ENERGÍA & CELULOSA

Quarterly Report
2nd Quarter 2014

30 June 2014

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(Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails)

1. EXECUTIVE SUMMARY 1H14

figures in €M	2Q14	1Q14 [e]	Δ%	2Q13	Δ%	1H14	1H13	Δ%
Pulp sales	132.2	131.4	1%	158.9	(17%)	263.6	309.5	(15%)
Electricity sales [a]	36.9	33.9	9%	60.7	(39%)	70.8	125.4	(44%)
2013 sales retroactive adjustment	(6.1)	-	n.s.	-	n.s.	(6.1)	-	n.s.
Forestry sales and others	5.0	5.0	1%	2.1	136%	10.0	4.3	135%
Total sales	**168.0**	**170.3**	(1%)	**221.7**	(24%)	**338.3**	**439.2**	(23%)
Adjusted EBITDA	**12.1**	**12.5**	(3%)	**54.0**	(78%)	**24.6**	**98.2**	(75%)
EBITDA	**(2.9)**	**8.5**	n.s.	**48.3**	n.s.	**5.6**	**91.8**	(94%)
EBIT	**(44.5)**	**(14.1)**	217%	**30.1**	n.s.	**(58.6)**	**54.1**	n.s.
Net result of the period	**(33.8)**	**(14.8)**	129%	**17.2**	n.s.	**(48.6)**	**30.3**	n.s.
Net financial debt [b]	**125.2**	**118.0**	6%	**87.8**	43%	**125.2**	**87.8**	43%
Pulp sales (tons)	**304,145**	**297,622**	2%	**315,568**	(4%)	**601,767**	**628,048**	(4%)
Electricity sales (MWh)	**332,277**	**364,047**	(9%)	**453,919**	(27%)	**696,324**	**932,051**	(25%)
Net pulp sale price (€/ton)	**434**	**443**	(2%)	**502**	(14%)	**438**	**491**	(11%)
Average electricity sale price (€/MWh) [c]	**113**	**93**	21%	**133**	(15%)	**102**	**132**	(22%)
Cash cost (€/t) [d]	**413**	**415**	(1%)	**354**	17%	**414**	**357**	16%

(a) includes €5M capitalized in 1Q13 for the sale of electricity produced at the new 50MW plant in Huelva before its reception in February 2013 and €3M capitalized in 2Q14 for the sale of electricity produced at the new 20MW plant in Merida before its reception
(b) additionally, €108 M of non-recourse debt linked to the "project finance" of the 50MW Huelva and 20MW Mérida biomass plants as of 30/06/14 was outstanding
(c) includes the operation of the new 50MW plant in Huelva and 20MW plant in Merida before their receptions
(d) excludes the impact on Huelva 50MW and Merida 20MW plants as they are not linked to pulp production activity
(e) 1Q14 figures have been adjusted after the Ministerial Order approval last 16/06/14

- ✓ **The Mérida 20MW plant entered into operation on 31 March having received its Definitive Certificate of Commissioning** from the Extremadura Government Department of Agriculture, Rural Development, Environment and Energy, allowing it to begin producing energy for the Spanish Electricity System. This means that the project is 6 months ahead of its initial schedule. In June, maximum capacity production levels were reached, being the monthly average at 85%. Likewise, plant's technical performance was in line with the levels set by the EPC contract.
- ✓ **On 6 June 2014, Royal Decree 413/2014 was approved, establishing the regulatory framework for sources of renewable energy, cogeneration and waste and, in turn, on 16 June 2014, the Ministerial Order IET/1045/2014 was approved, establishing the remuneration parameters for such energy, both of which were retroactively effective from 14 July 2013.** The approval of this new framework, which has finally included a 30 € / MWh remuneration to black liquor operations, eliminates the regulatory uncertainties existing regarding the Ence Group's electricity generation facilities since the approval of the Royal Decree-Law 9/2013, of 12 July, on urgent measures to guarantee the stability of the Spanish Electricity System, which repealed the previous regulatory framework. **2Q14 figures include an additional impact of -€6.1 M (before taxes on electricity sales) due to lower electricity sales in 2013 and energy crops impairments of €33 M, following the final elimination of specific premiums for energy crops**. Likewise, 1Q14 income was adjusted on the basis of the new regulatory framework (-€1.2 M in sales). Ence will take the management and legal measures which may be deemed appropriate for the legitimate defense of its interests in order to eliminate or minimize those impacts.
- ✓ **Electricity sales fell by -44% in 1H14, equivalent to -€55 M,** the result of the reduction in the average income per MWh sold of -22% following the elimination of the collection of bonuses and the reduction of premiums for cogeneration and renewable energy facilities, as well as the low pool prices until May. Volumes were down

-25% on the previous year, since generation fell for those facilities which do not cover their variable production costs with low pool prices, in particular, gas cogeneration.

- ✓ **Pulp sales fell by -15% in 1H14 vs 1H13,** due to a reduction of -11% in the average selling price following a drop in prices of -5% in $/t and a 4% depreciation of the dollar. Also, there was a fall in production and volumes sold of -6% and -4%, respectively, affected by the two-day strike in June in Huelva and Pontevedra, and by difficulties in the execution of the start-up curve of the Navia mill (now resolved) following its annual maintenance shutdown, also in June. During the shutdown, significant investments were made in efficiency improvements with the installation of new equipment, thereby improving the plant's technological standards. New pluri-annual labor agreements were signed at the plants in June, linking the increases in remuneration to EBITDA the level obtained, substituting the reference to the CPI of the previous agreement.

- ✓ **The referred regulatory changes have had an estimated impact on the cash cost in 1H14 equivalent to +€48/t, increasing the cash cost of the period by +16% to €414/t. This increase includes a joint estimated impact of €3/t in the cash cost for the semester (€7/t in 2Q14) due to the strike and the start-up problems of Navia.**

- ✓ **During the semester, there has rapidly been progress in the execution of investments for efficiency improvements with two years payback for a total amount of €14.3 M, taking advantage of Pontevedra and Navia programmed maintenance shutdowns.** Execution of this program will be completed in the second half of the year by implementing project amounting to €3.2 M. **These investments are expected to generate annual savings of €10.5 M once the learning curve is completed, equivalent to €12/t of lower cash cost of both mills, on average.**

- ✓ **Adjusted EBITDA dropped -75% in 1H14 to +€25 M,** tied to the lower production and sales of pulp and electricity, due mainly to the impact of the regulatory changes on income per MWh. The impact of the strike and the start-up problems of Navia are estimated at -€2 M.

- ✓ **The result for the period stood at a net loss of -€49 M in 1H14** vs net profit of +€30 M obtained in 1H13. **These losses include the impact of the regulation in 1H14 of -€79 M**: -€40 M for reduced premiums from electricity sales (recurrent), -€6 M for retroactive adjustments to electricity sales in 2013 and -€33 M for provisions mainly for the decline in energy crops due to the regulatory change (non-recurrent). Despite the losses and a variation of +€5 M in working capital (consisting of a reduction of -€8 M in the factoring amount drawn down), **net operating flows were +€3 M. Adjusted for non-recurring effects, net profit would have reached -16 M €**

- ✓ **Net corporate financial debt has increased +43% since 1H13 to €125 M** following the completion of the investments for the construction of the Mérida plant. The leverage ratio excluding non-recourse debt stood at 2.6x (calculated on EBITDA in the last 12 months). The application by the Spanish National Markets and Anti-Trust Commission (*Comisión Nacional de los Mercados y la Competencia*, CNMC) of a hedging ratio in 1H14 has led to a -€16 M reduction in amounts it has received, which will be adjusted throughout the year. This reduced cash amount will be offset by a retroactive adjustment of -€24 M in premiums collected as a result of the new regulation since mid-2013. As a result, there is a net debt of €8 M to the CNMC, which will be paid in the coming months.

2. PULP BUSINESS

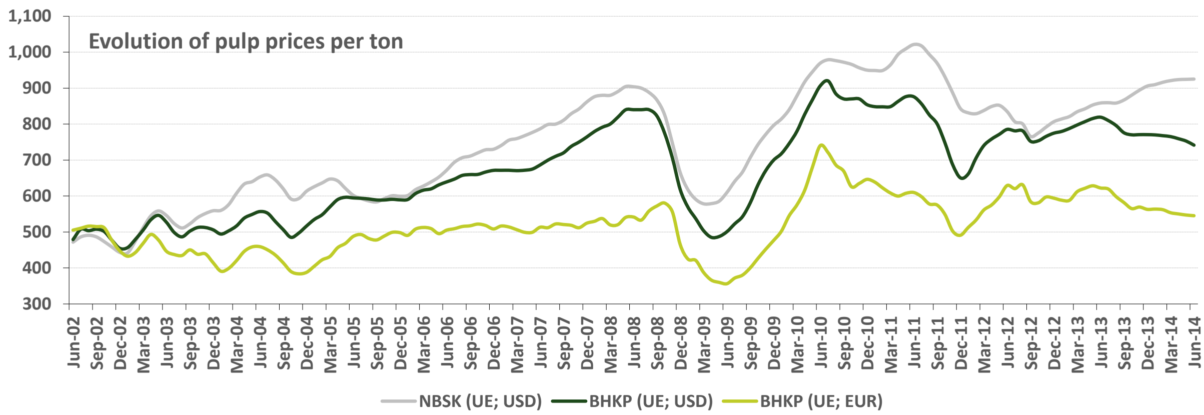
	2Q14	1Q14	Δ%	2Q13	Δ%	1H14	1H13	Δ%
Huelva	80,510	83,576	(4%)	83,436	(4%)	164,086	180,520	(9%)
Pontevedra	98,244	100,042	(2%)	111,542	(12%)	198,286	207,893	(5%)
Navia	105,392	117,321	(10%)	106,690	(1%)	222,713	232,176	(4%)
Pulp production (tons)	**284,146**	**300,940**	(6%)	**301,668**	(6%)	**585,085**	**620,589**	(6%)
Huelva	81,893	82,938	(1%)	83,306	(2%)	164,831	186,956	(12%)
Pontevedra	108,536	97,137	12%	115,901	(6%)	205,673	208,768	(1%)
Navia	113,716	117,547	(3%)	116,361	(2%)	231,263	232,323	(0%)
Pulp sales (tons)	**304,145**	**297,622**	2%	**315,568**	(4%)	**601,767**	**628,048**	(4%)
BHKP ($/t)	**751**	**768**	(2%)	**814**	(8%)	**760**	**801**	(5%)
Average exchange rate ($/€)	**1.37**	**1.37**	0%	**1.31**	5%	**1.37**	**1.31**	4%
Net sale price (€/t)	**434**	**443**	(2%)	**502**	(14%)	**438**	**491**	(11%)
Pulp sales (€M)	**132.2**	**131.4**	1%	**158.9**	(17%)	**263.6**	**309.5**	(15%)

Pulp production dropped -6% in 1H14 year on year, due to the weak performance of the plants, leaving their utilization ratios at 91% (adjusted by maintenance shutdowns). The maintenance shutdown at the Pontevedra mill took place between the end of March and the beginning of April and that of Navia at the end of June. The Huelva mill reported the worst performance, where the shutdowns in cogeneration with natural gas given the low prices of the pool have limited steam generation aimed at the pulp process. The Navia mill experienced operating problems in 1Q14 in the dryer line and in the start-up of the plant following the maintenance shutdown. Furthermore, a two-day strike in June affected the Pontevedra and Huelva mills. As a result, it was generated a non-recurrent loss of 7,600 tonnes in June driven by the strike and the problems in the start-up.

The Company offset this drop in production by reducing inventories, in particular in 2Q14, with a fall of 20,000 tonnes, which enabled the fall in sales to be limited to -4% and quarterly sales to rise by +2% vs 1Q14. In relation to the average income per ton, the average net sales price was €438/t in this period, -11% down on 1H13. Not only price levels in $/t terms were lower, but also the dollar suffered a 3% depreciation with respect to the same period in the previous year.

OVERVIEW ON THE PULP MARKET

Hardwood pulp prices have shown an adjustment in recent months to average levels of $751/t in 2Q14, pressured downwards by the expectations of an improved offering created by the start-up of operations at Maranhao, Brazil (the 1.3 million tons Suzano mill began operating in December 2013), and at Montes del Plata, Uruguay (a joint venture of 1.5 million tons between Stora Enso and Arauco, which started operations at the beginning of June). Softwood pulp prices have, however, maintained an upward trend over this whole period, raising the spread in hardwood and softwood prices above $190/t. This increased difference will support the hardwood pulp prices over the coming months.



Source: FOEX

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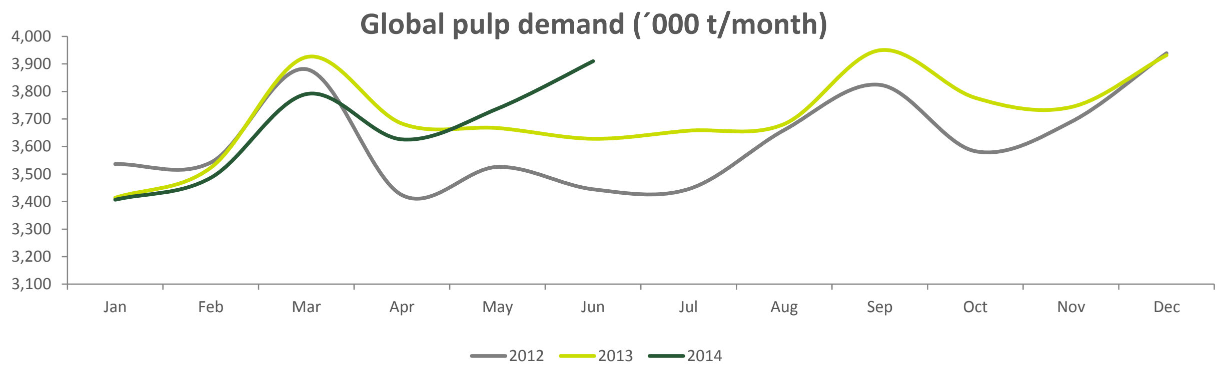
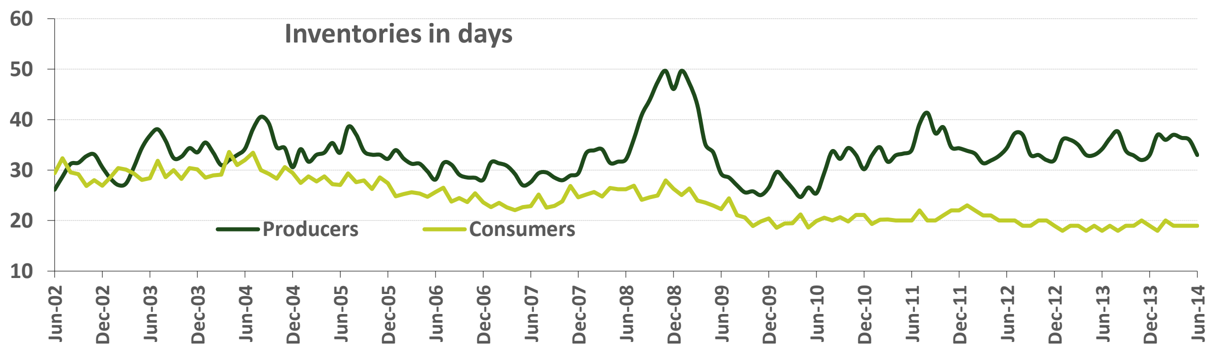
Although the impact of the new supply in 1H14 has been limited (mainly by the plants' learning curve and the analysis of pulp quality by potential consumers prior to pulp commercialization), the expectations of falls in prices due to the increased offering in the second semester limited the growth in demand in 1H14. At a global level, demand rose by a cumulative amount of +0.5% until June. By area, demand in the United States and Europe fell by -2.3% and -1.1%% respectively, while demand in China rose by +4.1%, down on the trend of recent years (PPPC). As a result of the inventory reductions in the period, demand is expected to improve in 2H14, limiting pulp price adjustments. Demand in May and June rose by +1.9% and +7.7% vs 2013.



Source: PPPC (W20)

At global level, producer's inventories remain at average levels of a 33-day cycle, while consumer's inventories remained at historical minimum levels of 18 days at the end of June (PPPC). The situation is equally positive in Europe, where consumer's inventories are holding at levels close to historical minimums of 18 days (Utipulp), while port inventories reached nearly one million tons, in line with levels recorded in previous years (Europulp).



Source: PPPC (W20 statistics)

3. ENERGY ACTIVITY

Evolution in energy business in 1H14 vs 1H13 was influenced by Royal Decree-Law 9/2013 (of 12 July), which repealed the existing regulatory framework for the special regime (electricity generation facilities from sources of renewable energy, cogeneration and waste), defining a new tariff framework that establishes a pre-tax return for all renewable investments equivalent to the return on bonds at 10 years plus 300 basis points, calculated on investment standards and operational costs by type of technology used and by the start-up year. The definition of the new tariff framework was delegated in the enactment of a new Royal Decree-Law and required Ministerial Orders that are to quantify the new tariffs applicable to the aforementioned facilities. Following its approval on 16 June 2014, sales were adjusted retroactively to 14 July 2013, leading reduced net income of -€8.3 M to be reported in 1H14 (-€1.2 M in addition to the drop already recognised in 1Q14 of -€7.1 M) and of -€12.2 M in 2H13, based on the Ministerial Order approved.

In addition, pool prices for the first semester stood at low levels of €33/MWh as compared with the average of €41/MWh of the last five years, below the €48.21/MWh estimated by the regulator based on its proposal when calculating the remuneration of the operation required to cover the operating costs of the renewable energy, cogeneration and waste facilities.

These low pool prices led to a reduced selling price per MWh and limited the volume generated by these cogeneration facilities which do not cover their variable operating costs in low pool price environments, particularly at Huelva natural gas cogeneration plant.

As an effect of these regulatory changes, the Company's energy-related income in 1H14 fell by -44%. The average income per MWh sold in 1H14 was down -22% on 1H13, due to the impact of the reduction in premiums, the low pool prices in 1H14 (sales in 1H13 were at a fixed tariff and not at a pool plus premium) and the impact thereof on the Company's electricity generation activity.

All these changes led to a rise in the Company's cash cost, since the sale of electricity at cogeneration facilities linked to the pulp process was considered to reduce the production cost thereof.

ENERGY PRODUCTION AT PULP MILLS

figures in €M	2Q14	1Q14 (c)	Δ%	2Q13	Δ%	1H14	1H13	Δ%
Huelva	88,538	121,814	(27%)	189,085	(53%)	210,352	402,126	(48%)
Pontevedra	52,504	49,698	6%	59,645	(12%)	102,202	112,461	(9%)
Navia	119,301	131,629	(9%)	113,049	6%	250,931	241,696	4%
Electricity production (MWh)	**260,343**	**303,142**	(14%)	**361,780**	(28%)	**563,485**	**756,283**	(25%)
Biomass generation	62,945	77,711	(19%)	110,078	(43%)	140,657	232,537	(40%)
Biomass co-generation	155,092	160,761	(4%)	157,661	(2%)	315,853	324,203	(3%)
Gas natural co-generation	33,017	53,316	(38%)	91,425	(64%)	86,333	188,750	(54%)
Electricity sales (MWh) (a)	**251,055**	**291,788**	(14%)	**359,164**	(30%)	**542,843**	**745,490**	(27%)
Electricity consumption (MWh)	**170,587**	**176,114**	(3%)	**178,048**	(4%)	**346,701**	**363,634**	(5%)
Average pool price (€/MWh)	**40**	**26**	52%	**34**	17%	**33**	**37**	(11%)
Average sale price (€/MWh)	**76**	**68**	11%	**128**	(41%)	**72**	**128**	(44%)
Remuneration to investment (€M)	**5.4**	**5.3**	3%	-	n.s.	**10.7**	-	n.s.
Average income (€/MWh)	**98**	**86**	13%	**128**	(24%)	**92**	**128**	(28%)
Electricity sales (€M) (b)	**23.8**	**25.3**	(6%)	**46.4**	(49%)	**49.1**	**97.6**	(50%)

(a) adjusted by unbalances
(b) excludes sales from Huelva 50MWand Merida 20MW and includes adjustments for settlements of the National Energy Commission due to sales previous to the covered period
(c) 1Q14 figures have been adjusted after the Ministerial Order approval last 16/06/14

Energy sales tied to installed capacity at the pulp mills amounted to €49 M in 1H14, down -50% on 1H13. Average selling price was down -11% on those reported in 1H13 due to high rainfall in the period. This drop caused the Company to limit production on its natural gas and forestry biomass turbines when pool prices were low. The reduction of premiums makes unprofitable the electricity production when pool prices are low on those facilities with higher variable operating costs, principally due to the cost of the fuel used, in particular gas. Since the Ministerial

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Order includes a restriction on the number of hours per year a power plant is entitled to receive a premium for its production output, the lower production for the quarter will enable the facilities to function at full capacity over the coming quarters, with foreseeably higher pool prices (future prices are around €48/MWh for the rest of the year). There has also been a -3% drop in MWh in lignin cogeneration facilities as a result of lower pulp production in this quarter.

In addition to a drop in volume, average income per MWh sold dropped -28% year on year, as a result of new premiums and lower pool prices. The average cost of electricity consumption at plants in the year also benefited from said drop in the pool.

ENERGY PRODUCTION AT INDEPENDENT ENERGY PLANTS

figures in €M	2Q14	1Q14	Δ%	2Q13	Δ%	1H14	1H13	Δ%
Huelva 50MW	67,256	72,259	(7%)	94,754	(29%)	139,515	186,560	(25%)
Merida 20MW	13,966	0	n.s.	0	n.s.	13,966	0	n.s.
Electricity sales (MWh)	**81,222**	**72,259**	12%	**94,754**	(14%)	**153,481**	**186,560**	(18%)
Average selling price (€/MWh)	**101**	**74**	36%	**152**	(33%)	**89**	**149**	(40%)
Remuneration to investment (€M)	**4.8**	**3.3**	46%	**-**	n.s.	**8.1**	**-**	n.s.
Average income (€/MWh)	**160**	**120**	34%	**152**	6%	**141**	**149**	(5%)
Sales [(a)]	13.0	8.7	50%	14.4	(9%)	21.7	27.8	(22%)
EBITDA	3.2	2.7	20%	5.9	(45%)	6.0	10.2	(41%)
Forest depletion (energy crops)	(0.0)	(2.0)	(99%)	(1.3)	(99%)	(2.0)	(2.7)	(25%)
EBITDA excluding forest depletion [(b)]	3.2	0.7	358%	4.6	(30%)	3.9	7.5	(47%)
Industrial depreciation [(c)]	(0.0)	(2.8)	(99%)	(2.7)	(99%)	(2.8)	(4.4)	(36%)
EBIT	3.2	(2.1)	n.s.	1.9	71%	1.1	3.1	(63%)
Net profit	1.1	(2.6)	n.s.	(0.4)	n.s.	(1.5)	(0.1)	n.s.

(a) includes €5M capitalized in 1T13 for the sale of electricity produced at the new 50MW plant in Huelva before its reception in February 2013 and €3M capitalized in 2Q14 for the sale of electricity produced at the new 20MW plant in Merida
(b) EBITDA ex-forestry depletion is in line with the criteria that was used to communicate EBITDA guidance for the plants
(c) includes an update of the amortization schedule in Huelva 50MW after the new tariff framework approval

Electricity sales in 1H14 were 153 GWh, -18% lower than in 1H13, due to the Company limiting operations at Huelva mill during atypically low pool prices in 1Q14. Given the restriction on the annual hours under premium rights set out in the Ministerial Order, the drop in production may be compensated in the coming months with higher usage of the facilities when pool prices pick up. Moreover, the Company took the opportunity to perform a maintenance shutdown at Huelva plant in April, coinciding with the low pool prices. Since May, the plant has been operating at full capacity, which will enable it to recover the hours lost over the coming months. In June, hedges will remain on pool prices for 31,000 MWh at €50 /MWh.

On 31 March, 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. Electricity sales at this plant in the period stood at 14 GWh, all of which were capitalised. In June, maximum capacity production levels were reached, being the monthly average utilization rate at 85%. Likewise, technical performance parameters of the plant were in line with the levels set by the EPC contract.

EBITDA excluding forestry depletion stood at +€4 M in 1H14, down -47% on 1H13 levels due to the fall in MWh sold and the fall in prices arising from lower pool prices.

The retroactive nature of the new regulation also had a negative impact on 1H14 results due to the Huelva mill operating with a supply mix of nearly 55% of energy crops, with a higher cost and receiving the same remuneration as forestry waste. This impact will be corrected in the coming months, as existing inventories are depleted.

4. FORESTRY ACTIVITY

	2Q14	1Q14	Δ%	2Q13	Δ%	1H14	1H13	Δ%
Supply to the industrial process (m^3)	**842,535**	**908,414**	(7%)	**897,877**	(6%)	**1,750,949**	**1,850,931**	(5%)
Cost €/m^3	**73**	**72**	0%	**70**	3%	**72**	**70**	4%
Wood purchases per source								
Own wood	7%	6%		6%		6%	7%	
Direct acquisitions from land owners	33%	28%		25%		31%	23%	
Suppliers	51%	53%		56%		52%	56%	
Imported timber	9%	14%		14%		12%	14%	
Own hectares	49,079	49,022	0%	51,703	(5%)	49,079	51,703	(5%)
Third party hectares (consortia) [(a)]	34,425	38,450	(10%)	36,820	(7%)	34,425	36,820	(7%)
Hectares managed by ownership (Ha)	**83,504**	**87,473**	(5%)	**88,523**	(6%)	**83,504**	**88,523**	(6%)
Hectares for pulp	65,703	70,276	(7%)	70,616	(7%)	65,703	70,616	(7%)
Hectares for energy crops	17,800	17,197	4%	17,907	(1%)	17,800	17,907	(1%)
Hectares managed by use (Ha)	**83,504**	**87,473**	(5%)	**88,523**	(6%)	**83,504**	**88,523**	(6%)

(a) includes 2,598 Ha sold in Portugal in December 2013 that Ence does not have standing timber or biological asset but managed

Wood consumption dropped -5% in 1H14 due to a reduction in pulp production. There was a +4% rise in the average wood cost due to the increased acquisition of certified wood and the increased average distance of wood transportation. With regard to the origin of supply, the reduction in imports in 2Q14 enabled the impact of high rainfall in 1Q14 on the availability of domestic wood to be offset.

In April, Ence announced a reduction in wood prices to suppliers of €3.5/m^3. The progressive implementation of this policy enabled the cost of wood suppliers to be reduced by -2% in 2Q14 vs 1Q14, with an expected reduction of -4% in 3Q14 vs 2Q14 once producer’s inventories generated prior to the price reduction are consumed.

5. COMMENT ON 1H14 RESULTS

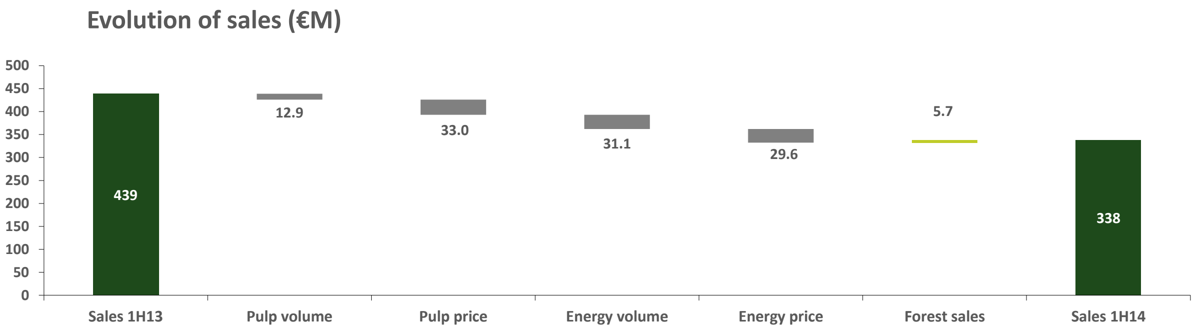
figures in €M	2Q14	1Q14 [d]	Δ%	2Q13	Δ%	1H14	1H13	Δ%
Pulp sales	132.2	131.4	1%	158.9	(17%)	263.6	309.5	(15%)
Electricity sales [a]	36.9	33.9	9%	60.7	(39%)	70.8	125.4	(44%)
2013 sales retroactive adjustment	(6.1)	-		-		(6.1)	-	
Forestry sales and others	5.0	5.0	1%	2.1	136%	10.0	4.3	135%
Total net sales	**168.0**	**170.3**	(1%)	**221.7**	(24%)	**338.3**	**439.2**	(23%)
Cost of goods sold [b]	(100.4)	(99.8)	1%	(107.7)	(7%)	(200.2)	(213.6)	(6%)
Personnel expenses	(16.9)	(16.3)	4%	(23.1)	(27%)	(33.2)	(41.6)	(20%)
Other operating expenses	(53.5)	(45.7)	17%	(42.7)	25%	(99.3)	(92.1)	8%
EBITDA	**(2.9)**	**8.5**	n.s.	**48.3**	n.s.	**5.6**	**91.8**	(94%)
Forest depletion	(3.0)	(4.8)	(36%)	(3.1)	(3%)	(7.8)	(8.3)	(6%)
Rest of depreciations	(12.8)	(16.3)	(21%)	(15.5)	(18%)	(29.1)	(29.9)	(3%)
Provisions	(25.9)	(1.5)	n.s.	0.5	n.s.	(27.3)	0.4	n.s.
EBIT	**(44.5)**	**(14.1)**	217%	**30.1**	n.s.	**(58.6)**	**54.1**	n.s.
Financial result	(6.4)	(7.3)	(11%)	(5.8)	11%	(13.7)	(11.0)	24%
Profit before taxes	**(51.0)**	**(21.3)**	139%	**24.3**	n.s.	**(72.3)**	**43.0**	n.s.
Taxes	17.2	6.6	162%	(7.1)	n.s.	23.7	(12.7)	n.s.
Net result in the period	**(33.8)**	**(14.8)**	129%	**17.2**	n.s.	**(48.6)**	**30.3**	n.s.
Adjusted EBITDA	**12.1**	**12.5**	(3%)	**54.0**	(78%)	**24.6**	**98.2**	(75%)
Cash cost (€/t) [c]	**413**	**415**	(1%)	**354**	17%	**414**	**357**	16%

(a) includes €5M capitalized in 1Q13 for the sale of electricity produced at the new 50MW plant in Huelva before its reception in February 2013 and €3M capitalized in 2Q14 for the sale of electricity produced at the new 20MW plant in Merida before its reception
(b) supplies +/- change in stocks
(c) excludes impact on Huelva 50MW plant as it is not linked to pulp production activity
(d) 1Q14 figures have been adjusted after the Ministerial Order approval last 16/06/14

1H14 sales amounted to €338 M, -23% lower than in 1H13. Pulp sales for this period were €264 M, -15% below those of the same period last year, due to a -4% drop in sales volumes and -11% drop in average selling price in euros.

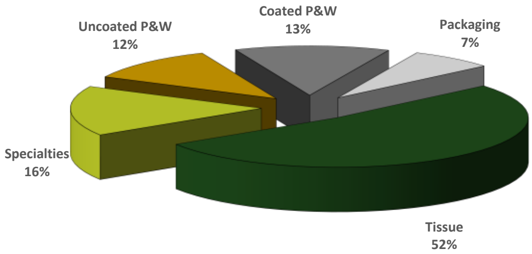
Energy sales reached €71 M in 1H14, -44% down from 1H13 figures due to decreased production (-25% down against 1H13) and a -22% reduction in average income from electricity sales. The drop in production is the result of the way in which facilities have been managed since mid-February, limiting the production at low pool times at those facilities with high variable operating costs, especially the gas cogeneration facility.

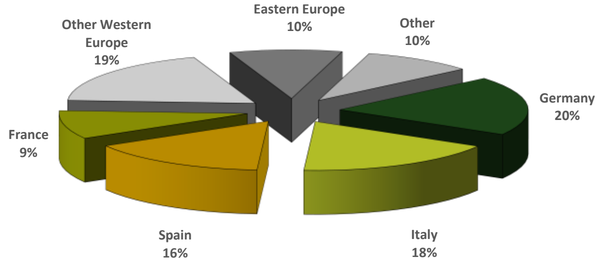
Forestry sales stood at €10 M, higher than those obtained in 1H13 due to the increased sale of wood to third parties with respect to the same period in 2013.



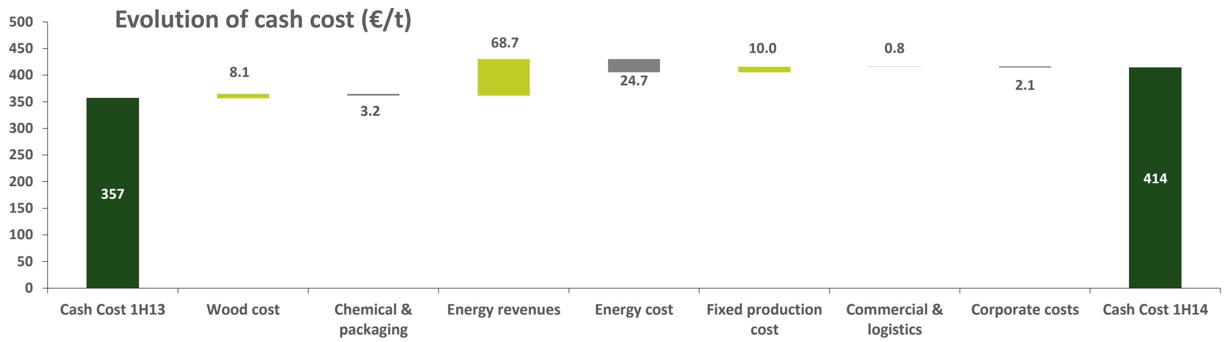
The distribution of sales by segment remained in line with previous quarters, as tissue being the main paper production segment. In geographical terms, sales in Spain increased to 16% (from 15% in 1H13) with total European sales representing 90% of the Group's total sales (93% in 1H13), obtaining a market share of 15% in the period.

(Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails)

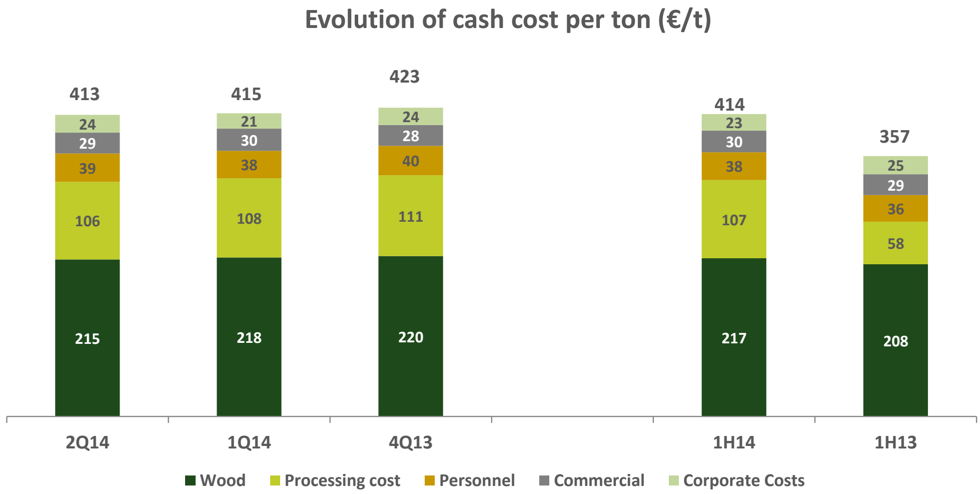




The cash cost grew +16% in 1H14 as compared with 1H13, to €414/t, principally due to regulatory changes in energy, an extraordinary drop in pool prices, the higher cost of wood per ton produced, the impact of the June strikes and the start-up problems in Navia.



The impact of the Royal Decree-Law 9/2013 (of 12 July) caused a +€48/t increase in the cash cost: +€25/t due to the loss of bonuses and reduction in premiums, +€12t for the drop in pool prices and +€11/t for the reduced production due to low pool prices. Having made an adjustment for this impact, costs would have stood at €368/t (€365/t excluding the impact of the June strikes and the start-up problems in Navia).



Note: the 4Q13 and 1Q14 figures have been adjusted following the approval of the new regulatory framework

The average cash cost of Navia and Pontevedra mills was €378/t in 1H14 as compared with €334/t in 1H13. The expected impact from investments that are being implemented in 2014 (2 year payback) is €12/t in annual terms. At Huelva mill, the cash cost obtained in 1H14 was €508/t as compared with €412/t in 1H13.

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Adjusted EBITDA in 1H14 was -75% down on 1H13, standing at €25 M. Including the impact of hedging, compensation and provisions, EBITDA for 1H14 amounted to +€6 M, -94% decrease on 1H13. The drop is mainly the result of a fall in pulp prices, the reduction in production premiums and low pool prices. 1H14 adjustments include €6 M of reduced income from electricity sales in 2013 and €9 M of provisions for the write-off of contracts for hectares of energy crops.

figures in €M	2Q14	1Q14 [a]	Δ%	2Q13	Δ%	1H14	1H13	Δ%
EBITDA	**(2.9)**	**8.5**	n.s.	**48.3**	n.s.	**5.6**	**91.8**	(94%)
Hedging instruments: pulp and exchange rate	0.4	-	n.s.	(2.9)	n.s.	0.4	(6.3)	n.s.
Severance payments	(0.1)	(0.2)	(24%)	5.4	n.s.	(0.3)	5.8	n.s.
Provisions and others	0.1	3.2	(98%)	0.5	(90%)	3.3	0.6	452%
Other non-recurrent	14.6	1.0	n.s.	2.7	446%	15.6	6.2	150%
Adjusted EBITDA	**12.1**	**12.5**	(3%)	**54.0**	(78%)	**24.6**	**98.2**	(75%)

(a) 1Q14 figures have been adjusted after the Ministerial Order approval last 16/06/14

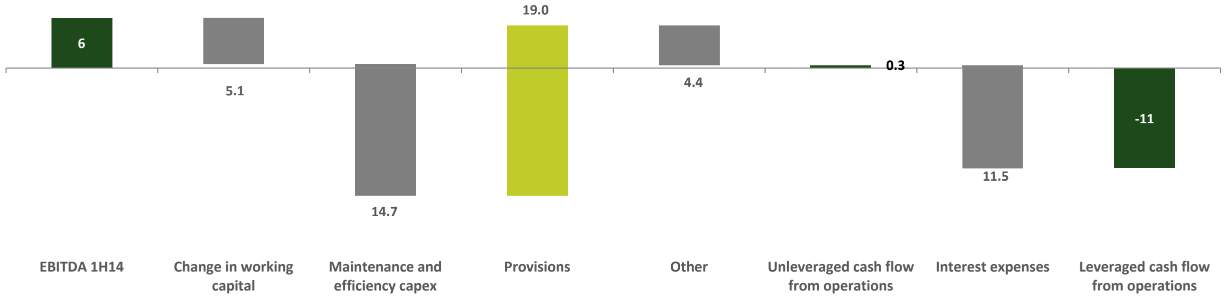
Net of depreciation/amortisation, provisions, financial results and taxes, the Company reported a net loss of -€49 M in 1H14 compared with a net profit of +€30 M in 1H13.

6. LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW

Cash flow generated by operations in 1H14, including investments in maintenance, was €0.3 M.

Cash flow evolution (€M)



Note: the variation in working capital includes €6 million increase in "Creditors and other debts" linked to the estimated retroactive adjustment in sales.

Net cash flows from operating activities were +€3 M in 1H14 compared to +€120 M in 1H13, due to a lower pulp price, reduced electricity sales and an increase in working capital levels. The latter was due to a drop in factoring of €8M as a measure to reduce financial costs. Recognition of the impact in 1H14 of -€17 M in reduced sales due to the retroactive application of the new tariffs did not lead to a cash outflow in the period. This effect was offset by the application of a hedging ratio by the CNMC in 1H14, which entailed a reduction in its payments of -€16 M, to be adjusted throughout the year.

figures in €M	2Q14	1Q14 [a]	Δ%	2Q13	Δ%	1H14	1H13	Δ%
Consolidated profit for the year before tax	**(51.0)**	**(21.3)**	**139%**	**24.3**	**n.s.**	**(72.3)**	**43.0**	**n.s.**
Depreciation and amortisation charge	15.8	21.0	(25%)	18.7	(15%)	36.9	38.2	(3%)
Finance income/costs	6.8	6.9	(2%)	5.9	15%	13.7	11.8	16%
Increase / decrease other deferred income/costs	31.6	9.6	229%	1.9	n.s.	41.2	6.2	n.s.
Adjustments of profit for the year-	**54.2**	**37.6**	**44%**	**26.4**	**105%**	**91.8**	**56.2**	**63%**
Trade and other receivables	15.9	(5.3)	n.s.	7.1	123%	10.6	25.1	(58%)
Current financial and other assets	1.3	1.3	(3%)	0.9	36%	2.6	(2.8)	n.s.
Current liabilities	(10.5)	(3.9)	167%	(2.8)	282%	(14.5)	(5.5)	164%
Inventories	3.6	(7.5)	n.s.	5.9	(38%)	(3.9)	13.2	n.s.
Changes in working capital-	**10.2**	**(15.4)**	**n.s.**	**11.2**	**(8%)**	**(5.1)**	**29.9**	**n.s.**
Interest paid / received	(3.0)	(8.5)	(64%)	(1.7)	81%	(11.5)	(3.1)	278%
Income tax recovered (paid)	-	-	n.s.	(5.7)	(100%)	-	(5.7)	(100%)
Other cash flows from operating activities-	**(3.0)**	**(8.5)**	**(64%)**	**(7.4)**	**(59%)**	**(11.5)**	**(8.8)**	**31%**
NET CASH FLOWS FROM OPERTATING ACTIVITIES	**10.4**	**(7.6)**	**n.s.**	**54.5**	**(81%)**	**2.8**	**120.4**	**(98%)**

(a) 1Q14 figures have been adjusted after the Ministerial Order approval last 16/06/14

Net cash flows from investing activities fell to -€26 M in 1H14 vs -€1 M in 1H13, due to the collection on the sale of the Uruguay assets in March 2013. Investments were -51% lower than in 1H13 due to the drop in biomass projects investments.

figures in €M	2Q14	1Q14	Δ%	2Q13	Δ%	1H14	1H13	Δ%
Property, plant and equipment	(12.4)	(11.8)	5%	(26.1)	(52%)	(24.3)	(52.7)	(54%)
Intangible assets	(0.8)	(1.4)	(44%)	(2.2)	(65%)	(2.2)	(2.2)	(3%)
Other financial assets	0.1	0.1	(40%)	1.6	(94%)	0.2	1.2	(80%)
Investments	**(13.1)**	**(13.1)**	**1%**	**(26.7)**	**(51%)**	**(26.2)**	**(53.6)**	**(51%)**
Disposals	**0.1**	**-**	**n.s.**	**0.0**	**383%**	**0.1**	**52.5**	**(100%)**
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(13.1)**	**(13.1)**	**0%**	**(26.7)**	**(51%)**	**(26.1)**	**(1.1)**	**n.s.**

Net cash flows from financing activities led to a cash inflow of +€47 M vs a cash outflow of -€43 M in 1H13, following the maturity of the investment made in 2Q13 in one-year deposits amounting to €45 M with proceeds from the Uruguay sale. In 1Q13, a €250 M bond placement in January was used to repay the existing debt, with the Company's gross corporate financial debt remaining at a similar level to that recorded in the previous period.

figures in €M	2Q14	1Q14	Δ%	2Q13	Δ%	1H14	1H13	Δ%
Proceeds and payments relating to equity instruments	**(1.6)**	**(0.4)**	**276%**	**24.2**	**n.s.**	**(2.0)**	**20.7**	**n.s.**
Debt instruments and held-for-trading liabilities (net)	0.0	(0.0)	n.s.	(2.5)	n.s.	-	**241.3**	(100%)
Increase/(decrease) in bank borrowings (net)	2.8	1.5	92%	(0.5)	n.s.	4.3	**(231.0)**	n.s.
Other financial liabilities	(0.0)	(0.5)	(100%)	(0.4)	(100%)	(0.5)	**(12.3)**	(96%)
Proceeds and payments relating to financial liability	**2.8**	**0.9**	**209%**	**(3.3)**	**n.s.**	**3.8**	**(2.0)**	**n.s.**
Translation differences	**-**	**-**	**n.s.**	**(0.0)**	**(100%)**	**-**	**0.0**	**(100%)**
Fixed-term deposit	-	45.0	(100%)	(45.0)	(100%)	45.0	**(45.0)**	n.s.
Other proceeds and payments from financing activities	**-**	**45.0**	**(100%)**	**(45.0)**	**(100%)**	**45.0**	**(45.0)**	**n.s.**
NET CASH FLOWS FROM FINANCING ACTIVITIES	**1.3**	**45.5**	**(97%)**	**(40.3)**	**n.s.**	**46.8**	**(42.5)**	**n.s.**

As a final result, the Company's cash levels increased by +€23 M in 1H14 to €127 M, and to €135 M if financial investments are taken into account.

figures in €M	2Q14	1Q14	Δ%	2Q13	Δ%	1H14	1H13	Δ%
INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(1.4)**	**24.8**	**n.s.**	**(12.5)**	**(89%)**	**23.4**	**76.7**	**(69%)**

WORKING CAPITAL

Working capital was +€16 M in 1H14, -€21 M below that of 1H13, principally due to a reduction in trade and other receivables, tied to the fall in activity.

figures in €M	2Q14	1Q14 (c)	Δ%	2Q13	Δ%	1H14	1H13	Δ%
Inventories	70.1	74.4	(6%)	76.8	(9%)	70.1	76.8	(9%)
Trade and other receivables	86.8	117.1	(26%)	120.1	(28%)	86.8	120.1	(28%)
Other current financial assets (a)	8.3	9.6	(13%)	10.8	(23%)	8.3	10.8	(23%)
Other accounts receivables from public authorities	26.8	20.5	31%	20.0	34%	26.8	20.0	34%
Other current assets	3.5	3.8	(10%)	8.2	(58%)	3.5	8.2	(58%)
Trade and other payables (b)	(180.7)	(194.5)	(7%)	(179.1)	1%	(180.7)	(179.1)	1%
Corporate income tax payables	(0.1)	0.0	n.s.	(7.8)	(99%)	(0.1)	(7.8)	(99%)
Other accounts payable to public authorities	(8.5)	(8.8)	(3%)	(11.4)	(25%)	(8.5)	(11.4)	(25%)
Other current liabilities	(1.3)	(2.5)	(46%)	(0.5)	174%	(1.3)	(0.5)	174%
Working capital	**16.4**	**27.8**	(41%)	**37.2**	(56%)	**16.4**	**37.2**	(56%)
Change in WC as per cash flow statement	**10.2**	**(15.4)**	n.s.	**11.2**	(8%)	**(5.1)**	**29.9**	n.s.

(a) figures in 1H13 and 1H14 are adjusted by €45 M of fixed-term deposit
(b) the provision for lower energy sales based on the proposed OM, has been reclassified within trade creditors
(c) 1Q14 figures have been adjusted after the Ministerial Order approval last 16/06/14

INVESTMENTS

Investments in the pulp business (industrial and forestry) in 1H14 stood at €23 M, -€4 M below those of 1H13, mainly due to investments related with efficiency improvements in the plants. Investments related to biomass generation expansion were limited to €11 M, with the majority linked to construction of the Mérida plant. This figure is -€15 M less than in 1H13 due to the plant now being operational.

The environmental improvement efforts in the past 18 months helped reduce the impact of odor emissions by 87% and 43% in the Huelva and Pontevedra respectively, while Navia mill has reached 95% of zero emissions target since the start of investments in 2011.

figures in €M	2Q14	1Q14	Δ%	2Q13	Δ%	1H14	1H13	Δ%
Maintenance	3.4	3.4	1%	8.8	(61%)	6.9	11.0	(37%)
Improvements in efficiency/production	7.5	5.0	50%	2.1	256%	12.5	3.5	255%
Environmental	0.7	0.3	132%	3.7	(81%)	1.0	6.8	(85%)
Industrial investment in pulp	**11.7**	**8.7**	34%	**14.6**	(20%)	**20.4**	**21.3**	(4%)
Plantation and maintenance activity	0.4	1.5	(71%)	3.1	(86%)	1.9	5.4	(65%)
Financial expenses	0.3	0.3	(1%)	0.4	(7%)	0.7	0.7	(7%)
Forest investment in pulp	**0.8**	**1.8**	(58%)	**3.4**	(78%)	**2.6**	**6.1**	(58%)
Industrial investment in biomass	**5.8**	**2.6**	119%	**5.9**	(1%)	**8.4**	**24.4**	(65%)
Forest investment in biomass	**2.5**	**0.6**	318%	**0.0**	n.s.	**3.1**	**1.9**	63%
Total investment	**20.7**	**13.8**	50%	**24.0**	(14%)	**34.5**	**53.7**	(36%)

(Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails)

7. FINANCIAL RESULT AND DEBT

FINANCIAL RESULT

Financial costs (excluding capitalisation and including payments linked to interest rate hedging) were close to €12 M, +€1 M higher than in 1H13, since the latter included reduced interest payments on the €250 M bond issued at the end of January 2013. In terms of profit/loss from hedges, cancellation of the IRS linked to the prior syndicated loan has removed the payments linked to this instrument and the allocation of the profit/loss from changes in its value. Following the bond issue, impacts of interest rate hedging for the year are limited to payment of the IRSs for Project Finance, without any impact arising from changes on its value since they are considered to be hedging instruments.

figures in €M	2Q14	1Q14	Δ%	2Q13	Δ%	1H14	1H13	Δ%
Interest on bond	(4.5)	(4.5)	-	(4.5)	-	(9.1)	(7.6)	20%
Interest on loans	(1.5)	(1.5)	(0%)	(1.6)	(5%)	(3.0)	(3.5)	(16%)
Interests on factoring and confirming	(0.4)	(0.3)	48%	(0.6)	(31%)	(0.7)	(1.0)	(33%)
Capitalization of financial expenses	1.1	1.0	11%	1.3	(17%)	2.0	2.5	(17%)
Financial expenses	**(5.4)**	**(5.3)**	1%	**(5.4)**	(1%)	**(10.7)**	**(9.7)**	11%
IRS settlement interest	(0.7)	(0.7)	-	(1.3)	(46%)	(1.4)	(1.3)	8%
IRS adjustment in fair value	-	-	n.s.	-	n.s.	-	(1.0)	(100%)
Financial expenses for equity swap	(0.5)	(0.8)	(41%)	1.1	n.s.	(1.3)	1.4	n.s.
Result of hedging (IRS and equity swap)	**(1.2)**	**(1.6)**	(22%)	**(0.3)**	327%	**(2.8)**	**(0.9)**	217%
Net exchange differences	**0.5**	**(0.1)**	n.s.	**(0.1)**	n.s.	**0.4**	**1.8**	(78%)
Other financial expenses	**(0.6)**	**(0.6)**	6%	**(0.7)**	(6%)	**(1.2)**	**(3.2)**	(61%)
Financial income	**0.2**	**0.4**	(37%)	**0.7**	(66%)	**0.6**	**0.9**	(32%)
Financial result	**(6.4)**	**(7.3)**	(11%)	**(5.8)**	11%	**(13.7)**	**(11.0)**	24%
Interests on non recourse debt	(1.5)	(1.4)	5%	(2.0)	(23%)	(2.9)	(2.5)	16%
Financial result excluding project finance	**(4.9)**	**(5.8)**	(15%)	**(3.8)**	29%	**(10.8)**	**(8.5)**	27%

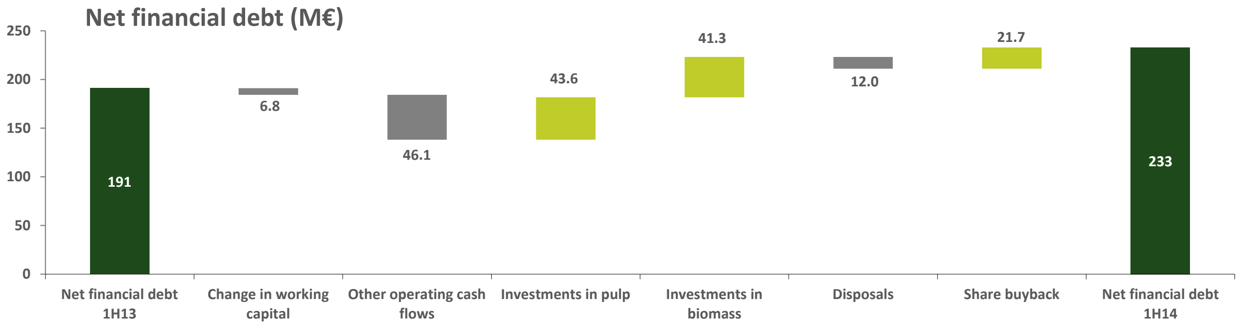
FINANCIAL DEBT

The net financial debt with recourse at the end of 1H14 was €125 M, a +43% increase on the amount recorded in 1H13. Total net financial debt was €233 M, up +22% on that reported in 1H13.

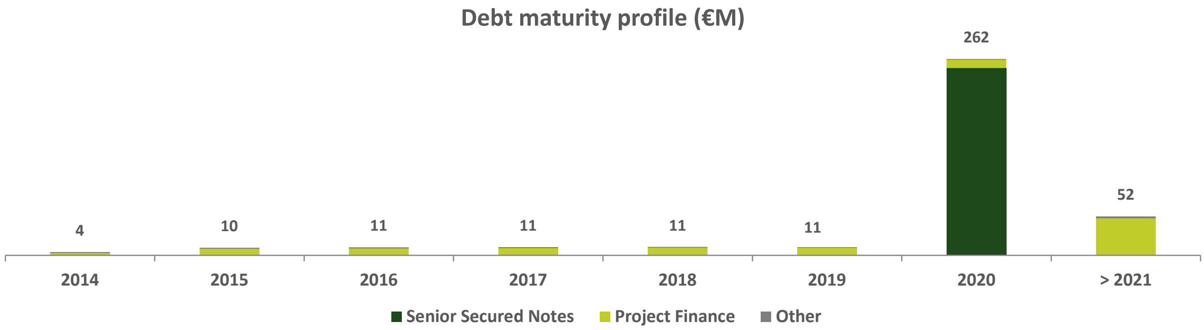
figures in €M	2Q14	1Q14	Δ%	2Q13	Δ%	1H14	1H13	Δ%
Bond	250.0	250.0	-	250.0	-	250.0	250.0	-
Bond - unamortized transaction costs	(8.6)	(9.0)	(4%)	(9.4)	(8%)	(8.6)	(9.4)	(8%)
Loans	0.5	0.6	(17%)	0.9	(44%)	0.5	0.9	(44%)
Other financial liabilities	10.2	10.4	(2%)	10.4	(2%)	10.2	10.4	(2%)
Other financial liabilities - grant	(1.2)	(1.3)	(6%)	(1.1)	6%	(1.2)	(1.1)	6%
Long-term debt	**250.8**	**250.7**	0%	**250.8**	0%	**250.8**	**250.8**	0%
Bond - accrued interest	7.1	2.6	175%	7.8	(9%)	7.1	7.8	(9%)
Loans	0.4	0.4	-	0.4	-	0.4	0.4	-
Loans - accrued interest	0.0	0.0	30%	0.1	(55%)	0.0	0.1	(55%)
Other financial liabilities	1.9	2.1	(7%)	1.5	32%	1.9	1.5	32%
Other financial liabilities - accrued interest	0.0	0.0	75%	-	n.s.	0.0	-	n.s.
Short-term debt	**9.5**	**5.1**	86%	**9.8**	(3%)	**9.5**	**9.8**	(3%)
Total gross financial debt	**260.3**	**255.8**	2%	**260.5**	(0%)	**260.3**	**260.5**	(0%)
Cash	126.8	128.2	(1%)	116.9	8%	126.8	116.9	8%
Short-term financial investments	8.3	9.6	(13%)	55.8	(85%)	8.3	55.8	(85%)
Total net financial debt with recourse	**125.2**	**118.0**	6%	**87.8**	43%	**125.2**	**87.8**	43%
Non recourse debt Long-term	103.7	101.8	2%	103.7	(0%)	103.7	103.7	(0%)
Non recourse debt LT - unamortized transaction costs	(3.0)	(3.1)	(4%)	(3.5)	(14%)	(3.0)	(3.5)	(14%)
Non recourse debt Short-term	7.0	5.7	22%	3.4	106%	7.0	3.4	106%
Non recourse debt ST - unamortized transaction costs	(0.5)	(0.5)	(1%)	(0.5)	0%	(0.5)	(0.5)	0%
Non recourse debt ST - accrued interest	0.4	2.0	(81%)	0.1	245%	0.4	0.1	245%
Total net financial debt	**232.9**	**223.9**	4%	**191.1**	22%	**232.9**	**191.1**	22%

This increase was due to investments in Mérida plant and shareholder remuneration, which has been partially compensated by the sale of assets in Portugal in December 2013, producing an income of €11 M.

The Company also has factoring lines with an €83 M limit, of which €23 M had been utilised at the end of June (€31 M at the end of 2013). In terms of liquidity, in addition to the Company's cash position, it has a credit facility with a €90 M limit, which had not been drawn down at the end of this period.



After placement of a bond for €250 M and repayment of the existing debt (except for €11 M, mainly loans from public institutions at low interest rates), there are no significant debt maturities until 2020.



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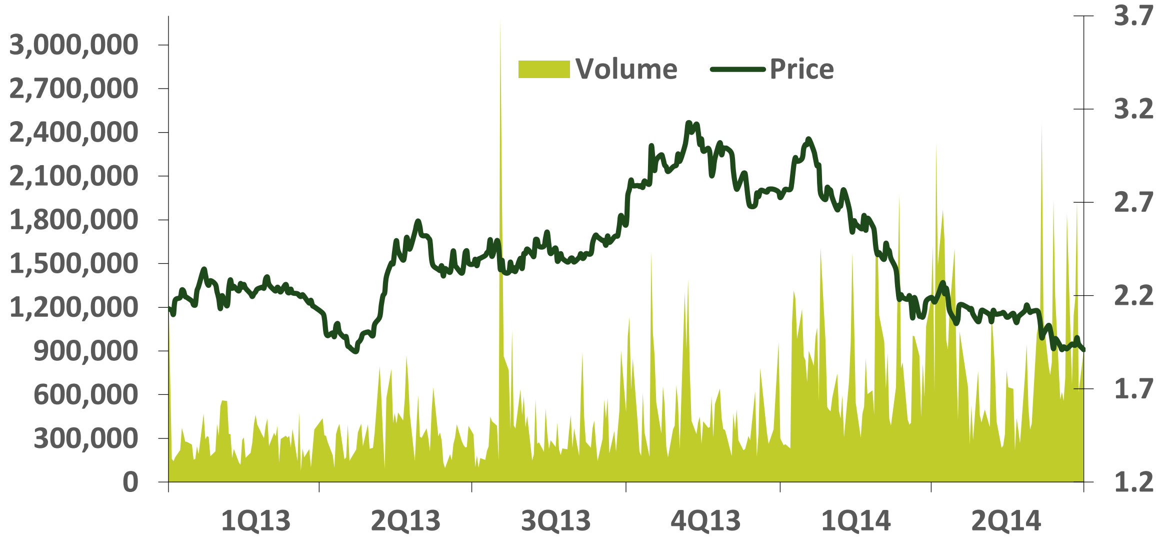
8. ENCE ON THE STOCK MARKET

Share trends were negative in 1H14, with a -30% drop, -40% and -34% down on Spanish and European market performances, respectively.



Source: Thomson Reuters

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Average daily volume (shares)	283,963	347,171	446,481	508,964	808,674	878,515
Ence performance	0%	11%	9%	6%	(20%)	(13%)
Ibex 35 performance	(3%)	(2%)	18%	8%	4%	6%
Eurostoxx performance	(0%)	(1%)	11%	7%	2%	1%

The evolution of Ence's share price has been adjusted for the dividend of €0.07/share paid on 3 April 2013; no adjustment was made for the dividend in kind paid on 11 April 2013, which entails an additional 4% in profitability.

Ence's shares are listed on the IBEX Medium Cap, IBEX Top Dividendo, and FTSE4Good Ibex indices.

In addition to its shares being traded on the stock markets, in January 2013, the Company issued bonds in a total amount of €250 M with a 7.25% yield and a 7-year term. Occasionally, Ence may repurchase these bonds on the secondary market. Any such purchase will take place in compliance with all applicable legal regulations and after consideration of the relevant factors, including the quoted price for the bond and our liquidity position.

9. HIGHLIGHTS ON 1H14

20MW plant in Mérida receives its Definitive Certificate of Commissioning

On 31 March, the Mérida biomass generation 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. The mill has a production capacity of 160 million kWh/year, enough on supplying energy to nearly 70,000 people. The commissioning of this plant will increase the installed capacity of biomass energy production by +9%, from 230 MW to 250 MW.

Approval of the new regulatory framework for sources of renewable energy, cogeneration and waste

On 6 June 2014, Royal Decree 413/2014 was approved, establishing the regulatory framework for sources of renewable energy, cogeneration and waste and, in turn, on 16 June 2014, the Ministerial Order IET/1045/2014 was approved, establishing the remuneration parameters for such energy, both of which were retroactively effective from 14 July 2013. The approval of this new framework eliminates the regulatory uncertainties existing regarding the Ence Group's electricity generation facilities since the approval of the Royal Decree-Law 9/2013, of 12 July, on urgent measures to guarantee the stability of the Spanish Electricity System, which repeals the previous regulatory framework.

Cash dividend of €0.08/share and dividend in kind of 1 share of each 32 outstanding

On 30 June 2014, in the Annual Shareholder Meeting it was approved a cash dividend of €0.03/share with charge to 2013 results, a cash dividend of €0.05/share with charge to unrestricted reserves and a dividend in kind consisting of 1 share of each 32 outstanding shares through the delivery of treasury shares to shareholders with charge to share premium. The return on those dividends was above 7% at the time of approval.

10. FINANCIAL STATEMENTS

These financial statements are based on the following criteria:

- The 2013 audited accounts are those published on 27 March 2014.
- They were recalculated in 3Q13 and 4Q13 to adapt to the estimated impact of the regulatory energy changes assumed in the audited 2013 financial statements.
- 1Q14 was recalculated to reflect the final impact of the new energy regulation, approved on 16 June 2014.

Profit and Loss Account

figures in €M	1Q13	2Q13	Proforma 3Q13	Proforma 4Q13	2013	1Q14	Adjustment	Proforma 1Q14	2Q14
Total Net Turnover	**217.4**	**221.7**	**210.1**	**203.9**	**853.1**	**171.5**	**(1.3)**	**170.3**	**168.0**
Supplies	(106.4)	(103.5)	(108.3)	(109.7)	(427.8)	(101.1)	-	(101.1)	(92.9)
Change in stocks of finished products	0.5	(4.2)	5.2	0.7	2.1	1.3	-	1.3	(7.5)
Gross Margin	**111.5**	**114.0**	**107.0**	**94.9**	**427.4**	**71.8**	**(1.3)**	**70.5**	**67.6**
Works performed by the group on fixed assets	1.3	4.4	4.5	4.6	14.8	2.7	-	2.7	1.2
Other income	3.2	2.0	2.1	8.0	15.3	2.4	-	2.4	3.8
Result from hedging operations	3.4	2.9	2.4	3.4	12.1	-	-	-	(0.4)
Personnel	(18.6)	(23.1)	(18.7)	(19.1)	(79.4)	(16.3)	-	(16.3)	(16.9)
Other operating expenses	(57.3)	(52.0)	(60.5)	(72.7)	(242.5)	(50.9)	0.1	(50.8)	(58.2)
EBITDA	**43.5**	**48.3**	**36.8**	**19.0**	**147.7**	**9.6**	**(1.2)**	**8.5**	**(2.9)**
EBITDA margin	**20.0%**	**21.8%**	**17.5%**	**9.3%**	**17.3%**	**5.6%**		**5.0%**	**(1.7%)**
Depreciation of fixed assets	(19.5)	(18.7)	(20.4)	(19.8)	(78.3)	(21.0)	-	(21.0)	(15.8)
Impairment and result from sales of fixed assets	(0.1)	0.5	(3.2)	(34.8)	(37.5)	(1.5)	-	(1.5)	(25.9)
EBIT	**23.9**	**30.1**	**13.3**	**(35.6)**	**31.8**	**(12.9)**	**(1.2)**	**(14.1)**	**(44.5)**
EBIT margin	**11.0%**	**13.6%**	**6.3%**	**(17.4%)**	**3.7%**	**(7.5%)**		**(8.3%)**	**(26.5%)**
Financial income	0.2	0.7	0.5	0.6	2.0	0.4	-	0.4	0.2
Financial expenses	(5.5)	(6.5)	(7.3)	(9.0)	(28.3)	(7.7)	-	(7.7)	(6.7)
Profit before tax	**18.7**	**24.3**	**6.5**	**(44.0)**	**5.6**	**(20.2)**	**(1.2)**	**(21.3)**	**(51.0)**
Corporate tax	(5.6)	(7.1)	(1.8)	13.3	(1.3)	6.2	0.4	6.6	17.2
Net profit	**13.1**	**17.2**	**4.7**	**(30.7)**	**4.3**	**(14.0)**	**(0.8)**	**(14.8)**	**(33.8)**

(a) €2.6M accounted at 30/9/13 as non-current assets result classified as kept for sale has been reclasifed as impairment and result from sales of fixed assets after selling Portugal assets

Balance Sheet

figures in €M	1Q13	2Q13	Proforma 3Q13	Proforma 4Q13	2013	1Q14	Adjustment	Proforma 1Q14	2Q14
Tangible fixed assets	956.6	960.1	955.0	932.4	932.4	923.0	-	923.0	901.1
Intangible fixed assets	21.4	20.3	20.1	19.1	19.1	20.9	-	20.9	12.8
Long- term financial assets	4.5	2.9	3.0	2.9	2.9	2.8	-	2.8	2.7
Other non-current assets	31.7	28.5	30.5	35.6	35.6	42.2	0.4	42.5	57.0
Total fixed assets	**1,014.2**	**1,011.8**	**1,008.6**	**989.9**	**989.9**	**988.8**	**0.4**	**989.2**	**973.5**
Inventories	86.4	76.8	76.8	71.0	71.0	74.4	-	74.4	70.1
Trade debtors and other accounts receivable	149.3	140.2	141.5	133.0	133.0	137.6	-	137.6	113.6
Cash and other short-term financial assets	141.1	172.7	155.5	159.3	159.3	137.7	-	137.7	135.1
Financial investments for short-term hedging	4.0	3.8	3.2	0.0	0.0	0.0	-	0.0	0.0
Other current assets	1.6	8.2	6.3	9.2	9.2	12.0	-	12.0	15.0
Non-Current Assets Classified as kept for Sale	0.7	0.7	11.2	0.0	0.0	0.0	-	0.0	0.0
Total current assets	**383.1**	**402.3**	**394.5**	**372.4**	**372.4**	**361.7**	-	**361.7**	**333.9**
Total assets	**1,397.3**	**1,414.2**	**1,403.1**	**1,362.3**	**1,362.3**	**1,350.5**	**0.4**	**1,350.9**	**1,307.4**
Equity	**715.0**	**758.8**	**757.4**	**710.3**	**710.3**	**694.8**	**(0.8)**	**694.0**	**638.2**
Long- term financial debt	353.3	351.0	351.1	347.5	347.5	349.4	-	349.4	351.6
Long-term provisions	13.6	12.8	16.0	18.5	18.5	19.5	-	19.5	5.2
Financial instruments for long-term hedging	13.9	9.1	9.0	7.4	7.4	6.2	-	6.2	7.1
Other non-current liabilities	50.9	46.3	45.1	42.8	42.8	42.9	-	42.9	41.9
Total non-current liabilities	**431.7**	**419.2**	**421.2**	**416.2**	**416.2**	**418.0**	-	**418.0**	**405.7**
Short-term financial debt	7.3	12.8	8.7	14.9	14.9	12.3	-	12.3	16.4
Trade creditors (a)	192.0	179.1	170.9	187.7	187.7	193.3	1.3	194.5	180.7
Short-term provisions	8.1	8.6	8.3	7.1	7.1	6.7	-	6.7	14.5
Financial Instruments for short-term hedging	4.7	4.3	4.2	4.5	4.5	6.6	-	6.6	7.5
Other current liabilities (b)	38.4	31.3	32.3	21.5	21.5	18.9	(0.1)	18.8	44.4
Non-Current liabilities classified as kept for Sale	-	-	-	-	-	-	-	-	-
Total current liabilities	**250.6**	**236.1**	**224.4**	**235.7**	**235.7**	**237.7**	**1.2**	**238.9**	**263.5**
Total liabilities	**1,397.3**	**1,414.2**	**1,403.1**	**1,362.3**	**1,362.3**	**1,350.5**	**0.4**	**1,350.9**	**1,307.4**

(a) "Short term provisions" of €13.2 M in 2013 and €8.9 M in 1Q14 related to the retroactive adjustment in sales based on the approval of the new regulatory framework, have been reclasified to "Trade creditors"
(b) includes €19.6M of dividend payment

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Cash Flow Statement

figures in €M	1Q13	2Q13	Proforma 3Q13	Proforma 4Q13	2013	1Q14	Adjustment	Proforma 1Q14	2Q14
Consolidated profit for the year before tax	**18.7**	**24.3**	**6.5**	**(44.0)**	**5.6**	**(20.2)**	**(1.2)**	**(21.3)**	**(51.0)**
Depreciation and amortisation charge	14.2	15.0	17.0	15.5	61.7	16.1	-	16.1	12.7
Exhaustion of forestry reserve	5.2	3.1	3.0	3.9	15.2	4.8	-	4.8	3.0
Amortisation of intangible assets	0.2	0.5	0.4	0.4	1.4	0.1	-	0.1	0.1
Gains/Losses on disposal of non-current assets	0.1	0.2	2.4	33.3	35.9	1.5	-	1.5	25.7
Finance costs	0.1	12.5	7.2	8.9	28.7	7.3	-	7.3	7.0
Finance income	5.8	(6.7)	(0.5)	(0.6)	(2.0)	(0.4)	-	(0.4)	(0.2)
Grants and subsidies transferred to profit and loss	(0.3)	(0.3)	(0.3)	(0.3)	(1.3)	(0.3)	-	(0.3)	(0.4)
Changes in provisions and other deferred expenses (net)	4.6	2.0	6.4	8.9	22.0	8.5	-	8.5	6.3
Adjustments of profit for the year	**29.8**	**26.4**	**35.4**	**70.0**	**161.6**	**37.6**	**-**	**37.6**	**54.2**
Trade and other receivables	18.0	7.1	(3.8)	8.5	29.8	(5.2)	(0.1)	(5.3)	15.9
Current financial and other assets	(3.8)	0.9	(0.2)	0.1	(2.9)	1.3	-	1.3	1.3
Current liabilities	(2.7)	(2.8)	(9.1)	19.2	4.7	(5.2)	1.3	(3.9)	(10.5)
Inventories	7.3	5.9	(2.6)	(0.2)	10.4	(7.5)	-	(7.5)	3.6
Changes in working capital	**18.8**	**11.2**	**(15.7)**	**27.6**	**41.9**	**(16.6)**	**1.2**	**(15.4)**	**10.2**
Interest paid	(1.6)	(2.4)	(10.1)	(4.0)	(18.0)	(8.9)	-	(8.9)	(3.3)
Interest received	0.2	0.7	0.5	0.6	2.0	0.4	-	0.4	0.2
Income tax recovered (paid)	-	(5.7)	(0.2)	(11.1)	(17.1)	-	-	-	-
Other cash flows from operating activities	**(1.4)**	**(7.4)**	**(9.9)**	**(14.5)**	**(33.1)**	**(8.5)**	**-**	**(8.5)**	**(3.0)**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**65.9**	**54.5**	**16.4**	**39.1**	**175.9**	**(7.6)**	**-**	**(7.6)**	**10.4**
Property, plant and equipment	(26.6)	(26.1)	(29.3)	(30.9)	(112.8)	(11.8)	-	(11.8)	(12.4)
Intangible assets	-	(2.2)	1.5	(0.2)	(0.9)	(1.4)	-	(1.4)	(0.8)
Other financial assets	(0.3)	1.6	(0.1)	0.2	1.3	0.1	-	0.1	0.1
Investments	**(27.0)**	**(26.7)**	**(27.9)**	**(30.8)**	**(112.4)**	**(13.1)**	**-**	**(13.1)**	**(13.1)**
Property, plant and equipment	52.5	0.0	1.1	10.8	64.4	-	-	-	0.1
Other financial assets	-	-	-	-	-	-	-	-	-
Disposals	**52.5**	**0.0**	**1.1**	**10.8**	**64.4**	**-**	**-**	**-**	**0.1**
NET CASH FLOWS FROM INVESTING ACTIVITIES	**25.5**	**(26.7)**	**(26.8)**	**(20.0)**	**(48.0)**	**(13.1)**	**-**	**(13.1)**	**(13.1)**
Purchase of treasury shares	(3.7)	(3.4)	(4.7)	(14.6)	(26.5)	(0.5)	-	(0.5)	(1.6)
Disposal of treasury shares	0.2	27.6	(0.3)	-	27.5	0.1	-	0.1	0.0
Proceeds and payments relating to equity instruments	**(3.6)**	**24.2**	**(5.0)**	**(14.6)**	**1.0**	**(0.4)**	**-**	**(0.4)**	**(1.6)**
Debt instruments and other held-for-trading liabilities (net)	243.8	(2.5)	(1.8)	-	239.5	(0.0)	-	(0.0)	0.0
Increase / (decrease) in bank borrowings (net)	(230.5)	(0.5)	(0.4)	(0.7)	(232.1)	1.5	-	1.5	2.8
Grants and subsidies received	-	(0.4)	0.3	0.2	0.1	0.8	-	0.8	0.0
Other financial liabilities	(12.0)	0.0	-	-	(12.0)	(1.3)	-	(1.3)	(0.0)
Proceeds and payments relating to financial liability instruments	**1.3**	**(3.3)**	**(1.9)**	**(0.5)**	**(4.5)**	**0.9**	**-**	**0.9**	**2.8**
Dividends	-	(16.2)	-	(0.0)	(16.2)	-	-	-	-
Dividends and returns on other equity instruments paid	**(0.0)**	**(16.2)**	**-**	**(0.0)**	**(16.2)**	**-**	**-**	**-**	**-**
Translation differences	**0.0**	**(0.0)**	**(0.0)**	**(0.0)**	**(0.0)**	**-**	**-**	**-**	**-**
Fixed-term deposit	-	(45.0)	-	-	(45.0)	45.0	-	45.0	-
Other proceeds and payments from financing activities	**-**	**(45.0)**	**-**	**-**	**(45.0)**	**45.0**	**-**	**45.0**	**-**
NET CASH FLOWS FROM FINANCING ACTIVITIES	**(2.2)**	**(40.3)**	**(7.0)**	**(15.2)**	**(64.7)**	**45.5**	**-**	**45.5**	**1.3**
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	**89.2**	**(12.5)**	**(17.4)**	**3.9**	**63.2**	**24.8**	**-**	**24.8**	**(1.4)**

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11. ANNEX

ENERGY REFORM: SUMMARY OF IMPACTS

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

- Law 15/2012 of 27 December, on fiscal measures for energy sustainability for which, **as from 1 January 2013**, a new general tax was imposed on electricity output equivalent to 7% of revenue from power generation. Likewise, tax rates established for natural gas and fuel consumption are modified, removing exemptions for energy products used in electricity production and electricity cogeneration.
  Application of this regulation since 1 January 2013 has had a negative impact on Group energy cost, net of electricity taxes, of -€20.6 M in 2013.

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

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

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

- **Royal Decree 413/2014, of 6 June 2014, which establishes the regulatory framework for renewable energy sources, cogeneration and waste and 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 represents a reduction in energy income (in addition to the impact of eliminating supplements), net of electricity tax, of -12 million euros for the period from 14 July to 31 December of 2013. Of this reduction, -6 million euros do not have a recurring impact on the company's future results as the company both produced energy in the 50MW plant in Huelva with energy crops, which higher production cost has not been recognized with a higher premium, and operated the 50MW plant above the maximum 6,500 hours per year eligible for premium tariff. Similarly, the impact of this latest reform on the valuation of certain assets of the Group, in particular energy crops plantations, represents the recognition of an impairment loss amounting to a total of 67 million euros, 35 million euros of which were accounted for in the 2013 annual accounts.** The company has accounted the remaining impact of the reform on the financial statements of 1H14 (€ 37M).

OM recurrent impact - reduction of income (€ million)	2013 Impact of the OM published 16/06/14	2013 Recognised in the 2013 financial statements	2013 Impact to register in 1H14	1Q14 Impact of the OM published 16/06/14	1Q14 Recognised in the 1Q14 quarterly report	1Q14 Additional impact on 1H14	Impact to register in 1H14
Sales (net of electricity tax)	12.2	6.6	5.6	8.3	7.1	1.2	6.8
Total impact	**12.2**	**6.6**	**5.6**	**8.3**	**7.1**	**1.2**	**6.8**

OM recurrent impact - assets impairment (€ million)	2013 Impact of the OM published 16/06/14	2013 Recognised in the 2013 financial statements	2013 Impact to register in 1H14	1Q14 Impact of the OM published 16/06/14	1Q14 Recognised in the 1Q14 quarterly report	1Q14 Additional impact on 1H14	Impact to register in 1H14
Impairment of energy crops	60.6	26.9	33.7	0.8	-	0.8	34.5
Impairment of industrial investments	5.7	5.7	-				-
Other	1.0	2.9	(1.9)				(1.9)
Total impact	**67.3**	**35.5**	**31.8**	**0.8**	**-**	**0.8**	**32.6**

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

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

REMUNERATION PARAMETERS OF THE FACILITIES OF THE ENCE GROUP

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

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

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

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

  Income from investments = MW * Ri

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

  Operating income = (Ro + pool) * MWh

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

  MWh < MW * 6,500 (for generating electricity with biomass)

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

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

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This presentation includes data relating to future forecasts. Any data included in this presentation which differ from other data based on historical information, including, in a merely expository manner, those which refer to the financial situation of Ence, its business strategy, estimated investments, management plans, and objectives related to future operations, as well as those which include the words "anticipate", "believe", "estimate", "consider", "expect" and other similar expressions, are data related to future situations and therefore have various inherent risks, both known and unknown, and possess an element of uncertainty, which can lead to the situation and results both of Ence and its sector differing significantly from those expressly or implicitly noted in said data relating to future forecasts.

The aforementioned data relating to future forecasts are based on numerous assumptions regarding the current and future business strategy of Ence and the environment in which it expects to be situated in the future. There is a series of important factors which could cause the situation and results of Ence to differ significantly from what is expounded in the data relating to future forecasts, including fluctuation in the price of wood pulp or wood, seasonal variations in business, regulatory changes to the electricity sector, fluctuation in exchange rates, financial risks, strikes or other kinds of action carried out by the employees of Ence, competition and environmental risks, as well as any other factors described in the document. The data relating to future forecasts solely refer to the date of this presentation without Ence being under any obligation to update or revise any of said data, any of the expectations of Ence, any modification to the conditions or circumstances on which the related data are based, or any other information or data included in this presentation.

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