Report on Ence Energia y Celulosa, S.A. and its subsidiaries as of December 31, 2014

Ence Energia y Celulosa, S.A.

Beatriz de Bobadilla 14, 28040 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 28, 2015

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, 2013 and December 31, 2014, including the accompanying notes thereto. The audited consolidated financial statements for the years ended December 31, 2013 and December 31, 2014 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, 2013 and December 31, 2014 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.

Energy revenue and production cost figures ("cash cost") are retroactively impacted from 14 July 2013 pursuant to RD-law 9/2013, repealing the existing renewable energy regime (power production using renewable energy sources, co-generation and waste), defining a new tariff regime based on a pre-tax return equivalent to the yield on 10Y government bonds plus a spread of 300bp for all renewable investments, calculated on the basis of standard investment and operating cost parameters classified by technology and year of commissioning. Definition of the new tariff framework was delegated in enacting legislation and ministerial orders quantifying the new applicable tariffs. Following their enactment on 16 June 2014, revenue was adjusted downward retroactively to 14 July 2013; this accounting treatment implied the recognition of a €6m charge against revenue in 2014 in respect of sales accrued in 2013 (please see "Management's discussion and analysis of financial condition and results of operations - Key Factors Affecting Our Results of Operations - Renewable Energy Production Incentives").

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 operational hedging, for results from sale of fixed assets and other extraordinary items.

- "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, 2013 and December 31, 2014.

- 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 "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 “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.”

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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. 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 in the last years. These factors, combined with declining global business and consumer confidence and rising unemployment, precipitated an economic slowdown and 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, leading to a demand CAGR of 2.9% between 2009-2013. Between 2011 and 2013 the performance of prices have been solid, with prices increasing in the first half and a moderate correction in the second part of the year (due to seasonal demand behavior), based on rising demand and limited increased in capacity due to delays of greenfield projects and closures/conversions of old mills. During the first half of 2014, the demand was limited by the prospect of higher supply on the back of capacity increases in Latin America that would lead to an increase in supply in the second half of the year. The reduction of consumer inventories and the strength of demand in emergent markets, supported a recovery in demand from May onwards, with annual demand achieving the 1,5% level by year end.

Given the current economic environment in the countries where Ence operates, production stoppages could occur as a result of the calling and holding of strikes by transporters, suppliers that provide Ence and / or its employees.

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

In 2014, we made 16.0% of our sales of pulp by volume in Spain, and we sold 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 affected by the general economic conditions in Spain.

Although the Spanish economy is recovering from the crisis, is still showing 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 73.0% and 71.7% of our total revenues during the years ended December 31, 2014 and December 31, 2013, 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.

In 2012 and 2013 the performance of prices were solid, with prices increasing in the first half and a moderate correction in the second part of the year (due to seasonal demand behavior), based on rising demand and limited increased in capacity due to delays of greenfield projects and closures/conversions of old mills. During the first half of 2014, the weakness in demand triggered a gradual slide in prices which went on to stabilise at an average of $727/t in 3Q14. The recovery in demand from May and the reduction in inventories in September paved the way for several implementations of a price increase in 4Q14 and 1Q15 to $770/t.

Increases in our Wood Costs, the cost of certain chemicals, cost of energy and other variable costs could significantly increase our operating costs.

Some of our activities require significant consumption of wood, chemicals (mainly caustic soda), electricity and energy and fuel, and we are vulnerable to material fluctuations in their prices. Eucalyptus timber is the main raw material input for the production of cellulose pulp. After the shutdown of our Huelva mill, we supply our production facilities mostly with local timber acquired from third-party suppliers in Spain and Portugal.

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.

Also, increases in purchase prices and spare parts such as bearings, filters, parts, transportations etc.., could result in an increase in the costs of the Company.

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.

To perform the bleaching of pulp used in paper manufacture, traditionally there are two methods that are being used at the expense of the use of elemental chlorine as a bleaching component: 1) the first, known as Elementary Chlorine Free (ECF), using a chemical called chlorine dioxide to bleach the fibers; and 2) the second method, known as Totally Chlorine Free (TCF) uses no chlorine compound for the bleaching process. Ence, with the strategic vision to meet the needs of customers who require either product, has at its facility in Navia and the technology necessary for the use of the ECF method, while the technology available for the use of the method TCF is in the factory of Pontevedra.

Given a hypothetical significant changes in the demand for pulp produced with one of this processes, the company could be affected by a reduction in the customer base, having to take the necessary investment in technology in its facilities.

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 84% and 85% of our total revenue from the sale of pulp during the years ended December 31, 2014 and December 31, 2013, 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.

Ence produced high quality eucalyptus pulp in its two plants Navia (Asturias) and Pontevedra, which applies the technologies that respect the environment and adopts continuous improvement processes to enhance the competitiveness and quality of their products. However, given that those facilities have certain age, lack of proper maintenance plan, renovation and investment could affect the proper operation, performance and / or lifetime of the machinery, equipment and facilities of the two plants. This could limit our ability to meet the needs of our customers with sufficient level of quality expected.

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 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 and according to the previous Coast Act the expiration date of the concession was July 2018. Nevertheless, on May 2013 the Spanish Parliament approved an amendment of the Cost Act and established a new regulation of the terms and extensions of concessions.

On 10 October 2014, the Spanish Royal Decree 876/2014, enacting the General Coast Regulations (took effect on 12 October 2014) and enacting the Coastal Act passed on May 2013, establishing the legal framework governing the renewal of concessions located on public-domain coastal land. This new regulation gives Ence the right to apply for an extension of the concession beyond July 2018 and for a maximum of 50 years from when the extension application is filed.

Currently, our concession is under an early termination process due to the Court ruling issued by the Spanish Supreme Court on July 11th 2014. This process is underway and Ence is waiting for the Ministry for Agriculture, Food and the Environment to issue a proposal of decision on the referred process. So far Ence has had two rounds of pleas where we have demonstrated the lack of legal grounds for declaring the concession expired.

On 11 November 2013 Ence asked the State Administration for an extension of the concession for up to maximum term permitted by law. However, the extension process is suspended until the early termination process is completed with the decision of the Spanish coast administration body.

In addition, the extension of the Integrated Environmental Authorization granted to our Pontevedra facilities on December 31, 2011 has been challenged by a NGO and the town council of Pontevedra. The regional Superior Court of Galicia has rejected the claims from both the Council and the NGO but the claim has been raised to the Spanish Supreme Court

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.

Current difficulties of finding wood certified according to the standards of the Forest Stewardship Council certification (FSC, global non-profit organization dedicated to promoting responsible forest management worldwide) could challenge our ability to ensure the use of raw materials required by our clients. In the Iberian Peninsula there are very few producers who comply with the above rules, so if the offer is significantly reduced, Ence could be forced to go to the outside market to acquire this type of certified wood, which would lead to a considerable increase in the associated costs. Furthermore, Ence uses eucalyptus wood to manufacture its products. Overall, there is some negative reputation due to their biological features, based on its high efficiency in the utilization of nutrients and moisture from the soil where they are planted. These characteristics of eucalyptus and its effects on the environment could mean the emergence of barriers to the development of such activity, with consequent possible reputational impact on the company.

We may be materially adversely affected if operations at the pulp production, energy generation, transportation, storage, distribution and port facilities we 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 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. In addition, every year the pulp production in 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 in each facility, 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 a relevant 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), would continue to benefit from the economic incentives provided by Royal Decree 661/2007. The Moratorium, so long as it remains in effect, therefore removed incentives for growing our electricity generating operations and introduced 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.

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). The pool plus feed in tariff option was eliminated from the economic regimen, maintaining only the fix tariff option.

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

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

The application of this new tariff framework represented a reduction in energy income (in addition to the impact of eliminating supplements), net of electricity tax, of €-12 million for the period from 14 July to 31 December of 2013. Of this reduction, €-6 million did not have a recurring impact on the company's future results as the company both produced energy in the 50MW plant in Huelva with energy crops, which higher production cost has not been recognized with a higher premium, and operated the 50MW plant above the maximum 6,500 hours per year eligible for premium tariff. Similarly, the impact of this latest reform on the valuation of certain assets of the Group, in particular energy crops plantations, represented the recognition of an impairment loss amounting to a total of 68.1 million euros, 35.5 million euros of which were accounted for in the 2013 annual accounts and the remaining 32.6 million euros accounted for in the financial statements of 1H14.

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 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 CO2 rights will be reduced to an average of 131,257 tonnes of CO2 rights annually in that period. 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. 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.

We should 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. 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 2014, 72.3% 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 renegotiated and/or renew five of our current union agreements in 2014, with labor disturbances in June 2014, a two days strike occurred at the works center located in Huelva and Pontevedra. Although we have agreed with the unions new agreements until 2016 for four of them, and for one till end 2017, the new law increases 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.

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.

In October 2014 we also negotiated a restructuring agreement that affected 297 people in our pulp production facility located in Huelva, and in our headquarters located in Madrid, which ended in a serious labor disputes with a four days strike occurred at our pulp production facilities in Pontevedra and Navia, and ten days strike in Huelva.

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.

Our employees and subcontractors are exposed to accidents related to our activity.

Certain jobs carry inherent risks associated implicitly to the activity itself , such as the positions of managing hazardous substances, the cutting and chopping wood, press operators, workers in forest operational activity , etc. Ence has specific safety and health to prevent these occupational risks. However, these standards minimize but not eliminate entirely possible situations of risk that could occur in any industrial activity of this type, with negative consequences on the health and safety of workers if they materialize.

We may be unable to retain key staff of the company.

Ence depends heavily on its senior management and highly skilled technical staff. The performance and capacity of the company to implement the adopted strategy and to innovate and develop new products, depends on the efforts and abilities of key executives and employees of the company. Operations could be negatively affected if, for any reason, a number of these key employees decide not to remain longer in the organization.

Ence is aware that there may be a limited number of people with specific skills and knowledge necessary to perform these positions, being very difficult, if not impossible, to replace these key employees by hiring other skilled personnel in the same fields. Also future success requires Ence to hire and retain the most competent staff.

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). The treaty entered into force on 1 January 2013 for the 16 states which completed ratification prior of this date. As of 1 April 2014, it had been ratified and entered into force for all 25 signatories.. The Fiscal Compact place deficit restrictions on Member State budgets (other than the United Kingdom, Czech Republic and Croatia), 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 Guarantors 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, 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, 2014, we would have had €378.5 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 were outstanding as of December 31, 2014. The Indenture limit our ability to incur additional debt but 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, 2014, we had €366.3 million of outstanding indebtedness on a consolidated basis, of which €106.4 million (net of €3.2 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, 2014, we had total assets of €1,220.6 million and total debt of €366.3 million. On an aggregated basis, we estimate that the Issuer and the Guarantors together would have accounted for approximately 81.0% of the total assets, 85.4% of the revenue and 67.3% of the EBITDA of the Issuer and its subsidiaries as of and for the twelve months ended December 31, 2014. In addition, the subsidiaries of the Issuer that will not guarantee the Notes would have had €106.4 million of debt outstanding as of December 31, 2014 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 "Offering Memorandum-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 20%. 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 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, 2013 and December 31, 2014. 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 0.94 million tons of pulp as of December 31, 2014. We also have a significant co-generation and renewable energy generation business, with an installed capacity of approximately 223 MW as of December 31, 2014 and total energy sales of 1,546 GWh for the twelve months ended December 31, 2014. 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 with respect to sourcing wood from third-party sources as required for our business. As of December 31, 2014, we managed approximately 83,163 hectares of plantations, 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 €520.6 million as of December 31, 2014. For the twelve months ended December 31, 2014, we generated revenue of €687.5 million, Adjusted EBITDA of €60.5 million and unlevered cash flow from operations (excluding expansion capital expenditure) of €39.1 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.

Shutdown of pulp and cogeneration activities in Huelva

On 4 September 2014, the company announced plans to transform the Huelva complex into a cutting-edge renewable energy facility, discontinuing production of pulp in the wake of heavy losses for three quarters in a row as a result of the reduction in co-generation premiums, cost inefficiencies and the lack of local timber supplies. Production ceased on 11 October and a closure agreement was reached with the plant's employees on 20 October.

Ence decided to shutdown the pulp and cogeneration activities in Huelva, which became loss making after the changes in the energy regulation. This decision was part of our Competitiveness Recovery Plan, which aim to offset the negative impact of the regulatory changes, which we estimate at €59 million on annualized bases. The Plan included also the reduction on costs at our Northern pulp mills and headquarters by €16 million, the improvement of efficiencies at the Northern mills for €17 million, with an associated capex of €43 million, and a 40,000 tons capacity increase in the Navia mill, with a €30 million capex.

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 $649 per ton to $786 per ton during 2012; from $768 per ton to $821 per ton during 2013; and from $720 per ton to $770 per ton during 2014.

We are dependent on pulp sales which as of 2014, accounted for 73.0% 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 2013 and 2014. Eucalyptus wood is the principal raw material used by us to manufacture pulp. Of the total amount of wood supplied 82.7% and 85.8% was obtained from local suppliers or landowners in the Iberian Peninsula in the years ended December 31, 2013 and December 31, 2014, with for these same periods 6.4% and 4.4%, respectively, coming from our own plantations in the Iberian Peninsula and 10.9% and 9.8%, respectively, being imported from South America or Africa. 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 5.6% and 4.3% of our Cash Costs in years ended December 31, 2013 and December 31, 2014. 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 10.3% and 8.5% of our Cash Costs in the years ended December 31, 2013 and December 31, 2014, 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 diversify 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 also constitute a significant component of our costs, particularly for our pulp production processes. However, due to our energy generation activity, in general, as our energy costs increase, so do our revenues, leading to a net outflow of electricity generation vs the consumption of our facilities. In 2014, energy costs were equivalent to 24.3% of our consolidated revenues.

As our energy income is based on a feed in tariff on top of electricity pool prices, we entered into hedging activities in relation to electricity in 2014 and 2015. In 2014, Company hedged 85 MW at 51/MWh and 60 MW at €50/MWh for the months of November and December, respectively. In 2015, Company has hedged all 1H15 output at €46/MWh and locked in a price of €50/MWh for its 2H15 output.

In 2013 we acquired natural gas under one-year agreements with prices updated on a quarterly basis, linked to crude oil, on a "take or pay" basis. We did not enter into any hedging activities in relation to natural gas. This is because the tariff for natural gas co-generation was linked to natural gas prices and adjusted on a quarterly basis, providing a natural hedge to natural gas price volatility. For 2014, we aimed to close quarterly agreements without "take or pay" obligations as, under the proposed regulatory framework we had to limit our generation to days with high pool prices, introducing volatility in the consumption of natural gas. However, these agreements have been finalized since Huelva shutdown in October, as included natural gas cogeneration.

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 response to the current fiscal crisis in Spain, could have a negative impact on our financial condition and result of operations.

In 2013 and 2014, a set of regulatory provisions was approved modifying the remuneration outline and applicable tax regime for renewable energy power generation, including biomass generation:

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

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

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

- Royal Decree Law 9/2013, dated 12 July, regarding urgent measures to ensure Spanish Electricity System stability, which repealed RD 661/2007 and introduced a new economic regime for renewable energies to ensure generators a return equivalent the yield on 10-year bonds plus 300 basis points, calculated before taxes and referring to the operating costs and investments for a standard facility for its entire useful regulatory life. In addition, payment of the efficiency and reactive energy bonuses has been eliminated in anticipation of the approval of the mentioned new financial regime starting on 14 July 2013. Elimination of these complements means a reduction of electricity energy revenue net of electricity tax of -€11.4 M in the 14 July 2013 – 31 December 2013 period.

- Royal Decree 413/2014, of 6 June 2014, which establishes the regulatory framework for renewable energy sources, cogeneration and waste and Ministerial Order IET/1045/2014, of 16 June 2014, which establishes the remuneration parameters for such energy; both of which are retroactively effective from 14 July 2013. This framework amends the regulatory environment applicable to the company's energy generation activities in three main aspects: (i) elimination of a specific tariff for energy crops, the remuneration of which is equal that the one applied to forest and agricultural waste; (ii) establishment of a maximum number of hours entitled to a premium price for facilities generating electricity from renewable energy, equal to a nominal plant availability of 6,500 hours per year; and (iii) reduction of premium prices paid for generating electricity with biomass and gas, in particular the premium price relating to renewable energy cogeneration with black liquor, a by-product of the cellulose production process. These premiums are added to the direct income for the sale of energy at market price (“pool” price). The application of this new tariff framework represented a reduction in energy income (in addition to the impact of eliminating supplements), net of electricity tax, of -12 million euros for the period from 14 July to 31 December of 2013. Of this reduction, -6 million euros had a recurring impact on the company's future results as the company both produced energy in the 50MW plant in Huelva with energy crops, which higher production cost has not been recognized with a higher premium, and operated the 50MW plant above the maximum 6,500 hours per year eligible for premium tariff. Similarly, the impact of this latest reform on the valuation of certain assets of the Group, in particular energy crops plantations, represented the recognition of an impairment loss amounting to a total of 68.1 million euros, 35.5 million euros of which were accounted for in the 2013 annual accounts, and the remaining 32.6 million euros accounted for in the financial statements of 1H14.

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, 2010 and 2012, we divested forestry-related assets in Uruguay and, most recently, in December 2013, we closed an agreement to fully divest forestry-related assets in Portugal. 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 have expanding our presence in the biomass energy sector, including through a new independent biomass energy facility in Huelva, Spain for which we transferred of ownership in the first quarter of 2013, and a second independent biomass energy facility, in Mérida, Spain, whose definitive commissioning certificate was achieved on March 31, 2014. 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.

On 4 September 2014, the company announced plans to transform the Huelva complex into a cutting-edge renewable energy facility, discontinuing production of pulp in the wake of heavy losses for three quarters in a row as a result of the reduction in co-generation premiums, cost inefficiencies and the lack of local timber supplies. Production ceased on 11 October and a closure agreement was reached with the plant's employees on 20 October.

Ence decided to shutdown the pulp and cogeneration activities in Huelva, which became loss making after the changes in the energy regulation. This decision was part of our Competitiveness Recovery Plan, which aim to offset the negative impact of the regulatory changes, which we estimate at €59 million on an annualized bases. The Plan included also the reduction on costs at our Northern pulp mills and headquarters by €16 million, the improvement of efficiencies at the Northern mills for €17 million, with an associated capex of €43 million, and a 40,000 tons capacity increase in the Navia mill, with a €30 million capex.

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 cogeneration, 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 are 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.

Under previous regulation, revenue from energy was calculated by multiplying the volume of electricity sold to the grid at a Regulated Tariff plus efficiency and reactive bonuses. Under the Ministerial Order remuneration scheme (which impacted retroactively our results since July 14), power plants will receive a payment for capacity and a premium added to pool prices per MWh sold to the grid. 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 2014, we produced approximately 2.4 times 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.

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 interest 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, 2014 Compared to the Year Ended December 31, 2013

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.

	2013	2014	Percentage change (%)
Operating Data:			
Pulp sales ('000 tonnes)	1,270	1,137	-10.5%
Electricity sales (GWh)	1,896	1,494	-21.2%
Wood supply to the industrial process ('000 m^3)	3,795	3,323	-12.4%
Income Statement Data:			
Revenue	**853.1**	**687.5**	**-19.4%**
Gains or losses on hedging operations	12.1	0.0	-99.7%
Changes in inventories of finished goods and work in progress	2.1	(10.1)	-579.2%
Procurements	(427.8)	(379.4)	-11.3%
Gross Margin	**439.5**	**298.0**	**-32.2%**
Group work on non-current assets	14.8	6.2	-58.0%
Other operating income	7.5	6.4	-14.5%
Capital grants transferred to profit and loss	6.3	5.7	-10.0%
Staff costs	(80.5)	(87.0)	8.2%
Depreciation and amortization charge	(78.3)	(69.1)	-11.7%
Impairment and gains or losses on disposals of non-current assets	(37.5)	(101.2)	169.7%
Other operating expenses	(240.0)	(227.6)	-5.2%
Profit/(Loss) from operations	**31.8**	**(168.6)**	**n.s.**
Finance income	2.0	1.1	-47.7%
Change in fair value of financial instruments	1.8	(1.3)	**n.s.**
Finance costs	(30.8)	(28.0)	-8.9%
Exchange differences	0.6	1.6	151.5%
Financial Loss	**(26.3)**	**(26.7)**	**1.6%**
Net results from the valuation of non-current assets classified as held for sale	**0.0**	**0.0**	
Profit/(Loss) before tax	**5.6**	**(195.3)**	**n.s.**
Income tax	(1.3)	54.4	n.s.
Profit/(Loss) for the period from continuing operations	**4.3**	**(140.9)**	**n.s.**
Profit/(Loss) for the period	**4.3**	**(140.9)**	**n.s.**

Revenue

Our revenues decreased by €165.6 million to €687.5 million in the year ended December 31, 2014 from €853.1 million in the year ended December 31, 2013, a 19.4% decrease.

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, 2014 and the year ended December 31, 2013, respectively:

	Year ended December 31, 2013		Year ended December 31, 2014		
	Revenue by activity	Revenue by activity	Revenue by activity	Revenue by activity	Percentage Change
	(€ in millions)	(%)	(€ in millions)	(%)	(%)
Pulp sales	611.4	71.7%	502.0	73.0%	-17.9%
Electricity sales	233.7	27.4%	165.8	24.1%	-29.1%
Wood and forestry services	8.0	0.9%	19.8	2.9%	147.2%
Revenue	**853.1**		**687.5**		-19.4%

Our revenues from pulp sales amounted to €502.0 million in 2014, 17.9% below 2013, due to a decrease in sales volumes of 10.5% to 1,137 thousand tons in 2014 from 1.270 thousand tons in 2013. Prices decreased 8.1% in 2014 at 440 €/t when compared to 2013.

Our revenues from energy sales decreased by €67.9 million to €165.8 million in 2014, from €233.7 million in 2013, a 29.1% decrease. This decrease is attributable to a 18.4% decrease in electricity sold to the grid to 1,546 GWh in 2014 from 1,896 GWh in 2013 after the shutdown of Huelva mill despite the startup of our 20MW power plant in Merida (operational since April 2014). Average electricity income per MWh decreased by 8.8% to 111.4 €/MWh in 2014 from 122.1 €/MWh in 2013 due to the impact of the new tariff scheme as a result of the retroactive modifications from the impact of Royal Decree 413/2014.

Our revenues from forestry sales increased by €11.8 million to €19.8 million in 2014 from €8.0 million in 2013, attributable to higher sales of wood to third parties compared to 2013.

Gains or losses on hedging operations

We did not record any gain/loss in the year ended December 31, 2014 as we did not set any hedge, compared to a €12.1 million gain in the year ended December 31, 2013 as we settled foreign exchange forward contracts in respect of $222 million of at an average strike price of 1.236 ($/€) (compared to an average exchange rate of 1.325 ($/€)).

Changes in inventories of finished goods and work in progress

Changes in inventories of finished goods and work in progress were a €10.1 million decrease in the year ended December 31, 2014 compared to a €2.1 million increase in the year ended December 31, 2013 due to the shutdown of the Huelva mill and the sale of its pulp inventories.

Procurements

Procurements during the year ended December 31, 2014 decreased by €48.4 million to €379.4 million from €427.8 million in the year ended December 31, 2013, a 11.3% decrease due to a 14.2% decrease in purchases (mainly wood) related to a 12.2% lower pulp production as Huelva mill stopped operations in October 11. Other external expenses were reduced by -11.3% to €44 million related to a reduction in the use of outsourcing for forestry works.

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

	Year ended December 31,		
	2013	2014	Percentage change
	(€ in millions)		(%)
Purchases	372.7	319.6	-14.2%
Changes in inventories of raw materials, other materials and merchandise	3.2	15.8	391.7%
Other external expenses	52.0	44.1	-15.1%
Total	**427.8**	**379.4**	-11.3%

Group work on non current assets

Group work on non current assets decreased by €8.6 million to €6.2 million in the year ended December 31, 2014 from €14.8 million in the year ended December 31, 2013, a 58.0% decrease. This decrease was primarily attributable to our decreased investments in energy crops for the supply to our energy generation facilities due to the changes on energy regulation and the reduction of the investment in the plantations for wood in the South.

Other income

Other operating income decreased by €1.1 million to €6.4 million in year ended December 31, 2014 from €7.5 million in year ended December 31, 2013, a 14.5% decrease due to the cancellation of a provision no longer required.

Capital grants transferred to profit and loss

Capital grants transferred to profit and loss decreased by €0.6 million to €5.7 million in the year ended December 31, 2014 from €6.3 million in the year ended December 31, 2013, a 10.0% decrease. This decrease was primarily attributable to the decrease in the value of the CO_2 rights received mainly in previous years.

Staff costs

Staff costs increased by €6.5 million to €87.0 million in year ended December 31, 2014 from €80.5 million in the year ended December 31, 2013, a 8.2% increase. This increase was primarily due to €19.8 million severance payments after the agreement achieved with work councils in Huelva for the shutdown of the pulp and cogeneration activities and works council in Madrid to adapt the overhead to the new company structure. Excluding this impact, "Wages and salaries would have amount to €67.2 million. As a result, the average number of workers fell to 1,001 in 2014 (838 by year end) from 1,048 in 2013 (1,010 by year end) as a result of the agreements.

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

	Year ended December 31,		
	2013	**2014**	**Percentage change**
	(€ in millions)		**(%)**
Wages and salaries	62.5	50.6	-19.0%
Social security costs	13.6	13.4	-1.8%
Pension contributions and other employee benefit costs	3.3	3.2	-1.2%
Termination benefits	1.1	19.8	n.s.
Total	**80.5**	**87.0**	**8.2%**

Depreciation and amortization charge

Depreciation and amortization charge decreased by €9.2 million to €69.1 million in year ended December 31, 2014 from €78.3 million in the year ended December 31, 2013, a 11.7% decrease after the write off of assets in Huelva following the shutdown of the mill and the write off of forest assets following the change in the energy regulation.

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

We recorded a €101.2 million loss in the year ended December 31, 2014 compared to a €37.5 million loss in the year ended December 31, 2013. Both were primarily due to an impairment loss on energy crops plantations and irrigation equipment, based on new electricity tariffs, and the write off of assets in Huelva mill in 2014.

Other operating expenses

Other operating expenses decreased by €12.4 million to €227.6 million in the year ended December 31, 2014 from €240.0 million in year ended December 31, 2013, a 5.2% decrease. This was primarily attributable: a) to the lower pulp activity, that supported a reduction of logistic need, b) the stopped of the natural gas cogeneration, reducing the consumption of natural gas (included in the utilities line) and CO2 rights, and c) the fall in electricity taxes (7% on energy sales) due to the lower electricity generation. Company had to recognize €9 million in the year of provisions for the estimated cost of cancelling leases over land for energy crops development.

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

	Year ended December 31,		
	2013	2014	Percentage change
	(€ in millions)		(%)
Outside services:			
Transport, freight and marketing costs	57.9	52.1	-9.9%
Utilities	59.0	48.7	-17.5%
Repairs and maintenance	21.5	24.9	16.1%
Leases and royalties	7.6	6.2	-18.8%
Insurance premiums	5.3	5.2	-3.2%
Independent professional services	9.0	7.6	-14.8%
Banking and similar services	2.2	1.7	-23.5%
Advertising, publicity and public relations	1.1	0.7	-34.5%
Research and development expenses	0.5	0.3	-50.8%
Other services	23.5	22.5	-4.4%
Total outside services	**187.6**	**169.9**	**-9.4%**
Use of emission allowances	8.7	5.1	-41.3%
Taxes other than income tax and other management charges	4.6	3.8	-17.4%
Electricity generation levy	16.3	12.1	-25.7%
Change in impairment provisions for inventories and bad debt	5.8	3.5	-40.1%
Other non-recurring charges	17.0	33.2	95.5%
Total	**240.0**	**227.6**	**-5.2%**

Profit from operations

Profit from operations decreased by €136.8 million to a €168.6 million loss in the year ended December 31, 2014 from €31.8 million gain in the year ended December 31, 2013. This decrease was primarily attributable to the impact of regulatory changes in electricity and impairments linked both to these changes as well as to the shutdown of Huelva pulp mill.

Finance income

Finance income decreased by €0.9 million to €1.1 million in year ended December 31, 2014 from €2.0 million in the year ended December 31, 2013, a 47.7% decrease. The reason is based on the lower cash levels following the impact of new regulation and the fall in market interest rates.

Change in fair value of financial instruments

We recorded a €1.3 million loss in the year ended December 31, 2014 compared to a €1.8 million gain in the year ended December 31, 2013. The loss in 2014 was primarily linked to the equity swap after the fall in the price of Ence share gains in 2013 were primarily due to the good performance of our share.

Finance costs

Finance costs decreased by €2.8 million to €28.0 million in year ended December 31, 2014 from €30.8 million in the year ended December 31, 2013, a 8.9% decrease. 2013 cost were negatively impacted by the cancellation of the previous syndicated loan (mainly opening fees) after the issuance of a €250 million corporate bond. Lower use of factoring lines has also supported a reduction of 2014 finance costs.

Exchange differences

We recorded a €1.6 million gain in the year ended December 31, 2014 compared to a gain of €0.6 million in the year ended December 31, 2013. The gain was due to the translation impact of foreign exchange fluctuations (mainly in dollars) in relation to our account receivables and trade creditors.

Financial gain/(loss)

Financial loss increased by €0.4 million to €26.7 million in the year ended December 31, 2014 from €26.3 million in the year ended December 31, 2013, an 1.6% increase, primarily due to lower positive impact of the changes in valuation of financial instruments.

Profit /(loss)before tax

Profit before tax decreased by €200.9 million to €195.3 million loss in the year ended December 31, 2014 from €5.6 million gain in the year ended December 31, 2013. This decrease was primarily due to the impact of the new electricity regulation.

Income tax

Income tax increased by €55.7 million to €54.4 million income in year ended December 31, 2014 from €1.3 million expense in the year ended December 31, 2013. This increase was primarily attributable to the losses registered in the period linked to write-offs and lower feed in tariffs and despite a €10.4M negative tax credit adjustment. This adjustment is due to a change in the Spanish corporate tax that will decline from 30% in 2014 to 28% in 2015 and 25% in 2016 going forward.

Profit from continuing operations

Profit from continuing operations decreased by €145.2 million to €140.9 million loss in the year ended December 31, 2014 from €4.3 million profit in the year ended December 31, 2013.

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, 2013	Year ended December 31, 2014	Percentage change
	(€ in millions)		(%)
Cash Flow Data:			
Cash flows from/used in operating activities:			
Consolidated profit for the year before tax	5.6	(195.3)	n.s.
Adjustments for:			
Depreciation and amortization charge	61.7	58.9	-4.6%
Depletion of forestry reserve	15.2	9.7	-36.5%
Amortization of intangible assets	1.4	0.6	-57.3%
Changes in provisions and other deferred expenses (net).	22.0	32.8	49.5%
Gains/losses on disposal of non-current assets	35.9	101.2	181.9%
Finance income	(2.0)	(1.1)	-47.7%
Finance costs	28.7	29.5	2.8%
Grants and subsidies transferred to profit and loss	(1.3)	(1.3)	0.8%
Changes in working capital:			
Trade and other receivables	29.8	13.9	-53.3%
Current financial and other assets	(2.9)	2.4	-180.4%
Current liabilities	4.7	(41.9)	n.s.
Inventories	10.4	24.5	136.0%
Other cash flows from operating activities:			
Interest paid	(18.0)	(25.2)	39.7%
Interest received	2.0	1.1	-47.7%
Income tax recovered (paid)	(17.1)	(0.2)	-99.0%
Net cash flows from/used in operating activities	**175.9**	**9.5**	**-95%**
Cash flows from/used in investing activities:			
Investments:			
Property, plant and equipment	(112.8)	(55.7)	-50.6%
Intangible assets	(0.9)	(4.1)	360.6%
Other financial assets	1.3	(0.0)	-101.2%
Disposals:			
Property, plant and equipment	64.4	0.1	-99.9%
Other financial assets	0.0	0.1	n.s.
Net cash flows from/used in investing activities	**(48.0)**	**(59.7)**	**24%**
Cash flows from financing activities:			
Proceeds and payments relating to equity instruments:			
Purchase of treasury shares	(26.5)	(5.9)	-77.7%
Disposal of treasury shares	27.5	0.0	-100.0%
Proceeds and payments relating to financial liability instruments:			
Increase/(decrease) in bank borrowings, net of loan arrangement costs	7.4	1.1	-84.7%
Grants and subsidies received	0.12	0.9	647.8%
Dividends	(16.2)	(19.4)	19.9%
Financial instruments (equity swaps)	(12.0)	(1.3)	-88.8%
Translation difference	(0.0)	0.0	-120.6%
Financial deposit	(45.00)	45.0	-200.0%
Net cash flows from financing activities	**(64.7)**	**20.4**	**-131%**

Net cash flows from operating activities

During year ended December 31, 2014, our cashflow from operating activities was €9.5 million, compared to €175.9 million during the year ended December 31, 2013. This €166.4 million decrease was primarily due to the cut in feed in tariffs, the fall in pulp prices, the reduction of capacity and the increase in working capital of €1.2 million in the year ended December 31, 2014, compared to a €41.9 million decrease in working capital in the year ended December 31, 2013.

Net cash flows from Investing Activities

During year ended December 31, 2014, our cash flow used in investing activities was €59.7 million, compared to €48.0 million during the year ended December 31, 2013. The decrease is mainly related to the reduced level of investment in biomass projects after the completion of works in Merida 20 MW.

Net cash flows from Financing Activities

During the year ended December 31, 2014, we had a cash inflow from our financing activities of €20.4 million, compared to a €64.7 million outflow for the year ended December 31, 2013. Our principal sources and uses of cash in the financing activities were:

- a €5.9 million net purchase of treasury shares in year ended December 31, 2014, compared to net sale €1.0 million in the year ended December 31, 2013.

- a €19.4 million dividend payment to our shareholders in the year ended December 31, 2014 compared to €16.2 million in the year ended December 31, 2013;

- a €1.1 million net borrowing in the year ended December 31, 2014, resulting from a €2 million drawing under our project finance arrangements offset by €0.9 million of debt repayments in the year ended December 31, 2014 compared to €7.4 million net borrowing in the year ended December 31, 2013 when we borrowed €7.5 million drawing under our project finance arrangements offset by €0.1 million of debt repayments.

- the maturity of a €45.0 million financial investment in long term deposits in the year ended December 31, 2014.

Working Capital

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

	Year ended December 31,		
	2013	**2014**	**Percentage change**
	(€ in millions)		**(%)**
Inventories	71.0	37.9	-46.6%
Trade and other receivables	114.4	100.4	-12.2%
Receivables from public authorities	18.6	9.7	-47.6%
Other current financial assets	55.9	8.5	-84.8%
Other current assets	1.0	1.3	38.7%
Trade and other payables	(204.3)	(176.0)	-13.8%
Corporate income tax payable	(0.0)	(0.1)	141.0%
Other accounts payable to public authorities	(11.3)	(8.6)	-23.6%
Other current liabilities	(0.7)	(0.5)	-26.8%
Working capital	**44.5**	**(27.4)**	**-162%**
Change in working capital as per cash flow statement	**41.9**	**(1.2)**	-102.9%

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.

Our working capital decreased to -€27.4 million as December 31, 2014 from €44.5 million as of December 31, 2013, mainly impacted by the Huelva shutdown on inventories and receivables. Also due to the maturity of long-term deposits.

As of December 31, 2014 we had nonrecourse factoring facilities in place under which we are allowed to factor up to €58.0 million of which €38.0 million was drawn. As of December 31, 2014 we also had confirming lines (reverse factoring) in place with an aggregate limit of €107.0 million of which €49.6 million was drawn.

Capital Expenditures

	Year ended December 31,	
	2013	**2014**
Capital expenditures	113.2	60.0
of which maintenance capital expenditure	57.0	42.4

Our principal uses of cash are for capital expenditures related to maintenance capital expenditure and development of biomass energy plants at Huelva and Mérida. During 2014, capital expenditures stayed at €60.0 million, a 47.0% decrease compared to 2013, due to the lower investments in biomass power plants. Investments related to the maintenance of our pulp activity and to our biomass expansion decreased to €42.4 million in 2014 from €57.0 in 2013 respectively, mainly investments designed to make plants more cost efficient.

Financial Liabilities

Our financial liabilities increased to €366.3 million as December 31, 2014 from €362.4 million as of December 31, 2013. This increase is mainly due to the increase in the use of our project financing for the construction of the Merida power plant.

Financial and Other Material Contractual Obligations

Financial Obligations

The following table summarizes the aggregate principal amount of our financial liabilities as of December 31, 2014 and the related amounts falling due within the periods indicated:

	Payments Due by Period			
Maturities of Financial Liabilities	**2015**	**2016**	**2017**	**2018**
		(€ in millions)		
Loans and credit facilities	0.4	0.3	-	-
Project finance[(1)]	8.6	9.4	9.8	10.1
Bono High Yield	-	-	-	-
CDTI and other indebtedness	1.9	1.3	1.3	1.3
Interest and other payables	7.9	-	-	-
Total Financial Liabilities	**18.8**	**10.9**	**11.1**	**11.4**

(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 contracts for the supply of natural gas. Under the terms of that contract, we are committed to acquire 200 GW of natural gas in 2015 and 200 GW of natural gas in 2016.

As of December 31, 2014, we leased 22,414 hectares of forest land for the cultivation of standing timber. These leases have an average term of 30 years. Our lease payments until December 31, 2019 will be €2.3 million and thereafter €6.7 million (not including common expenses, future increases for inflation or future contractual rent rises). Additionally, we are cancelling leases for the development of energy crops, with lease payments linked to the leases amounting to €18 million. We expect this process to be finished in 2016. 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 contractually committed to the forward purchase of allowances covering a total of 601,000 tonnes: 401,000 tonnes at €15.69/tonne exercisable in December 2015 and 200,000 tonnes at a price of €15.79/tonne exercisable in December 2016. Going forward, we will continue entering 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 2015 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, 2014, as adjusted to give effect to the issuance of the Notes issued hereby and the use of the proceeds therefrom:

	As of December 31, 2014		
Liabilities/Assets	**Current Assets**	**Non-current liabilities**	**Current liabilities**
		(€ in millions)	
Huelva interest rate swap	0	5.7	2.3
Mérida interest rate swap	0	2.4	0.8
Equity swap	0.0	0.0	4.3
Hedging pool price	1.0	0.0	0.0
Total	**1.0**	**8.1**	**7.4**

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 3.6% in the year ended December 31, 2014.

As of December 31, 2014, 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. A 5% increase in the price per cubic meter of eucalyptus timber for use in the productive process would decrease operating income by approximately €9 million.

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 ton. 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, 2014, the Group had no foreign exchange hedge agreement.

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, 2014, these hedges amounted to a liability of €8.1 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, 2014, the fair value of the instrument was negative €4.3 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 of our audited consolidated financial statements for the year ended December 31, 2014. 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	25–60
Plant and machinery	8–20
Other fixtures, tools and furniture	11
Other items of property, plant and equipment	5–10

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

Share-based payments

At the Parent's Annual General Meeting of 30 March 2007, the Company's shareholders ratified a "Special Bonus Plan for Executives" for 2007–2011, which was updated at the Annual General Meeting of 22 June 2010 and renamed the "Long-term Bonus Plan of Ence Energía y Celulosa S. A." for 2010-2015 (hereinafter, the Plan), the bonus plan currently in effect. To date, 485,895 stock options have been granted in respect of 2010 and are pending exercise at a strike price of €2.44 per share, 753,225 in respect of 2011 at a strike price of €1.95 per share and 809,098 in respect of 2012 at a strike price of €2.28 per share.

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

Long-term bonus plan

The Parent's shareholders approved a "Long-term bonus plan for 2013-2015" at the Annual General Meeting of 22 March 2013 designed to orient the management team towards delivery of the targets set by the Board of Directors for the term of the scheme and to retain talent. The bonus payment contemplated consists of a percentage of average annual fixed remuneration in 2013-2015 (100% in the case of the CEO, 75% for the members of the Executive Committee and 50% for the other executives).

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

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 2015 are not yet available, we believe our revenue and EBITDA for the first quarter of 2015 will be above our revenue and EBITDA for the fourth quarter of 2014. This is primarily due to the impact of increasing pulp prices, the appreciation of US dollar vs Euro and the shutdown of depressed pool prices in the first quarter of 2013, what will reduce our electricity sales.

BUSINESS

Our Company

We are the largest BHKP producers in Europe, focused on eucalyptus pulp, with an annual maximum installed capacity of 0.94 million tons in our two pulp production facilities in Navia and Pontevedra (Spain) by December 31, 2014, after the shutdown of our pulp and cogeneration activities in Huelva. We had an aggregate production of 1.12 million tons in 2014, representing a utilization rate of 89% adjusted by Huelva shutdown. We exported 84% 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 223 MW as of December 31, 2014 and total energy sales of 1,546 GWh for the twelve months ended December 31, 2014.

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, 2014, we managed approximately 83,163 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 €520.6 million as of December 31, 2014. For the twelve months ended December 31, 2014, we generated revenue of €687.5 million, Adjusted EBITDA of €60.5 million and unlevered operating cash flow (excluding expansion capital expenditure) of €39.1 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 October, 2014, we shut down the pulp and cogeneration activities in Huelva, which became loss making after the changes in the energy regulation. This decision was part of our Competitiveness Recovery Plan, which aim to offset the negative impact of the regulatory changes, which we estimate at €59 million on an annualized bases. The Plan included also the reduction on costs at our Northern pulp mills and headquarters by €16 million, the improvement of efficiencies at the Northern mills for €17 million, with an associated capex of €43 million, and a 40,000 tons capacity increase in the Navia mill, with a €30 million capex.

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 December 31, 2014, it represented 24% 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.

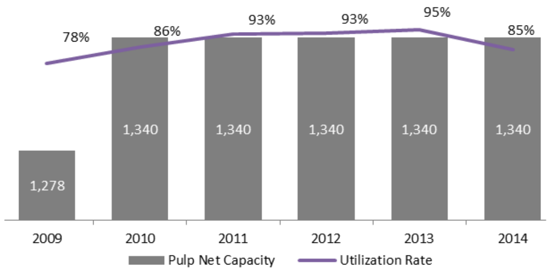
Through cash proceeds from internal cash flow generation, selected asset disposals in 2009, 2012 and 2013 (including divestment of the Uruguayan companies Eufores, S.A., Celulosa y Energía Punta Pereira, S.A., Zona Franca Punta Pereira, S.A., Zona Franca Bopicua, S.A. e Iberflorestal S.A.U.) and a € 130 million capital increase, which we implemented in 2010, we have also successfully reduced our net debt from €338.3 million as of December 31, 2009 to €284.4 million as of December 31, 2014. 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

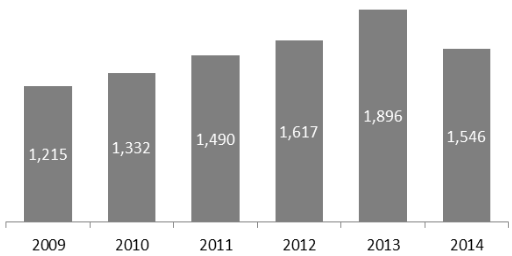
We have a high-quality asset base underpinning our strong operating and environmental performance, having invested over €506 million in our asset base since 2008, excluding our investments in our new independent biomass energy facilities at Huelva and Mérida, Spain and Uruguay assets.

Our installed pulp production capacity has increased by 5% since 2009, with a historically stable pulp production profile. In addition, our energy sales have increased consistently year-on-year since 2009 and our renewable energy generation business continues to grow, with 1,216 GWh of energy sold in 2009, 1,896 GWh of energy sold in 2013 and 1,546 GWh of energy sold in 2014. However, since Huelva shutdown in October 2014, our installed pulp production has been reduced to 0.94 million tons from 1.34 million tons. Due to that, in 2014 our energy sold has been considerably reduced to 1,546 GWh from 1,896 GWh in 2013.

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. The decline in the 2014 utilization rate for pulp production was driven by the decision of the closure of Huelva pulp mill in October 2014.

Source: Company.

After Huelva shutdown, our industrial infrastructure is comprised of two pulp production facilities located in Navia and Pontevedra, Spain, and 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 biomass generation facility of 41MW in Huelva, Spain, one of the installations that formed the Huelva Complex and the one Company decided to keep running as it is making profitable. Furthermore, another independent 20 MW biomass energy facility in Mérida, Spain, is operating since September, 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 December, 2014, 70% of our forestry assets were certified under the PEFC scheme and 43% under the FSC scheme, 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 since 2007, although in 2013 increased to €57 million due to environmental investment to reduce the generation of odors and noise and in 2014 decreased again down to €42 million. From 2015 onwards, we expect our maintenance capex to fall below €20 million, due to shut down on the Huelva mill and the reduced efforts in eucalyptus plantations in the South of Spain.

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) and BIOMASA CEASA (an electrical biomass 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 440,000 tonnes of pulp annually. At the Pontevedra site, we also have two electrical biomass co-generation facilities (7.95 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 and according to the previous Coast Act the expiration date of the concession was July 2018.

On 10 October 2014, the Spanish Royal Decree 876/2014, enacting the General Coast Regulations (took effect on 12 October 2014) and enacting the Coastal Act passed on May 2013, establishing the legal framework governing the renewal of concessions located on public-domain coastal land. This new regulation gives Ence the right to extend the concession beyond July 2018 and for a maximum of 60 years from when the extension application is filed.

On 11 November 2013 Ence asked the State Administration for an extension of the concession for up to maximum term permitted by law. However, there is no guarantee about whether the extension will be granted or about the term of the extension. 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 had a maximum production capacity of approximately 410,000 tonnes annually. We also had 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 118.4 MW. However, on 4 September

2014, the company announced plans to transform the Huelva complex into a cutting-edge renewable energy facility, discontinuing production of pulp in both cogenerations in the wake of heavy losses for three quarters in a row as a result of the reduction in co-generation premiums, cost inefficiencies and the lack of local timber supplies. Company decided to keep running CENER II, the condensation installation which uses biomass as fuel, and it is operating since 1 November 2014. Pulp production ceased on 11 October 2014 and a closure agreement was successfully reached with the plant's employees on 20 October.

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 had a production of 324 GWh in 2014. The test phase for this facility was completed in December 2012 and its ownership was 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

On 31 March 2014, the Mérida biomass power plant received its Definitive Certificate of Commissioning from the Extremadura Government's Department of Agriculture, Rural Development, Environment and Energy, allowing it to begin supplying energy to the Spanish Electricity System. 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 160 million kWh/year, sufficient energy to supply nearly 70,000 people. Our independent biomass generation facility at Mérida is not impacted by the Moratorium.

Other Assets

The headquarters of the Issuer are recently moved to Beatriz de Bobadilla, 14 in Madrid, Spain. This change has allowed to the company saving €0.5 million on annual basis.

Business Activities

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

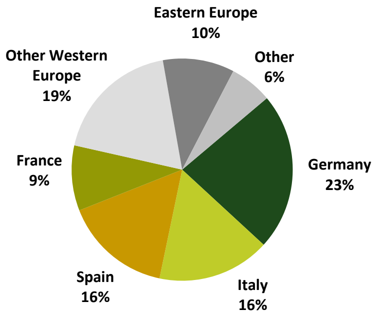
Pulp Activity

In 2014, our pulp activities comprise managing the production of pulp at our three pulp production facilities in Spain, located in Navia, Huelva (shutdown since October 2014) and Pontevedra, as well as the sales of the produced pulp. Since Huelva closure, the combined nominal production capacity of our two pulp production facilities is 0.93 million tonnes/per annum and, during 2014, the combined utilization level was 89% (including maintenance stoppages and adjusted by Huelva shut down). For the twelve months ended December 31, 2014, our pulp production activities generated revenue of €502.0 million, representing 73.0% of our total revenue.

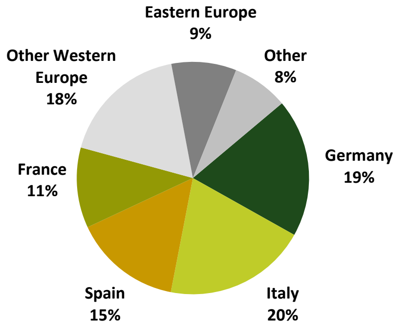
We principally sell to European countries where we are able to better leverage our logistical advantages with a strategy aimed to diversify our customer base. In the twelve months ended December 31, 2014, we exported 84% of our eucalyptus pulp sales by volume, primarily to the European market, the largest 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 23%, 16%, 16% and 9% of our volume, respectively, for the twelve months ended December 31, 2014. During the same period, we also exported our pulp products to other Western European countries (19%) and to Eastern Europe (10%), as well as selectively outside of Europe (6%, primarily to Turkey).

The destination markets of our pulp products during the year ended December 31, 2014 compared to the year ended December 31, 2013, were as follows:

Year Ended
December 31, 2014



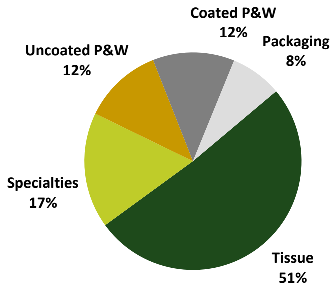
Year Ended
December 31, 2013



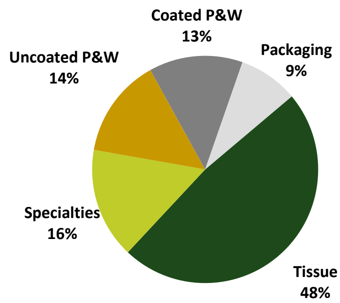
Our sales are focused on end-market paper segments with high forecasted growth rates. Our biggest end-market by volume is the tissue segment (the end products of which mainly include paper towels for kitchen, bathroom and toilet paper), which represented 51% of our pulp sales by volume for the twelve months ended December 31, 2014. 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 4.5% per annum over the period from 2013 to 2018, which is, according to RISI, the highest forecasted CAGR among the various paper segments by global demand during such period. Of the remaining 49% of our pulp sales by volume for the twelve months ended December 31, 2014, 25% 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 24% 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 2.6% and 0.2%, respectively, over the period from 2013 to 2018.

The following charts show the percentage of our sales by volume generated from each end-market in the twelve months ended December 31, 2014 compared to the year ended December 31, 2013:

Year Ended
December 31, 2014



Year Ended
December 31, 2013



Customers

In 2014, our top ten customers by pulp volume sold accounted for 52.8%, and our top 50 customers accounted for 93.8%, 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 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 two-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 facility in 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 December 31, 2014 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[(1)]	410,000	235,216	57%
Navia	500,000	474,708	95%
Total ECF	**910,000**	**709,924**	**78%**
Pontevedra	430,000	405,887	94%
Total TCF	**430,000**	**405,887**	**94%**
Total	**1,340,000**	**1,115,811**	**83%**

(1) An agreement was successfully reached with employees in Huelva and Madrid on 20 October which encompasses the discontinuation of pulp production and co-generation activities at the Huelva complex and the restructuring of the organization in order to align it with the new productive regime. This is the main reason of low percentage utilization achieved in the year.

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. From January 2013 to January 2020, our regulatory allocation of CO_2 rights have been reduced to an average of 137,473 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. The Group contractually committed to the forward purchase of allowances covering a total of 601,000 tonnes: 401,000 tonnes at a price of €15.69/tonne exercisable in December 2015 and 200,000 tonnes at €15.79/tonne exercisable in December 2016. Following the termination of the cellulose activity in Huelva, including a gas cogeneration facility with a capacity of 50 MW (the main consumer of CO2 emission rights in the Group), it is estimated that some of the rights that it has signed a purchase commitment, approximately 288 miles of rights, will not be used in the current Plan 2013-2020. Therefore, market valuation has been used for accounting porpoises, which has led to the recognition of a provision of 2,423 thousand euros.

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.

Since Huelva shutdown, we operate six 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 complex has condensing turbine to maximize the quantity of energy generated from biomass. 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 preferential rate and all electricity required by the facilities to cover production needs is subsequently repurchased at a market rate (plus an access toll).

Our energy sales by location and installed capacity during 2014, by location, were as follows:

	Year ended December 31, 2014	**Year ended December 31, 2014**
	(total sales in GWh)	**(installed capacity in MW)**
Huelva	398.1	0 MW[(1)]
Pontevedra	203.2	34.6 MW
Navia	491.3	77.0 MW
Huelva 50 MW	324.1	50.0 MW
Merida 20 MW	105.9	20.0 MW
Huelva 41 MW	23.5	41.0 MW
Total	**1,546.1**	**222.6 MW**

(1) 77.5MW pulp production capacity was stopped in October 2014

Our energy sales during 2014, by generation type, were as follows:

	Twelve months ended December 31, 2014
	(total sales in GWh)
Generation with biomass[(1)]	755.7
Co-generation with biomass[(2)]	605.2
Co-generation with gas[(3)]	185.2
Total	**1,546.1**

(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, 2014, our energy generation activities produced revenue of €171.9 million, representing 24.1% 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 was a 50 MW biomass energy facility close to our existing facilities in Huelva, which became operational in September 2012. 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 also have 20 MW biomass energy facility in Mérida, Spain, which we received its definitive commissioning certificate on 31 March 2014 and we took ownership of this facility from our EPC in the September 1, 2014. The renewable energy facilities in Huelva and Mérida are not affected by the Moratorium imposed by the Spanish government on new renewable energy facilities in Spain. Please see “Regulation.”

Regulation

On July 12, 2013, the Royal Decree-Law 9/2013, adopting urgent measures aimed at guaranteeing the financial stability of the electricity system, amends the Electricity Sector Act and the so-called special regime remuneration system. Among other measures, it repeals RD 661/2007 and article 4 of Royal Decree-Law 6/2009, which created the pre-allocation registry, foreshadowing a new remuneration regime that is currently in the process of being drafted. The main characteristic of the new regime is its stated objective of guaranteeing a pre-tax return on investment in renewable energy facilities equivalent to the yield on the 10-year government bond plus 300 basis points, calculated on the basis of standard facility cost and capital expenditure parameters, during the entire regulated life of the facility. It also eliminates the right to receive a supplement for efficiency and a reactive energy rebate pending enactment of the new remuneration regime. On June 6, 2014, the Royal Decree 413/2014 establishes the regulatory framework for renewable energy sources, cogeneration and waste and on June 16, 2014, the Ministerial Order IET/1045/2014 establishes the remuneration parameters for such energy; both of which are retroactively effective from 14 July 2013. Please see “Risk Factors—Risks Relating to Our Business—Regulatory changes may have an adverse effect on our electricity generating operations.”

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 2014, we produced 2.4 times 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.

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.

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 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 facilities that we have recently completed in Huelva and Merida, 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 € 19.8 million for the twelve months ended December 31, 2014, representing only 2.9% of our total revenue.

Forestry Management Activities

As of December 31, 2014, we managed approximately 83,163 hectares of forest plantations, of which we owned approximately 59.0%, 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 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 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 93.5 hectares during 2014.

- *Maintenance.* We carried out conservation and forestry work on 6,633 hectares during 2014.

- *Harvesting.* The crop cycle for pulp wood is 10 to 14 years. We harvested 148 thousand m^3 from our owned plantations during 2014.

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, 2014, 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	15,610	2,921	19%
Southwest Spain	64,956	46,150	71%
Portugal	2,597	0	-
Total	**83,163**	**49,071**	**59%**

During 2014, our total investments in forests in the Iberian Peninsula amounted to €5.0 million.

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).

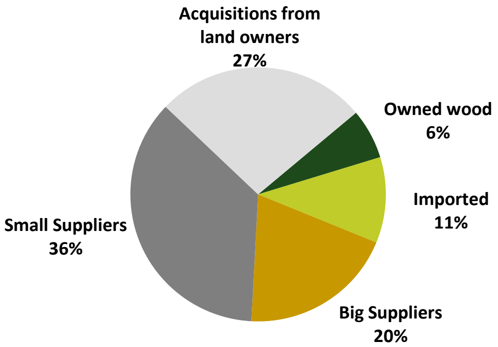
Our investment in R&D&I, particularly in energy crops, also reduced the acquisition cost of our raw materials compared with the cost of purchasing from suppliers. However, according to the new remuneration parameters on RD 413/2014 by the Ministry of Industry, the specific energy crop tariffs would be eliminated and would ultimately have the same remuneration as forestry and agricultural waste, damaging the profitability of these plantations. Therefore, Ence has stopped investing in energy crops and will progressively dismantle these plantations. Ence has estimated the quantitative impact of the application of these regulations; as a result, the Group has recognized an impairment loss amounting to a total of 68.1 million euros, 35.5 million euros of which were accounted for in the 2013 annual accounts, and the remaining 32.6 million euros accounted for in the financial statements of 1H14.

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, 2014, the net book value of the standing timber in our owned forest plantations was €90.2 million.

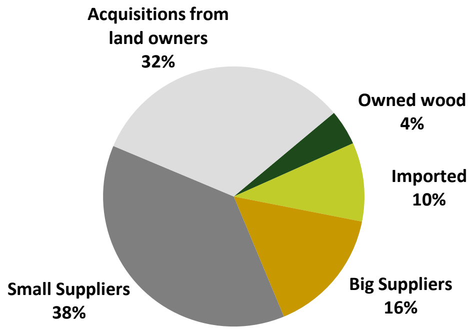
Timber Supply Activities

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, 2014, we sourced our timber as follows as compared to the twelve months ended December 31, 2013:

Forestry Supply in Year Ended December 31, 2013



Forestry Supply in Year Ended December 31, 2014[(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 was 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. After the shutdown of Huelva mill, need of imported wood has been virtually eliminated.

- *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.

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 measured in Kcal per hectare per year; 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

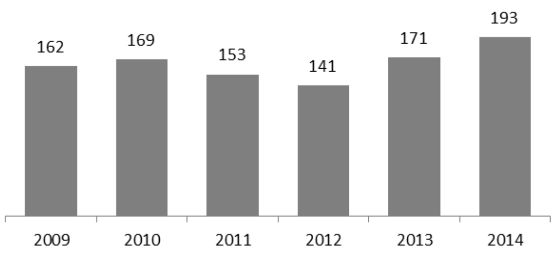
Our overall strategy is to further develop our complementary, integrated business model in terms of cash generation, profitability and return on investment. We intend to achieve this strategy through the continuous improvement of the operational performance of our existing pulp production facilities 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 tons 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 2009, our Other Cash Costs (our Cash Costs excluding Wood Costs) declined by 13% to €141 per tonne in 2012. However, the impact of retribution changes in the energy sector has increased this figure to €193 per tonne in 2014.

Evolution of Other Cash Costs (Cash Costs Excluding Wood Costs) €/ton



Source: Company.

Since 2001, we had not needed to shutdown 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. However, Company decided to cease the pulp production in Huelva mills in the weak of heavy losses for three quarters in a row as a result of the reduction in co-generation feed in tariffs and the lack of local timber supplies.

This decision was part of our Competitiveness Recovery Plan, which aim to offset the negative impact of the regulatory changes, which we estimate at €59 million on annualized bases. The Plan included also the reduction on costs at our Northern pulp mills and headquarters by €16 million (€17.2/t), the improvement of efficiencies at the Northern mills for €17 million (€18.3/t), with an associated capex of €43 million, and a 40,000 tons capacity increase in the Navia mill, with a €30 million capex.

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

While we exported 84% of our eucalyptus pulp sales by volume primarily to Western European markets for the twelve months ended December 31, 2014, 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 16% during the twelve months ended December 31, 2014.

Our hardwood eucalyptus pulp is highly suited to the tissue segment, which accounted for 51% of our pulp sales by volume in 2014. 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 4.5% per annum over the period from 2013 to 2018.

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 2014, 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 10% of our total wood supply during 2014, compared to 18% of our total wood supply during 2007. After the shutdown of Huelva, the need for imports has been mostly eliminated.

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 4% of our total wood supply during the twelve months ended December 31, 2014) 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 2,608 hectares in Portugal in December 2013. We will continue to look for opportunities to reduce our forestry asset base in Spain and Portugal. In fact, we have €34 million of assets available for sale related to energy crops plantations that we expect to sell during this year.

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 €338.3 million as of December 31, 2009 to €284.4 million as of December 31, 2014.

For the twelve months ended December 31, 2014 and for the year ended December 31, 2013, we generated unlevered operating cash flow (excluding expansion capital expenditure) of €39.1 million and € 202.1 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 reduced 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 electricity, since we have a cap of 6,500 hours/MW and per year, we plan to do and extend our maintenance stops in our independent biomass power plants during the second quarter. Historically, pool prices in Spain have bottom during this quarter due to the higher volume of hydro generation.

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 2014, the total amount we paid for insurance premiums in relation to policies held by us was €4.2 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, 2014, we had an average of 1,001 employees as computed on a full-time equivalent basis with 899 full-time equivalent employees and 102 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.

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

In the last quarter of 2014, ENCE Energía y Celulosa, SA was obliged initiate a restructuring process in conjunction with the discontinuation of pulp operations in Huelva, as well as the re-sizing of its head offices (in Huelva and Madrid), to bring resources at all of these facilities in line with the volume of work and activities performed by the organisation, the current market paradigm and the outlook for the future. The legal grounds dictating the need to take these measures were economic, productive, organisational and technical in nature, as expounded to the workers' representatives throughout the negotiation and consultancy period, which began on 19 September 2014. The unions were duly provided with all the documentation substantiating the situation and the measures planned by the Company (including expert reports). The process concluded on 19 October 2014 with an agreement with the workers' legal representatives; this agreement was subsequently ratified by the workers' assemblies at the various affected work centres.

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 and ISO 9001 standards 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.

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:

- Ence is involved in two pending legal proceedings before the Supreme Court related to the early expiration of the Pontevedra concession. One of them has already been decided by Court ruling dated July 11th 2014, where The Supreme Court determined that an early termination process for the concession should be started. This early termination process is underway and Ence is waiting for the Ministry for Agriculture, Food and the Environment to issue a proposal of decision on the referred process. So far Ence has had two rounds of pleas where we have demonstrated the lack of legal grounds for declaring the concession expired. Furthermore, any final administrative resolution affecting the concession could be judicially challenged by Ence.

- The extension of the Integrated Environmental Authorization granted to our Pontevedra facilities on December 31, 2011 has been challenged by a NGO and the town council of Pontevedra.. The regional Superior Court of Galicia has rejected the claims from both the Council and the NGO but the claim has been raised to the Spanish Supreme Court.

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.

The Spanish tax authorities concluded several tax inspections encompassing the Parent and several Group companies during the first half of 2013. These inspections affected the income tax filings made between 2007 and 2009, VAT filings and withholdings in 2008 and 2009, the so-called special electricity tax from 2008 until 2010, and trade tax for 2009-2012. The income tax assessments for 2007-2009, seeking a settlement in respect of unpaid taxes and late-interest payment of €6,730 thousand (in the opinion of the inspection team, the Group is not subject to a fine under this assessment) have been signed under protest; of this balance, just €3,616 thousand would result in an outflow of cash.

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 2010/75/EC of the European Parliament and of the Council, effective from January, 2014 concerning integrated pollution prevention and control, repealing Directive 2008/1/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.

The Industrial Emissions Directive 2010/75/EU (the "IED") was entered into force in January 2011, replacing the IPPC Directive and the sectorial directives (including the LCP Directive). The IED Directive has been implemented in Spain through Law 5/2013, approved in June 2013, which modifies Law 16/2002. Accordingly, our permissions are being reviewed in order to update them with the IED requirements. This 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, and later by Royal Decree 815/2013, whose new emission limits will be effective from January 1, 2016 . All of our installations with a thermal capacity over 50 MW are in compliance with the limits imposed by Royal Decree 430/2004.

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 and later modified by Law 11/2014. 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

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

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

Royal Decree 413/2014 was passed on 6 June 2014, establishing the regulatory framework for power generated using renewable energy sources, co-generation and waste, while Ministerial Order IET/1045/2014 was passed on 16 June 2014, establishing the remuneration parameters for these technologies, both with retroactive effect to 14 July 2013. The enactment of the new regulatory framework eliminated the regulatory uncertainty that had been hanging over the Ence Group's power generation facilities ever since the government passed legislation in July 2013 (Law 9/2013) adopting urgent measures aimed at guaranteeing the financial stability of the electricity system and repealing the prior regulatory framework.

This new tariff regime is based on a pre-tax return equivalent to the yield on 10Y government bonds plus a spread of 300bp for all renewable investments, calculated on the basis of standard investment and operating cost parameters classified by technology and year of commissioning. This new framework amends the regulatory environment applicable to the company's energy generation activities in three main aspects: (i) elimination of a specific tariff for energy crops, the remuneration of which is equal that the one applied to forest and agricultural waste; (ii) establishment of a maximum number of hours entitled to a premium price for facilities generating electricity from renewable energy, equal to a nominal plant availability of 6,500 hours per year; and (iii) reduction of premium prices paid for generating electricity with biomass and gas, in particular the premium price relating to renewable energy cogeneration with black liquor, a by-product of the cellulose production process. These premiums are added to the direct income for the sale of energy at market price ("pool" price).

For further details regarding the impact of these regulatory changes, (please see "Management's discussion and analysis of financial condition and results of operations-Overview-Key Factors Affecting Our Results of Operations-Renewable Energy Production Incentives").

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. It is expected to be approved a new Hillside Act (amended to the current one), in which Due Diligence for Timber Regulation matters will be included. Once the new Act is approved the legal framework for all the regional governments will be stablished and they will approve the regional laws that will be the ones to be fulfilled by forest sector since in Spain, the forest policies are implemented by regional governments. The national law is in parliamentary process and expected to be approved in the next months. The new Act will define a National Plan to inspect the fulfilment of Due Diligence in Spain. Right now the only Regional Government that has approved a regulation according to Due Diligence for Timber Regulation is Galicia where all the forest operators (both, agents and traders) must be registered and report yearly some data to the regional government.

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. Apart from that, according to the EUTR, every forest operator must implement a Due Diligence system. Ence has its own Due Diligence System (private modality, since February 2013).

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 263 million certified hectares. Furthermore, the FSC has 184 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	72	Chairman
Ignacio de Colmenares y Brunet	53	Chief Executive Officer
Retos Operativos XXI, S.L., represented by Oscar Arregui Abendivar	44	External Director
Pascual Fernández Martínez	54	External Director
Javier Echenique Landiribar	54	External Director
José Carlos del Álamo Jiménez	63	Independent Director
Fernando Abril-Martorell Hernández	52	Other External Director
Gustavo Matías Clavero	62	Independent Director
José Guillermo Zubía Guinea	68	Independent Director
Mendibea 2002, S.L., represented by Jose Ignacio Comenge Sánchez-Real)	63	Independent Director
Pedro Barato Triguero	55	Independent Director
Isabel Tocino Biscarolasaga	66	Independent Director
Victor de Urrutia Vallejo	66	External Director

Juan Luis Arregui Ciarsolo is Chairman of the Board of Directors, Chairman of the Executive Committee and member of the Advisory Committee for Forestry and Regulatory Policies 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. 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.

Oscar Arregui Abendivar is the 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 April 2013.

Mr. Arregui Abendivar has a degree in technical engineering from the Higher School of Engineering of Bilbao and a MBA from IESE Business School. He has worked in the Guascor group, occupying a variety of positions including the research and development area as well as responsibility for the group´s expansion in America.

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. 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.

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 secretary 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 Ignacio Comenge Sánchez-Real is an independent external member of our Board of Directors. He joined us in July 2013. Mr Comenge has a degree in Economics and International Banking. He has a extensive experience in the financial sector, director and executive positions in several financial institutions and insurance companies, such as

Banco Hispano Americano, Mutua Madrileña and Axa W interthur, among others. He is also Chairman of Rexam Ibérica and Arbitraje & Inversiones S.L.

Pedro Barato Triguero is an independent external member of our Board of Directors and Chairman 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, director of Banco Santander S.A., member of the Advisory Board of Accenture a member of the Royal Academy of Doctors.

Victor de Urrutia Vallejo is an independent external member of our Board of Directors. He joined us in July 2013. Mr. Urrutia Vallejo has a degree in economics and a degree in law. Currently he is the chairman of Wine Company in the Northern of Spain and member of the Executive Committee and Director of Coca-Cola Iberian Partners. Previously he held the position of Vice President of Iberdrola, Director of Barclays Bank, SAE, Director and member of the executive committee of Vocento and Spanish Newspapers and President of CASBEGA, SA.

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	72	Chairman
Ignacio de Colmenares y Brunet	53	Chief Executive Officer
Alfredo Avello de la Peña	48	Chief Financial and Corporate Development Officer
Jaime Argüelles Alvarez	51	Chief Operating Officer
Javier Arregui Abendivar	40	Chief Forestry Officer
Álvaro Eza Bernaola	40	Chief Procurement Officer
María José Zueras Saludas	54	Chief Corporate Resources Officer
Luis Carlos Martínez	55	Chief Communications Officer

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:

Alfredo Avello de la Peña is our Chief Financial Officer.

Mr Avello de la Peña joined us in 2013 as Director of Strategy and Corporate Development. Mr. Avello de la Peña holds a law degree from the Universidad San Pablo CEU in Madrid, a Master in "International Business

Transactions" (LL.M) from the University of London and a DD graduate in Business Administration from IESE (University of Navarra). Prior to joining us, he occupied several roles as CEO of GISA ALFANEXT, Chief Financial Officer at Foresta Capital and Multitel Group and Director Finance at Atlantic Copper (Freeport McMoRan Copper & Gold).

Jaime Argüelles Alvarez is the Chief Operating Officer. He joined us in February 2010.

Mr. Argüelles Alvarez holds a degree in industrial engineering from the Escuela Técnica in Gijón as well as a general management course in IESE. Prior to joining us, he worked from 2003 to 2010 at Grupo Celsa and from 1997 to 2003 at Robert Bosch.

Javier Arregui Abendivar is the Chief Forestry Officer. He joined us in May 2013.

Mr.Arregui Abendivar holds a Business Administration degree from University of Missouri. Prior to joining us, he dedicated his efforts in different areas among others in the development of 10.000 ha of Palm Oil Plantations in Ecuador, management and development of 180 MM euro hard wood plantation in USA and Spain and intensive olive oil plantations.

María José Zueras Saludas is the Chief Corporate Resources Officer. 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 Bernaola is the Chief Procurement Officer. 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.

Luis Carlos Martínez is our Chief Communications Officer. 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*), independent external directors (*consejeros independientes*) and other external directors (otros consejeros externos). 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. 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. Finally, other external directors are those external directors that, due to a previous relationship with the Issuer or with the Major Shareholders, cannot be classified as independent directors.

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 Article 539 of the Spanish Companies Act 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.

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 and 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, Pedro Barato Triguero 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 Guillermo Zubía Guinea (Chairman), Javier Echenique Landiribar, Mendibea 2002, SL (represented by Jose Ignacio Comenge Sánchez-Real), Oscar Arregui Abendivar and Isabel Tocino Biscarolasaga.

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 Pedro Barato Triguero (Chairman), Fernando Abril-Martorell Hernández, Victor Urrutia Vallejo, 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 José Carlos del Álamo Jiménez (Chairman), Ignacio de Colmenares y Brunet, Pedro Barato Triguero, Juan Luis Arregui Ciarsolo, Pascual Fernández Martínez and Isabel Tocino Biscarolasaga.

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 for 2014.

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 Act (*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 is 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 is 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 are 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, 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, members of our Management Committee, as well as any other managers 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 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 €1.03 million as of December 31, 2014.

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 main largest shareholder, Juan Luis Arregui, who represents the interests of our largest shareholder, Retos Operativos XXI, S.L., which owns 26.5% of our shares, is currently the Chairman of our Board of Directors.

As of December 31, 2014 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 December 31, 2014.

	As of December 31, 2014	
Owner	**Number of Shares held**	**Percent**
Retos Operativos XXI, S.L.	66,322,213	26.5%
Alcor Holding, S.A.[(a)]	15,516,895	6.2%
La Fuente Salada, S.L.	13,514,715	5.4%
Asua Inversiones, S.L.	13,014,170	5.2%
Amber Capital UK LLP [(a)]	11,011,990	4.4%
Norges Bank Investment Management [(a)]	9,009,810	3.6%
Public float	118,879,438	47.5%
Treasury stock[(b)]	3,003,270	1.2%
Total	**250,272,500**	**100.0%**

(a) Shareholders 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 figures based on the information provided in the annual accounts

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 years ended December 31, 2013, December 31, 2012, 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.

On December 20, 2012, we also entered into a services agreement which will require making a payment of €0.25 million per year under the services agreement for the next two years. On May 5, 2013, this services agreement was amended to require making a payment of €0.12 million per the second year and €0.20 million per the third year.

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.

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 were purchased for a total consideration of €25.3 million.

Treasury share sale to La Fuente Salada. S.L. y Asua Inversiones, S.L.

On 13 June, 2013, 12,513,625 treasury shares were sold, representing 5% of share capital, for a total amount of €27,404,838.75, at a price of 2.19 € per share. The shares were acquired with a view to long-term permanence and stability in the Company's shareholder structure, half by Asúa Inversiones, S.L. and La Fuente Salada, S.L..

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, 2013, the Issuer and the Guarantors have generated 87.5% of our EBITDA and 87.5% of our revenue and would have held 81.4% 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 the 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 the 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 "Offering Memorandum—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 "Offering

Memorandum—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 20%. 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 the 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.

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 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 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. Because of the regulatory uncertainty prevailing in the last year, this commitment has not been met.

- *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 facility, which has a capacity of 20 MW and an expected annual production of 158 GWh, completed its test phase in March 2014 and we took possession of the facility in August, 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, 2013, we had complied with approximately 28% 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.

Regulatory changes in the energy sector

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

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

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

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

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, 2014, we had approximately €10.4 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, 2014 of €0.7 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, 2014, the fair value of the instrument was negative €4.3 million.

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

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.