if there is no goodwill.

Assets for deferred taxes identified with temporary differences, negative tax bases and deductions pending compensation are recognised only if the consolidated entities are considered to probably have sufficient tax gains in the future against those that may use them.

Deferred taxes recorded (both assets as well as liabilities) are reviewed at the close of each period in order to prove that they remain current, with the appropriate corrections made according to the results of the analysis made.

The Parent Company and the rest of its subsidiaries registered in Spain in which the Parent owns interests in share capital equal to or exceeding 75% file consolidated tax returns under the regime established in Chapter VII, Title VIII of the Corporate Income Tax Law.

j) Income and expenses

Income is measured at the fair value of the consideration received or receivable and is recognised when the Group is likely to receive the economic benefits of the transaction and the amount thereof can be reliably measured. Sales are recorded net of VAT and discounts.

Revenues from the sale of goods is recognised when the goods are delivered and all of the risks and rewards inherent in ownership have been transferred.

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

Expenses are recognised in the consolidated income statement when there is a decrease in future economic benefits relating to a reduction in an asset or an increase in a liability which can be reliably measured. This implies that an expense is recognised at the same time as an increase in a liability or a reduction in an asset.

Expenses derived from the receipt of goods or services are recognised at the moment in which they are received.

An expense is recognised immediately when a payment does not generate future economic benefits, or when it does not meet the requirements for recognition as an asset.

k) Provisions and contingencies

The consolidated financial statements include all provisions with respect to which it is considered likely that an obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements but rather are disclosed in the accompanying notes, unless the possibility of an outflow in settlement is not considered remote.

Provisions, including variable employee remuneration, are measured based on the present value of the best estimate possible of the sum necessary to cancel or transfer the obligation, taking into account the information available on the event and its consequences. Adjustments to provisions are recognised as finance costs as they are accrued.

At 2012 year end, various legal actions and claims were in progress against the Group. Both the Parent Company's legal advisers and its directors consider that the conclusion of these proceedings and claims will not have a material effect on these consolidated financial statements.

l) Termination benefits

Under current legislation, the Group is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken.

The Group recognised an allowance of EUR 1,369 thousand for this item under "Trade and other payables – payable to employees" in the consolidated balance sheet at 31 December 2012 (EUR 251 thousand at 31 December 2011) in order to cover incentivised terminations at the end of the reporting period.

m) Environmental assets and liabilities

Environmental activities are operations with the main objective of preventing, reducing or repair environmental damages.

In this case, investments deriving from environmental activities are valued at their acquisition cost and included as the greatest fixed asset cost in the year incurred, according to the assessment rules described in sections a) and b) of this note.

Expenses deriving from environmental protection and improvement are charged to the results for the year in which they are incurred, regardless of the time when the monetary or financial currents occurred deriving from them (see Note 25).

Provisions relating to probable or certain environmental responsibilities, litigation and compensation or obligations payable for indeterminate amounts that are not covered by the insurance policies arranged are set aside, where appropriate, at the time the responsibility or obligation determining compensation or payment arises.

n) Pension obligations

Certain group companies have established the following commitments for retirement, widows, orphans and ancestors pensions, to supplement the Social Security benefits due to employees and members of their families:

1. Current employees

   Commitment to current employees at year end whereby the Company and the employee concerned contribute a pre-established percentage of salary for pension purposes to the Ence Group's "Joint Promotion Pension Plan" promoted in accordance with article 40.d) of the Pension Plans and Funds Regulations (defined contributions). This pension plan is included in the SERVIRENTA II F.P. Pension Fund.

2. Retired employees

   In December 1997 the Parent Company arranged a single premium insurance policy with an insurance company to guarantee the contingencies covered by the aforementioned fund.

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

o) Stock-based payments

The General Meeting of Shareholders of the Parent Company on 30 March 2007 approved a Special Executive Variable Compensation Plan for the years 2007-2011, which was amended on 22 June 2010 to the current ENCE Energia y Celulosa S.A. Long Term Incentive Plan for 2010-2015" (the Plan).

The objective of the Plan is to incentivise compliance with the goal set by the Board of Directors for the years 2010, 2011 and 2012. A maximum of 3,850,000 stock options are subject to delivery, representing 1.53% of equity.

Currently 539,079 options have been granted for the year 2010 at a price of EUR 2.44 per share; and 753,225 options for the year 2011 at a price of EUR 1.95 per share.

These options may be exercised two years after they are granted, provided that:

1. the beneficiary continues to serve Ence under an employment or commercial relationship, unless service was discontinued as a consequence of unfair dismissal; and
2. the Parent Company has specified a regular dividend policy at the time the options are exercised.

At the Annual General Meeting held on 29 April 2011, the shareholders resolved to extend the term of the aforementioned Grupo Empresarial ENCE, S.A. Long-Term Incentive Plan for 2010-2015 for the Chief Executive Officer, to allow him to be assigned the unallocated options under the Plan in 2013 up to the maximum number of options authorised for the CEO.

The stock options will be settled in cash. Consequently, a liability is recognised in this respect at the date of each consolidated balance sheet equal to the portion of services received at the current fair value thereof.

The fair value of the Special Variable Executive Compensation Plan has been determined using the Black-Scholes method, which is generally accepted for financial instruments of this type. Following that method the accrued cost for 2012 was EUR 160 thousand (null in fiscal year 2011).

p) Grants

Non-refundable capital grants associated with investment in production assets are valued at the fair market value of the amount received, and charged to results in proportion to the period depreciation for the elements for which the grant was received or, as applicable, upon disposal of the asset or recognition of the impairment loss.

These are charged to the consolidated income statement when they are awarded, unless the award is made to finance specific expenses, in which case the grant is recognised in line with the accrual of the subsidised expenses.

q) Consolidated cash flow statement

The following terms are used in the consolidated cash flow statements (prepared using the indirect method) with the meanings specified:

1. Cash flows: inflows and outflows of cash and cash equivalents, the latter being understood as highly liquid current financial instruments with a low risk of fluctuations in value.

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

3. Investment activities: activities involving the acquisition, sale or disposal in any other way of non-current assets or other investments not included in cash and cash equivalents.

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

r) Related party transactions

The Group performs all transactions with related parties on an arm's length basis.

s) Balances and transactions in currencies other than the euro

The consolidated financial statements are presented in euros, which the Group's functional and presentation currency.

Translation of transactions and balances-

The Group converts balances receivable and payable expressed in currencies other than the euro applying the exchange rates ruling at the transaction date. Receivables and balances are measured at this exchange rate until they are settled. Exchange gains or losses arising on the collection of receivables and payment of liabilities in currencies other than the euro, and differences arising from year-end measurement of non-euro receivables and payables at the exchange rates ruling at the end of the reporting period, are recognised in the consolidated income statement in which they arise.

Translation of the financial statements of Group companies-

The earnings and financial position of all Group companies using a presentation currency other than the euro (none of which is the currency of a hyperinflationary economy) are translated to euros as follows: assets and liabilities are converted at the year-end rate ruling at the reporting date; equity is translated at historic rates of exchange; and revenues and expenses are converted at the average rate for the period. The resulting differences on exchange are recognised in equity, and will be charged to the consolidated profit and loss account for the period in which the investment was transferred.

Long-term loans granted by the Parent Company to consolidated establishments and companies using a functional currency other than that of the Group are treated as net financial assets held abroad. All resulting exchange differences arising are recognised in equity.

t) Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets earmarked for disposal is classified as a held-for-sale asset where its value will be recovered basically as a result of sale, providing the sale is considered highly likely.

These assets or groups of assets are valued at book value or at estimated sales value, whichever is lower, deducting the costs necessary for this and are no longer amortised after they are classified as non-current assets held for sale; however the corresponding corrections are made at the date of each balance sheet so the book value does not exceed reasonable value plus sales costs. These corrections are listed in the section "Net result of non-current classified as held for sale" in the consolidated balance sheet.

Non-current assets held for sale and elements of groups classified as held for sale are presented in the consolidated balance sheet, as follows: Assets in a single line denominated "non-current assets held for sale" and liabilities, also in a single line, denominated "liabilities associated with non-current assets held for sale".

A discontinued operation is any component of the Group which has been sold or otherwise disposed of, or which has been classified as held for sale and, among other conditions, represents a line of business or a significant area which may be regarded as separate from the rest.

After tax profit or loss on discontinued operations appear in a single line in the consolidated profit and loss statement, denominated "Net result of appraisal of non-current assets held for sale".

u) Earnings per share:

Base earning per shares is calculated as the quotient between net profit for the period attributable to the Parent Company and the mean weighted number of ordinary shares in circulation during the period, not including the mean number of Parent Company treasury shares in Group companies.

Diluted share earnings are calculated as the quotient between the net profit/loss of the period attributable to ordinary shareholders and adjusted for the effect to potential ordinary shares with a dilutive effect and the mean weight number of ordinary shares that would be issued if all potential ordinary shares were converted into ordinary shares of the company. The conversion in this case is considered as occurring at the beginning of the period or at the time of issue of the potential ordinary shares, if these would be placed in circulation during the same period. Since there are no potential ordinary shares with a dilutive effect with the Group, the base earning and diluted by share for the years 2012 and 2011 are the same.

Responsibility for information and estimates made-

Certain estimates were made in preparing the consolidated financial statements for 2012, in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The assessment of possible impairment losses on certain assets.
- The useful life of property, plant and equipment and intangible assets.
- The fair values of certain assets, basically comprising financial instruments.
- The assumptions employed in the calculation of certain commitments with employees.
- Calculation of the provisions necessary to cover the risks related with ongoing litigation and insolvencies.
- The recoverability of deferred tax assets.

These estimates were made on the basis of the best information available at 31 December 2012 and 2011. However, events that take place in the future might make it necessary to change them. Any such changes in accounting estimates would be applied prospectively in accordance with IAS 8.

Changes in estimates and accounting policies and fundamental error corrections

The effect of any change in accounting estimates is recorded prospectively, in the same section of the profit and loss account in which the cost or revenue is recorded with the previous estimate.

Changes in accounting policies and correction of fundamental errors are registered as follows, if they have an important impact; the accumulated effect at the beginning of the period is adjusted under reserves and the effect in the period is recorded in the profit and loss account for the period. In these cases the financial information for the comparative period is re-stated together with the period in course.

There were no significant changes in accounting estimates, or in accounting policies, or in error corrections at 31 December 2012 or 2011.

5. Exposure to risk

Assisted by senior management, the Board of Directors defines the Group's risk management criteria for risks to which the Group is exposed, and establishes internal control systems that allow the Group to maintain the probability and impact of any such event within established levels of tolerance.

The internal auditing department assures appropriate implementation of the risk management criteria and policies defined by the Board of Directors and oversees compliance with the internal control systems implemented.

The main financial risks affecting the Group and the policies and controls adopted to mitigate them are as follows:

Market risk-

Pulp and energy prices-

The price of BEKP cellulose pulp is established in an active market, the evolution of which significantly conditions the volume of the Group's revenues and its earnings. Changes in cellulose pulp prices modify the cash flows obtained from sales.

Cellulose pulp price display a marked cyclical nature, and there has been considerable price volatility in recent years. The behaviour of the price is associated basically with changes in volumes or the conditions dictating supply and demand, as well as the financial situation of firms operating in the market.

In order to mitigate this risk, the Group has made significant investments in recent years to raise productivity and improve the quality of the product it markets. It also continually assesses the possibility of hedging pulp prices for future sales (see Note 10).

A 5% increase in the international pulp price in euros would increase the Group's revenues by approximately 3.6%.

Timber supplies-

Eucalyptus timber is the main input for the production of cellulose pulp, and its price is subject to fluctuations due to regional changes in the balance of supply and demand and the need to access markets in other regions, resulting in the consequent logistics overheads, when more local supplies are insufficient to meet demand.

The risk arises from an insufficient offering in the areas where our plants are located, and is managed mainly through access to alternate markets that normally include a higher logistical cost.

Furthermore, the Group maximises the value added in its products *among others* by increasing its use of certified timber, which is more costly.

A 5% increase in the price per cubic metre of eucalyptus timber used in the production process would reduce the operating margin by approximately 15%.

Regulation-

European Union environmental regulation has in recent years increased restrictions on the emission of effluents; CO2, etc. Future regulatory changes could cause increases in the expenses incurred to comply with those requirements.

Renewable energy generation is also a regulated activity. Future regulatory changes could therefore affect revenues. A 5% increase in the prices determining revenues from electricity generating operations would raise the Group's total revenues by approximately 1%.

On 27 January 2012, the Spanish Council of Ministers approved Royal Decree Law 1/2012, temporarily suspending the procedures for pre-allocation of remuneration and removing financial incentives for new power plants using cogeneration, renewable energy sources and waste. This legislation also allows the Government to regulate specific financial regimes covering certain special regime power plants, and it also establishes the right of cogeneration plants and other power plants using primary energy sources, non-consumable and non-hydraulic renewable energy, biomass, bio-fuels and agricultural waste to receive remuneration under a specific financial regime.

Law 15/2012 of 27 December with tax measures for sustainable energy effective 1 January 2013 includes tax changes that affect the Group's activities. A tax is created on the value of the energy produced with an impact on the entire energy sector, equivalent to 7% of revenue from generation. Tax rates established for natural gas are changed, and exemptions provided for energy products used in the production and cogeneration of electricity and useful heat, are eliminated.

Royal Decree Law 2/2013 of 1 February with emergency measures for the electrical sector and the financial system establishes that for all methodologies for revenue changes that are tied to the general CPI, the latter is replaced by the Consumer Price Index at constant taxes without unprocessed foods or energy products; and the prime economic regimen can be based only on the option of a regulated tariff (with the pool+premium option eliminated).

This regulation enter uncertainties with regard to the development of new plants in Spain as the suspension period is undetermined, and the impact on earnings by the tax measures adopted in this year.

Exchange rate-

While the majority of the Group's sales are made in the European market, revenues from sales of cellulose pulp are affected by the USD/EUR exchange rate, because the benchmark sale price on the international market is in USD per ton. Insofar as the Group's cost structure is mainly in euros, changes in the dollar exchange rate can have a significant impact on earnings volatility.

In order to mitigate this risk, the Group's policy is to lock in the exchange rate in parallel with its management of the risks inherent in the evolution of cellulose pulp prices. Accordingly, it continuously assesses the possibility of using exchange rate hedges for foreseeable future sales (see Note 10).

A 5% appreciation in the dollar would increase the Group's revenues before hedges, by approximately 3.6%.

Credit risk-

The Group is exposed to credit risk in respect of outstanding balances receivable from customers. This risk is mitigated mainly by arranging credit insurance policies, which assign credit limits based on credit quality as determined by the insurer and provide cover for between 75% and 90% of trade receivables associated with sales of cellulose pulp.

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

Revenues associated with the electricity generating business are obtained from the electricity system, which is backed by the Spanish state.

Liquidity - Asset Management Risk

Exposure to adverse situations in the debt and capital markets can hinder or prevent the Group from covering financial needs related with operations and the future Business Plan.

This is one of the risks that is most closely tracked by the Ence Group, and a series of key financial objectives has been established by the Group: 1) to assure the continuity of operations in any cellulose price environment, 2) to support the capacity for growth of the businesses conducted by maintaining a sound capital structure and an appropriate level of liquidity; and 3) to keep net indebtedness at levels that do not exceed the gross operating profit generated by more than 2.5 times, based on the average cellulose pulp price for the cycle.

This risk is managed by following the schedule of financial debt, proactive management and maintenance of lines of credit and other forms of financing that hedge projected treasury needs.

As part of this financial policy, Ence Energia y Celulosa, S.A. has projected refinancing its corporate debt with maturity in 2014. Therefore on 1 February 2013 the Parent Company completed the process of offering to qualified institutional investors, a bonds issue in the amount of EUR 250 million maturing in 2020 (see Note 26), to be used mainly to repay the current syndicated loan.

The information necessary for the analysis of the maturities of the financial liabilities referred to in IFRS 7 is provided in Notes 10 and 16 below.

Interest rate risk-

This risk arises from exposure to changes in the interest rates of the Company's financial assets and liabilities, which can have an adverse impact on the income statement and on cash flows.

The objective of interest rate risk management is to achieve a balance in the debt structure to minimise the cost of debt over a time horizon of several years with low volatility in the consolidated income statement. The hedging instruments contracted are assigned to specific financial operations, and the derivatives are appropriately aligned with the timing and amount of the financing concerned.

At 31 December 2012 the Group held hedging instruments covering most financial debt contracted at floating rates of interest. The corporate debt refinancing indicated above contracted at a fixed rate of 7.25% minimised interest rate risk.

6. Intangible assets

Changes in intangible assets and the related accumulated amortization in 2012 and 2011 were as follows:

Fiscal Year 2012

Thousands of Euros	Balance at 01/01/2012	Additions or Charge for the year	Retirements or disposals	Exchange Differences	Transfer to Held For Sale Assets (Note 20)	Balance at 31/12/2012
Computer software	14,361	-	(110)	(3)	110	14,358
Emission rights	5,253	16,598	(5,830)	-	-	16,021
Other intangible assets (*)	10,405	3,570	(1,192)	1	1,420	14,204
Total cost	**30,019**	**20,168**	**(7,132)**	**(2)**	**1,530**	**44,583**
Computer software	(13,744)	(221)	110	1	(110)	(13,964)
Other intangible assets (*)	(8,148)	(756)	1,192	-	(1,351)	(9,063)
Total amortisation	**(21,892)**	**(977)**	**1,302**	**1**	**(1,461)**	**(23,027)**
Total	**8,127**					**21,556**

(*) Mainly comprising development costs

Fiscal Year 2011

Thousands of Euros	Balance at 01/01/2011	Additions or Charge for the year	Retirements or disposals	Transfers (Note 7)	Exchange Differences	Transfer to Held For Sale Assets (Note 20)	Balance at 31/12/2011
Computer software	14,329	144	-	-	(2)	(110)	14,361
Emission rights	2,544	9,099	(6,390)	-	-	-	5,253
Other intangible assets (*)	11,867	291	(16)	(317)	-	(1,420)	10,405
Total cost	**28,740**	**9,534**	**(6,406)**	**(317)**	**(2)**	**(1,530)**	**30,019**
Computer software	(13,532)	(319)	-	-	(3)	110	(13,744)
Other intangible assets (*)	(8,674)	(941)	15	101	-	1,351	(8,148)
Total amortisation	**(22,206)**	**(1,260)**	**15**	**101**	**(3)**	**1,461**	**(21,892)**
Total	**6,534**						**8,127**

(*) Mainly comprising development costs

Additions and disposals-

The Group in fiscal year 2012 acquired Foresta Capital, S.L. and Foresta Mantenimiento Plantaciones, S.L., companies linked by common shareholders (see Note 24), as well as intangible knowledge, experiences and techniques that optimise energy crops and the in vitro reproduction of eucalyptus, and also a clone of the Populus Deltoides species. The companies were acquired for an initial payment of approximately EUR 3.5 million, and deferred payments for an additional EUR 3 million, if and when a series of conditions were met, including raising the moratorium on the special economic regimen for biomass electricity generation, established in Royal Decree Law 17/2012 of 27 January, or investment in energy generation plants outside of Spain with a minimum power of 70 MW. This agreement includes a purchaser's right for an option, exercisable within six months after the lifting of the moratorim and for the market value of such assets at the time of its acquisition, to buy determined electricity production projects currently being promoted by the sellers.

The Group has also annually received, free of charge, greenhouse gas emissions rights under the National Assignment Plan 2008-2012, for 657,970 tons of CO2 per year. In 2012 the Group used 92,368 tons of CO2 assigned to it as well as remainders from previous years, to redeem the rights consumed in the previous year (278,121 tons in fiscal year 2011). The 565,602 tons of CO2 remaining for 2012 (379,849 tons in 2011) are registered in the section "Emission Rights", in the amount of EUR 3.535 million (EUR 5.253 million at 31 December 2011).

On 3 June 2008 the Group executed a contract selling greenhouse gas emission rights received free of charge in 2008, equivalent to 657,970 tons of CO2, and also executed an agreement to purchase emission rights for 506,202 tons of CO2 at a mean price of EUR 24.6. This purchase that took place in December 2012, represented an investment of EUR 12.486 million.

In fiscal year 2011 the Group also executed various emission rights purchase commitments for a total of 601,000 tons of CO2 at an average price of EUR 14.85 maturing in 2012. These agreements were later amended to mature in 2013, at a price of EUR 15.37 per ton. The purpose is to hedge future consumption of emission rights by the Group.

The "Provisions" section of the long term liabilities balance sheet at 31 December 2013 shows EUR 3.015 million (EUR 5.845 million at 31 December 2011) corresponding to liabilities from 2012 and 2011 consumption of 481,609 tons of CO2 and 472,217 tons of CO2, respectively (see Note 15).

Fully amortised intangible assets-

At 31 December 2012 and 2011, fully amortised intangible assets, mainly consisting of development costs and computer software, totalled EUR 16,711 thousand and EUR 15,659 thousand, respectively.

7. Property, plant and equipment

Changes in the property, plant and equipment carried in the consolidated balance sheet and the related accumulated depreciation in 2012 and 2011 were as follows:

Fiscal Year 2012

Thousands of Euros	Balance at 01/01/2012	Additions or Charge for the year	Retirements or disposals	Transfers	Exchange Differences	Transfer to/from Held For Sale Assets (Note 20)	Balance at 31/12/2012
Forest land	154,317	4	(69)	-	(560)	(28,422)	125,270
Other land	6,377	250	-	-	(4)	(251)	6,372
Buildings	138,977	51	(2)	2,300	(60)	(3,080)	138,186
Plant and machinery	1,020,297	592	(3,422)	14,602	(70)	988	1,032,987
Other items of property, plant and equipment	30,652	600	(1,186)	1,494	(21)	1,068	32,607
Advances and non-current assets under construction	123,380	85,401	(433)	(18,396)	(3)	(132)	189,817
Cost	**1,474,000**	**86,898**	**(5,112)**	-	**(718)**	**(29,829)**	**1,525,239**
Buildings	(77,854)	(4,041)	2	13	14	880	(80,986)
Plant and machinery	(596,277)	(47,496)	657	(37)	50	(1,098)	(644,201)
Other items of property, plant and equipment	(18,570)	(1,627)	1,167	24	3	(818)	(19,821)
Amortisation	**(692,701)**	**(53,164)**	**1,826**	-	**67**	**(1,036)**	**(745,008)**
Land and buildings	(4,984)	(21)	3,000	-	-	-	(2,005)
Plant and machinery	(6,173)	(164)	4,005	-	-	(1,532)	(3,864)
Other items of property, plant and equipment	-	(183)	-	-	-	-	(183)
Impairments	**(11,157)**	**(368)**	**7,005**	-	-	**(1,532)**	**(6,052)**
Total	**770,142**						**774,179**

Fiscal Year 2011

Thousands of Euros	Balance at 01/01/2011	Additions or Charge for the year	Retirements or disposals	Transfers (Note 6)	Exchange Differences	Transfer to Held For Sale Assets (Note 20)	Balance at 31/12/2011
Forest land	153,516	477	-	-	324	-	154,317
Other land	7,598	-	(1,212)	-	(9)	-	6,377
Buildings	145,081	448	(8,283)	1,793	(34)	(28)	138,977
Plant and machinery	1,001,898	7,512	(2,363)	18,609	109	(5,468)	1,020,297
Other items of property, plant and equipment	28,989	1,659	(1,498)	2,643	(2)	(1,139)	30,652
Advances and non-current assets under construction	80,320	66,059	(263)	(22,728)	(5)	(3)	123,380
Cost	**1,417,402**	**76,155**	**(13,619)**	**317**	**383**	**(6,638)**	**1,474,000**
Buildings	(74,080)	(4,442)	660	1	(11)	18	(77,854)
Plant and machinery	(548,988)	(48,090)	(2,860)	(60)	(55)	3,776	(596,277)
Other items of property, plant and equipment	(22,510)	(1,144)	4,236	(41)	(2)	891	(18,570)
Amortisation	**(645,578)**	**(53,676)**	**2,036**	**(100)**	**(68)**	**4,685**	**(692,701)**
Land and buildings	(13,289)	-	8,305	-	-	-	(4,984)
Plant and machinery	(11,395)	(819)	4,509	(1)	-	1,533	(6,173)
Impairments	**(24,684)**	**(819)**	**12,814**	**(1)**	-	**1,533**	**(11,157)**
Total	**747,140**						**770,142**

Additions-

The Group has made investments at all of its facilities to improve the efficiency of the paper pulp production process, optimise electricity generating and improve environmental protection. This is broken down as follows:

	Thousands of Euros 31/12/2012	Thousands of Euros 31/12/2011
Navia	6,212	11,321
Huelva	14,262	8,789
Huelva – 50 Mw plant	38,407	42,600
Pontevedra	4,347	6,224
Merida – 20 Mw plant	20,513	-
Other (*)	3,157	7,221
	86,898	**76,155**

(*) Includes mainly investments in irrigation equipment for plantations of energy crops and capitalised costs incurred in the development of energy projects.

On 1 August 2012, the Group, through affiliate Ence Energia Extremadura, S.L.U., concluded a turnkey construction contract for a biomass renewable energy generating plant with installed capacity of 20 megawatts. The plant will be located in Merida (Badajoz), and start up operations in fourth quarter 2014. Projected investment in the project is EUR 80.7 million, of which EUR 60.7 million will be financed by a bank syndicate through a "Project Finance" (See Note 16). Accumulated investment at 31 December 2012 comes to EUR 20.5 million.

On 21 June 2011, the Ence Group concluded a turnkey construction contract for a biomass renewable energy generating plant with install capacity of 50 megawatts via the subsidiary, Ence Energía Huelva, S.A.U. The plant will be located in Group installations in Huelva, and start up operations in the first quarter of 2013. Projected investment in the project is EUR 146.6 million, of which EUR 101.3 are financed by a bank syndicate through a "Project Finance" (See Note 16). The cumulative investment made at 31 December 2012 was EUR 138.1 million, of which EUR 38.4 million were invested in 2012 and EUR 42.6 million in 2011.

The Group capitalised finance costs totalling EUR 5,670 thousand incurred in 2011, basically in respect of project finance indebtedness (EUR 2,678 thousand at 31 December 2011).

The Group likewise at 31 December 2012 has investment commitments for material assets for EUR 17,327 thousand, that will mostly be developed in 2013.

Retirements and disposals-

On 11 September 2011 the Group sold certain land in Uruguay owned by Sociedad Zona Franca de M'Bopicúa, S.A. for a total of USD 5 million (EUR 3,741 thousand). This transaction generated a profit of EUR 2,690 thousand, which was recognised in the accompanying consolidated income statement under "Impairment and gains or losses on disposals of non-current assets".

Fully depreciated property, plant and equipment-

At 31 December 2012 and 2011 the Group had fully depreciated items of property, plant and equipment still in use as follows:

Thousands of Euros	2012	2011
Buildings	42,066	41,945
Machinery	397,860	374,196
Equipment and tools	396	473
Furniture	1,559	2,251
Other	10,935	10,197
	452,816	**429,062**

Grant of public land-

The maritime-terrestrial concession of the land on which the Pontevedra factory is located was awarded to the Parent Company by Ministerial Order of 13 June 1958. The concession deed did not establish any fixed term, but Article 66 of the subsequent Coasts Law established a maximum term of 30 years for maritime-terrestrial concessions of public domain. In accordance with Transitional Provision 14.3 of the Coasts Regulations, moreover, the holders of concessions granted prior to the entry into force of the Coasts Law (as in the present case) should understand that the same "are granted for a maximum period of thirty years as from the entry into force of the Coasts Law", whatever the term established in the concession deed (the Law came into force on 29 July 1988, and the concession will therefore expire on 29 July 2018). The carrying amount of all assets associated with land at 31 December 2012 was EUR 71,865 thousand (EUR 80,839 thousand at 31 December 2011).

The Bill for the Coastal Protection and Sustainable Use act and Amendment of Law 22/1988 of 28 July on Coasts was published in the Official Gazette of the General Courts/Chamber of Deputies on 19 October 2012. The changes to the Coasts Law proposed includes the possibility of extending grants of maritime-terrestrial public domain issued prior to the amendment – as in the case of Ence in Pontevedra – up to 75 years.

On 19 May 20112, the Administrative Disputes bench of the Spanish High Court issued a ruling on the appeal filed by the Association, "Salvemos Pontevedra". This judgment did not enter into the merits of the case, and it therefore did not find that ENCE had breached any of the terms of the concession, as the claimant Association had sought. Rather, the Court confined itself to ordering the Administration to open proceedings in connection with the expiration of the concession and the adoption of legal measures to halt activity and the use and operation of the facility. This judgment does not prejudge the outcome of these proceedings which would, where applicable, be conducted as a full administrative process leading to a final decision that would be open to appeal in the administrative disputes jurisdiction. Both the Administration and ENCE have appealed against the judgment, which is not enforceable while the appeal proceedings continue.

Revaluations-

As of 1 January 2004, the date of transition to EU-IFRS, forest land was revalued at fair value. The fair value was determined by specialist independent appraisers and is considered to be a reference historical cost as permitted by International Accounting Standards. The revaluation surplus of EUR 54,882 thousand, net of deferred tax liabilities totalling EUR 23,498 thousand, was recognised in net equity under "Valuation adjustments". This market value is treated as the historical cost reference at subsequent dates.

Law 16/2012 of 27 December which adopts various tax measures that consolidate public finances and drive economic activity, contemplates the possibility of voluntarily accepting the restatement of values regulated by that provision.

Taxpayers subject to the fiscal consolidation regimen under the provisions of Chapter VII of Title VII of the Consolidated Corporate Tax Law, approved by Legislative Royal Decree 4/2004 of 5 March, would carry out the update operations in the individual regimen.

Parent Company Directors are currently evaluating said Law 16/2012 and its potential implications and accounting and fiscal impacts. As of the date of preparation of those consolidated annual reports no decision had been made.

Insurance and other matters-

The Group arranges insurance policies to cover the possible risks to which its property, plant and equipment are exposed. The Parent Company's directors consider that the insurance cover for these risks is adequate at 31 December 2012.

Assets located outside Spain, mainly in Uruguay, amounted to EUR 39,991 thousand at 31 December 2012 (EUR 37,928 thousand at 31 December 2011). These are mostly classified as held for sale in the section "Non-current assets held for sale" on the consolidated balance sheet (see Note 20).

8. Biological assets

Biological assets comprise basically the Group's standing timber (forest land owned by the Group is presented in "Property, plant and equipment – forest land"), as follows:

Thousands of Euros	31/12/2012	31/12/2011
Standing timber- Iberian Peninsula	125,655	124,154
Standing timber- Uruguay	-	19,294
Standing timber – Energy crops	44,622	36,366
Other standing crops- Iberian Peninsula	681	772
	170,958	180,586

Changes in 2012 and 2011 were as follows:

Fiscal Year 2012

Thousands of Euros	Balance at 01/01/12	Additions or Charge for the year	Transfers	Exchange differences	Transfer to Available for sale (Note 20)	Balance at 31/12/12
For use as cellulose:						
Forest land	236,480	11,264	(111)	(483)	(26,083)	221,067
Forestry reserve depletion	(91,690)	(6,268)	-	109	5,582	(92,267)
Impairments	(570)	(533)	(1,361)	-	-	(2,464)
	144,220	**4,463**	**(1,472)**	**(374)**	**(20,501)**	**126,336**
For use as energy crops:						
Forest land	36,907	11,267	(699)	-	-	47,475
Forestry reserve depletion	(14)	(2,839)	-	-	-	(2,853)
Impairments	(527)	-	527	-	-	-
	36,366	**9,678**	**(172)**	**-**	**-**	**44,622**
	180,586					**170,958**

Fiscal Year 2011

Thousands of Euros	Balance at 01/01/11	Additions or Charge for the year	Transfers	Exchange differences	Balance at 31/12/11
For use as cellulose:					
Forest land	243,474	14,407	(20,216)	(1,185)	236,480
Forestry reserve depletion	(82,937)	(8,621)	-	(132)	(91,690)
Impairments	-	(570)	-	-	(570)
	160,537	**5,216**	**(20,216)**	**(1,317)**	**144,220**
For use as energy crops:					
Forest land	6,177	10,514	20,216	-	36,907
Forestry reserve depletion	-	(14)	-	-	(14)
Impairments	(527)	-	-	-	(527)
	5,650	**10,500**	**20,216**	**-**	**36,366**
	166,187				**180,586**

The Group planted 4,452 hectares and 6,664 hectares respectively in 2011 and 2012, and carried out conservation and forestry work on a further 47,125 ha. And 55,481 hectares, respectively.

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

Fiscal Year 2012

	Iberian Peninsula			
	Pulp		Energy crops (*)	
	Hectares	Thousands of Euros	Hectares	Thousands of Euros
Years Age	Productive land (Ha.)	Carrying Amount	Productive land (Ha.)	Carrying Amount
> 17	1,010	1,490	-	-
16	28	33	-	-
15	170	841	20	30
14	622	1,569	2	2
13	1,227	4,153	154	485
12	1,399	5,231	1,199	2,284
11	2,516	8,073	173	346
10	2,631	6,729	398	331
9	2,622	6,018	15	13
8	2,919	9,263	145	279
7	6,578	21,843	1,633	5,126
6	5,133	15,686	736	2,746
5	4,209	10,233	1,731	4,290
4	4,915	10,510	827	2,692
3	5,225	11,765	926	3,264
2	4,708	8,170	1,792	5,785
1	3,233	3,794	3,138	9,502
0	2,276	2,396	3,625	6,886
Impairment	-	(2,464)	-	-
Deferred costs	-	1,003	-	561
	51,423	**126,336**	**16,516**	**44,622**

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

Fiscal Year 2011

	Iberian Peninsula					
	Pulp		Energy crops		Uruguay (Note 20)	
	Hectares	Thousands of Euros	Hectares	Thousands of Euros	Hectares	Thousands of Euros
Years Age	Productive land (Ha.)	Carrying Amount	Productive land (Ha.)	Carrying Amount	Productive land (Ha.)	Carrying Amount
> 17	1,062	1,598	-	-	180	288
16	254	336	1	3	-	-
15	62	41	21	19	5	9
14	363	1,534	2	-	51	74
13	707	2,125	156	457	98	147
12	1,493	5,311	1,214	2,073	69	105
11	1,926	6,860	183	324	324	456
10	2,655	9,553	398	262	1,390	1,967
9	2,864	6,397	54	10	537	686
8	2,642	5,808	108	220	201	324
7	3,040	9,195	1,733	4,982	654	1,068
6	6,762	20,910	732	2,395	1,662	1,827
5	5,213	14,979	1,832	5,094	2,410	3,153
4	4,280	8,862	741	1,930	2,027	2,560
3	4,902	10,221	1,025	3,010	844	1,097
2	5,748	11,037	893	1,927	1,353	2,194
1	4,586	6,948	3,247	6,756	1,622	1,551
0	3,253	3,009	4,552	5,154	3,009	1,788
Impairment	-	(570)	-	(527)	-	-
Deferred costs	-	772	-	2,277	-	-
	51,812	**124,926**	**16,892**	**36,366**	**16,436**	**19,294**

The Group capitalised forestry plantation and maintenance costs in fiscal year 2012, corresponding to services received, in the amount of EUR 21,042 thousand (EUR 22,346 thousand in 2011).

A total of EUR 1,489 thousand for financial costs was capitalised in 2012 (EUR 2,575 thousand in 2011), and are discounted from the section "Other financial costs" in the consolidated profit and loss statement.

9. Leases

At 2012 year end the Group had contracted the following lease instalments with certain lessors under leases currently in force, not including common expenses, future increases for inflation or future contractual rent rises:

Thousands of Euros	31/12/2012	31/12/2011
Less than one year	5,371	3,545
Between one and five years	21,610	8,690
Over five years	29,194	22,301
	56,175	**34,536**

The Group leased 28,256 hectares of forest land in 2012 (28,419 ha. in 2011) for the cultivation of standing timber. These leases have an average term of 30 years.

10. Derivative financial instruments

In accordance with the risk management policy described in Note 5, the Group contracts derivatives to hedge risks arising from changes in interest rates, exchange rates, cellulose pulp prices, and the prices of gas, fuel oil and electricity used in the production process.

The most commonly used derivatives are interest rate swaps. The exchange rate derivatives and instruments contracted to hedge fluctuations in the prices of cellulose pulp and energy products consist mainly of swaps and futures.

The Group classifies derivatives in three categories:

1. Derivatives designated as cash flow hedges: these are used mainly to hedge cash flows, interest payments, collections and payments in foreign currencies, etc.

2. Derivatives designated as fair value hedges: these are used to hedge the fair values of assets and liabilities carried in the consolidated balance sheet.

3. Other derivatives: these comprise instruments that are not designated hedges or that do not meet the requirements established by the appropriate accounting standards to qualify for hedge accounting.

All financial instruments were measured after initial recognition with reference to observable market data, whether directly (i.e. via prices) or indirectly (i.e. via price derivatives).

Details of the derivatives carried in the consolidated balance sheet at 31 December 2012 and 2011 are as follows:

	Current Assets		Non-Current Liabilities		Current Liabilities	
Thousands of Euros	2012	2011	2012	2011	2012	2011
IR Swap – Corporate borrowings	-	-	-	18,851	10,164	-
IR Swap - Project finance, 50 megawatts	-	-	8,134	6,615	2,365	-
IR Swap - Project finance, 20 megawatts	-	-	1,518	-	330	-
Equity Swap	-	-	6,975	-	2,027	12,386
Exchange rate hedges	10,721	-	-	-	-	22,224
Pulp price hedges	-	867	-	-	-	-
Total	**10,721**	**867**	**16,627**	**25,466**	**14,886**	**34,610**

Exchange rate hedges-

In order to hedge the risks to which the Group is exposed due to fluctuations in the USD/Euro exchange rate, which can have a material impact on the sale price of cellulose pulp and on a significant part of purchases, the Parent Company proceeded to make forward sales of US dollars to hedge future revenues. The notional amount of these hedges at 31 December 2012 and 2011 was 222 million dollars at a mean exchange rate of 1.24 USD/EUR and 516 million dollars at 1.38 USD/EUR, respectively. These contracts meet the requirements established in the relevant accounting standards to qualify as effective hedges.

The market value of these instruments at 31 December 2012 was positive by EUR 10,721 thousand, which was recognised in the accompanying consolidated balance sheet under "Current liabilities – Derivatives" with an equivalent entry, net of the tax effect, in "Equity – Valuation adjustments".

"Gains or losses on hedging operations" in the accompanying consolidated income statement for 2012 includes a loss of EUR 26,381 thousand in respect of hedges settled during the reporting period (EUR 22,224 thousand in 2011).

Considering the contract conditions at 31 December 2012, a 5% gain in the euro would have a positive impact of EUR 7,973 thousand on the consolidate profit/loss for 2013. A 5% depreciation of the euro on the other hand would give a negative impact of EUR 8,801 thousand on the consolidated results for 2013.

Pulp price hedges-

In order to hedge the risks to which the Group is exposed due to fluctuations in BHKP pulp prices, which have a significant impact on the amount of cellulose sales, the Parent Company arranged BHKP pulp price swaps in 2011 maturing in 2012 in order to hedge sales revenues. Notional amounts of those hedges at 31 December 2011 came to 48 thousand tons of pulp. These contracts meet the requirements established in the relevant accounting standards to qualify as effective hedges.

These instruments were recognised at fair value in the accompanying consolidated balance sheet. The Group had no wood price hedge agreement at 31 December 2012. The fair value of these financial assets at 31 December 2011 was positive by EUR 867 thousand, which was recognised in the accompanying consolidated balance sheet under "Current assets – Derivatives" with an equivalent entry, net of the tax effect, in "Equity – Valuation adjustments".

"Gains or losses on hedging operations" in the accompanying consolidated income statement for 2012 includes a loss of EUR 1,186 thousand in respect of hedges settled during the reporting period (EUR 10,899 thousand in 2011).

Other hedges-

The Group is exposed to fluctuations in the prices of certain energy products consumed in the production process, which can significantly affect production costs. This risk is partially hedged using commodity swaps, which comply with hedge accounting requirements.

At 31 December 2012 and 2011, the Group had no contracts in force to hedge the price of electricity or fuel oil.

Interest Rate Swap-

The Group hedges the interest rate risk inherent in euro-denominated long-term floating rate financial liabilities using interest rate swaps.

The purpose of these hedges is to neutralise fluctuations in cash outflows associated with floating interest rates (Euribor) on the Group's borrowings.

The Group uses the discounted cash flows method to determine the fair value of interest rate derivatives, basically fixed rate swaps, based on implicit values determined by the Euribor interest rate curve according to market conditions at the measurement date.

The interest rate derivatives contracted by the Group outstanding at 31 December 2012 and 2011 and their negative fair values at the reporting dates were as follows:

Fiscal Year 2012

	Fair	Notional amount at the end of						
Thousands of Euros	Value	2013	2014	2015	2016	2017	2018	2019
IR Swap – Corporate borrowings	10,164	194,498	-	-	-	-	-	-
IR Swap - Project finance, 50 megawatts	10,499	75,982	74,874	69,933	63,997	57,502	50,584	43,563
IR Swap - Project finance, 20 megawatts	1,848	15,628	34,334	44,908	42,036	38,981	35,928	32,685

Fiscal Year 2011

	Fair	Notional amount at the end of							
Thousands of Euros	Value	2012	2013	2014	2015	2016	2017	2018	2019
IR Swap – Corporate borrowings	18,851	232,298	194,498	-	-	-	-	-	-
IR Swap - Project finance, 50 megawatts	6,615	47,641	75,982	74,874	69,933	63,997	57,502	50,584	43,563

An analysis of the Group's liquidity for interest rate derivatives prepared from undiscounted net cash flows is as follows:

	Thousands of Euros				
	Less than 1 Month	1-3 Months	3 Months - 1 Year	1-5 Years	Over 5 years
IR Swap – Corporate borrowings	-	2,734	7,447	-	-
IR Swap - Project finance, 50 megawatts	-	-	2,371	6,992	1,333
IR Swap - Project finance, 20 megawatts	-	-	330	1,883	(380)

On 29 May 2008 the Parent Company contracted an interest rate swap to hedge approximately 60% of its corporate financing paid out at that time. This debt changed substantially in 2009, with the result that the interest rate swap ceased to qualify for hedge accounting on 16 October 2009. Since that date, changes in the value of this instrument have been recognised through the consolidated income statement for the year. A gain of EUR 8,687 thousand (EUR 8,267 thousand in 2011). was recognised in the consolidated income statement under "Changes in fair value of financial instruments" in respect of the change in the value of the interest rate swap.

The part of the value of the hedging instrument associated with the hedged item, which was recognised in consolidated equity for a total of EUR 1,075 thousand before the tax effect (EUR 3,120 thousand in 2011), will be recognised prospectively through the consolidated income statement until 2013, the period in which the hedged item will affect the Group's results, as follows:

Thousands of Euros	2012	2011
Fiscal Year 2012	-	2,045
Fiscal Year 2013	1,075	1,075
	1,075	**3,120**

The IRSs associated with financing arrangement for the Huelva 50 MW and Merida 20 MW projects meets the requirements established to quality as an effective hedge.

Based on the contractual terms and conditions prevailing at 31 December 2012, a 10% increase in the Euribor interest rate curve would have a positive impact of EUR 87 thousand on the consolidated earnings for 2013. In contrast, a 10% decline in the Euribor interest rate curve would have a negative impact on consolidated earnings for 2013.

Equity swap-

On 25 October 2007, the Parent Company arranged an equity swap with Bankia, as one of the requirements established in the terms and conditions of the Special Variable Executive Compensation Plan made on that date. On 18 June 2008 that contract was terminated a new contract executed with similar terms, although adapting the annual price to the changes in the Company's listed share prices. The equity swap was renewed for a second time on 14 October 2010 to bring it into line with the modification made to the Long-Term Incentives Plan (see Note 4-o). .

The aforementioned equity swap was contracted for a total of 5,100,000 shares of the Parent Company at a base price of EUR 4.11 per share. The benchmark interest rate for this instrument is Euribor at 12 months plus an additional spread of 0.05% settled annually. Initial maturity is scheduled for 30 June 2012. There is no share buy-back agreement, and there is an express mention that the shares will not return to the Group. Any shares remaining at the end of the 5-year period will be placed directly in the market by Bankia, thereby ensuring that they do not have to be recognised as treasury shares.

This instrument does not meet the criteria to qualify as a hedging instrument, and changes in fair value must therefore be recognised in the consolidated income statement as they occur. The fair value of the equity swap is calculated based on the discounted cash flows of the share component (present value of dividends plus the final share price, less EUR 4.11) and the discounted cash flows generated by the accrual of interest.

On 28 June 2012 the Parent Company novated the instrument so that it acts as a hedge for the "Ence Energia y Celulosa S.A. Long Term Incentive Plan for 2010-2015". This modification, based on 3,850,000 shares extends maturity to 15 December 2012 for 1,025,000 shares, to 15 December 2013 for 1,025,000 shares, and to 15 March 2015 for 1,800,000 shares; and establishes a benchmark interest rate of Euribor 6 months plus 2.30%. Liquidation of the remaining 1,250,000 shares represented a loss of EUR 3,225 thousand, and is recorded in the consolidated balance sheet under "Variation on fair value of financial instruments".

The fair value of the equity swap was negative EUR 9,002 thousand at closing 31 December 2012(EUR 12,386 at 31 December 2011). This amount has been recognised as a current and non-current liability under "Derivatives" in the accompanying consolidated balance sheet, according to its maturity.

A 10% rise in the Parent Company's share price would have a positive impact of EUR 785 thousand on consolidated earnings for 2013. In contrast, a 10% fall in the Parent Company's share price would have a negative impact for the same amount on the consolidated earnings for 2013.

11. Inventories

The detail of the Group's inventories at 31 December 2012 and 2011 is as follows:

Thousands of Euros	31/12/2012	31/12/2011
Wood	48,555	70,759
Other raw materials	3,995	4,921
Spare parts	23,878	22,889
Work in progress	1,383	-
Products in progress	441	441
Finished goods	17,597	17,601
Advances to suppliers	1,069	3,396
Impairments (*)	(9,343)	(7,545)
	87,575	**112,462**

(*) Mainly related to spare parts.

There no restrictions on the disposability of inventories. The Group arranges insurance policies to cover the possible risks to which its inventories are exposed. The directors consider that the cover arranged for these risks is adequate at 31 December 2012 and 2011.

The Group has contracts executed with suppliers and agreements with producer associations for the acquisition of 174 thousand tons of eucalyptus to be used in paste production and 698 thousand tons of forestry waste for energy generation.

12. Trade and other accounts receivable / payable

"Trade and other receivables" carried in the consolidated balance sheet at 31 December 2012 and 2011 were as follows:

Thousands of Euros	31/12/2012	31/12/2011
Trade receivables for sales	138,339	120,471
Sundry accounts receivable	4,854	5,392
Employee receivables	16	256
Impairments	(4,629)	(3,330)
	138,580	**122,789**

"Trade receivables for sales" includes delinquent balances unimpaired and not covered by credit insurance (see Note 5) in the amount of EUR 2,710 thousand, mostly with a maturity of less than 180 days.

The average collection period on sales of cellulose pulp is between 55 and 65 days.

"Trade and other payables" carried in the consolidated balance sheet at 31 December 2012 and 2011 were as follows:

Thousands of Euros	31/12/2012	31/12/2011
Trade payables	177,479	162,144
Suppliers of non-current assets	16,088	12,408
Remuneration payable	8,335	7,412
	201,902	**181,964**

The average payment period for purchases of goods and services is between 65 and 75 days. The fair value of accounts receivable and payable does not differ materially from their carrying amounts.

At 31 December 2012 the Group had receivables and payables in dollars for EUR 27,549 thousand and EUR 6,512 thousand respectively.

The Group has entered into various no-recourse confirming arrangements with an available limit and amount paid out of EUR 83,500 thousand and EUR 62,806 thousand respectively at 31 December 2012 (EUR 73,700 thousand limit and EUR 54,239 thousand had been utilised at 31 December 2011).

Law 15/2010, of 5 July, on measures to combat default in commercial transactions, establishes certain disclosure requirements with regard to the operations carried out by companies. The breakdown of payments for trade operations in 2012 and 2011 pending payment at closing, excluding operations between Group companies and those corresponding to payments to suppliers of non-current assets, is as follows:

	Fiscal Year 2012		Fiscal Year 2011	
	Thousands of Euros	%	Thousands of Euros	%
Payments made within the maximum period permitted by law	469,013	89%	559,315	94%
Other	56,274	11%	32,841	6%
Total payments made in the year	525,287	100%	592,156	100%
Weighted average past due payments (days)	32.75	-	23.98	-
Deferrals which at the closing date extended beyond the maximum legal period at the year-end (*)	6,179	-	7,298	-

13. Equity

Share capital

The share capital of ENCE Energia y Celulosa, S.A. at 31 December 2012 was represented by 250,272,500 fully subscribed and paid bearer shares with a par value of EUR 0.9 each. The shareholders at 31 December 2012 and 2011 were as follows:

Percentage	31/12/2012	31/12/2011
Retos Operativos XXI, S.L.	24.5	22.2
Alcor Holding, S.A.	21.9	20.4
Liberbank, S.A.	6.9	6.3
Fidalser, S.L.	-	5.0
Treasury shares	7.5	7.8
Free Float	39.2	38.3
Total	**100.0**	**100.0**

The Parent Company's shares are listed on the Madrid Stock Exchange. All shares have the same voting and profit-sharing rights.

Legal reserve-

In accordance with the Consolidated Text of the Spanish Corporations Law, 10% of net profit for each year must be transferred to the legal reserve until the balance thereon reaches at least 20% of share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

Share premium-

The Consolidated Text of the Spanish Corporations expressly allows use of the balance on the share premium account to increase share capital, and it does not establish any specific restrictions on disposal.

Reserves in fully consolidated companies-

A breakdown of "Equity – Reserves in fully consolidated companies" by companies at 31 December 2012 and 2011 is as follows:

Thousands of Euros	31/12/2012	31/12/2011
Celulosas de Asturias, S.A.U.	45,426	45,079
Celulosa Energía, S.L.U.	43,879	36,560
Norte Forestal, S.A.U.	17,054	13,314
Silvasur Agroforestal, S.A.U.	8,516	7,809
Iberflorestal , S.A.U.	2,204	1,941
Ibersilva, S.A.U.	(18,059)	(7,028)
Norfor Maderas, S.A.U.	480	450
Eucalipto de Pontevedra, S.A.U.	(1,987)	(1,976)
Electricidad de Navia Asturias, S.L.U.	2,839	2,845
Maderas Aserradas del Litoral, S.A.	(2,721)	(927)
Celulosas de M'Bopicuá, S.A.	(129)	(73)
Zona Franca M'Bopicuá, S.A.	2,895	72
Las Pléyades de Uruguay, S.A.	(59)	(83)
Las Pléyades, S.A. (SAFI)	2,026	1,742
Las Pléyades Argentina	(176)	(93)
Sierras Calmas, S.A.	5,627	1,428
Ence Energia, S.L.U.	(803)	(420)
Ence Energía Huelva, S.L.U.	(658)	-
Consolidation adjustments	6,186	1,814
	112,543	**102,454**

Restricted reserves in consolidated companies totalled EUR 14,979 thousand at 31 December 2012 (EUR 14,599 thousand at 31 December 2011), basically comprising the legal reserves of the Group companies.

Dividends

At the Annual General Meeting of ENCE Energia y Celulosa, S.A. held on 26 April 2012 the shareholders approved the distribution of dividends totalling EUR 16,514,432, representing a gross EUR 0.07 per share, out of the profit for 2011. The dividend was paid on 8 May 2012.

That Meeting of Shareholders likewise ordered a distribution in kind of part of the share issue premium through the delivery of Ence Energia y Celulosa, S.A. treasury shares at 1 share for each 26 shares in circulation. Almost 9,052,679 shares of the Parent Company were delivered, with a market value at the time of the resolution of EUR 14,484 thousand and an average acquisition cost of EUR 21,173 thousand.

The Extraordinary Meeting of Shareholders of the Parent Company on 24 July 2012 approved a capital reduction of EUR 6,966,351 through the amortization of 7,740,390 treasury shares, as well as the distribution in kind of the share issue premium with the delivery of Ence Energia y Celulosa, S.A. treasury shares to shareholders at the rate of 1 share for every 37 shares in circulation. A total of 6,502,173 treasury shares of the Parent Company were distributed, with a market value at the time of the resolution of EUR 9,623 thousand and an average acquisition cost of EUR 14,020 thousand. The Board of Directors with the authorization of the Extraordinary General Meeting held 24 July 2012, approved a Share Buyback Program designed to remunerate shareholders through the later reduction in corporate capital. Buyback Program have the following characteristics: 1) the Share Buyback Program will continue until 30 June 2013; 2) shares will be purchased at market price according to price and volume conditions established in Article 5 of EC Regulation 2273/2003 and the Company's Internal Code of conduct for Securities Markets; and 3) the maximum number of treasury shares that can be acquired under the Buyback Program is equivalent to 5% of corporate capital. The share buyback program is simultaneous with other Company treasury stock operations.

Earnings per share:

The calculation of basic and diluted consolidated earnings per share at 31 December 2012 and 2011 is as follows:

Net Earnings per Share	Fiscal Year 2012	Fiscal Year 2011
Consolidated net profit for the year attributed to ordinary shares (thousands of euros)	43,031	41,192
Ordinary shares in circulation at 1 January	258,012,890	258,012,890
Number of ordinary shares at 31 December	250,272,500	258,012,890
Weighted average number of ordinary shares	254,629,113	258,012,890
Basic earnings per share (euros)	**0.16**	**0.16**
Diluted earnings per share (euros)	**0.16**	**0,16**

Parent Company shares

Changes in "Treasury Shares – Parent Company" in the accompanying consolidated balance sheet in 2012 and 2011 were as follows:

	Fiscal Year 2012		Fiscal Year 2011	
	Number of Shares	Thousands of Euros	Number of Shares	Thousands of Euros
At beginning of year	20,211,000	49,217	995,000	2,434
Purchases	22,538,848	41,596	22,067,678	53,777
Distribution in kind of treasury stock	(15,554,852)	(35,193)	-	-
Amortization	(7,740,390)	(16,828)	-	-
Sales	(711,223)	(1,579)	(2,851,678)	(6,994)
At end of year	**18,743,383**	**37,213**	**20,211,000**	**49,217**

The Parent Company at 7 December 2012 had acquired a total of 12,815,353 shares from shareholder Fidalser, S.L., representing 5.12% of its capital, for EUR 25,246 thousand.

The Parent Company shares held as treasury stock at 31 December 2012 represented 7.5 % of share capital (7.8% at 31 December 2011) with a total par value of EUR 16,869 thousand (EUR 18,190 thousand at 31 December 2011). The average purchase price was EUR 1.8455 per share. The company will keep the shares as treasury shares until the Board of Directors decides on a better alternative for their use in order to maximise the creation of value for shareholders.

Valuation adjustments-

"Valuation adjustments" carried in consolidated equity comprise changes in the fair value of hedging operations (see Note 10) and the reserve generated on the recognition of forest land at fair value at 1 January 2004 (see Note 7). This reserve is unrestricted.

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

	Fiscal Year 2012			Fiscal Year 2011		
Thousands of Euros	Fair Value	Tax Effect	Valuation Adjustment	Fair Value	Tax Effect	Valuation Adjustment
IRSwap-corporate borrowing-						
Beg. balance	(3,120)	(937)	(2,183)	(6,748)	(2,024)	(4,724)
Transfer to income statement	2,045	614	1,431	3,628	1,087	2,541
Other changes in value	-	-	-	-	-	-
End balance	(1,075)	(323)	(752)	(3,120)	(937)	(2,183)
IRSwap-Project 50 Megawatts -						
Beg. balance	(6,615)	(1,985)	(4,630)	-	-	-
Transfer to income statement	1,291	387	904	307	92	215
Other changes in value	(5,175)	(1,552)	(3,623)	(6,922)	(2,077)	(4,845)
End balance	(10,499)	(3,150)	(7,349)	(6,615)	(1,985)	(4,630)
IRSwap-Project 20 Megawatts -						
Beg. balance	-	-	-	-	-	-
Transfer to income statement	16	4	12	-	-	-
Other changes in value	(1,864)	(559)	(1,305)	-	-	-
End balance	(1,848)	(555)	(1,293)	-	-	-
Exchange rate-						
Beg. balance	(22,226)	(6,667)	(15,559)	(2,014)	(604)	(1,410)
Transfer to income statement	26,381	7,914	18,467	(465)	(139)	(326)
Other changes in value	6,566	1,970	4,596	(19,747)	(5,924)	(13,823)
End balance	10,721	3,217	7,504	(22,226)	(6,667)	(15,559)
Pulp price-						
Beg. balance	867	260	607	(2,577)	(773)	(1,804)
Transfer to income statement	1,187	356	831	11,071	3,321	7,750
Other changes in value	(2,054)	(616)	(1,438)	(7,627)	(2,288)	(5,339)
End balance	-	-	-	867	260	607
Energy products						
Beg. balance	-	-	-	786	235	551
Transfer to income statement	-	-	-	(473)	(142)	(331)
Other changes in value	-	-	-	(313)	(93)	(220)
End balance	-	-	-	0	0	0
	(2,701)	**(811)**	**(1,890)**	**(31,094)**	**(9,329)**	**(21,765)**

14. Grants

Changes in this section of the balance sheet in 2012 and 2011 were as follows:

Thousands of Euros	Grants	Emissions Rights	Total
Balance at 1/1/2011	**5,958**	**4,002**	**9,960**
Increase due to new grants (*)	8,615	-	8,615
Emission rights granted for 2011	-	9,100	9,100
Transfer to consolidated profit and loss	(1,124)	(6,307)	(7,431)
Balance at 31.12.11	**13,449**	**6,795**	**20,244**
Emission rights granted for 2012	-	4,112	4,112
Transfer to consolidated profit and loss	(1,243)	(3,037)	(4,280)
Balance at 31.12.12	**12,206**	**7,870**	**20,076**

(*) Net costs incurred to obtain grants

During fiscal year 2011 the Group was awarded two non-refundable grants associated with the modernization plan for its mill in Navia (Asturias) under the measures established to correct regional economic imbalances established by the Regional Incentives Law (Law 50/1985, of 27 December). The total obtained net of expenses incurred to apply for the grants was EUR 8,882 thousand.

The Group has also obtained soft loans from various public entities. These loans bear interest at below-market rates and mature in periods of up to ten years. The outstanding principal at 31 December 2012 was EUR 12,165 thousand (EUR 11,405 thousand at 31 December 2011) (see Note 17). The differential between market interest rate and rate applied in these credits is considered as a capital grant. These loans were granted subject to certain undertakings in relation to jobs and investment.

15. Non-current provisions

Changes in non-current provisions in 2012 and 2011 were as follows:

Thousands of Euros	Liabilities	Emission Rights (Note 6)	Other	Total
Balance at 1/1/2011	16,069	6,619	1,145	23,833
Charge for the year	1,517	5,614	-	7,131
Amounts used	(1,251)	(6,388)	(140)	(7,779)
Balance at 31/12/2011	**16,335**	**5,845**	**1,005**	**23,185**
Charge for the year	874	3,029	-	3,903
Amounts used	(7,971)	(5,859)	-	(13,830)
Balance at 31/12/12	**9,238**	**3,015**	**1,005**	**13,258**

A detail of the provision for liabilities at 31 December 2012 and 2011 is as follows:

Thousands of Euros	31/12/2012	31/12/2011
Provision for liabilities:		
Sewage Agreement, Galicia	5,357	5,357
Ría de Pontevedra Discharge Royalty	3,140	6,565
VAT inspection, Germany, 2002-2008	67	2,898
Other	674	1,515
	9,238	**16,335**

EUR 4,053 thousand were liquidated in 2012 for spill duties pending payment to "Aguas de Galicia" for the years 2004 to 2007.

The German Tax Administration in 2011 concluded an inspection of Grupo Ence's handling of Value Added Tax (VAT) in its operations in Germany for the years 2002 to 2008. The Tax Administration as a result of that inspection claimed quotas for EUR 12,692 thousand and interest of EUR 2,829 thousand, which were paid in 2012. Over 90% of the amounts of VAT were recovered from clients at the close of fiscal year 2012.

Emission rights comprise the expenses associated with greenhouse gas emissions during the reporting period, which are charged to "Other operating expenses" (see Note 19.e).

16. Bank borrowings, cash and cash equivalents

Details of the Group's bank borrowings at 31 December 2012 and 2011 are as follows:

	Fiscal Year 2012		Fiscal Year 2011	
	Short Term	Long Term	Short Term	Long Term
Loans and credit facilities	24,588	214,579	19,346	224,169
Project finance, 50 megawatts-	1,477	83,779	-	57,256
Project finance, 20 megawatts-	-	15,000	-	-
Opening fee (*)	(2,477)	(3,726)	-	(7,239)
Interest and other payables	520	-	1,106	-
	24,108	**309,632**	**20,452**	**274,186**

(*) Corporate financing: EUR 1,987 thousand and EUR 4,354 thousand at 31 December 2012 and 2011, respectively. Project finance, 50 megawatts: EUR 2,560 thousand and EUR 2,885 thousand at 31 December 2012 and 2011, respectively. Project finance, 20 megawatts: EUR 1,656 thousand at 31 December 2012.

Bank borrowings at 31 December 2012 and 2011 comprise loans, overdraft facilities and discounting facilities. A breakdown classified by maturity is as follows:

Fiscal Year 2012 - Thousands of Euros	Limit	Principal	Maturities 2013	2014	2015	2016	Next
Loans and credit facilities	302,011	239,167	24,588	212,391	615	524	1,049
Project finance, 50 megawatts	101,309	85,256	1,477	5,310	6,660	7,288	64,521
Project finance 20 megawatts	60,692	15,000	-	125	952	1,012	12,911
Interest and other payables	-	520	520	-	-	-	-
Opening fee	-	(6,203)	(2,477)	(503)	(495)	(471)	(2,257)
	464,012	333,740	24,108	217,323	7,732	8,353	76,224

Fiscal Year 2011 - Thousands of Euros	Limit	Principal Principal	Maturities 2012	2013	2014	2015	Next
Loans and credit facilities	304,314	243,515	19,346	24,520	197,451	624	1,574
Project finance, 50 megawatts-	101,309	57,256	-	1,477	6,588	7,914	41,277
Interest and other payables	-	1,106	1,106	-	-	-	-
Opening fee	-	(7,239)	-	(3,513)	(503)	(495)	(2,728)
	405,623	294,638	20,452	25,997	204,039	8,538	42,851

The average interest charged on credit facilities and loans (except the syndicated loan and non recourse debt) in 2012 was 4.20% (4.78% in 2011).

Syndicated loan-

The Company arranged a syndicated loan for a maximum total of EUR 176,393 thousand after the cancellation of bilateral financing on 14 October 2010, and at the same time it renewed and amended the terms of the existing syndicated loan to establish a limit for drawings of EUR 121,229 thousand.

The syndicated loan is structured in three tranches: tranche A, which had an initial limit of EUR 112,255 thousand (the current limit is EUR 61,817 thousand), to finance the repayment and cancellation of the bilateral loans arranged by the Group with various financial institutions; tranche B, which has a limit of EUR 56,928 thousand, to cover the Group's working capital requirements in addition to the amount granted under tranche A; and tranche C, which is in turn structured in two parts, the first with a limit of EUR 28,464 thousand to cover the Group's working capital needs, and the second with a limit of EUR 29,183 thousand that will become available for utilization to finance biomass generating projects only where the first part is fully drawn down.

This financing which accrues annual interest at Euribor with a margin of 300 basis points, has a grace period of eighteen months, equivalent to a mean rate of 3.72% in 2012 (4.40% in 2011) and matures on 14 January 2014.

The main collateral for the syndicated loan agreement renewed in 2010 is a pledge over the shares of Silvasur Agroforestal, S.A.U., Norte Forestal, S.A.U., and Iberflorestal Comercio e Serviços Florestais, S.A.U. The main guarantees for the new syndicated loan consist of a second order pledge over the shares of the aforementioned companies, the personal guarantee of the subsidiary Celulosas de Asturias, S.A. and a mortgage on the Celulosas de Asturias, S.A. production plant sited in Navia (Asturias), subject to the condition that the "Financial Debt / EBITDA" ratio exceeds a specified limit. This guarantee is subordinate to the others.

Both syndicated loans include certain covenants relating basically to compliance with certain economic and financial ratios associated with the consolidated financial statements of the Ence Group, and prepayment of 25% of the free cash flow generated each year in which net indebtedness with financial institutions is more than EUR 265 million. The loan agreements also establish certain restrictions, mainly related with guarantees granted to third parties, acquisition of treasury shares, realization of recurring investments, financing of future biomass generating projects and asset disposals.

The Group on 1 February 2013 terminated this financing in advance, as well as the guarantees granted (see Note 26).

Huelva Project finance, 50 megawatts-

On 21 June 2011 the Group arranged syndicated "Project Finance" with seven financial entities to fund a biomass electricity generating plant (see Note 7). That financing is total EUR101,309 thousand, amortization will begin 22 June 2013 and maturity date is 22 December 2022. This loan accrues annual interest at Euribor with a variable margin in the range of 3.25% - 3.75%, based on the amortization rate. The fees paid on to arrange this financing in 2011 totalled EUR 3,483 thousand.

This loan is backed principally by a pledge on the shares of Ence Energía Huelva, S.L.U. and current and future receivables. Ence Energia y Celulosa, S.A. has also given undertakings in relation to crops and stocks for the future supply of the plant, the date it will enter service and the price applicable to the power produced when generating operations commence, as well as the functioning and availability of the plant. These undertakings are partially covered by warranties given to Ence Energia y Celulosa, S.A. by the builder of the plant.

This loan also includes certain covenants related basically with the provision of certain operational and financial information, compliance with economic and financial rations associated with the financial statements of Ence Energía Huelva, S.L.U., holding of a given volume of standing and cut biomass, prepayment of 50% of surplus cash until 50% of the principal is repaid, and early payment of 25% of surplus cash until 65% of the principal is repaid. The loan agreement also establishes certain restrictions, mainly in relation to the distribution of dividends and the arrangement of new borrowings.

In order to hedge the risk arising as a result of the arrangement of this loan at a floating rate of interest, the Group has entered into interest rate hedges with six of the lenders financing the project, the notional amount on which is equal to 75% of the estimated drawings over the term of the loan and a fixed rate of 3.47% (Note 10).

Merida Project finance, 20 megawatts-

On 1 August 2012 the Group arranged syndicated "Project Finance" with three financial entities to fund a biomass electricity generating plant (see Note 7). That financing is total EUR60,692 thousand, amortization will begin 15 December 2014 and maturity date is 15 June 2027. This loan accrues annual interest at Euribor with a variable margin in the range of 3.5% - 4.0%, based on the amortization rate. The fees paid on to arrange this financing in 2012 totalled EUR 1,656 thousand.

This loan is backed principally by a pledge on the shares of Ence Energía Extremadura, S.L.U. and current and future receivables, as well as a pledge on the Biomass Plant. Ence Energia y Celulosa, S.A. has also given undertakings for different concepts; inscription in the Special Regimen Installations Registry in relation to crops and stocks for the future supply of the plant, the date it will enter service and the price applicable to the power produced when generating operations commence, as well as project overcosts, functioning and availability of the plant. These undertakings are partially covered by warranties given to Ence Energia y Celulosa, S.A. by the builder of the plant.

This loan also includes certain obligations, basically supply of determined operating and financial information, compliance with determined economic and financial ratios associated with Ence Energia Extremadura, S.L.U. annual accounts, maintenance of a determined volume of biomass stock either standing or cut, early payment at a floating percentage of cash ranging between 30% and 50% according to the years of financing transpired. The loan agreement also establishes certain restrictions, mainly in relation to the distribution of dividends and the arrangement of new borrowings.

In order to hedge the risk arising as a result of the arrangement of this loan at a floating rate of interest, the Group has entered into interest rate hedges with six of the lenders financing the project, the notional amount on which is equal to 75% of the estimated drawings over the term of the loan and a fixed rate of 2% (Note 10).

Cash and cash equivalents-

"Cash and cash equivalents" includes cash balances held by the Group and short-term deposits at banks with initial maturity of three months or less. The carrying amount of these assets approximates to their fair value, and the average return in 2012 has been 1.42% (2.35% in 2011).

Other financial assets-

Other financial assets basically comprise deposits made to guarantee the obligations assumed under certain financial derivative contracts (see Note 10) and in the commitments entered into for future purchases of CO2 (see Note 6).

No-recourse factoring-

The Group has entered into various no-recourse confirming arrangements, under which all risks are transferred to the factor, with an available limit of EUR 85,000 thousand and EUR 33,520 thousand, respectively (EUR51,000 thousand and EUR35,072 thousand at 31 December 2011). The financial cost associated with the receivables transferred is Euribor at 3 months plus a spread of 1-1.65%.

17. Other financial liabilities

Other financial liabilities recognised in the accompanying consolidated balance sheet consist basically of repayable advances received from the Spanish Ministry of Industry, Tourism and Trade, normally at below-market interest rates or even interest free, by way of aid for projects undertaken by the Group to extend and increase the production capacity of its Huelva, Pontevedra and Navia plants, optimise its technologies and make environmental improvements.

Maturities at 31 December 2012 and 2011 were as follows:

Thousands of Euros	2012	2011
2012	-	574
2013	1,562	1,536
2014	1,423	1,423
2015	1,403	1,169
2016	1,149	974
2017 and thereafter	6,628	5,729
Financial discount (Note 14)	(1,312)	(1,648)
	10,853	**9,757**

These loans were measured at fair value at the time they were awarded, and the difference between the amount of the award and fair value was recognised as a grant and is transferred to the consolidated income statement in line with the depreciation of the fixed assets for which the financial aid was granted. The amount of the grant pending recognition through the consolidated income statement at 31 December 2012 was EUR 1,312 thousand (EUR 1,648 thousand at 31 December 2011).

18. Tax matters

Current tax receivables and payables

Tax receivables and balances at 31 December 2012 and 2011 were as follows:

	Thousands of Euros			
	31/12/12		31/12/11	
	Receivables	Payables	Receivables	Payables
Non-current items-				
Deferred tax assets	30,580	-	42,653	-
Deferred tax liabilities	-	31,745	-	28,289
Total	**30,580**	**31,745**	**42,653**	**28,289**
Current items-				
VAT balances receivable and payable	27,262	2,576	9,840	14,796
Current income tax	1,031	1,313	1,687	365
Other tax receivables and payables	1,364	5,896	1,478	2,859
Total	**29,657**	**9,785**	**13,005**	**18,020**

Reconciliation of accounting profit to the taxable profit

Group companies resident in Spain for tax purposes-

Ence Energia y Celulosa S.A. is subject to the Consolidated Income Tax Regime set forth in Chapter VII of Title VIII of the Consolidated Text of the Spanish Corporations Law as the Parent Company of Group No. 149/02 which was constituted in 2002. This special regimen is effective indefinitely except when expressly waived, and implies the absence of preparing individual corporate income tax returns for the entities that comprise the group, which are:

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

The nominal rate of corporate income tax is 30%.

Group companies resident in Uruguay for tax purposes-

Group companies in Uruguay are subject to the Uruguayan general tax regimen, Income Tax on Economic Activities (IRAE), at a nominal rate of 25% of book income/loss corrected with tax adjustments established by applicable norms. This does not include "Las Pleyades, S.A." which is subject to the special regimen of Financial Investment Corporations (SAFI), at a tax rate of 0.3% of its equity.

Group companies resident in Portugal for tax purposes-

Iberflorestal, S.A. files corporate tax returns in Portugal under the general corporate tax regime. The nominal rate of the Imposto sobre o Rendimiento das Pessoas Colectias is 25%.

Taxable income is not determined on the basis of consolidated book earnings but of the separate taxable income generated by the companies forming the Group, determined in accordance with the applicable individual tax regimes. For these purposes, the individual tax bases of the companies resident in Spain for tax purpose are included in the taxable income of Consolidated Tax Group No. 149/02, which cannot be offset by tax losses incurred by non-resident companies.

Regulatory changes-

Tax regulations underwent various changes in fiscal year 2012, pursuant to Royal Decree-Law 12/2012 and 20/2012. Among the changes made the capacity to use negative tax bases accredited in previous years was temporarily reduced to 25% of the tax base; the possibility of freely amortising investments in new assets was eliminated; and limits were established on the deductibility of financial costs.

Reconciliation-

A reconciliation of accounting profit and taxable income at 31 December 2012 and 2011 is as follows:

Thousands of Euros	2012	2011
Accounting profit before tax (*)	62,978	57,014
Permanent differences-		
Arising in profit and loss	516	1,215
Temporary differences-		
Arising in the year	2,395	8,818
Arising in prior years	(11,545)	(37,099)
Arising in transfers from equity	(41)	(161)
Consolidation adjustments	1,225	(6,027)
Tax losses offset	(13,826)	(12,742)
Taxable income	**41,702**	**11,018**
Gross tax charge	**12,511**	**3,233**
Credits, withholdings andother amounts	(11,198)	(4,555)
Tax payable / (recoverable)	**1,313**	**(1,322)**

(*) Generated from continuing operations in its entirety.

Permanent differences arising in profit and loss

Permanent differences arising in profit and loss consist of expenses incurred that are not allowable for tax purposes. This section includes mainly administrative sanctions and fines.

Temporary differences

Temporary differences arise from differences in charges for temporary income tax and expenses between accounting and tax norms. These are broken down by nature in another part of this note.

Reconciliation of accounting profit to the income tax expense

A reconciliation of accounting profit and taxable income at 31 December 2012 and 2011 is as follows:

Thousands of Euros	2012	2011
Accounting profit before tax	62,978	57,015
Permanent differences arising in profit and loss	516	1,215
Elimination of accounting profit / loss of non-resident companies	730	(4,646)
Eliminations / inclusions on consolidation	272	(6,025)
Taxable income	**64,496**	**47,559**
Tax charge	**19,349**	**14,268**
Deductions and adjustment for prior years' tax effect	(1,399)	897
Adjustment for tax effect of non-resident companies	1,997	657
Corporate income tax expense / (rebate)	**19,947**	**15,822**

A breakdown of the corporate income tax expense for 2012 and 2011 is as follows:

Thousands of Euros	2012	2011
Current tax expense and other movements	29,435	18,659
Deferred tax expense	(9,488)	(2,837)
	19,947	**15,822**

Deferred tax assets and liabilities recognised

Changes in deferred tax assets and liabilities in 2012 and 2011 were as follows:

Deferred tax assets

Fiscal Year 2012

Thousands of Euros	Balance at 01/01/2012	Increases	Decreases	Transfers	Balance at 31/12/2012
Deferred tax assets recognised in income-					
Depreciation and amortisation of non-current assets	461	-	(230)	-	231
Impairment of non-current assets	323	404	(279)	-	448
Provisions	4,459	400	(212)	(2,467)	2,180
Impairment of current assets	1,375	424	(2,335)	977	441
Employee benefits	-	90	(407)	1,491	1,174
Non-resident companies	2,214	415	(2,462)	1	168
Consolidation adjustments	58	-	(106)	(2)	(50)
Tax loss carryforwards	27,371	-	(5,408)	-	21,963
Tax credits	-	415	(415)	-	-
	36,261	**2,148**	**(11,854)**	-	**26,555**
Deferred tax assets recognised in equity-					
Hedging instruments	9,328	2,372	(7,675)	-	4,025
Total	**45,589**	**4,520**	**(19,529)**	-	**30,580**

Fiscal Year 2011

Thousands of Euros	Balance at 01/01/2011	Increases	Decreases	Balance at 31/12/2011
Deferred tax assets recognised in income-				
Depreciation and amortisation of non-current assets	782	-	(321)	461
Impairment of non-current assets	4,236	714	(4,627)	323
Provisions	6,935	2,064	(4,540)	4,459
Impairment of current assets	2,480	1,375	(2,480)	1,375
Non-resident companies	2,489	379	(654)	2,214
Consolidation adjustments	1,031	18	(991)	58
Tax loss carryforwards	27,761	2,478	(2,868)	27,371
Tax credits	1,001	547	(1,548)	-
	46,715	**7,575**	**(18,029)**	**36,261**
Deferred tax assets recognised in equity-				
Hedging instruments	3,166	6,162	-	9,328
Total (*)	**49,881**	**13,737**	**(18,029)**	**45,589**

(*) Includes EUR 2,935 thousand classified as available-for-sale assets (see Note 20).

The deferred tax assets were recognised in the consolidated balance sheet because the directors of the Group companies understand, on the basis of best estimates of the future earnings of the entities forming the consolidated Tax Group, that it is highly likely that the assets will be recovered within the period established by prevailing tax legislation.

The tax loss carryforwards recognised were generated in 2009. In accordance with Spanish legislation, the tax losses generated in a given year may be carried forward to be offset against the future profits obtained by consolidated Tax Group No. 149/02 in the eighteen annual tax periods immediately succeeding the year in which the loss was incurred.

Deferred tax liabilities recognised

Fiscal Year 2012

Thousands of Euros	Balance at 01/01/2012	Increases	Decreases	Transfers	Balance at 31/12/2012
Deferred tax liabilities recognised in income-					
Accelerated depreciation	3,106	32	(254)	-	2,884
Other	2,100	67	(63)	33	2,137
	5,206	99	(317)	33	5,021
Deferred tax liabilities recognised in equity-					
Revaluation of forest land (Note 13)	23,509	-	(11)	-	23,498
Hedging instruments	-	3,216	-	-	3,216
Consolidation adjustments and other items	(426)	499	(30)	(33)	10
	23,083	3,715	(41)	(33)	26,724
	28,289	**3,814**	**(358)**	-	**31,745**

Fiscal Year 2011

	Thousands of Euros			
	Balance at 01/01/2011	Increases	Decreases	Balance at 31/12/2011
Deferred tax liabilities recognised in income-				
Accelerated depreciation	-	3,106	-	3,106
Other	-	2,100	-	2,100
	-	**5,206**	-	**5,206**
Deferred tax liabilities recognised in equity-				
Revaluation of forest land (Note 13)	23,515	-	(6)	23,509
Consolidation adjustments and other items	134	-	(560)	(426)
Total	**23,649**	**5,206**	**(566)**	**28,289**

Unrecognised deferred tax assets

The Group has not recognised certain deferred tax assets in the accompanying consolidated balance sheet. Unrecognised deferred tax assets at 31 December 2012 and 2011 were as follows:

Thousands of Euros	2012	2011
Property, plant and equipment and intangible assets	-	2,921
Tax loss carryforwards	2,412	2,880
Total at end of reporting period	**2,412**	**5,801**

All of the tax loss carryforwards relate to Group companies resident for tax purposes in Uruguay. In accordance with Uruguayan corporate income tax (IRAE) regulations, tax loss carryforwards generated after 31 December 2007 expire in five years. The amount of tax loss carryforwards is revised each year based on the change in the Uruguayan National Products Price Index (IPPN).

Years open for review and tax audits

The Tax Agency is currently performing inspections of the Parent Company and various companies of Grupo Ence; Income Tax for 2007 to 2009, Value Added Tax and Withholdings 2008 and 2009, Special Tax on Electricity 2008 to 2010, and Tax on Economic Activities 2009-2012. Tax payments according to current tax law cannot be considered as final until it has been inspected by the tax authorities or until the conclusion of the statute of limitations established in each tax jurisdiction: Four years in Spain and Portugal, five years in Uruguay. In the opinion of the Directors contingencies that could arise from the inspections in process as well as the review of years open to inspection will have no important impact on the Group financial statements.

19. Income and expenses

a) Sales

The Group's net ordinary sales for 2012 and 2011 were distributed as follows:

Thousands of Euros	2012	2011
Pulp sales	596,954	596,895
Electricity sales	208,371	184,304
Wood and forestry services	22,253	44,252
	827,578	**825,451**

The Group sold 1,248,805 tons of wood pulp in fiscal year 2012 and 1,542,773 megawatt hours of electricity (1,232,501 tons of pulp and 1,490,290 megawatt hours in fiscal year 2011).

Practically all sales of electricity were made in Spain. The distribution by geographical market of revenues from pulp sales was as follows:

Percentage/ Pulp sales	2012	2011
Germany	21.6	23.1
Italy	17.1	16.4
Spain	13.0	14.6
France	9.4	10.1
Austria	6.9	4.8
China	4.2	6.5
Turkey	3.7	2.8
Poland	3.6	4.5
Sweden	3.5	2.1
Netherlands	2.5	1.9
Slovenia	2.5	2.8
United Kingdom	2.3	2.0
Israel	2.0	1.3
Switzerland	1.9	2.5
Other	5.8	4.6
	100	**100**

One customer accounts for more than 10% of the Group's revenues.

b) *Procurements-*

The detail of raw and other materials consumed in 2012 and 2011 is as follows:

Thousands of Euros	Fiscal Year 2012	Fiscal Year 2011
Purchases	336,182	358,274
Changes in inventories of raw materials, other materials and merchandise	16,666	(10,914)
Other external expenses	55,200	43,399
	408,048	**390,759**

Procurements basically comprise the cost of timber, chemicals, fuel and other variable costs incurred in the cellulose pulp manufacturing process.

c) *Employee receivables*

The detail of "Staff costs" incurred in 2012 and 2011 is as follows:

Thousands of Euros	Fiscal Year 2012	Fiscal Year 2011
Wages and salaries	59,999	63,638
Social security taxes	13,936	15,211
Pension contributions and other employee benefit costs	3,472	3,755
	77,407	**82,604**
Termination benefits	4,695	6,809
	82,102	**89,413**

The average headcounts for 2012 and 2011 were as follows:

	Average Number of Employees in the Year					
	2012			2011		
Professional Category	Men	Women	Total	Men	Women	Total
Executives	6	1	7	6	1	7
Employees with individual contracts	220	56	276	187	52	239
Employees subject to collective labour agreement	654	103	757	792	134	926
Temporary employees	202	28	230	371	32	403
	1,082	**188**	**1,270**	**1,356**	**219**	**1,575**

At 31 December 2012 the Group had 16 disabled employees (19 disabled employees at 31 December 2011).

The distribution of employees by gender at 31 December 2012 and 2011, classified by professional category, was as follows:

	Number of Employees at the close of the period					
	2012			2011		
Professional Category	Men	Women	Total	Men	Women	Total
Executives	6	1	7	6	1	7
Employees with individual contracts	236	65	301	181	47	228
Employees subject to collective labour agreement	590	92	682	738	118	856
Temporary employees	67	16	83	211	21	232
	899	**174**	**1,073**	**1,136**	**187**	**1,323**

At 31 December 2012, the Board of Directors was composed of twelve directors, all of whom were men (13 directors at 31 December 2011).

d) Transactions in currencies other than the euro

The Group companies made sales totalling EUR 186,430 thousand in non-euro currencies, principally US dollars (EUR 187,027 thousand in 2011).

e) *Other operating expenses*

Details of other operating expenses in 2012 and 2011 are as follows:

	Thousands of Euros	
Thousands of Euros	Fiscal Year 2012	Fiscal Year 2011
Other expenses	187,277	214,732
Emission rights used (Note 15)	3,029	5,614
Other taxes and operating expenses	6,722	4,969
Change in operating provisions	5,085	8,535
Total	**202,113**	**233,850**

Details of "Other expenses" in the consolidated income statements for 2012 and 2011 are as follows:

Thousands of Euros	Fiscal Year 2012	Fiscal Year 2011
Transport, freight and marketing costs	60,399	87,844
Utilities	60,750	64,392
Repairs and maintenance	16,476	18,734
Leases and royalties	7,714	8,577
Insurance premiums	5,293	6,131
Independent professional services	6,942	5,769
Banking and similar services	2,537	2,475
Advertising, publicity and public relations	1,008	817
Research and development expenses (*)	100	98
Other services	26,058	19,895
	187,277	**214,372**

(*) In addition approximately 10 people work full time in R&D for the Group.

f) *Finance costs*

Details of other operating expenses in 2012 and 2011 are as follows:

Thousands of Euros	Fiscal Year 2012	Fiscal Year 2011
Syndicated loan	8,657	10,478
Project Finance	3,044	1,426
Overdraft, factoring and confirming facilities	1,936	2,255
Commissions charged to income	4,886	5,035
Settlement of IR Swap – Corporate borrowings	11,107	11,708
Settlement of IR Swap – Project finance	1,307	307
Settlement of Equity Swap	485	332
Activation of financial costs	(7,159)	(3,899)
Other	108	459
	24,371	**28,101**

g) Other disclosures

The fees for financial audit and other services provided by the Group's auditor or by a firm related to the auditors by control, common ownership or management in 2012 and 2011 were as follows:

	Thousands of Euros	
	Fiscal Year 2012	Fiscal Year 2011
Audit services	197	197
Total audit and related services	**197**	**197**
Other services	120	30
Total professional services	**120**	**30**

h) Profit or loss by company

The contributions made by each of the consolidated companies to Group profit for 2012 and 2011 were as follows:

Thousands of Euros	2012	2011
ENCE Energía y Celulosa, S.A.	37,279	35,472
Celulosas de Asturias, S.A.U. (*)	22,360	348
Celulosa Energía, S.L. (*)	(9,775)	7,319
Norte Forestal, S.A.U.	(784)	3,741
Silvasur Agroforestal, S.A.U.	1,459	707
Iberflorestal , S.A.U.	174	262
Ibersilva, S.A.U.	668	(11,031)
Norfor Maderas, S.A.U.	-	30
Eucalipto de Pontevedra, S.A.U.	(52)	(11)
Electricidad de Navia Asturias, S.L.	(46)	(5)
Maderas Aserradas del Litoral, S.A.	(2,570)	(1,794)
Celulosas de M'Bopicuá, S.A.	11	(55)
Zona Franca M'Bopicuá, S.A.	(2)	2,823
Las Pléyades Uruguay, S.A.	(79)	24
Las Pléyades S.A.F.I.	(57)	285
Las Pléyades Argentina	(5)	(82)
Sierras Calmas, S.A.	(590)	4,199
Ence Energía, S.L.U	(536)	(383)
Ence Energía Huelva, S.L.U.	(1,541)	(657)
Ence Energía Extremadura, S.L.U	(119)	-
Consolidation adjustments	(2,764)	-
Total	**43,031**	**41,192**

(*) Affiliates Celulosa Energia S.L. and Celulosa de Asturias S.A.U. distributed dividends in fiscal year 2012 to the Parent Company in the amount of EUR 15 million and 25 million, respectively.

20. Non-current assets held for sale

The Group classifies a non-current asset or transferrable asset as held for sale when it has decided to sell the asset or it considers that it will be sold within the next twelve months. These assets are valued at their book value or fair value, whichever is lower after deducting costs necessary for sale.

The Parent Company on 15 December 2102 decided to sell its forest assets in Uruguay. These assets are 27,780 hectares of eucalyptus forest in southeast Uruguay, as well as a lumber milling installation. Sale of the lands and related assets will provide 77.3 million dollars to the Group. The transaction requires authorization of the Uruguayan forest authorities. The section on "Non-current assets held for sale" includes assets sold in the operation.

The assets listed in this section are valued at fair value. The impact from valuing these assets at fair value as well as other costs deriving from the operation give a loss of EUR 660 thousand, registered in the section "Net profit/loss from the value of non-current assets held for sale", in the 2012 consolidated profit and loss statement.

"Non-current assets held for sale" at 31 December 2012, at fair value, is as follows:

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

Assets held for sale are included in the operating segments "Forest management" and "Forest and other services"

It was decided in June 2011 to sell the share held by the Group in Ibersilva, S.A., from the assets and liabilities "held for sale".

One year from that decision, market conditions have had a significant change, with a significant reduction in sale opportunities. As a result the assets and liabilities held by this affiliate were no longer be classified as "held for sale" at 31 December 2012. This has also significantly reduced the activity of this affiliate, which at the close of 2012 was practically inactive. Following is the breakdown of assets and liabilities for this Group company at 31 December 2011 and 30 June 2012:

Thousands of Euros	30/06/2012	31/12/2011		30/06/2012	31/12/2011
NON-CURRENT ASSETS	3,330	3,468	**NON-CURRENT LIABILITIES**	90	90
CURRENT ASSETS	11,433	13,076	**CURRENT LIABILITIES**	13,391	12,232
Inventories	672	876	Bank borrowings	631	257
Trade and other receivables	8,314	9,265	Trade and other payables	11,959	11,104
Current financial assets	1,056	817	Payable to public authorities and other payables	801	871
Cash and other cash equivalents	1,391	2,118			
TOTAL ASSETS	**14,763**	**16,544**	**TOTAL LIABILITIES**	**14,763**	**12,322**

The effects of the classification of assets and liabilities of Ibersilva, S.A. as "held for sale" in the 2012 balance sheet were not significant.

21. Operating segments

The manufacture of cellulose pulp is closely tied to electricity generating operations using waste generated from the pulp production process as fuel. Furthermore, the Group has plants that are specifically designed to generate power using biomass and other fuels, and it also owns forests and timber land providing the raw material for the production of paper pulp.

In this context, the results of the activities conducted by the cellulose pulp manufacturing and electricity generating business units are analysed jointly by the Management Committee, and the financial information produced only distinguishes between the revenues earned.

The Committee also made an independent analysis of forest management on the plantations held or owned by it and used for pulp. Investments currently in process in electricity generation plants located outside of the pulp plants that use their forest assets as supply, and other minor activities.

Segment information for 2012 and 2011 based on the regular management information produced by the Group is as follows:

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

Fiscal Year 2012

Income Statement	Thousands of Euros						
	Pulp and Power	New Energy Projects	Forest management	Forestry and other services	Sub-total	Consolidation adjustments between Segments	Total
Revenue:							
External	794,511	10,814	8,709	13,544	827,578	-	827,578
Inter-segment	1,890	7,318	113,828	6,978	130,014	(130,014)	-
Total revenue:	**796,401**	**18,132**	**122,537**	**20,522**	**957,592**	**(130,014)**	**827,578**
Profit / Loss							
Profit / (loss) from operations	81,296	(657)	2,862	1,528	85,029	(2,763)	82,266
Finance income	8,971	93	18	63	9,145	(8,398)	747
Finance costs	(18,492)	(2,572)	(4,085)	(821)	(25,970)	8,398	(17,572)
Exchange differences	(2,273)	-	531	(61)	(1,803)	-	(1,803)
Net profit/loss from assets held for sale	(251)	-	1,953	(2,362)	(660)		(660)
Taxes	(19,429)	942	(1,164)	(296)	(19,947)	-	(19,947)
Profit / (Loss) for the year	**49,822**	**(2,194)**	**115**	**(1,949)**	**45,794**	-	**43,031**
Investment (*)	26,870	72,035	9,524	4,044	112,473		112,473
Depreciation and amortization charge	(52,351)	(2,926)	(7,526)	(569)	(63,372)	-	(63,372)
Accumulated depreciation and provisions	(758,753)	(3,053)	(104,347)	(7,315)	(873,468)	-	(873,468)

(*) Not including emission rights.

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

Balance Sheet	Thousands of Euros						
	Pulp and Power	New Energy Projects	Forest management	Forestry and other services	Sub-total	Consolidation adjustments between Segments	Total
Assets							
Non-current	870,325	207,872	242,842	9,394	1,330,433	(357,518)	972,915
Current	358,217	36,661	111,799	18,141	524,818	(150,264)	374,554
Total assets (a)	**1,228,542**	**244,533**	**354,641**	**27,535**	**1,855,251**	**(507,782)**	**1,347,469**
Liabilities							
Non-current	269,223	194,488	165,939	9,496	639,146	(270,262)	368,884
Current	326,546	28,601	29,568	18,243	402,958	(150,264)	252,694
Total consolidated liabilities (a)	**595,769**	**223,089**	**195,507**	**27,739**	**1,042,104**	**(420,526)**	**621,578**

(a) Not including equity or deferred tax assets & liabilities

Fiscal Year 2011

Income Statement	Thousands of Euros					
	Pulp and Power	Forest management (*)	Forestry and other services	Sub-total	Consolidation adjustments between segments	Total
Revenue:						
External	781,199	23,865	20,387	825,451	-	825,451
Inter-segment	-	307,277	9,165	316,442	(316,442)	-
Total revenue:	**781,199**	**331,142**	**29,552**	**1,141,893**	**(316,442)**	**825,451**
Profit / Loss						
Profit / (loss) from operations	78,073	18,199	(16,193)	80,079	-	80,079
Finance income	20,912	4,134	65	25,111	(19,815)	5,296
Finance costs	(38,211)	(10,454)	(1,596)	(50,261)	19,815	(30,446)
Exchange differences	2,798	(774)	61	2,085	-	2,085
Taxes	(20,033)	(379)	4,590	(15,822)	-	(15,822)
Profit / (loss) for the year	**43,539**	**10,726**	**(13,073)**	**41,192**	-	**41,192**
Other disclosures						
Investment (*)	71,369	30,079	62	101,510	-	101,510
Depreciation and amortization charge	(52,466)	(9,703)	(1,291)	(63,460)	-	(63,460)
Accumulated depreciation and provisions	(709,969)	(104,968)	(5,300)	(820,237)	-	(820,237)

(*) This activity in fiscal year 2011 includes forest management for stands of forest owned or managed for use for cellulose. This activity also includes the purchase of wood from third parties, to be used in wood pulp production plants in the amount of EUR 280,124 thousand. These purchases were registered in 2012 in the section "Wood Pulp and Energy".

(*) Not including emission rights.

	Thousands of Euros					
Balance Sheet	Pulp and Power	Forest management	Forestry and other services	Sub-total	Consolidation adjustments between segments	Total
Assets						
Non-current	934,636	348,050	8,539	1,291,225	(326,115)	965,110
Current	269,022	141,567	25,831	436,420	(75,389)	361,031
Total assets (a)	**1,203,658**	**489,617**	**34,370**	**1,727,645**	**(401,504)**	**1,326,141**
Liabilities						
Non-current	387,647	179,866	23,345	590,858	(238,594)	352,264
Current	212,390	114,119	16,958	343,467	(75,389)	268,078
Total consolidated liabilities (a)	**600,037**	**293,985**	**40,303**	**934,325**	**(313,983)**	**620,342**

(a) Not including equity or deferred tax assets and liabilities.

Installations specifically used to generate electrical energy from biomass grouped in the segment "New energy projects", including investments in non-current assets that at the close of 2011 were grouped in "Forest Management" in the amount of EUR 136,550 thousand.

22. Guarantee commitments to third parties and other contingent liabilities

At 31 December 2012 various financial institutions had extended guarantees, mainly relating to commercial operations, to various Group companies for a total of EUR 50,497 thousand (EUR 56,209 thousand at 31 December 2011). The directors do not expect that the guaranteed amounts or the guarantees given will give rise to significant liabilities.

The Parent Company and its subsidiaries have arranged civil liability insurance. The directors consider that this policy reasonably covers the related contingencies.

23. Remuneration and other benefits paid to directors and senior executives of the Parent Company, and other information

In 2012 and 2011 the directors of the Parent Company earned the following amounts in respect of the discharge of their duties as members of the Board of Directors:

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

(a) Director resigned in 2012.

2011 – Director	Type	Thousands of Euros		
		Fixed Remuneration	Attendance Fees	Total
Juan Luis Arregui Ciarsolo	Executive	113	72	185
Retos Operativos XXI, S.L.	Nominee	31	28	59
José Manuel Serra Peris	Independent	31	37	68
Pedro Barato Triguero	Independent	28	26	54
Fernando Abril-Martorell Hernández	External	31	42	73
Gustavo Matías Clavero	Independent	31	30	61
Jose Guillermo Zubía Guinea	Independent	31	71	102
Atalaya de Inversiones, S.R.L. (a)	Nominee	14	16	30
Norteña Patrimonial, S.L.	Nominee	31	26	57
Pedro José López Jiménez	Nominee	31	26	57
José Carlos de Álamo Jiménez	Independent	31	26	57
Pascual Fernández Martínez	Nominee	31	30	61
Javier Echenique Landiribar (b)	Nominee	31	42	73
		465	**472**	**937**

(a) Directors standing down in 2011.

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

In 2012 the Parent Company's Management Committee earned total remuneration of EUR 3,366 thousand (EUR 3,676 thousand in 2011) in respect of all items, including the duties of the Chief Executive Officer by way of services provided and termination benefits.

Directors performing executive functions and Upper Management received 628,792 options to shares of Ence Energia y Celulosa, S.A., as part of their remuneration, under the conditions established in the "Ence Energia y Celulosa S.A. Long Term Incentive Plan for 2010-2015" (see Note 4-o).

Members of upper management during 2012 and 2011 are:

Name:	Title:
Ignacio de Colmenares y Brunet	CEO
José Manuel Zarandona de la Torre	Head of Pulp
Jacinto Lobo Morán	Head of Energy
María José Zueras Saludas	Head of Human Capital
Diego Maus Lizariturry	Head of Finance
Luis Carlos Martínez Martín	Head of Communications
Guillermo Medina Ors	Secretary General

No advances or loans have been granted to the directors of the Parent Company.

The Parent Company has not contracted any pension or alternative life insurance obligations with its directors in their capacity as such. However, the Chief Executive Officer receives certain social benefits under his service agreement, which are included in the pertinent pensions contributions and payments.

Pursuant to Article 229 of the Spanish Corporations Law and in order to reinforce the transparency of public limited companies, it is hereby expressly stated that the directors did not hold any ownership interests at 31 December 2012 in the share capital of companies engaging in an activity that is identical, similar or complementary to that which constitutes the Company's object. Furthermore, they did not and do not currently perform any activities, as independent professionals or employees, that are identical, similar or complementary to the activity that constitutes the company object of the Parent Company, Except for Messrs. Arregui Ciarsolo and Abril-Martorell Hernández, who indirectly own 90% and 4.97% respectively of Foresta Capital, S.L. Mr. Arregui Ciarsolo also holds a 0.577% ownership interest in the share capital of Iberdrola, S.A.

24. Transactions with related parties

The Company had various sources of financing from related companies at 31 December 2012 and 2011, all at market price, as follows:

Year	Carrying Amount	Currency	Interest Rate	Maturity
2012	6.155	EURO	Euribor + 3%	2014
2011	5.452	EURO	Euribor + 3%	2014

The Group companies carried out the following transactions with related parties in 2012 and 2011:

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

The Parent Company on 20 December 2012 also executed a service agreement with Agroluan, S.L., represented by Javier Arregui Abendivar, to assure the correct implementation of R&D technology acquired during the year (see Note 6). That agreement provides for an annual payment of EUR 250 thousand.

25. Environment

The Ence Industrial Group has three plants located in Huelva, Navia and Pontevedra, each of which has the pertinent Integrated Environmental Authorization to conduct its industrial activities and to generate renewable electricity using biomass. Those authorizations were renewed in 2011.

In addition and in accordance with current standards the Cellulose Business Unit plants have a Greenhouse Gas Emission Authorization (CO2), obtained from the annual joint assignment of 657,970 emission rights for the period 2008-2012. Emissions for 2012, verified by AENOR, did not exceed the rights assigned; any excess generated will be used in 2013-2020 as greenhouse gas emission rights trading.

The processes carried out in Ence follow the TQM Management Model, excellence in management, are structured around three linchpins:

1) Direct improvement
2) Manage process
3) Manage daily activities.

The management model has been implemented through continuous improvement with a focus on maximum efficiency and competitiveness with an integral focus on quality, personal health and safety, respect for the environment and prevention of pollution.

The three Operating Centres are certified by certified rating agencies (AENOR and Lloyd's) pursuant to UNE-EN-ISO 14001:2004, and the corresponding audits were performed in June to renew the management systems.

Auditors validating the Environmental Statement were almost carried out so the three plants keep their EMAS (Eco-audit and Eco-Management System) certificate pursuant to EU Regulation 1221/2009. Each of the three factories were the first in their respective Autonomous Communities to undertake this voluntary commitment, which few other companies have done to date.

Environmental management forms part of the TQM Management Model which offers one of the tools in the *toolbox*. This is the *Fundamental Improvement Objectives* (OMF) that were defined in each of the Operating Centres, and which have an environmental interest as they incorporate such aspects as minimising noxious smells, improving the quality of spills, improving resource management, decreasing electric consumption or reducing wastes generated.

Regular analytic controls are carried out at the plants covering all discharge parameters, as well as atmospheric emissions, noise levels and the waste generated and managed. The results obtained reflect the efficacy of this management model, and certify compliance with applicable legislation.

These results are the result of the commitment of all those who work in Ence, as well as the efforts made over recent years with implementation of best available techniques (BAT) as well as best environmental practices (BEP) defined in the sector BREF (Best Available Techniques in the Pulp and Paper Industry 2001).

Huelva Centre of Operations

In 2012 the Huelva mill completed the 50 MW biomass generating project, which involves a boiler, a turbine and a biomass treatment plant.

With this plant the biomass project is the largest of its kind in Spain, using biomass energy and therefore reducing the consumption of fossil fuels.

Actions implemented in 2012 have channelled emissions from some parts of the process, thereby reducing noxious odours by 45%.

The 11% reduction in water use achieved during the second half of 2011 was consolidated this year.

The principle parameters of effluent spills have also been improved, with total organic carbon (TOC) and suspended solids reduced by 30%, for the second consecutive year.

The amendment of the Integrated Environmental Authorization reclassified determined waste products from the process, such as grit and ash from the biomass boiler and ash from the recovery boiler as by-products or secondary raw materials. This amendment opened the door to management procedures designed to extract value rather than dumping the waste produced. Different improvements have also helped to reduce the amount of dregs generated.

Other improvements implemented in the TQM model were designed to reduce the consumption of raw materials such as, for example, fossil fuels.

Environmental investments made in 2012 represented a total of EUR 13.2 million. The most important were construction of a new, energy efficient stripping and chipping plant that allows a better use of the biomass generated. The investment made in a construction of a new gas discharge condensation system with accumulator tank included is also important. Total investments in Huelva in 2012 came to EUR 4,509 thousand.

Navia Centre of Operations

The Navia Plant had record pulp and energy production in 2012, consolidating and optimising the amplification and renovation performed in 2009 and improving its processes. With these positive results noxious odours have been reduced, from the reduction in atmospheric emissions and wastes generated.

The most important environmental investment made in 2012 in the Navia Operations Centre is the amplification of the effluent treatment plant, which with its commissioning in 2013 will improve the quality of liquid effluents to benchmark values at the European level. The project has a budget of EUR 12 million, and includes minimising noxious odours and the treatment of organic wastes generated.

The treatment plant currently in construction in 2012 improved effluent quality by optimising processes and improving the internal effluent channelling system for the lumber camp and recirculating currents during the digestion and washing stages, to make a better use of organic matter and reduce its contribution to total effluents.

Noxious odours were reduced through operating improvements and better gas treatment equipment in the plant, which have reduced atmospheric emissions from the lime ovens. This improvement was seen with the investment made in 2012 in air quality metering equipment.

Finally the plan to cut sources of noise focusing on the lumber camp installations continued in 2012.

The total investments made at the Navia plant in 2012 amounted to EUR 2,484 thousand.

Pontevedra Centre of Operations

One environmental improvement projects in the Pontevedra Centre of Operations, underway with the collaboration of the Universidad de Santiago de Compostela, is to eliminate noxious odours.

Proposals planned in the study made have been implemented, such as for example the start up of a solution to eliminate odours from the pressing shop at the effluent treatment plant, which was done using biological treatment towers which achieved high performance in eliminating odours.

New investments have also been made in the thickening cover or changing the gas boiler chimney and the chimney of the recovery boiler.

These measures, together with the 2012 commitment to improved operations according to indicators showed a decrease of 75% this year in the impact of noxious odours.

New investments have been made with this goal of *"Zero odour"* in mind, such as the gathering of washing gases for burning in the Recovery Boiler, the system to burn biological sludge in the Recovery Boiler, or the installation of hydraulic seals on the tanks to eliminate leaks. Conclusion of the work is scheduled for the annual shut down next March.

A total of EUR 3.2 million was invested in Pontevedra in 2012, to eliminate odours.

Another projected prepared in 2012 is designed to improve the visual impact of the Operations Centre by eliminating the vapours trails that leave the cooling towers. The work involved in this investment of EUR 1.8 million will concluded during the annual shutdown this March.

Finally the continuous monitoring of atmospheric emissions was certified according to UNE-EN 14181. This represents an investment of EUR 0.12 million for the acquisition, adaptation and calibration of the metering equipment.

Excellent results were achieved in 2012 in terms of spill quality. With this the Pontevedra factory continues to set the European benchmark in terms of effluent quality.

Finally and complying with their commitment to the environment, a webpage (www.encepontevedra.com) was set up making the daily indicators for the Pontevedra Operations Centre environmental performance, available to the public. The webpage provides data for the previous 30 days, contextualised with parameters of the Integrated Environmental Authorization and BREF indicators for the EU.

The total investments made at the Pontevedra plant in 2012 amounted to EUR 1,198 thousand.

Forestry Operations

Forestry activities continued during 2012 in Group companies (Silvasur Agroforestal and Norte Forestal, including investments in maintaining production mass (fertilization, fire and pest fighting activities, forest investments), management (mass activities designed to protect or preserve biodiversity) and amplification of the forest. Environmental activities focus on reducing risks to masses of all kinds and to maximising intrinsic values such as biodiversity maintenance, improved soil conservation, and in general to a global mitigation of climate change through the carbon fixing capacity in forest ecosystems.

As part of their efforts to protect the environment, the Group companies that are primarily engaged in forestry activities have obtained and maintained certificates issued by duly authorised firms demonstrating the sustainable and responsible use of forests, boosting confidence in the consumption of forest products. Silvasur Agroforestal, Norte Forestal and Ibersilva maintained their Management System certification under UNE-EN-ISO 14001:2004.

Norte Forestal and Silvasur Agroforestal which at one time were the first forest managers in the Iberian Peninsula to obtain PEFC (*Programme for the Endorsement of Forest Certification Schemes)* certification for a sustainable forestry management, continue to hold that certification based on the planning, monitoring and operations of forest masses. They continue to hold that certification for their chain of custody, assuring the origin of the wood is traceable throughout the process, and showing that there are no conflictive sources. In 2012 the internal certification process for the chain of custody was integrated for the entire Group. Although this is certified separately, the process is integral and coordinated, reinforcing product traceability and positioning the company favourably for entry of the Due Diligence Regulation in 2013.

The greatest progress made in Forestry Management dealt with the FSC® benchmark. Throughout 2012 the certificate scope was amplified; consequently Norfor has duplicated certified surface and Silvasur has include cork production within its scope, making it the main FSC certified cork producer in the Province of Huelva. The integration process progressed in 2012 with a grouped certification pre-audit that would allow a single FSC Sustainable Forestry Management Certificate for the entire Grupo Ence.

A single CdC FSC certificate allows the wood's traceability for all of the Group in Spain. Affiliate Iberflorestal in Portugal, dedicated mainly to the sale of wood, holds its own certificate.

Las Pleyades (Uruguay) and Sierras Calmas Uruguay) maintained their GFS and CdC for both PEFT and FSC systems in 2012.

We also note the work performed throughout 2012 to acquire uncut wood, especially in the north of the peninsula, which involved the direct work of Ence on the land at the time of cutting. This activity, under the coordination of the Standing Purchases and Usage Areas was carried out under functioning standards similar to those applied to the surface completely managed by Ence; so certificate groups were created to cover forest management in the stands purchased. These certifications were issued under the PEFC system; these will be issued under the FSC system in 2013, pursuant to regulatory changes made in the Spanish system at the initiative of Ence, to allow the certification of very small surfaces, mostly in northern Spain.

Forestry activities in assets managed by Grupo Ence represented a total forest surface of 1,341 ha. Controlled assets increased by 248 hectares, representing an investment of EUR 479,162. Forestry investment is listed in Note 8.

26. Events after the end of the reporting period

Corporate debt refinancing

Ence Energia y Celulosa S.A. on 1 February 2013 completed the placement of a bonds issue for EUR 250 million among institutional investors, in accordance with 144A Reg S of the Securities Law of 1933 and its later amendments. The issue was made under the rules of the State of New York (United States of America) and bonds will be listed on the Luxembourg exchange MTF Euro market.

This issue, which matures 15 February 2020 accrues fixed annual interest of 7.250%, payable semi-annually, and as the principal guarantees offers a pledge on the shares of the principal operating companies of the Group (Ence Energia y Celulosa, S.A., Celulosas de Asturias, S.A., Norte Forestal, S.A. and Silvasur Agroforestal, S.A.P, as well as a pledge on receivables, bank accounts and Group loans excluding those used to hedge the financing project. Transactions costs came to approximately EUR 10 million.

The issue includes debt and interest hedge covenants, as well as limits on the execution of determined payments, customary in this type of issue.

Two financial rating agencies have issued their opinion within the framework of the issue, on the Group as a whole and on the debt issue; Standard & Poor's rated the Group and the issue as BB and Moody's rated the Group as Ba3 and the issue as B1.

A revolving credit facility was also signed as part of the issue in the amount of EUR 90M, with a syndicate of national and international first level banks. This financing earns interest at Euribor and matures in 2017.

Funds captured were used to pay the amounts pending payment from the syndicated loan taken by the Group in 2010 for EUR 229,410 thousand (see Note 16), loans and credit lines in the amount of EUR 2,913 thousand, and the IRS linked to corporate financing for EUR 10,068 thousand (see Note 10).

Regulatory changes in the energy sector

Regulatory changes applicable to the energy business (see Note 5) have a negative impact on project finance for the Huelva 50 Mw and Merida 20 Mw projects, as these are calculated based on determined ratios that include projected cash flows.

The estimated effect on the financial institutions of joint implementation of Law 15/2012 of 27 December, on tax for energy sustainability and Royal Decree Law 2/2013 of 1 February, on urgent measures in the electricity sector and in the financial system, is a reduction in the funding available for Merida projects 20 MW and 50 MW Huelva 20 million euros and 29 million euros respectively.

Currently the Group's management is analysing the reasonableness of the assumptions used by financial institutions, mainly the evolution of costs and the core CPI. We estimate that these analyses will result in a negotiation process that matches the available funding for both projects to the expected impact of these regulatory changes, limiting the reduction in the funding available above.

ENCE Energía y Celulosa, S.A. and Subsidiaries

Consolidated Directors' Report for the year ended 31 December 2012

ECONOMIC BACKGROUND AND OUTLOOK

The 2012 macroeconomic environment turned positive during the year. Although a worsening of the euro crisis was noted in the first semester after doubts on Spanish and Italian ability to make the structural reforms necessary for their economies to once again grow and create jobs in the context of a restrictive fiscal policy, the second semester showed a clear reduction in uncertainty on both economies.

Although meeting deficit commitments is proving hard to do, cost cutting measures implemented at the national and regional levels began to show an improvement in both ratios. The government deficit reduced the 8.9% recorded in 2011 by levels close to 7%, while regional and local administration deficits were cut in half. Labour reform is generating a reduction in company costs (a drop of close to 3% in unit labour cost in 2012) allowing companies to recover the competitiveness lost in the years before the crisis. Based on this improvement the current account deficit is expected to drop to 1.5% from the 3.5% registered in 2011, with a positive number in the second semester. The balance sheet clean up by banks and savings funds after the provisions assumed, the rescue fund agreed with European bodies and creation of a bad bank to absorb the so-called "toxic assets" is improving the visibility of the health of Spanish financial institutions. As a result the risk premium for Spanish debt against the German bond closed the year at below 400 basis points, after reaching a maximum high over 600 basis points in July.

The euro:dollar exchange rate in part was tied to the evolution of the euro crisis during the year. The worsening of the crisis caused a change in the exchange rate of close to 1.22 USD/EUR in mid-July, leading to a progressive deprecation of the US dollar to 1.32 at the end of the year, and coinciding with a reduction in Eurozone uncertainty and the stagnating of budget talks by the American government (the so-called "fiscal cliff").

The pulp market during the year has shown signs of solidness and greater stability despite the usual volatility shown by raw materials. After cellulose prices remained stable at the level of $650/t, prices took an upward trend until July, placing prices at levels over $780/t. This trend was possible thanks to the rise in demand in the year (+2.4%), the absence of new capacities and low inventory levels (consumer levels have remained at minimum levels of 20 days and producers at normalised levels close to 33 days). Although prices showed a slight correction in the third quarter to $750/t, coinciding with a lower demand in the summer months together with greater shut downs by paper producers, the rise in activity in the fourth quarter allowed us to finish the year at levels close to $780/t. Production of the new Eldorado plant in Brazil for 1.5 million tons began in November, although the impact on total sector offering has been marginal.

Perspectives for 2013 remain positive for the cellulose business. Although new capacities are expected in Uruguay and Brazil around the last quarter of the year (Montes del Plata and Maranhao with 1.3 and 1.5 million tons respectively), the learning curve will limit the volume that will arrive at markets next year. Although the Eldorado plant will progressively increase its levels of use during coming months, the close of the 0.4 million tons Jari plant in Brazil and a rise in demand of between 1 and 2 million tons, expected by various consultants, support expectations that 2013 market prices will be in line with current prices. Activity is expected to rise in 2014 in the plant mentioned (no new significant increases are expected this year). This will be absorbed by a greater rise in demand in mature markets, arising from the recovery of their economies.

Electric activity on the other hand is penalised by fiscal changes implemented for a new 7% tax on electricity sales and a heavier tax on hydrocarbon use, as well as the elimination of the variable option in the tariff applicable within the special regimen.

BUSINESSES AND EARNINGS PERFORMANCE

2012 was a good year for Grupo Ence, both for operations as well as for the cellulose market, although with prices below 2011 levels of $800/t vs. the slight gains over the $750/t of 2012. This drop was compensated by greater cellulose and electricity sales and a reduction in production costs, placing the Group's 2012 operating profits below those achieved in 2011.

Group sales as a whole in 2012 were EUR 828 million, slightly above those of the previous year. Cellulose sales came to EUR 597 million in 2012, in line with 2011 sales after compensating the 1% growth in volumes with a similar drop in net sales price. The drop in the cellulose price in dollars was compensated by the rise in the dollar during the year (1.28 USD/EUR in 2012 vs. 1.39 USD/EUR in 2011).

Electricity sales also set record highs, in terms of both volumes and prices. Electricity sales rose 4% to 1,542,773 MWh thanks to the increased evacuation capacity in Navia and turbine improvements in Pontevedra, with 76% generated with biomass. Prices per MWh rose 7% over 2011 thanks to the updated tariffs and the greater weight of forest waste in the generation mix. In accounting terms, electricity sales grew by 13% to EUR 208 million.

Forestry and consulting activity fell 50% to EUR 22 million in comparison with 2011, due to the restructuring and slow abandonment of this activity.

Operating profit (EBIT) was EUR 82 million, 3% over those of 2011. The drop in prices was compensated by efficiency improvements that allowed not just a rise in production, but also a reduction in production costs per ton on the order of 6% in 2012. This improvement was despite unscheduled stops for repairs in Huelva, the impact of the general strike in the third quarter and a lower plant stability in the second half of the year. An important effort was made to increase wood supplied through agreements with forest owners, to 50% more than in 2011. Those agreements reduced dependency on imported wood to satisfy the growing consumption, and also reduced operating and transportation costs through a greater control and modernization of this part of the supply chain. It also allowed the sale of Company assets in Uruguay, which closed in December 2012.

Investments in 2011 amounted to EUR 130 million. Close to 18% of this investment was made in biological assets, including both reforestation and forest improvement work in step with the growth in pulp output, and the development of energy crops to feed the new electricity generating plants. Industrial investments in tangible assets totalled EUR 87 million, more than 65% of which were applied to the projects related with the expansion of biomass electricity generating, principally the construction of the 50 MW plant in Huelva, and to a lesser extent to the construction of the 20 MW plant in Merida, and to the development of new projects and to irrigation systems for plantations of energy crops.

Net consolidated equity at 31 December 2012 was EUR 725 million (EUR 720 million at 31 December 2011), equal to 53% of total assets. The drop in growth was due mainly to the recommencement of dividend payments of EUR 16.5 million in 2012 out of the profit earned in 2011. The objective of this measure was to ensure appropriate remuneration of the Group's shareholders at the same time as reducing leverage while ensuring that investment needs related with the new generating plants are met in a financial scenario of tight credit, and acquiring treasury shares.

Ongoing Research, Innovation and Technology activities focused on the continuation of programmes aimed at achieving the genetic and silvicultural improvement of the eucalyptus tree, innovation and improvement of pulp processes, mechanical transformation of timber and the engineering of new projects, as described in the section "Intangible Assets" in the notes to the consolidated financial statements.

ENVIRONMENT

See Note 25 to the accompanying consolidated financial statements.

RISK FACTORS ASSOCIATED WITH THE GROUP'S ACTIVITY

Identified risk factors that affect Grupo ENCE and its activities are listed in Note 5 of the Consolidated Notes attached.

TRANSACTIONS WITH TREASURY SHARES

The Parent Company carried out certain transactions with treasury shares in 2012. The Parent Company shares held as treasury stock at 31 December 2012 represented 7.5 % of share capital (7.8% at 31 December 2011) with a total par value of EUR16,869 thousand (EUR 18,190 thousand at 31 December 2011). The average purchase price was EUR 1.8455 per share.

EVENTS AFTER THE REPORTING PERIOD

No important facts occurred after the close of fiscal year 2012, in addition to those included in Note 26 of the consolidated annual statements attached.

CORPORATE GOVERNANCE

The annual Corporate Governance Report forms part of this Consolidated Management Report and is published on the CNMV webpage.

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

The 2012 consolidated financial statements and directors' report of ENCE Energia y Celulosa, S.A. and subsidiaries prepared in accordance with IFRS as adopted by the European Union were formally prepared by the directors of the Parent Company on 19 February 2013. The financial and accompanying notes are set forth on 73 sheets of ordinary paper (numbered from 1 to 5 in the case of the consolidated financial statements, and from 1 to 68 in the case of the explanatory notes), the directors' report on 3 sheets (numbered from 69 to 71). All of the aforementioned sheets of ordinary paper have been signed by the Secretary to the Board of Directors, and all of the directors have signed the present sheet.

And for purposes of RD 1362/2007 of 19 October (Art. 8.1.b), the Company Directors who sign below, *declare as follows regarding responsibility* for the Annual Financial Report for Fiscal Year 2012 of Ence Energia y Celulosa, S.A. and subsidiaries, including financial information for its consolidated group*:* ;"to the best of my knowledge, the annual financial statements for fiscal year 2012 have been prepared following applicable accounting standards, offer a true image of the capital, financial situation and profit and loss of the Company and the companies included in the consolidation taken as a whole, and the director report includes a true analysis of the information required".

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

The annual accounts and the consolidated management report for the year 2012 Ence Energía y Celulosa, S.A. and subsidiaries, prepared in accordance with IFRSs as adopted by the European Union, have been formulated by the Directors of the Parent Company on 19 February 2013. This document contains the English translation of such financial information.

In the event that there was a discrepancy between the English translation with the version of the annual accounts and consolidated management report for the year 2012 Ence Energía y Celulosa, S.A. and subsidiaries in Spanish, the Spanish version prevails.

Mr. Ignacio de Colmenares y Brunet