Report on Ence Energia y Celulosa, S.A. and its subsidiaries as of December 31, 2016

Ence Energía 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 5.375% Senior Secured Notes Due 2022

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

ENERGÍA & CELULOSA

April , 2017

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;
- continuing adverse European, particularly Spanish, economic conditions;
- failure to keep up with technological changes, as well as changes in prices, industry standards and others factors
- 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;
- wage increases or work stoppages by our unionized employees;
- currency risk, particularly with respect to sales of pulp denominated in U.S. dollars;
- risks related to hedging activities;
- interest rate risk;
- any insufficiency of our insurance coverage;
- regulatory changes affecting our electricity-generating activities;
- exposure to various administrative controls and extensive governmental regulation;

- failure to successfully implement our business strategy due to unforeseen difficulties, delays or costs;
- the costs of compliance with environmental, health and safety laws and regulations;
- liabilities and costs in connection with hazardous substances present at certain of our facilities;
- concerns about the effects of climate change;
- failure to retain key employees;
- credit risk of our counterparties;
- risks associated with acquisitions and/or investments in joint ventures with third parties;
- cyclicality in the market prices for our pulp products;
- increases in the cost of wood, certain chemicals and other variable inputs;
- failure to adjust pulp production volumes in a timely or cost-efficient manner in response to changes in demand; economic, political and social risks in foreign countries;
- significant competition in the pulp industry;
- the expiry of the administrative concession related to our Pontevedra facilities in 2018;
- competition for land use;
- failure to obtain necessary certifications by industry standard-setting bodies;
- risks in connection with divestitures;
- adverse effects to our pulp-linked electricity-generating activities resulting from adverse circumstances
- affecting our pulp production activities;
- 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 activities;
- volatility in market electricity prices;
- the social, economic and environmental side effects of our electricity-generating activities; and
- other factors beyond our control or that are not known by us or considered by us to be material at this time.

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

The Issuer of the Notes is Ence Energía y Celulosa S.A., a *sociedad anónima* organised under the laws of Spain.

We present in these Listing Particulars the following consolidated financial statements:

- the audited consolidated annual accounts of the Issuer and its subsidiaries as at and for each of the years ended December 31, 2015 and December 31, 2016, including the accompanying notes thereto (the "*Consolidated Financial Statements*").
- the Cash Flow statement split into Restricted and Unrestricted Group.

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("*IFRS*"). The Interim Consolidated Financial Statements have been prepared in accordance with IAS 34—Interim Financial Reporting.

Unless otherwise stated herein: (i) all financial information presented herein has been derived from financial information prepared in accordance with IFRS; (ii) all financial information as at and presented herein has been derived from the Consolidated Financial Statements.

With effect from January 1, 2015 and following our decision to discontinue pulp production at our former pulp production facility in Huelva, Spain, we present our financial information under the following two business activities, which are split into our reportable segments:

Pulp Business

Our Pulp Business (as defined herein) encompasses the following reportable segments:

- *Pulp*. This segment includes the pulp production and sales activities carried out at our pulp production facilities located in Navia and Pontevedra, Spain, as well as the energy cogeneration and generation and sales activities linked to the production of pulp and integrated therein, including through the use of lignin and biomass residues derived from our pulp production processes.

- *Pulp forest assets and Forest services and other*. These two segments include our activities related to forestry for the production of raw materials used in our pulp production activities or sold to third parties, which currently primarily consist of the management of eucalyptus plantations owned by third parties pursuant to long-term forestry management contracts as well as the sourcing, purchase and supply of eucalyptus timber to our facilities.

Energy Business

Our Energy Business, which corresponds to the reporting segment of the same name, encompasses our standalone electric power generation activities. Our standalone electric power generation facilities are developed and operated separately and independently from our Pulp Business. This segment currently includes our 50MW and 41MW standalone biomass energy generation facilities in Huelva, Spain and our 20MW standalone biomass energy generation facility in Mérida, Spain. Following the discontinuation of pulp production at Huelva and with effect from January 1, 2015, we began reporting the contribution to results of our 41MW standalone biomass energy generation facility in Huelva within our Energy Busines segment.

On December 29, 2016, Ence Energía, S.L.U., 100% owned by Ence Energía y Celulosa, S.A. and holding of the "Business Energy" acquired to Enel Green Power 64.07% of the share capital of Energía La Loma, S.A. And 68.42% of Energías de la Mancha ENEMAN, S.A.

Both of the companies acquired generate power from agricultural biomass, mainly derived from olive waste. This transaction has given the Group control over both of these companies.

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.

Restricted Group and Unrestricted Group Financial Information

In addition to financial information on a consolidated basis, including both the Restricted Group and the Unrestricted Group, these Listing Particulars present certain financial information relating to the Restricted Group and certain financial information relating to the Unrestricted Group.

- *Restricted Group financial information*: Restricted Group financial information includes the results of operations, assets and liabilities of the Issuer and its Restricted Subsidiaries (that is, the companies of the Group subject to the Notes covenants). In particular, and except as otherwise described herein, Restricted Group financial information relates to the results of operations, assets and liabilities of the Issuer and its Restricted Subsidiaries which, except as described in the following sentence, exclusively engage in our Pulp Business. In connection with the separation of the Unrestricted Group from the Restricted Group, on December 2015 the Issuer has transfered its shares of Celulosa Energía, S.A.U. (which will be designated as an Unrestricted Subsidiary on the Issue Date) to Ence Energía, S.L.U., which has became the new holding company of the Unrestricted Group. As a result of the transfer, the shares and assets of Celulosa Energía, S.A.U. (which operates the 41 MW biomass energy generation facility at Huelva) has become assets of the Unrestricted Group.

- *Unrestricted Group financial information*: Unrestricted Group financial information includes the results of operations, assets and liabilities of the Issuer's Unrestricted Subsidiaries (that is, the subsidiaries not subject to the Notes covenants).In particular, and except as otherwise described herein, Unrestricted Group financial information relates to the results of operations, assets and liabilities of the Unrestricted Subsidiaries which exclusively engage in our standalone Energy Business.

As at the Issue Date, all subsidiaries of the Issuer not designated as Unrestricted Subsidiaries will be Restricted Subsidiaries, with such Restricted Subsidiaries comprising: Celulosas de Asturias, S.A.U.; Norte Forestal, S.A.U.; Silvasur Agroforestal, S.A.U.; Ibersilva, S.A.U.; and Iberflorestal–Comércio e Servicios Florestais S.A. (''*Iberflorestal, S.A.*''). For a chart indicating which subsidiaries will be Restricted Subsidiaries and which subsidiaries will be Unrestricted Subsidiaries.

In these Listing Particulars, we also present certain non-IFRS measures, including Adjusted EBITDA, Cash Costs, EBITDA, Gross debt, Net debt, Other Cash Costs, Total Costs, Unlevered free cash flow (excluding expansion capital expenditure), Wood Costs and Working capital, as well as certain leverage and coverage ratios that are not required by, nor presented in accordance with, IFRS.As used in these Listing Particulars, the following terms have the following meanings:

- "*Adjusted EBITDA*" means EBITDA (as defined below) adjusted for redundancies, provisions, other extraordinary items, and operational hedging. We present Adjusted EBITDA for the Consolidated Group, the Restricted Group and the Unrestricted Group.

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

- "*EBITDA*" means operating profit/(loss) adjusted for depreciation and amortisation, depletion of forest reserves and for impairment and gains/(losses) on disposals of intangible assets and property, plant and equipment. We present EBITDA for the Consolidated Group, the Restricted Group and the Unrestricted Group.

- "*Gross debt*" means current and non-current notes and bank borrowings plus other current and non-current financial liabilities (not including derivatives). We present gross debt for the Consolidated Group and for the Restricted Group. For the Consolidated Group, we present our gross debt both including and excluding project finance indebtedness.

- "*Net debt*" means gross debt less cash and cash equivalents less other current financial assets. We present net debt for the Consolidated Group and the Restricted Group.

- "*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.

- "*Total Costs*" means Cash Costs plus finance cost and depreciation (excluding forestry depletion charge).

- "*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.

We believe that EBITDA and similar non-IFRS financial measures are useful indicators of operating performance and are widely used in the industry by securities analysts, investors and other parties to evaluate our business and the businesses of our competitors, and have included EBITDA in particular in these Listing Particulars because we believe that it may be a useful indicator of our ability to incur and service our indebtedness.

However, EBITDA and other non-IFRS measures and ratios should not be considered in isolation and are not measures of financial performance or liquidity under IFRS, and also should not be considered as profit or loss for the period or as any other performance measure derived in accordance with IFRS or as an alternative to cash flow from operating, investing or financing activities or any other measure of liquidity derived in accordance with IFRS. EBITDA has limitations as an analytical tool, including the following:

- it does not reflect our capital expenditures and future requirements for capital expenditures or contractual commitments;

- it does not reflect changes in, or cash requirements for, our working capital needs;

- it does not reflect the interest expense, or the cash requirements necessary, to service interest or principal payments on our debt and

- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often need to be replaced in the future, and EBITDA does not reflect any cash requirements that would be needed for such replacements.

In addition, EBITDA, as we define it, may not be comparable to other similarly titled measures used by other companies, even within the same industry. EBITDA and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of these companies. Accordingly, you should exercise caution in comparing EBITDA as reported by us to EBITDA, or adjusted variations thereof, as reported by other companies. EBITDA as presented in these Listing Particulars also differs from the definition of ''EBITDA'' included within the Indenture.

Because of these limitations, EBITDA and other non-IFRS measures and ratios should not be considered as a measure of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our IFRS results and using these non-IFRS measures only supplementally to evaluate our performance.

Other Information

Pursuant to Spanish regulatory requirements, ''directors' reports'' are required to accompany our consolidated annual accounts. The directors' reports are included in these Listing Particulars only in order to comply with such regulatory requirements. Investors are strongly cautioned that the directors' reports contain information as at various historical dates and do not contain a current description of our business, affairs or results of operations. The information contained in the directors' reports has been neither audited nor prepared for the specific purposes of an offering of the Notes. Accordingly, the directors' reports should be read together with the other sections of these Listing Particulars, particularly in the sections entitled "*Risk Factors*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*," and any information contained in the directors' reports is deemed to be modified or superseded by any information contained elsewhere in these Listing Particulars that is subject to or inconsistent with it. Further, the directors' reports include certain forward-looking statements that are subject to inherent uncertainty. Accordingly, investors are cautioned not to rely upon the information contained in such directors' reports.

The financial information included in these Listing Particulars 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.

Rounding

Certain data contained in these Listing Particulars, 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 or row or the sum of certain numbers presented as a percentage may not conform to the total percentage given.

CURRENCY PRESENTATION AND CERTAIN DEFINITIONS

Currency Presentation

In these Listing Particulars:

- References to *''euro''* ''EUR'' and ''€'' are to the lawful single currency of the participating member states of the European and Monetary Union of the Treaty establishing the European Community, as amended from time to time.
- References to *''U.S. dollars,'' ''USD'' and ''$''* are to the lawful currency of the United States of America.

Definitions

For a glossary of certain industry-related terms used in these Listing Particulars, please see ''*Glossary of Selected Terms*.''

Unless otherwise indicated or the context requires otherwise, references in these Listing Particulars to "*ENCE*," the "*Group*," ''*we*,'' ''*us*'' and ''*our*'' refer to the Issuer and its consolidated subsidiaries.

In addition, in these Listing Particulars, unless otherwise indicated or the context requires otherwise:

- References to the "*Bankia Loan*" are to the April 2015 loan from Bankia, S.A. in an amount of € 15 million to finance certain capital expenditure investments in our Navia facility.

- References to the "*Bankinter Loan*" are to the December 2016 loan from Bankinter ,S.A. in an amount of € 7.5 million to finance the acquirement of the 68.42% of Energías de la Mancha ENEMAN, S.A.

- References to the "*BBVA Loan*" are to the July 2015 loan from Banco Bilbao Vizcaya Argentaria, S.A. in an amount of €15 million to finance certain capital expenditure investments in our pulp production facilities.
- References to ''*Clearstream*'' are to Clearstream Banking, *société anonyme*.

- References to ''*Consolidated Financial Statements*'' are to the audited consolidated annual accounts of the Issuer and its consolidated subsidiaries as at and for the years ended December 31, 2015, December 31, 2016.

- References to the "*Consolidated Group*" are to the Restricted Group and the Unrestricted Group, collectively.

- References to "*Energy Business*" are to our standalone energy generation activities, which will form the Unrestricted Group. Upon the completion of its transfer from the Restricted Group to the Unrestricted Group.

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

- References to "*Euroclear*" are to Euroclear Bank SA/NV.

- References to "*European Economic Area*" or "*EEA*" are to the trading area established by the European Economic Area Agreement of January 1, 1994, currently comprising the Member States of the European Union (presently, Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom and Norway, Iceland and Liechtenstein.)

- References to "*European Union*" or "*EU*" are to the European economic and political union.

- References to the "*Existing Notes*" are to the Issuer's € 250.0 million 5.375% Senior Secured Notes due 2022.

- References to the "*Existing Revolving Credit Facility*" are to the super senior multicurrency revolving facility agreement entered into on October 23, 2015 and providing for a total debt facility of € 90.0 million.

- References to "*FSMA*" are to the Financial Services and Markets Act 2000, as amended.

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

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

- References to "*Holders of the Notes*" are to any holders of the Notes who are also beneficial owners of the Notes.

- References to "*Iberflorestal, S.A.*" are to Iberflorestal–Comércio e Serviços Florestais S.A.

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

- References to the "*Indenture*" are to the indenture governing the Notes dated the Issue Date and between, amongst others, the Issuer, the Guarantors and the Trustee.

- References to the "*Initial Purchasers*" are to the firms referred to under the '*Plan of Distribution*"section of these Listing Particulars.

- 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., a *sociedad anónima* incorporated under the laws of Spain.

- 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 “*Paying Agent*” are to Deutsche Bank AG, London branch.

- References to the “*Portuguese Guarantor*” are to Iberflorestal, S.A.

- References to “*Pulp Business*” are to our pulp production and sales, pulp-linked energy generation and sales and forestry management activities, which will form the Restricted Group. Upon the completion of its transfer from the Restricted Group to the Unrestricted Group, the Biomass Boiler will no longer form part of the Pulp Business.

- References to the “*Registrar*” are to Deutsche Bank Luxembourg S.A.

- References to “*Regulated Remuneration*” are to the remuneration received by Renewable Energy Facilities pursuant to the Ministerial Order IET/1045/2014 remuneration scheme.

- 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 “*Restricted Group*” are to the entities which are described as such in the section of these Listing Particulars entitled “*Presentation of Financial and Other Information—Restricted Group and Unrestricted Group Information*.”

- References to the “*Restricted Subsidiaries*” are to the subsidiaries of the Issuer which are subject to the Notes Covenants.

- References to the “*Revolving Credit Facility Agreement*” are to the agreement providing for the Revolving Credit Facility which was entered into on October 2015, between, amongst others, the Issuer, certain subsidiaries of the Issuer listed in Schedule 1 to the Revolving Credit Facility Agreement, Banco Santander, S.A., Banco Bilbao Vizcaya Argentaria, S.A., Bankia, S.A., CaixaBank S.A., Citibank International Bank plc, Banco de Sabadell S.A. and Bankinter S.A., as arrangers, and Banco Santander, S.A., as facility agent and original issuing bank.

- References to the “*Santander Loan*” are to the December 2016 loan from Banco Santander ,S.A. in an amount of € 7.5 million to finance the acquirement to to Enel Green Power 64.07% of the share capital of Energía La Loma, S.A.

- References to the “*SEC*” are to the U.S. Securities and Exchange Commission.

- References to the “*Spanish Guarantors*” are, collectively, to Celulosas de Asturias, S.A.U., Norte Forestal, S.A.U., Silvasur Agroforestal, S.A.U. and Ibersilva S.A.U.

- References to the “*Transfer Agent*” are to Deutsche Bank Luxembourg S.A.

- References to the “Trustee” are to Deutsche Trustee Company Limited, as trustee under the Indenture.

- References to the “*Unrestricted Group*” are to the entities which are described as such in the section of these Listing Particulars entitled “Presentation *of Financial and Other Information—Restricted Group and Unrestricted Group Information*.”

- References to the “*Unrestricted Subsidiaries*” are to the subsidiaries of the Issuer which are not subject to the Notes covenants. The Unrestricted Subsidiaries are also not borrowers under or have any obligations under the Revolving Credit Facility.

- References to the “*U.S. Exchange Act*” are to the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

- References to the "*U.S. Securities Act*" are to the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

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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 outabove.

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 cause in the future, a sharp reduction in worldwide demand for our products and services, particularly for our pulp products, and may negatively impact our access to the levels of financing necessary for the successful development of our existing and future Energy Business 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 by a CAGR of 3.3%, 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. In turn, between 2011 and 2016, pulp demand increased by a CAGR of 2.4%, primarily as a result of the generally improving global economic conditions which led to a recovery in demand for pulp. During the 2016, demand for pulp continued to strengthen as a result of lower than expected capacity increases in Latin America during 2016, low levels of consumer inventories and an increase in demand from emerging markets. However, any decline in the level of economic activity in the domestic and/or international markets in which we operate could adversely affect the demand for and price of our pulp products, thereby adversely affecting our business, financial condition and results of operations.

Continuing adverse economic conditions, including uneven recovery of the credit markets and high employment in Europe, and particularly in Spain, could adversely affect our business.

During 2016 and 2015, 96% of our revenues came from Europe, with 17% and 18%, respectively, of our revenues coming from Spain, where the global economic crisis, together with a domestic real estate crisis, has caused a significant deterioration in the economy from 2009. As a result, our business has been, and may in future be, significantly affected by general economic conditions in Europe, and in Spain in particular.

Although significant measures have been taken to address the economic crisis in Spain, economic growth and recovery remain fragile and at risk. Continuing disruptions in the global economy and in the global markets may, therefore, have a material adverse effect on our business, financial condition and results of operations. Moreover, even in the absence of a global market downturn, we are exposed to volatility in our local markets, including changes in consumer and government spending, which could impact our business. In particular, sweeping regulatory changes announced in 2013 with retroactive effect had the effect of curtailing the growth of the renewable energy sector in Spain, and the loss of subsidies also forced certain operators to shut their facilities.

Further, economic instability and difficult economic conditions in Europe, particularly in Spain, have resulted in a decline in tax revenue obtained by the Spanish government, which has resulted in higher effective tax rates and, in certain cases, reduced availability of local financing.

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, 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 due to its high efficiency in energy and raw material consumption and its reduced environmental impact. 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.

In addition, we have made significant investments in the two technological processes traditionally used to perform the bleaching of pulp routinely requested by our customers to be used in the manufacture of paper. The first of these bleaching methods, known as Elementary Chlorine Free (‘‘*ECF*’’), uses a chemical called chlorine dioxide to bleach the fibres, whilst the second bleaching method, known as Totally Chlorine Free (‘‘*TCF*’’), does not use a chlorine compound to bleach the fibres. We have installed the technology necessary to bleach pulp using ECF at our facility in Navia and the technology necessary to bleach pulp using TCF at our facility in Pontevedra. To the extent that there is an increase or decrease in the demand for pulp produced by either of these processes, or an alternative bleaching process that competes with these processes emerges, we may not be able to make the necessary investments in technology which would enable us to remain competitive in a timely and cost-effective manner. This could have a material adverse effect on our business, financial condition and results of operations.

We may be materially adversely affected if operations at the pulp production, energy generation, transportation, storage, distribution and port facilities we own or utilise were to experience significant interruptions or suffer any mechanical failures or difficulties.

Our operations are dependent upon the uninterrupted operation of the pulp production, energy generation, transportation, storage, distribution and port facilities that we own or utilise. 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 labour difficulties, transportation disruptions or other disruptions affecting our supply of raw materials, particularly wood. We also typically suspend operations in each of our pulp production facilities every year, usually for around 15 days; to enable us to complete certain annual maintenance and other planned work.

During this period, no pulp is produced at the affected facility, and once the planned works have been completed, it can take two days or more for the facility to ramp up to its normal rate of pulp production. Further, 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 these facilities, whether unplanned or planned, 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 our business, financial condition and results of operations.

Further, we depend on connections 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, ourability to sell electricity will be adversely affected and our operations, revenue and financial condition may suffer as a result.

Our businesses 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.

The nature of our businesses exposes us to certain hazards which in turn could lead to fires, floods, explosions, spills and/or other accidents or dangerous conditions. 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 that location or our operations could otherwise 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 the sites on which our pulp production facilities or energy generation facilities are located, or other sites owned or managed by us or our suppliers, 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.

Further, the Spanish landscape is prone to frequent fires, and the risk of uncontrolled fires entering and burning significant areas of forest plantations is high. Under normal weather conditions, this risk is managed through comprehensive fire prevention and protection plans, but during the last decade, Spain has experienced a number of large-scale fires across vast areas of its territory. Further, there is some cause for concern that the abnormal weather conditions that lead to such fires may occur more frequently as a result of climate change. We do not insure against losses of forest timber from fire. Other catastrophic events, such as pathogen and pest infestations, wind storms, floods and other weather conditions, may also occur and are beyond our control. As a consequence, the risk of plantation fires or other catastrophic events occurring continues to be significant and may be increasing further. As is typical in the forest industry, we assume substantially all risk of loss to the timber we own from fire and other hazards because insuring for such losses is not practicable. Continued or increased losses of our sources of wood could jeopardise our ability to supply our pulp production facilities with timber from the regions in which they are located, thus increasing our Wood Costs and having a material adverse effect on our business.

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

A large percentage of our employees are represented by labour unions under collective bargaining agreements, which need to be renewed from time to time. Further, recent labour law reforms in Spain have reduced the automatic extension of union agreements from two years to only one year from the date of such agreements' respective expiration dates, thus increasing employees' incentive to negotiate for more favourable terms since the expiration of such extension would result in the employees becoming subject to the less favourable general labour regulations. We may not be able to successfully negotiate new collective bargaining agreements acceptable to all parties, which could result in labour disputes. For example, although we renegotiated and/or renewed five union agreements during 2014 (with four of these agreements now due to expire in 2017 and the remaining agreement due to expire at the end of 2018), we experienced labour disturbances, including a three-day strike, at the facility located in Navia.

We may also become subject to material cost increases or additional work rules imposed by agreements with labour unions. This could increase expenses in absolute terms and/or as a percentage of net sales.

In addition, we have in the past and may in the future seek, or be obliged to seek, agreements with our employees regarding workforce reductions, closures and other restructurings, which could result in labour disputes. For example, in October 2014 employees at our former pulp production facility in Huelva went on strike for ten days, whilst employees at our pulp production facilities in Navia and Pontevedra went on strike for four days, following the negotiation of a restructuring agreement that affected 226 employees in our former pulp production facility located in Huelva and at our headquarters in Madrid. During 2016 a three-day strike, at the facility located in Navia.

We are exposed to the transaction and translation effect of currency risk, particularly with respect to the sales of pulp denominated in U.S. dollars.

We are exposed to fluctuations in foreign currency exchange rates, and in particular to fluctuations in the value of the U.S. dollar and the euro. Whilst 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 since the benchmark sale price on the international market is in U.S. dollars per ton and we invoice our customers in U.S. dollars. Insofar as our cost structure is mainly in euros, changes in the U.S. dollar/euro exchange rate can have a significant adverse effect on our earnings. The reference currency of our consolidated financial statements is the euro and we are therefore exposed to both transactional- and translational-related exchange risks. For example, our U.S. dollar-denominated sales of pulp may fluctuate due to the appreciation or depreciation of the euro against the U.S. dollar, which could impact our revenue, whereas our cost structure, which is principally denominated in euro, would not change proportionally. In addition, the value of our pulp inventory and cash balances in U.S. dollars when translated into euro for purposes of the preparation of our consolidated financial statements may affect our balance sheet and the reporting of our working capital, including our reported net debt.

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

From time to time, we have entered into, or may in the future enter into, hedging transactions using financial derivatives instruments to protect against risks related to fluctuations in interest rates, exchange rates, the price of pulp, the price of, fuel oil and electricity used in the production process, equity swaps related to our share price and carbon dioxide (CO2) forward agreements related to our greenhouse gas emission rights. Amongst interest rate derivatives, we mostly use financial interest rate swaps. Pulp price derivatives and those of certain energy products are principally swaps and options. However, our hedging transactions may not sufficiently or adequately protect us against these risks, and 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. For example, we incurred €27.6 million in hedging-related losses in 2012, which adversely affected our results of operations, whilst in 2013; we recorded a hedging-related gain of €12.1 million and no gain or loss in 2014, €0.05 million hedging-related in 2015 and €0.7 million in hedging- related losses in 2016

We are exposed to interest rate risks as certain of our borrowings bear interest at floating rates that could raise significantly, increasing our interest cost and reducing cash flow.

Our borrowings under the Revolving Credit Facility will bear interest at per annum rates equal to EURIBOR, adjusted periodically, plus a certain spread. We will also be subject to paying periodic commitment fees in connection with the Revolving Credit Facility. In addition, we may procure additional indebtedness at floating rates in the future. The applicable interest rates could rise significantly in the future, thereby increasing our interest expenses associated with these obligations, reducing cash flow available for capital expenditures and hindering our ability to make payments on the Notes. Although we may hedge the interest rates with respect to the Revolving Credit Facility, we are under no obligation to do so under the Indenture and we may not be able to obtain such hedges, or replace such hedges on terms that are acceptable to us, and any such hedge may not be fully effective, which would expose us to interest rate risk.

Our insurance coverage may be insufficient to cover our losses.

Our insurance coverage may be insufficient to cover losses that we might incur, including in relation to possible claims for death, personal injury or property damage which may result from accidents or the failure or other malfunction of any machinery or other component within our facilities. 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. However, we do not maintain insurance coverage against all risks related to our forests, particularly in connection with risks relating 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 those that are currently in effect at 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.

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

Our operations are subject to the general supervision of various public administrative authorities, including labour, tax and environmental authorities, as well as to extensive regulation of our business and its impact on the environment, including with respect to carbon dioxide emissions. Such laws and regulations require licences, permits and other approvals to be obtained in connection with the operations of our business. In the past, we have also been required to purchase carbon dioxide emission credits commensurate with our emissions. The regulatory framework to which we are subject 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. Further, 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.

We may experience unforeseen difficulties, delays or costs in successfully implementing our business strategy, including cost-cutting initiatives, reductions in capital expenditures, the raising of capital from asset disposals and achieving previously announced targets (including some included in these Listing Particulars), and any such actions may not yield the anticipated benefits.

The successful implementation of our business strategy depends upon a variety of factors, including a number of factors that are outside of our control. We have announced a number of initiatives intended to, amongst other things, reduce recurring costs, as well as undertaken certain efficiency measures intended to reduce waste and raw material use and improve plant productivity. During 2016 we had raised €38.7 million and we and have announced an intention to raise approximately €3.0 million during 2017 through disposals from the sale of energy crop assets. These initiatives and/or planned disposals are not yet complete and the implementation of cost-cutting measures and disposals are inherently subject to various risks, including unforeseen additional costs, technical complications, labour unrest, and inability to find willing buyers for planned disposals and/or our ability to sell such assets at book value. Such measures are forward-looking in nature, are provided for informational purposes only. We can provide no assurance that we will reach these goals, and our strategy may evolve to suit changed circumstances, actual savings achieved and our ability to make capital expenditures in support of such initiatives. In addition, even if implemented, such measures may turn out to be less effective than anticipated, become effective later than anticipated or not be effective at all. Any of these outcomes, individually or in combination, may adversely impact our business, results of operations and financial condition. We do not intend to update or otherwise revise these projections to reflect circumstances existing after the date of these Listing Particulars or to reflect the occurrence of future events, even in the event that the assumptions or estimates underlying these intentions are shown to be in error.

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 facilities operate, will 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 has been reduced to an average of 131,257 tonnes of CO2 rights annually. 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, the Industrial Emissions Directive, 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 procur wood and pulp from sustainably managed forests through a number of certification schemes. Although approximately 84% of the wood send to manufacture our products during 2016 was sourced from such forests, we may be required to implement additional measures in an effort to address these concerns in the future, which may require us to invest substantial resources in adjusting and modifying our production processes.

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

Although we strive to ensure that our facilities comply with all applicable environmental laws and permits required for our operations, we have in the past been, and may in the future be, subject to governmental enforcement actions for failure to comply with environmental regulations. Impacts from historical operations, including the land or water disposal of waste materials, or our own activities may require costly investigation and clean-up. In addition, we could become subject to environmental liabilities resulting from personal injury (including from exposure to hazardous materials in the workplace), property damage or damage to natural resources 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 licences, permits and other approvals for future projects. There can be no assurance that governmental authorities will approve these environmental impact studies; or laws or regulations will not change or be interpreted in a manner that increases our costs of compliance, or materially or adversely affects our operations, facilities or our plans for the companies in which we have an investment or to which we provide our services.

Regulatory changes have affected our business historically and any future changes may have an adverse effect on our electricity generating activities.

The Spanish electricity sector is subject to extensive regulation. Whilst this applies to both conventional and renewable energy sources, renewable energy activities are often subject to more stringent compliance standards relative to conventional projects. As such, we are especially vulnerable to changes to existing regulations affecting our electricity generating activities, which may have a material adverse effect on our business.

In June 2014, the Spanish government approved regulatory framework for the electricity sector (the "*Regulatory Framework*''). This sets out a remuneration scheme for existing renewable, cogeneration and waste generation facilities (the ''*Renewable Energy Facilities''*), which will apply to our operations. The Regulatory Framework provides for regulated levels of remuneration that the government has fixed for our electricity production over three- to six-year periods. Whilst the government may alter the rate of investment return applicable to the most proximate future period, it may not alter the initial investment value or the regulatory useful life of the investment.

As a result of the implementation of the Regulatory Framework through Royal Decree Law 9/2013 Electricity Act, Royal Decree 413/2014 and Ministerial Order IET/1045/2014, we may be vulnerable to several operational risks, including the following:

(i) the Regulatory Framework creates uncertainty over whether the government may introduce a less favourable remuneration structure applicable to the most proximate future period, which may affect our ability to make adequate provisions for future operations;

(ii) our operating costs may exceed those assumed by the government in its calculation of the amount of remuneration payable under the Regulatory Framework, in which case the Regulatory Framework would not provide for a reimbursement of the additional costs incurred by us;

(iii) we could fail to meet the requisite minimum number of hours of operation per year that the Regulatory Framework sets out, which may reduce or eliminate our revenues for the relevant year (please see ''Regulation''); and/or

(iv) we could be forced to finance any temporary imbalance or deficit that is not offset through tolls and charges in an amount of up to 2% of the estimated regulated income for the year. Whilst we could claim a credit for the financed amount within a five-year period, the obligation to finance any temporary imbalance could adversely affect our financial position.

In addition to the Regulatory Framework, electricity producers are required to pay a transmission and distribution system access fee. In 2011, the government fixed this fee at € 0.50 per Mwh delivered to the network. Whilst the fee has remained unchanged to date, any decision by the government to raise the fee could adversely affect our revenues. Such annual output caps, as well as other regulatory provisions, have thus had an adverse effect on the revenues of our business historically, and may prevent us from fully realising the benefits of increases in our generation capacity and/or increases in the market price for electricity in the future.

These and other regulatory changes in the electricity sector could continue to have a material adverse effect on our business, financial condition and results of operations.

We may incur liabilities 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 release of hazardous materials including asbestos over time. The limited testing for contamination that has taken place at certain of our properties may not be sufficient to ascertain the extent of our obligations with respect to any contamination relating to any of our facilities.

Should we face claims relating to any such hazardous substances, we could incur significant costs defending such claims or damages awards arising from them and eventually from remediation measures imposed by the relevant authorities. 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 favouring 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 fibre 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.

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.

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 (for example, 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 non-recourse 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 and/or investments in joint ventures with third parties.

If we decide to make certain acquisitions and/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. Further, 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 us 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 which may be contrary to our interests. Our partners may be unable, or unwilling, to fulfil 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.

Risks Relating Exclusively to Our Pulp Business

The market prices for our pulp products are cyclical.

The prices we are able to obtain for our pulp products, from which we derived 83.3% and 84.7% and of our Restricted Group revenues and 70.3% and 74.7% of our total revenues during the year ended 2016 and 2015, respectively, depend on the prevailing world prices for market pulp. The price of cellulose 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 are 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 various 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, amongst other factors. For example, between 2011 and 2013, the price of pulp remained generally stable, which was attributable in large part to an increased demand for pulp combined with limited increases in production capacity during this period due to delays in greenfield projects in the pulp industry and closures and/or conversions of existing pulp mills. However, the price of pulp decreased in early 2014 due to weakness in demand before stabilising during the third quarter of 2014. During the last quarter of 2014 and 2015, prices began increasing again as a result of low customer inventories and increased demand for pulp. During 2016 and after a price adjustment registered in the first half of the year, the price has remained stable in the fourth quarter, closing the month of December in $ 653 per tonne.

The timing and magnitude of price increases or decreases in the pulp and paper market 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 stabilise or not decline further in the future, or that overall demand for the pulp that we produce will not decline in the future. Further, whilst most of our pulp sales contracts are one-year sales contracts, the pricing is generally based on a formula linked PIX BHKP pulp's price published by FOEX on a weekly basis. As a result, no assurance can be given that we will be able to operate our pulp production facilities in a profitable manner in the future. A significant decline in the price of one or more of our pulp products could have a material adverse effect on our net operating revenues, cash flows, operating income and net income.

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

Some of our activities require significant consumption of wood, chemicals (including caustic soda) and other inputs, and we are vulnerable to material fluctuations in their prices. Eucalyptus timber is the main raw material input for the production of cellulose pulp. Presently, we supply our production facilities primarily with local timber acquired from third-party suppliers in Spain.

If there is an insufficient supply of eucalyptus timber to meet our demand in the regions of Spain in which our facilities are located, we may be required to seek timber from alternative markets at increased purchase prices and/or with increased logistical costs, which was a particular issue for our former pulp production facility at Huelva due to its location. In addition, any scarcity in a particular area of a preferred species of eucalyptus can negatively impact the yield of our pulp production facilities. A number of factors can affect the supply of available timber, including climate conditions, fires, droughts, floods, pests, disease, ice, wind storms and other natural and man-made causes, substantial changes in the demand for pulp or other products whose raw material is timber, environmental litigation aimed at protecting forests and species habitats and/or regulatory restrictions which may impact 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 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 which 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.

Further, approximately 60% of the chemicals used for the cooking and bleaching process of our products tend to have their prices closely linked to that of electricity. Significant increases in our Wood Costs, the cost of petroleum, including the costs of chemicals whose prices are linked to it, the cost of other chemicals such as caustic soda which is necessary to complete the pulping process, or the cost of energy, as well as the costs of other inputs necessary for our business, including replacement parts such as bearings and filters, or shortages in the supply of any such products, could have a material adverse effect on our business, financial condition and results of operations.

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

If we have to operate at significant idle capacity during periods of weak pulp demand, we may be exposed to higher unit production 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. In addition, efforts to reduce costs during periods of weak demand could be limited by labour regulations or previous labour 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, which could have a material adverse effect on our business.

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

Our pulp sales outside of Spain, primarily to other countries in the European Union, accounted for 82% and 83% of our total revenue from pulp sales during 2016 and 2015 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 favourable 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 foreign countries; lower global demand for pulp, which could result in a reduction in our sales, operating income and cash flows; changes in foreign currency exchange rates particularly against the U.S. dollar), currency control measures and/or inflation in the foreign countries in which we operate; exchange and international trade controls and/or customs tariffs, particularly in developing markets; changes in a specific country's or region's economic conditions, particularly in developing markets; adverse consequences arising 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 increased logistics costs, disruptions in shipping or reduced availability of freight transportation. Whilst we attempt to manage certain of these risks through the use of risk management programmes, 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 successfully continue to 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, labour 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 pulp production facilities, receive government subsidies or have a greater breadth of product offerings than we do. Some of our competitors may also have other advantages over us, including lower raw material, energy and labour costs and fewer environmental and governmental regulations to comply with. As a result, we cannot assure you that each of our pulp production facilities will remain competitive or that we will be able to take advantage of consolidation opportunities which 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. For example, although we have undertaken continuous improvement processes at our pulp production facilities in Navia and Pontevedra in order to comply with environmental regulations and to maintain our competitiveness, in the future, we may not be able to compete successfully against pulp produced by facilities that are newer, more technologically advanced and/or better equipped to respond to changing customer demands than our facilities. Further, 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 selling prices of our products sufficiently or in time to offset the effects of increased costs without losing market share. Aggressive pricing by competitors may force us to decrease prices in an attempt to maintain market share.

Although we endeavour to maintain our competitiveness, no assurance can be given that we will be able to successfully do 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 was expected to expire in 2018, and which has been renewed until 2073. The reversion of the extension of our concession may have a material adverse effect on our operations.

Our Pontevedra facilities are constructed on a maritime terrestrial public concession awarded to us under a Ministerial Order issued in 1958. The concession deed did not specify a fixed term for the concession itself, although pursuant to the Coast Act of 1988 (the ''Coast *Act*''), the expiry date for the concession would have been in July 2018. However, in May 2013 the Spanish Parliament approved an amendment to the Coast Act which stipulated that there would be new regulations affecting the terms of, and any extensions to, such concessions. Royal Decree 876/2014 subsequently came into force in October 2014, amending the Coast Act and establishing the legal framework governing the renewal of concessions located on public domain coastal land. Pursuant to this new law, we had the right to apply for an extension of the concession granted in 1958, which, if granted, would run for a maximum of 60 years from the date when the extension application is filed.

As a result of an administrative and judicial process following a challenge to our public concession at Pontevedra, the Ministry for Agriculture, Food and the Environment issued a decision on July 30, 2015 ruling that the concession should only be partially terminated, with the land subject to such termination only comprising a wastewater treatment facility operated by a third-party utility, a submarine pipeline and sports fields and thus not affecting the land on which our Pontevedra pulp production facility is located or that is otherwise essential to our pulp production activities at Pontevedra. As a result of this decision, on July 31, 2015 we reactivated our application to the administrative authorities for the concession to be extended.

Finally, the concession was extended by virtue of a ruling issued by the Director General of Coastal and marine Sustainability, at the behest of the Ministry for Agriculture, Food and the Environment, notified to the Company on

January, 25, 2016. The extension has been granted for a period of 60 years, starting from the extension application date, November 8, 2013. The additional term granted beyond the initially-contemplated maximum term of 50 years, i.e., 10 years, is tied to execution of a series of investments appraised at €61.0 million. These investments are already contemplated in the business plan announced by the Company on November 12, 2015.

We can provide no assurance, however, that the litigants who initially challenged our concession rights under the process for the early termination of the concession and/or the litigants who have challenged the extension of our concession will not seek judicial review of the decisions by the Ministry for Agriculture, Food and the Environment date on July 30, 2015 and January 25, 2016 and such appeals, if successful, could ultimately reverse all or part of any extension of our concession which will have material adverse effect on our business, financial condition and results of operation.

Competition for land for use as eucalyptus forests for purposes of pulp production or for other crops, such as soybeans, sugar cane and other commodities, as well as difficulties sourcing sufficient quantities of certified wood, may affect our access to inputs to produce pulp.

Greater global demand for certain commodities, especially for grains and biofuel, may impact our forestry operations in that greater competition for agricultural land could impact the availability and price of such land, and thus the quantity and price of the crops grown on the land, including the eucalyptus which is crucial to our Pulp Business. Grain and biofuel production generally are economically superior to forestry activities, and as a result, prospective increases in land values may inhibit the expansion of existing forests or the growing of new forests by our existing or potential suppliers. For similar reasons, we may face difficulties in convincing third-party partners to begin or to expand the production of eucalyptus for use in the pulp industry. Certain parties have also raised concerns about the environmental and other impacts of using land for the cultivation of eucalyptus forests, which could have reputational consequences for such third-party partners and us.

In addition, difficulties in sourcing wood, and in particular eucalyptus wood, certified to the standards of the Forest Stewardship Council (a non-profit organisation dedicated to promoting responsible forest management worldwide) could impact our ability to ensure the use of such certified wood, which is required by certain clients, in our pulp production processes. There are only a limited number of wood producers in the Iberian peninsula that comply with the standards set by the FSC, so if sufficient quantities of certified wood are not available from such producers, we may be required to source certified wood from other areas, which could lead to a significant increase in our logistical and other costs. This could have a material adverse effect on our business and results of operations.

We rely on certifications by industry standard-setting bodies.

We obtain and seek to adhere to certain certifications, particularly those issued by the FSC, because we seek to conduct our activities with respect to the environment and because certain of our customers have required us to obtain such internationally recognised certifications for our products, or we comply on a voluntary basis because we believe that it confers advantages on sellers who are so certified. We incur significant costs and expenses to comply with and maintain our certifications, including assessments every five years, annual monitoring and implementation of the FSC's record-keeping requirements. If we fail to maintain any of our certifications because the FSC's policies become more onerous or through no fault of our own, our business may be harmed because our customers that require or encourage such certifications may cease buying pulp products from us, which in turn could have a material adverse effect on our business, financial condition and results of operations.

We are subject to risks in connection with divestitures.

We are examining the potential sale of some of our forestry, real estate and industrial assets (a significant percentage of which are associated with our former pulp production activities at Huelva) all of which are located in Spain. As at December 31, 2016, certain of these assets with a book value of €6.9 million are classified under IFRS 5 (Non-current Assets held for Sale and Discontinued Operations) (''IFRS 5'') as assets held for sale. However, if we are unable to complete the sale of such assets and their sale is no longer highly probable, they will cease to be classified as held for sale in our financial statements and will be measured at the lower of their recoverable amount and their net carrying amount recalculated if they had not been classified as held for sale. Pursuant to IFRS 5, assets held for sale must be measured at the lower of their carrying amount and their fair value less costs of sell. In light of the continuing economic crisis in Spain, we may be unable to realise 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 electricity generating operations in our Pulp Business may be adversely affected by any adverse circumstances affecting our pulp production operations.

During year ended December 31, 2016 and the year ended December 31, 2015, 12.9% and 12.7%, respectively, 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 mean 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.

Risks Relating Exclusively to Our Energy Business

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

Implementation of any electricity-generating biomass projects which we may decide to pursue in the future, particularly in jurisdictions outside of Spain, requires the negotiation and closing of project finance structures, reducing future capital commitments. Currently, low interest rates favour the profitability of renewable energy projects, including biomass, and limit the financial attractiveness of alternative investments. In the past, we have been and believe that we will continue to be able to reach project finance agreements on favourable terms to us. However, any change in the expected project finance conditions and a change in the low interest rates scenario 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 Energy Business requires substantial capital investments, suitable sites, qualified suppliers and administrative permits and authorisations, 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 authorisations to conduct activities within our Energy Business from various central, regional and local government bodies. We cannot guarantee that the corresponding authorities will approve or grant the necessary permits, licences and authorisations for our activities or that legislation will not be amended or interpreted in a manner which increases the costs of compliance or causes delays to our projects and investment plans.

In particular, our biomass facilities are subject to strict international, national, state and local regulations relating to their development, construction and operation (including, amongst 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 to independently raise tariffs beyond the established rates. In addition, we may be unable to adjust our tariffs as a result of fluctuations in prices of raw materials, exchange rates, labour 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.

If any one or more of these events occur, this could have 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 unfavourable to us.

Our sales from our Energy Business are partially exposed to market electricity prices.

In addition to regulated incentives, sales from certain of our projects partially depend on market prices for sales of electricity. Market prices may be volatile and are affected by various factors, including the cost of raw materials used as the primary source of energy, user demand and, if applicable, the price of greenhouse gas emission rights.

We are exposed to remuneration schemes which contain both regulated incentive and market price components. The regulated incentive component may not compensate for fluctuations in the market price component, and, consequently, total remuneration may be volatile. Generally, those facilities that benefited from a feed-in tariff regime at July 14, 2013 will receive a ''reasonable rate of return'' based on the pre-tax return on the secondary market average yield on the ten years prior to the entry into force of Royal Decree Law 9/2013 government bonds, plus 300 basis points. For new renewable cogeneration and waste facilities, the specific remuneration will be granted by a competitive tendering process respecting transparency, non-discrimination and objectivity principles.

There can be no assurance that market prices will remain at levels which enable us to maintain profit margins and desired rates of return on investment. A decline in market prices below anticipated levels could have a material adverse effect on our business, financial condition and results of 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. Our existing permits and authorisations may be subject to legal challenges by persons who consider that they have been prejudiced by our projects, whilst public and political opposition to any future 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. 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 any biomass facilities that we may develop in the future will ultimately be authorised by the local authorities or accepted by the local population. For example, the local population could oppose the construction of a biomass facility at the local government level, which could in turn lead to the imposition of more restrictive requirements.

In certain jurisdictions, including jurisdictions outside Spain, if a significant portion of the local population were to mobilise against the construction of a biomass power facility, it may become difficult, or impossible, for us to obtain or retain the required building permits and authorisations. 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 facilities.

Risks Related to the Notes and Our Structure

Market perceptions concerning the instability of the euro, the potential reintroduction of individual currencies within the countries that utilise 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 January 1, 2013 for the 16 Member States that had completed its ratification prior to this date, and, by April 1, 2014, had been ratified and entered into force within all of its 25 signatories. The Fiscal Compact places deficit restrictions on Member State budgets (other than the United Kingdom, the Czech Republic and Croatia), with associated sanctions for those Member States that violate the specified limits.

Recent developments in the Eurozone have exacerbated the economic situation. Financial markets and the supply of credit may continue to be negatively impacted by ongoing fears surrounding the sovereign debts and/or fiscal deficits of several countries in Europe, the possibility of further downgrading of, or defaults on, sovereign debt, concerns about a slowdown in growth in certain economies and uncertainties regarding the overall stability of the euro and the sustainability of the euro as a single currency given the diverse economic and political circumstances in individual Member States. Governments and regulators have implemented austerity programs and other remedial measures to respond to the Eurozone debt crisis and stabilise the financial system, but the actual impact of such programs and measures are difficult to predict.

For example, an anti-austerity party won the parliamentary elections in Greece on January 25, 2015 and subsequently formed a government with another anti-austerity party. The breakdown of negotiations between the new Greek government and its creditors led to a temporary closure of Greek banks and the imposition of capital controls. The evolving situation could result in Greece's exit from the Eurozone, which could, in turn, undermine confidence in the overall stability of the euro.

In Italy, a constitutional referendum was held on December 4, 2016. Voters were asked whether they approve a constitutional law that amends the Italian Constitution to reform the composition and powers of the Parliament of Italy. They voted "no" to the new reforms, and the first consequence was the resignation of the Prime Minister and the uncertainty that this entails.

Elsewhere, the political agenda is set to remain at the forefront in 2017 marked by the start of Brexit negotiations and general elections in Netherlands, France and Germany

These and other concerns could lead to the reintroduction of individual currencies in one or more Member States, or, in extraordinary 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.

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

We have, and after this Offering will continue to have, a significant amount of indebtedness. As at December 31, 2016, as adjusted to give effect to the Refinancing, the aggregate principal amount of our indebtedness would have been €437.8 million (of which €316.8 million aggregate principal amount would have corresponded to the Restricted Group, including €250.0 million which 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 interna 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; limiting, amongst 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 organisational measures such as mergers, changes of corporate form, joint ventures or similar transactions, and enter into transactions with related parties. In addition, the *Bankia Loan* also contains certain restrictive covenants, including financial covenants, which can restrict our ability to operate our business.

Despite our current substantial indebtedness, we may be able to incur more debt in the future, which could further exacerbate the risks of our indebtedness. Such additional debt may be structurally senior to the Notes or secured.

We may incur more debt in the future. The Revolving Credit Facility provides for total commitments of up to €90.0 million, with an additional uncommitted amount of €10.0 million, and it is expected that no cash drawings under the Revolving Credit Facility will be outstanding on the date the Notes are issued. The Indenture will limit our ability to incur additional debt but will not prohibit us from doing so. We may incur additional debt in the future, including secured debt, that could mature prior to the Notes, thus becoming structurally senior to the Notes. Any non-Guarantor subsidiary could also incur additional debt, and the Notes and Guarantees would be structurally subordinated to any such debt. In addition, the Indenture will allow us to incur certain other indebtedness. In the event of any liquidation of our assets in any bankruptcy, liquidation or dissolution, holders of secured indebtedness will have a claim prior to that of holders of the Notes to the assets that constitute such secured debtors' collateral. Holders of the Notes will participate ratably with all holders of our unsecured indebtedness that ranks equal to the Notes, and potentially with all of our general creditors in relation to our remaining assets based on the respective amounts owned to each holder and creditor. Further, we have in the past, and may in the future, engage in factoring and securitisation transactions which the terms of the Indenture will permit, and such transactions may have recourse to the receivables sold to the factoring counterparties. As at December 31, 2016, we had €47.2 million in non-recourse factoring and €56.5 million in confirming transactions outstanding.

The claims of holders of the Notes will be effectively subordinated to the rights of any future secured creditors to the extent of the value of the assets securing such indebtedness.

The Notes and the Guarantees will not be secured by any of our assets. Although the Indenture will provide for a negative pledge, it will nonetheless allow the Issuer and its Restricted Subsidiaries, subject to certain limitations, to incur secured indebtedness that will be effectively senior to the Notes and the Guarantees to the extent of the value of the assets that secure such indebtedness. In the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, administration, reorganisation or other insolvency or bankruptcy proceeding, the proceeds from the sale of assets securing any secured indebtedness will be available to pay obligations on the Notes only after all such secured indebtedness (including claims preferred by operation of law) has been paid in full. As a result, holders of the Notes may receive less, ratably, than holders of secured indebtedness. As at December 31, 2016, we had no secured indebtedness outstanding other than €107.7 million in debt related to project financings, and €15.0 million loans, all of which was held by Unrestricted Subsidiaries.

Following the Offering, the Restricted Group will continue to engage in certain transactions with the Unrestricted Group.

Following the Offering, the Restricted Group will be subject to the restrictive covenants of the Indenture, whilst the Unrestricted Group will not. We intend to develop both our Pulp Business and our Energy Business in accordance with the separate strategies articulated by our Board of Directors and discussed elsewhere in these Listing Particulars. However, due to operational and practical requirements, certain transactions between the Restricted Group and the Unrestricted Group will continue to take place. Whilst the Indenture will impose the requirement that all transactions between the Restricted Group and Unrestricted Group be conducted on an arm's-length basis, there are a number of exceptions and qualifications for certain transactions that are of a routine or ongoing nature, or that we estimate will take place in the near future. Included amongst such transactions is a cash pooling arrangement pursuant to which certain cash (ranging from approximately €10.0 million to €20.0 million at any given time) belonging to the Unrestricted Group is held by the Issuer until such payable is settled between 30 to 60 days from the date of incurrence. Moreover, as at December 31, 2016, €73.6 million was outstanding under an intragroup loan between the Issuer, as lender, and Ence Energía, S.L.U., as borrower. The Issuer has also agreed to compensate Ence Energía Huelva, S.L.U. and Ence Energía Extremadura, S.L.U. for any detriment that they may suffer as a result of their inclusion in the tax group of the Issuer for corporate tax purposes. We cannot assure you that the operation of our business as separate Restricted and Unrestricted Groups will be operationally optimal, which could constrain our ability to implement our business strategy for both our Pulp Business and our Energy Business, and could have a material adverse effect in our business and results of operations.

We have the flexibility to reinvest the proceeds from certain asset sales into the Unrestricted Group.

The Indenture will place certain limitations on our ability to make distributions, pay dividends or make investments with the net proceeds of the sale of certain assets. However, these limitations will be subject to certain exceptions. In particular, we will have the flexibility to reinvest the net proceeds generated from sales of Restricted Group assets with an initial total book of €6.9 million at December ,31, 2016 classified as held for sale as at December 31, 2016 into the Unrestricted Group, to which the holders of the Notes have no recourse, without reducing the debt of the Restricted Group or making an offer to purchase the Notes.

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, amongst 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 capitalisation 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, amongst 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 which require, amongst 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 a number of factors, many of which are 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 these Listing Particulars.

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.

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 defences.

The Guarantors will guarantee the payment of the Notes .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 will be limited under the Indenture to an amount which has been determined so as to ensure that amounts payable will not result in violations of laws relating to corporate benefit, capitalisation, capital preservation (under which, amongst others, the risks associated with a guarantee 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 capitalisation, 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 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 contained in the Indenture.

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

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

- The Guarantee was incurred with 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 undercapitalised or became undercapitalised 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.

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) void 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 favourable to you as U.S. bankruptcy laws or the insolvency laws of other jurisdictions with which you may be more familiar.

The Issuer and the Spanish Guarantors are organised under the laws of Spain, whilst the Portuguese Guarantor is organised under the laws of Portugal. Accordingly, any insolvency proceedings against the Issuer and the Spanish Guarantors would likely be based on Spanish insolvency laws or, in the case of the Portuguese Guarantor, on Portuguese insolvency laws. The insolvency laws of Spain and Portugal may not be as favourable to Holders of the Notes as the laws of the United States or some other jurisdictions. Certain provisions of Spanish and Portuguese 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 and Portuguese 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. Under Spanish law, one factor considered in determining if a party is ''specially related'' is (i) whether such party holds, directly and indirectly, 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) at the time the credit right under dispute in the insolvency scenario arises or (ii) in the event of companies belonging to the same group as the insolvent debtor and their common shareholders, provided that such shareholders meet, directly or indirectly, the minimum shareholding requirements set out before.

Under Portuguese law, a party will be deemed to be ''specially related'' if it controls the debtor or is controlled by the debtor, either directly or indirectly (control is deemed to exist if a given party (i) holds the majority of the votes in shareholders' meetings, (ii) is entitled to cast the majority of the votes under a shareholder's agreement, (iii) is able to appoint or dismiss the majority of the members of the management or supervisory boards or (iv) is otherwise able to exert a controlling influence on the other party). A party will also be deemed to be ''specially related'' if it forms a group with the debtor (a group is deemed to exist, *inter alia*, if a given party holds 100% of the other party's shares). Under both Spanish and Portuguese law, payments made under an equitably subordinated loan preceding the bankruptcy of an obligor may in certain circumstances be clawed back.

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 at December 31, 2016, we had total assets of €1,229.5 million and total debt of €437.8 million. On an aggregated basis, as at December 31, 2016, the Issuer and the Guarantors together would have generated 84.3 % of the Consolidated Group's aggregated revenue, 75.9% of the Consolidated Group's aggregated EBITDA and, as at December 31, 2016, would have held 92.8% of the Consolidated Group's aggregated assets. 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.

Our non-Guarantor subsidiaries will have no obligation to make payments with respect to the Notes or to make funds available for that purpose. In the event that any of our non-Guarantor subsidiaries becomes insolvent, liquidates, reorganises, 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.

Our Unrestricted Subsidiaries will constitute Unrestricted Subsidiaries under the Indenture governing the Notes, and will therefore not be subject to the restrictive covenants thereunder and may incur additional indebtedness without limitation in the future.

Our Unrestricted Subsidiaries, two of which have outstanding project finance debt as at the Issue Date, will be Unrestricted Subsidiaries and we will designate all future subsidiaries in our Energy Business as Unrestricted Subsidiaries. This means that, for so long as, and to the extent that, such subsidiaries remain Unrestricted Subsidiaries, the restrictive covenants contained in the Indenture governing the Notes will not apply to such subsidiaries. Accordingly, Unrestricted Subsidiaries, amongst other things, may incur unlimited project finance or other debt, will not be limited in their ability to pay dividends or make other distributions to third parties and may encumber or sell their assets without any restriction of the use of proceeds therefrom. The claims of holders of the Notes are structurally subordinated to claims made by creditors of the Unrestricted Group. We are not obliged under the Indenture to provide separate standalone historical financial information for the Unrestricted Subsidiaries. For the twelve months ended December 31, 2016, on an aggregated basis, the subsidiaries of the Issuer belonging to the Unrestricted Group generated 15.7% of the Group's aggregated revenue, 24.1% of the Group's aggregated EBITDA and as at December 31, 2016, represented 7.2 % of the Group's aggregated assets and would have had €121.0 million in indebtedness outstanding after giving effect of the Refinancing, none of which is, with the exception of a €73.6 million intragroup loan, which is currently fully drawn, between the Issuer, as lender, and ENCE Energía, S.L.U., as borrower.

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'' in the Indenture. 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 within 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 organised outside the United States. As a result, it may be difficult or impossible to serve process on any of these persons in the United States. Further, as all or substantially all of the assets of these persons are located outside 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 and Portugal, 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 these Listing Particulars who are not residents of the United States.

Our significant shareholders may decide to 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 decide to sell their stake in the Issuer in the market. In order to avoid negative distortions to and minimise the volatility of our share price as a result of 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 Spanish withholding tax, including in conjunction with the collection of certain documentation from the Paying Agent.

Under Spanish tax regulations established by Royal Decree 1065/2007 (as defined in "*Certain Tax Considerations—Spanish Tax Considerations*"), income paid by the Issuer in respect of the Notes will not be subject to Spanish withholding tax only if certain requirements are met, including that the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market on the relevant Interest Payment Dates, and 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 a current 19.0% withholding tax. 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. If such procedures are not followed, however, the Issuer will make the relevant Spanish withholding 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, whilst the Notes are represented by a Global Note, 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 none of the Issuer, the Paying Agent, the Trustee nor the underwriters will be liable for any damage or loss suffered by any Holder of the Notes 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 Spanish withholding tax. 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.

We may incur additional tax liabilities as a result of our operations in the various countries in which we conduct business.

We may be exposed to unforeseen additional taxes that are identified through future tax audits or other review actions of the relevant tax authorities, which could lead to an increase in our tax obligations. This may result from either a tax payment being levied directly on us or indirectly where we become liable as a secondary obligor for a primary obligor's failure to pay (for example, an employee's failure to pay). Spanish tax authorities and tax authorities in other European jurisdictions are routinely challenging corporate transactions, including financings such as the issue of the Notes. Any future tax audit may require us to pay additional taxes (including any accrued interest and penalties). Economic instability and difficult economic conditions in Spain have resulted in a decline in tax revenue collected by the Spanish authorities, which in the past has resulted in, and in the future may also result in, higher effective tax rates. Such an increase in tax rates may ultimately be passed on to businesses.

There are risks related to the proposed Financial Transactions Tax (''FTT'').

On February 14, 2013, the European Commission published the Commission's Proposal (as defined herein) for a Directive for a common FTT in the participating Member States (as defined herein).

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) under certain circumstances. The issue and subscription for the Notes would, however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both in and outside the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, ''established'' in a participating Member State in a broad range of circumstances, including (i) by transacting with a person established in a participating Member State or (ii) where the financial instrument that is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by January 1, 2016. However, the Commission's Proposal remains subject to negotiation by the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective investors are advised to seek professional advice in relation to the FTT.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

Unless and until Notes in definitive registered form (''*Definitive Registered Notes*'') are issued in exchange for book-entry interests (which may occur only in very limited circumstances), owners of book-entry interests will not be considered owners or holders of Notes. The common depositary (or its nominee) for Euroclear and Clearstream will be the sole registered holder of the Global Notes. Payments of principal, interest and other amounts owing on or in respect of the relevant Global Notes representing the Notes will be made to Deutsche Bank AG, London Branch, as paying agent, which will make payments to the common depositary, who will then make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to participants' accounts that hold book-entry interests in the Global Notes representing the Notes and credited by such participants to indirect participants. After payment to the common depositary for Euroclear and Clearstream, none of the Issuer, the Guarantors, the Trustee r the Paying Agent will have any responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest in the Notes, you must rely on the procedures of Euroclear and Clearstream and, if you are not a participant in Euroclear and/or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a Holder of the Notes under the Indenture.

Unlike the Holders of the Notes themselves, owners of book-entry interests will not have any direct rights to act upon any solicitations for consents, requests for waivers or other actions from Holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream or, if applicable, from a participant. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any matters or on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until the relevant Definitive

Registered Notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. We cannot assure you that the procedures to be implemented through Euroclear and Clearstream will be adequate to ensure the timely

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, 2015 and December 31, 2016 .This discussion should be read in conjunction with the sections entitled ''Presentation of Financial Information,'' ''Summary—Summary Consolidated Financial, Operating and Other Data'' and ''Selected Financial Data,'' and the Interim Consolidated Financial Statements and Consolidated Financial Statements and the related notes thereto. Amongst other things, those financial statements, which were prepared in accordance with IFRS, include more detailed information regarding the basis of presentation for the following information.

The following section discusses the results of operations and financial condition of the Consolidated Group, including the contribution of the Unrestricted Group. However, we also present additional disclosure related to the Restricted Group to assist potential investors in analysing our business, of which the Restricted Group will be subject to the restrictive covenants of the Indenture from the Issue Date and will be operated independently from our standalone Energy Business.

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 these Listing Particulars, including in the sections entitled ''Forward-Looking Statements,'' ''Risk Factors'' and ''Business.''

Overview

Our Company

We are a pulp and energy production company and rank amongst the largest pulp businesses in Europe. Our Pulp Business is the largest producer of BHKP from eucalyptus in Europe, measured by capacity, with an annual maximum installed capacity of 1,070,000 tonnes of pulp as at December 31, 2016. During the twelve months ended December 31, 2016, we produced 931,443 tonnes of pulp across our two pulp production facilities located in Navia and Pontevedra, Spain. Our pulp-linked energy generation and cogeneration activity, through which we produce energy, sell it to the grid and then repurchase it to power our pulp production facilities, had an installed capacity of 112 MW as at December 2016. In addition, as at December 31, 2016, we owned or managed, pursuant to long-term arrangements, 67,752 hectares of forest land.

Our standalone Energy Business, which is run separately from our Pulp Business, had an installed capacity as at December 31, 2016 of approximately 143 MW across three energy generation facilities located in Huelva and Mérida, Spain and including the two new facilities acquired to Enel Green Power

We are publicly listed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, through the Automated Quotation System(Continuous Market) (*Bolsas de Valores de Madrid, Barcelona, Valencia y* Bilbao, a través del Sistema de Interconexión Bursátil español, Mercado *Continuo*) with a market capitalisation of €628.2 million as at December 31, 2016. For the twelve months ended December 31, 2016, we generated Consolidated Group revenue of €605.4 million, Consolidated Group Adjusted EBITDA of €138.0 million and Consolidated Group recurrent free cash flow (excluding one off payments, expansion and environmental capex and divestments and shareholders remuneration) of €109.1 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.

Pulp Business

Pulp Demand and Prices

Long-term demand for pulp is driven by global economic and demographic trends, technological developments and trends in end-user preferences, including demand for paper products and the adjustment of production capacity in response to changes in such 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 and/or significant contractions in demand due to weak economic conditions have led to decreases in product prices during previous industry cycles.

In Europe, BHKP prices fluctuated from approximately $649 per tonne to $786 per tonne during 2012; from $768 per tonne to $821 per tonne during 2013; from $724 per tonne to $771 per tonne during 2014; and from $743 per tonne to $790 per tonne during 2015 and from $782 per tonne to $653 per tonne during 2016. During the periods under review, our results of operations were affected by the interaction of these variables affecting, and relating to, pulp prices and production.

The results of operations of the Restricted Group are dependent on pulp sales, with pulp sales accounting for 83.4% of Restricted Group revenues during on December 31, 2016. The international market prices for pulp have historically fluctuated significantly, and we believe that they will continue to do so due to global economic developments. Significant increases in the international market price for pulp, and, consequently, the prices that we are able to charge customers, are likely to increase our Restricted Group revenues and Restricted Group results of operations. Conversely, significant decreases in the international market price of pulp and, consequently, the prices that we are able to charge customers, are likely to reduce Restricted Group revenues and Restricted Group results of operations.

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, Restricted Group 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 tonne is a reflection of this price in U.S. dollar per ton. Restricted Group sales of energy, as well as most of Restricted Group 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, Restricted Group revenue from pulp sales increases. However, when the U.S. dollar depreciates against the euro, Restricted Group revenue from pulp sales decreases. Our Cash Costs are denominated in euro and therefore the effect of currency fluctuations, particularly during periods in which the euro is appreciating against the U.S. dollar, can accentuate the impact of changes in pulp prices since the transaction exposure may make our sales less cost-effective; however, during periods in which the euro is depreciating against the U.S. dollar, the transaction effect can contribute to our results of operations. For example, based in 2016, a 5% appreciation of the dollar against the euro would have increased Restricted Group revenue (before hedges) by approximately 4.1%.

We continuously analyse 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. Our risk management policy with respect to hedging takes into account our financial position and investment plans, the medium-term outlook for exchange rates and the estimated returns from locking in exchange rates through the use of currency derivatives to hedge future pulp sales. Our strategy is to close monthly hedges for a eighteen-month period (although this can extend to up to 24 months, depending on exchange rate levels) through the use of derivatives that are considered hedging instruments from an accounting perspective (for example, futures or ‘‘plain vanilla’’ options). We are currently hedging approximately 70%-75% of our expected pulp sales for the twelve -month period ended December 31, 2017 and 50%-60% of the next three months (January, 2018- March 2018) and 10% of the period April 2018-December 2018.

Operational Productivity and Efficiency

Our profitability can be affected by the productivity and efficiency of our operations. Accordingly, we have implemented our Total Quality Management programme and, beginning in May 2014, our Competitiveness Recovery Plan, across our different business activities in order to optimise our cost structure and increase the productivity, efficiency and fully leverage the complementary nature of our pulp manufacturing, energy generating and forestry activities. For example, as a result of the above initiatives, our Cash Costs decreased by 3.9% from 355 per tonne for the year ended December 31, 2015 to 341 per tonne at ended December 31, 2016.

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 and chemicals (including caustic soda). Raw material costs are a significant component of our Cash Costs (defined as Wood Costs plus Other Cash Costs).

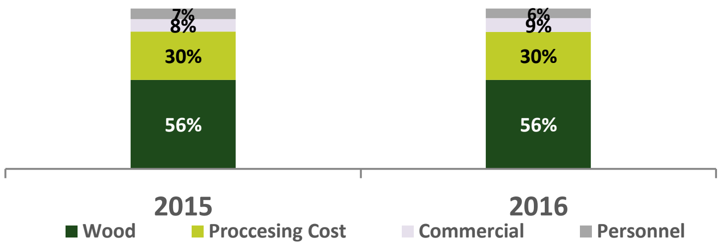
The principal raw materials used in the manufacture of our pulp are wood and chemicals, with the cost dynamics of each such input briefly described below.

- *Wood.* Wood Costs accounted for slightly more than 50% of our Cash Costs. Eucalyptus wood is the principal raw material used by us to manufacture pulp. Of the total amount of wood supplied, 97.5% and 98.6% was obtained from local suppliers or landowners in the Iberian Peninsula during the 2015 and 2016 respectively, with the wood for these same periods 2.5% and 1.4%, respectively, being sourced from our own plantations in the Iberian Peninsula. The price we pay for 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 (with certain species preferred as a result of their higher production yields and other characteristics), 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.

- *Chemicals*. Chemicals accounted for approximately 8.0% and 7.9% of our Cash Costs during the years ended December 31, 2015 and during December 31, 2016, respectively. We use a number of chemicals, including caustic soda, cryogenic oxygen, ethylenediaminetetraacetic acid (''EDTA''), sodium chlorate, hydrogen peroxide, sulphate 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 60% of the chemicals we use tend to have their prices closely linked to that of electricity.

We are focused on tightly controlling our raw material costs as well as diversifying our supplier base and reducing our dependency on imports. We have implemented a number of cost-saving measures focused on the continuous improvement of our operations, including as a part of our Total Quality Management programme first introduced in 2011 and our Competitiveness Recovery Plan introduced in May 2014. Our Total Quality Management program is designed to ensure 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 programme intends to continue the diversification of 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. Our Competitiveness Recovery Plan introduced in May 2014 also includes certain measures aimed at reducing our raw material costs, including through increased efficiency in our pulp production processes and further reductions in the costs of certain chemicals.

As a result of our focus on controlling our costs, we have managed to reduce Cash Costs by 3.9 % between the year ended 2015 and the year ended December 31, 2016, as illustrated by the graphic below.



Energy Businesses

Energy Costs

Our energy costs include the cost of electricity and the cost of non-biomass and biomass fuels. The cost of electricity in particular constitutes a significant component of our costs, particularly for our pulp production processes. During the year December 31, 2016, electricity costs were equivalent to 5.2%, respectively, of our Consolidated Group revenues.

The principal energy costs incurred in the manufacture of our products are as follows:

- *Electricity*. During the years ended December 31, 2016, energy costs were equivalent to 9.0%, of our consolidated Cash Costs. We currently do not enter into hedging activities with respect to electricity costs for our Pulp Business, since we have a natural hedge in that the market effects on the electricity that we buy to operate our Pulp Business are also applicable to the electricity that we sell as part of our Pulp Business. However, we entered into hedging activities in relation to electricity costs for our Energy Business during the year ended December 31, 2016 hedging all of the electricity generated by our Energy Business for the first half of 2017 at 45.25/MWh and for the second half of 2017 at 44.95/MWh).

- *Non-biomass fuel*. Non-biomass fuels accounted for approximately 5.03% and 3.6 % of our consolidated Cash Costs during the years ended December 31, 2015 and December 2016, respectively. Although we believe that we have a reliable supply of energy for our pulp production facilities as a result of the electricity generated by our standalone facility at Navia and the heat produced by our cogeneration facilities, our energy production activities require us to supplement the biomass being used as fuel with certain fossil fuels which, unlike biomass, are not generated through our other activities. The non-biomass fuels that we use in our operations are comprised primarily of fuel oil, propane and petroleum coke.

- *Biomass fuel.* The cost of biomass fuels, mainly forestry and agricultural waste, constitutes the primary component of the costs of our standalone Energy Business. During the years ended and December 31, 2015 and during 2016, biomass fuel costs were equivalent to 33.0% and 34.0%, respectively, of our Unrestricted Group revenues.

Factors Affecting the Comparability of Our Results of Operations

Change in the Presentation of Our Segments

Prior to January 1, 2015, we presented our business in our consolidated financial statements through separate reportable segments comprised of Biomass energy projects, Pulp & Energy, Pulp forest assets and Forest services & other.
As a result of our continuing process of transformation and adaptation to the new market environment and to our business structure, effective January 1, 2015 we began presenting grouped together in our consolidated financial statements those segments which are closely linked to our pulp business. We believe that this new presentation enhances the disclosure of the way in which our businesses are managed, including through the presentation of separate information about the nature and the financial results of our businesses, and we intend to continue to present our business through these segments going forward.

Consequently, our segments of Pulp (which was called Pulp & Energy prior to December 31, 2014), Pulp forest assets and Forest services & other, which have historically been presented on a separate basis, now comprise and are presented as the Pulp Business. Our segment of Energy (which was called Biomass energy projects prior to December 31, 2014), which comprises our standalone energy generation business, now comprises and is presented as the Energy Business. We have not aggregated our reportable segments under the Pulp Business because they do not meet the aggregation criteria established in IFRS 8 (*Operating Segments*).

Prior to January 1, 2015, the results of operations of Celulosa Energía, S.A.U. were classified in the Pulp & Energy segment, because they corresponded to our pulp production activities at Huelva, including, in addition to a 50 MW cogeneration facility with gas, the 41 MW energy generation facility in Huelva which was shut down during the second half of 2014 following the discontinuation of pulp production at our facility in Huelva in October 2014 and was then re-opened as a standalone biomass energy facility in November 2014. With effect from January 1, 2015, we began to report the results of operations of our subsidiary Celulosa Energía S.A.U. in our Energy Business. This segment currently includes our 50 MW and 20 MW standalone biomass energy generation facilities at Huelva and Mérida, Spain, respectively, as well as our 41 MW standalone biomass energy generation facility at Huelva. As a result, and with a view to facilitating comparisons across periods, the results of operations of Celulosa Energía S.A.U. for the ended December 31, 2014 have also been classified in the Energy Business segment for comparative purposes.

Renewable Energy Production Incentives

Our energy generation activities depend significantly on regulations and economic incentives and subsidies aimed at promoting the greater use of renewable energies. Revenue generated from our production of electricity depends to a large extent on the economic regime established in Spain to incentivise renewable energy generation and cogeneration, which underwent sweeping reforms during recent financial periods as the Spanish government sought to reduce the amount of subsidies it was spending on the renewable energy sector. The new regulations reduced and eliminated certain of these incentives, which adversely impacted our financial condition and result of operations during these periods.

Law 24/2013 (26 November 2013), the Electricity Sector Act, establishes the economic and financial stability of the electricity system, limiting structural tariff deficits, as the governing principle. This piece of legislation abandons the former distinction between the 'ordinary', or conventional, and 'special', or renewable, regimes, introducing a single set of regulations, without prejudice to unique considerations potentially requiring regulation, and it establishes a remuneration regime applicable to electricity generated from renewable sources, co-generation and waste based on the pool prices fetched by these facilities in the market, topped up by specific regulated remuneration designed to enable these technologies to compete with the other generation technologies on an even footing.

Framed by the overriding principle of ensuring the electricity system's economic and financial sustainability, any regulatory measure that drives an increase in system expenditure or reduction in its revenue must be associated with a balancing measure to ensure the system's equilibrium. As a result, the possibility of a new tariff deficit is ruled out, by means of the introduction of the obligation to automatically revise, from 2014 onwards, system tolls and royalties if the temporary mismatches between revenue and expenses in the electricity system exceed: 1) 2% of estimated system revenue in a given year; or 2) the debt accumulated in prior years exceeds 5% of the system revenue estimated for a given year.

The portion of any mismatch that, without exceeding the above thresholds, is not offset by increases in tolls and royalties, must be financed by the parties covered by the settlement system in proportion to the revenue corresponding to them for the activities they carry out. Any amounts so financed will be repaid in the settlements corresponding to the following five years and shall be entitled to interest.
Royal Decree 413/2014 was published on 10 June 2014, regulating the production of electric power by means of renewable sources, co-generation and waste, establishing the methodology underpinning the specific remuneration regime applicable to facilities that fail to cover their costs by enough of a margin to enable them to compete with the rest of the generation technologies in the market on an even footing, thereby generating a reasonable return based on benchmark facilities for each affected class of technology. The new remuneration regime consists of the sum of:

- "Remuneration on investment" (€/MW), which is designed to cover any investment costs that cannot be recouped by selling electricity in the market;

- "Remuneration on operations" (€/MWh), which is designed to cover any shortfall between operating costs and the revenue obtained in the electricity market.

The new remuneration system is calculated on the basis of a standard facility throughout its useful life for regulatory purposes and benchmarked against the activities of an efficient and well-managed company articulated around the following parameters: 1) the revenue derived from the sale of energy; 2) the operating expenses needed to run the business; and 3) the amount of the upfront investment.

The premise underpinning this remuneration system is the provision of a reasonable return on investment, which is defined on the basis of the yield on the 10-year Spanish government bond plus a spread, initially set at 300 basis points for the first regulatory period, which ends on 31 December 2019 (i.e., a pre-tax ROI of 7.398%).
The regime establishes regulatory periods of six years and stub periods of three years. The remuneration parameters related with pool price forecasts can be revised every three years, factoring in any mismatches arising during the stub period in question. Every six years the authorities can revise the standard facility parameters other than the amount of initial investment and the facilities' regulatory useful lives, which will remain unchanged throughout. The regime also envisages the possibility of revising the interest rate used for remuneration purposes every six years, albeit only prospectively. The remuneration provided for operating a given technology depends on fuel prices and can be adjusted at least once a year.

The 'interruptibility' demand-side management service, for which the Pontevedra and Navia plants are signed up, consists of reducing their active power consumption in response to a power reduction order from the system operator. Such an order is given depending on the needs arising in the operation of the electricity system and is based on safety and lowest cost criteria. The interruptibility service is allocated using a competitive auction mechanism managed by the system operator, as stipulated in Ministerial Order IET/2013/2013, thereby guaranteeing effective provision of the service and its provision at the lowest cost for the system.

Dispositions and Changes in Business Focus

Dispositions can have a substantial impact on our results of operations. During the periods under review, we have disposed of significant assets, particularly assets used in conjunction with our forestry activities. For example, in 2012, we divested forestry-related assets in Uruguay and, in December 2013, we divested forestry-related assets in Portugal. These disposals are in line with our strategy to optimise and diversify our local forestry supply management with a focus on reducing wood imports and fixed assets. We intend to continue to look for opportunities to reduce our forestry asset base, particularly our remaining forestry lands in southern Spain where we no longer engage in pulp production. During 2016 we had raised €37.5 million and we have announced an intention to raise approximately €2.0 million during 2017 through disposals from the sale of energy crop assets.

We are also continuing the process of gradual disengagement from our forestry activity, which includes, in addition to a focus on reducing fixed assets (as evidenced by our December 2013 divestiture of forestry-related assets in Portugal), the exiting of the forestry consultancy services business.

Explanation of Key Line Items

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

Revenue

Revenue from pulp includes revenue generated from pulp sales, energy sales from generation facilities related to pulp production and revenues associated with forestry management. Revenue from pulp sales is calculated from the volume of pulp sold in the period multiplied by a net price in euros. The net price, in turn, is calculated through the conversion of the reference price in U.S. dollars agreed with the customer into euros and applying the agreed commercial discount. Revenue from energy sales is calculated the same way as per our Energy Business (noted below). Revenue from forest management relates to our sales to third parties and is comprised of revenues derived from our forestry services.

The Ministerial Order IET/1045/2014 remuneration scheme (which impacted retroactively our results since July 14, 2013), power facilities will be entitled to the Regulated Remuneration. Current regulations permit 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). We currently sell 100% of the energy generated by our Pulp Business to the grid and repurchase 100% of the energy required for our Pulp Business from the grid. During 2016, we produced within our Pulp Business approximately 1.43 Times the amount of electricity that we consumed.

Gains or losses on hedging transactions

Gains or losses on hedging transactions 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. We also hedged energy sales in order to counteract fluctuations in the prices of certain types of energy that we use in our Energy Business that impacts our costs of production.

Changes in inventories of finished goods and work in progress

Changes 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.

Purchases

Purchases 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.

Own work capitalised

Own work capitalised primarily includes the capitalisation of expenses related to biological assets (eucalyptus plantations).Items capitalised 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 fertiliser.

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.

Government grants taken to income

Capital grants transferred to profit and loss relate to investments in our production centres and, to a lesser extent, to subsidies for operations. 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 at January 1 of each year.

Employee benefits expense

Employee benefits expense includes 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 recognised as an expense in the year in which the decision to terminate the employment relationship is taken.

Depreciation and amortisation

Depreciation and amortisation 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.

Depletion of forest reserves

Depletion of forest reserves represents the value used up when the plantations are harvested, recognised as an expense under ‘‘depletion of forest reserves’’ in the income statement at incurred production costs. The criteria for allocating costs to trees felled takes into consideration total costs incurred as at the date the wood is cut and the residual value of the plantation.

Impairment of and gains/(losses) on disposals of intangible assets and property, plant and equipment

Impairment of and gains or losses on disposals of intangible assets and property, plant and equipment 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 the cost of transport, freight and marketing, utilities, repairs and maintenance, leases and royalties, insurance, costs associated with the CO2 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 comprising 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 comprising 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 interest rate swap derivatives used to hedge our floating rate bank debt related to our project financing arrangements for our facilities in Huelva and Mérida.

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 and pulp sales made in U.S. dollars).

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, 2015 Compared to the Year Ended December 31, 2016

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.

	12 months ended December 31		
	2016	**2015**	**Percentage change**
Revenue	**605,4**	**663,9**	-8,8%
Of which: Restricted Group Revenue	*514,3*	*569,8*	-9,7%
Of which: Unrestricted Group Revenue	*96,0*	*97*	-1,0%
Gain/(loss) on hedging transactions	1,0	-1,6	-160,7%
Changes in inventories of finished goods and works in progress	1,1	4,8	-76,9%
Purchases	-268,3	-273,3	-1,8%
Gross Profit/(Loss)	**339,3**	**394,1**	-13,9%
Own work capitalised	6,5	9,5	-31,1%
Other operating income	5,2	6	-13,1%
Government grants taken to income	2,4	2,6	-6,3%
Employee benefits expense	-68,4	-62,5	9,5%
Depreciation and amortisation	-69,7	-59	18,2%
Depletion of forest reserves	-7,2	-8,2	-12,8%
Impairment and gains/(losses) on disposals, intangible assets and property, plant and equipment	24,0	8,6	179,5%
Other operating expenses	-159,5	-157,9	1,0%
Operating Profit/(Loss)	**72,7**	**133,2**	-45,4%
Finance income	0,3	0,3	-5,0%
Change in fair value of financial instruments	-0,1	-14	-99,3%
Finance costs	-20,4	-53,9	-62,2%
Exchange differences	-1,4	1,4	-203,3%
Financial gain/(loss)	**-21,6**	**-66,2**	-67,3%
Net result from sale of non-current assets classified as held for sale	—	—	
Profit/(Loss) before tax	**51,1**	**67**	-23,7%
Income tax	-12,4	-17,2	-28,0%
Profit/(Loss) for the period from continuing operations	**38,7**	**49,9**	-22,4%
Profit/(Loss) for the period	**38,7**	**49,9**	-22,4%
Consolidated Group Adjusted EBITDA	**138,0**	**199,5**	-30,8%
Restricted Group Adjusted EBITDA	**104,0**	**169,6**	-38,7%
Unrestricted Group Adjusted EBITDA	**34,0**	**31,2**	9,0%

Revenue

Our revenues decreased by €58.5 million to €605.4 million as at December 31, 2016, from €663.9 million a 8.8 % decrease. This decrease was primarily attributable to a drop in pulp revenues made during the twelve months ended December 31, 2016 as a result of a decrease in the price of pulp during this year and has been partially offset with the growth in sales volumes in 2016 in line with the growth in pulp production in the wake of two successive 20,000-tonne capacity expansions at the Navia.

Restricted Group revenue

The following table sets out Restricted Group revenue by products and services in the periods presented:

	2016		2015		
	Revenue by activity	Revenue by activity	Revenue by activity	Revenue by activity	Percentage Change
	(€ in millions)	(%)	(€ in millions)	(%)	(%)
Pulp sales	431,7	84,0%	484,2	85,0%	-10,8%
Electricity sales	66,6	13,0%	72,2	12,7%	-7,8%
Wood and forestry services	15,9	3,1%	13,3	2,3%	19,2%
Revenue	**514,3**		**569,8**		

Restricted Group revenue decreased by €55.5 million to €514.3 million in the twelve months ended December 31, 2016 from €569.8 million in the twelve months ended December 31, 2015, a 9.7% decrease. This decreased has been balanced with the increased in the production by-product of the new capacity insatalled in our Navia facility.

The geographic distribution of our pulp sales during 2016 were primarily outside Spain (which comprised 18% of our total pulp sales by volume in 2016, compared to 17% during 2015), with the percentage of pulp sales by volume made to Italy and Poland markets increasing slightly compared to the year 2015 and the percentage of pulp sales by volume made to Germany and Western European markets decreasing slightly.

Unrestricted Group revenue

Unrestricted Group revenue decreased by €1.0 million to € 96.0 million as at December 31, 2016, from €97.0 million as at December 31, 2015, a 1.0% decrease. This decreased has been limited thanks to the growing contribution of the Mérida 20-MW plant

Gains or losses on hedging operations

We recorded a €1.4 million loss on hedging transactions in the period ended December 31, 2016, compared to an impact of €1.0 gains in 2015. The loss in the in the period ended December 31, 2016 was primarily attributable to the maturity of certain outstanding currency options

Changes in inventories of finished goods and work in progress

Changes in inventory of finished goods and works in progress decreased by 76.9% to €1.1 million in as at December 31, 2016, compared to €4.8 million in 2015, which was primarily attributable to the shutdown of the Huelva pulp production facility in October 2014 and the sale of its pulp inventories.

Purchases

Purchases decreased by €5.0 million to €268.3 in the period ended December 31, 2016 from € 273.3 million in the period ended December 31, 2015, a 1.8 % decrease. This decrease was largely attributable to the timber supply costs that were 4.7% lower year-over-year thanks to the decision in the fourth quarter of 2015 to tie timber prices to pulp prices, triggering three price reductions of €1/tonne over the course of 2016 (in February, April and September). This was partially offset in cash cost terms by increased consumption per tonne due to the use of less productive eucalyptus varieties.

The following table sets out the items that constituted our purchases in the periods presented:

	Year ended December 31,		
	2016	2015	Percentage change
	(€ in millions)		(%)
Purchases	235,7	239,5	-1,6%
Changes in inventories of raw materials, other materials and merchandise	2,6	0,6	328,7%
Other external expenses	30,0	33,2	-9,8%
Total	**268,3**	**273,3**	

Own work capitalised

Own work capitalised decreased by € 3.0 million to €6.5 million during 2016 from €9.5 million in 2015, a 31.1% decreased. This decrease was primarily due to reduced investment in energy crops and the selectively divesting our owned forestry asset.

Other operating income

Other operating income decreased by €0.8 million to €5.2 million in 2016 from €6.0 million in 2015, a 13.1% decrease.

Government grants taken to income

Government grants taken to income decreased by €0.2 million to €2.4 as at December 31, 2016 from €2.6 million in 2015, a 6.3% decrease, primarily attributable to a decrease in the number and value of CO2 rights received in previous years.

Employee benefits expense

Employee benefits expense increased by €5.9 million to €68.4 as at December 31, 2016 from €62.5 million in 2015, a 9.5% increase.
The following table sets out that constituted our employee expenses in the periods presented:

	Year ended December 31,		
	2016	2015	Percentage change
	(€ in millions)		(%)
Wages and salaries	51,1	45,2	13,1%
Social security costs	14,8	13,6	9,2%
Pension contributions and other employee benefit costs	1,0	3,3	-70,5%
Termination benefits	1,5	0,4	281,1%
Total	**68,4**	**62,5**	

Depreciation and amortisation

Depreciation and amortisation increades by €10.7 million to €69.7 million as at December 31, 2016 from €59.0 million in 2015, a 18.2% increased which was primarily attributable to a large write-down for impairment on certain industrial assets at our pulp production facility in Huelva following its closure in October 2014.

Depletion of forest reserves

Depletion of forest reserves decreased by € 1.0 million to €7.2 million as at December 31, 2016 from € 7.2 million in 2015, a 12.8% decrease.

Impairment of and gains/(losses) on disposals, intangible assets and property, plant and equipment

We recorded a €24.0 million gain as at December 31, 2016 compared to a €8.6 million in 2015, a 179.5% increase both of which were primarily due to divestments of certain forestry assets

Other operating expenses

Other operating expenses increased by €1.6 million to €159.5 million during 2016 from €157.9 million in 2015, a 1.0% increased. This increased Include consulting expenses for the improvement of plant efficiency and the impact of extraordinary machinery failures.

External services:

	Year ended December 31,		
	2016	2015	Percentage change
	(€ in millions)		(%)
Outside services:			
Transport, freight and marketing costs	32,9	33,9	-2,9%
Utilities	32,1	37,9	-15,3%
Repairs and maintenance	21,3	21,0	1,2%
Leases and royalties	5,0	4,8	3,8%
Insurance premiums	3,4	3,9	-13,4%
Independent professional services	4,1	4,8	-14,0%
Banking and similar services	1,2	1,4	-16,1%
Advertising, publicity and public relations	0,7	0,7	-8,4%
Research and development expenses	1,6	1,4	14,8%
Other services	26,7	25,4	5,1%
Total outside services	**128,8**	**135,2**	**-4,7%**
Use of emission allowances	1,6	1,7	-2,8%
Taxes other than income tax and other management charges	3,5	3,5	-1,1%
Electricity generation levy	11,3	11,8	-4,1%
Change in impairment provisions for inventories and bad debt	-0,2	0,5	-142,9%
Other non-recurring charges	14,5	5,3	172,6%
Total	**159,5**	**157,9**	**1,0%**

Operating profit/(loss)

Profit from operations decreased by 45.4 % to €72.7 million from €133.2 million 2015 to 2016. This decreased was primarily attributable to decreased in pulp prices.

Finance income

Finance income has mantained as € 0.3 million, as the same level as 2015.

Change in fair value of financial instruments

We recorded a €0.1 million loss in 2016 compared to a €14.0 million loss in 2015. The loss in 2015 was primarily due to and the interest rate swaps associated with the project finance facilities funding the 50-MW project in Huelva and the 20-MW project in Mérida qualified as accounting hedges at 31 December 2014.

Finance costs

Finance costs decreased by €33.5 million to €20.4 million in 2016 from €53.9 million in 2015, a 62.2% decrease. This decrease was attributable to the margin reduction of the project finance debt and the margin in the existing notes.

Exchange differences

We recorded a €1.4 million currency exchange loss in 2016 compared to a gain of €1.4 million 2015. This loss was primarily attributable to our account receivables and trade creditors.

Financial gain/(loss)

Financial loss decreased by €44.6 million to €21.6 million in 2016 from €66.2 million in 2015, a 67.3% decrease, primarily due to lower finance costs.

Profit/(loss) before tax

Profit/(loss) before tax decreased by 23.7 % to €51.1 million gains in 2016 from a € 66.2 million loss in the 2015. This decreased was primarily due to lower pulp prices.

Income tax

Income tax decreased by 28.0% to a €12.4 million expense in 2016 from a credit of €17.18 million in 2015.

Profit/(loss) for the period from continuing operations

Profit from continuing operations decreased by 22.4% to a €38.7 million profit in 2016 from a €49.8 million loss in 2015.

Consolidated Group Adjusted EBITDA

Consolidated Group Adjusted EBITDA decreased by 61.5 to €138.0 million during 2016 from €199.5 million in 2015. The decreased was primarily attributable to the lower pulp prices.

Restricted Group Adjusted EBITDA

Restricted Group Adjusted EBITDA decreased by €65.6 million to €104.0 million as at December 31, 2016 from €169.6 million in 2015. The decreased was primarily attributable to the decreased in pulp prices.

Unrestricted Group Adjusted EBITDA

Unrestricted Group Adjusted EBITDA increased by €2.8 million to €34.0 million in 2016 from €31.2 million in 2015. This increase was primarily attributable to the contributions of the new 20 MW standalone energy generation facility at Mérida beginning in September 2014 and the 41 MW biomass energy generation facility at Huelva which was part of the Restricted group since December 2015

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, factoring operations, and, from time to time, the debt and equity capital markets. In October 2015, we issued the Existing Notes and raised €250.0 million of proceeds (before transaction fees and expenses in connection with the offering) which we used to reduce our indebtedness and repay existing interest rate swaps related to our existing credit facilities. Our principal uses of cash are for working capital needs, 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

Following this Offering, 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.

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.

The following table sets out our cash flow data for the periods presented:

	Year ended December 31,		Percentage change
	2016	2015	
	(€ in millions)		(%)
Cash Flow Data:			
Cash flows from/used in operating activities:			
Consolidated profit for the year before tax	51,1	67,0	-23,8%
Adjustments for:			
Depreciation and amortization charge	67,2	57,2	17,6%
Depletion of forestry reserve	7,2	8,2	-12,6%
Amortization of intangible assets	2,5	1,8	38,6%
Changes in provisions and other deferred expenses (net).	5,7	2,8	105,6%
Gains/losses on disposal of non-current assets	(24,0)	(9,0)	167,3%
Finance income	(0,3)	(0,3)	-17,2%
Finance costs	21,8	66,9	-67,4%
Grants and subsidies transferred to profit and loss	(1,7)	(2,0)	-14,2%
Changes in working capital:			
Trade and other receivables	37,1	(22,1)	-267,9%
Current financial and other assets	(0,9)	(0,2)	437,2%
Current liabilities	(11,4)	(9,2)	24,1%
Inventories	0,8	(4,1)	-119,7%
Other cash flows from operating activities:			
Interest paid	(24,3)	(47,5)	-49,0%
Interest received	0,3	0,3	-17,2%
Income tax recovered (paid)	(8,3)	0,7	-1217,3%
Net cash flows from/used in operating activities	**122,8**	**110,6**	**11,0%**
Cash flows from/used in investing activities:			
Investments:			
Property, plant and equipment	(61,0)	(54,0)	13,1%
Intangible assets	(6,5)	(5,2)	24,3%
Other financial assets	(30,1)	(0,1)	42287,3%
Disposals:			
Property, plant and equipment	38,7	32,3	19,9%
Other financial assets	0,0	0,0	n/a
Net cash flows from/used in investing activities	**(58,9)**	**(27,0)**	**118,4%**
Cash flows from financing activities:			
Proceeds and payments relating to equity instruments:			
Purchase of treasury shares	(39,4)	(1,1)	3503,6%
Disposal of treasury shares	30,3	5,0	504,0%
Proceeds and payments relating to financial liability instruments:			
Increase/(decrease) in bank borrowings, net of loan arrangement costs	26,9	37,6	-28,6%
Grants and subsidies received	(0,4)	2,0	-120,7%
Dividends	(32,7)	(35,8)	-8,7%
Financial instruments (equity swaps)	0,0	(5,3)	-100,0%
Translation difference	0,0	0,1	-100,0%
Financial deposit	0,0	0,0	n/a
Net cash flows from financing activities	**(15,3)**	**2,5**	**-716,0%**

Net cash flows from/(used in) operating activities

During the twelve months ended December 31, 2016, our net cash flow from operating activities was €122.8 million, compared to €110.6 million during the twelve months ended December 31, 2015, an increase of €12.2 million. This increase was primarily due lower finance cost.

Net cash flows from/(used in) investing activities

During the twelve months ended December31, 2016, our net cash flow used in investing activities was €58.9 million, compared to €27.0 million used during the twelve months ended December 31, 2015. This was primarily due the acquisition to Enel Green Power 64.07% of the share capital of Energía La Loma, S.A. And 68.42% of Energías de la Mancha ENEMAN, S.A., both dedicated to the generation of energy with agricultural biomass mainly from the olive, for an amount of € 22.5 million.

Net cash flows from/(used in) financing activities

During the twelve months ended December 31, 2016, our net cash flow from financing activities was €- 15.5 million, compared to €2.5 million for the twelve months ended December 31, 2015.Our principal sources and uses of cash in the financing activities were:

- a €32.7 million dividend payment to our shareholders during 2016

- a €7.5 million Bankinter Loan and €7.5.million Santander Loan to finance the acquirement of the two standalone to Enel Green Power .
- a €9.1 million relating to equity instruments.

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,		
	2016	2015	Percentage change
	(€ in millions)		(%)
Inventories	43,6	40,2	8,4%
Trade and other receivables	80,2	122,0	-34,2%
Receivables from public authorities	8,8	9,0	-2,5%
Other current financial assets	9,6	8,7	10,1%
Other current assets	3,6	0,5	654,8%
Trade and other payables	(158,8)	(168,4)	-5,7%
Corporate income tax payable	(0,1)	(0,1)	105,3%
Other accounts payable to public authorities	(10,7)	(7,0)	52,2%
Other current liabilities	(0,0)	0,0	-147,1%
Working capital	**(23,8)**	**5,0**	**-580,0%**
Change in working capital as per cash flow statement	**25,6**	**(35,5)**	-171,9%

We define ‘‘working capital’’ as inventories, plus trade and other receivables, plus receivables from public authorities, plus income tax receivable from the tax authorities, plus current financial assets, plus other current assets, less trades and other payables, income tax payable to the tax authorities, less other accounts payable to public authorities, 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. We believe that our working capital requirements are inversely related to the pulp price cycle.

As at December 31, 2016, we had non-recourse factoring facilities in place under which we are allowed to factor up to €70.0 million, of which €47.2 million was drawn. As at December 31, 2016 we also had confirming lines in place with an aggregate limit of €105.0 million, of which €57.4 million was drawn.

Financial and Other Material Contractual Obligations

Financial Obligations

The following table summarises the aggregate principal amount of our financial liabilities as at December,31 2016 and the related amounts falling due within the periods indicated, as adjusted to give effect to the issue of the Notes offered hereby and the use of the proceeds therefrom:

Maturities of Financial Liabilities	**Payments Due by Period**				
	2017	2018	2019	2020	Beyond
Loans and credit facilities	5,3	5,4	22,7	5,6	6
Project Finance	12,7	13,4	13,6	13,6	54,4
Bono High Yield					250
CDTI and other indebtedness	1,3	1,2	1,2	6,1	31,5
Total Financial Liabilities	**19,3**	**20**	**37,5**	**25,3**	**341,9**

1) Represents the project finance arrangements for the Huelva and Mérida standalone biomass energy facilities, which are part of the Unrestricted Group.

(2) Represents two bilateral loans, each of which amounts to € 7.5.million wich are part of the Unrestricted Group

Other Material Contractual Obligations-

We are party to a long-term contract for the supply of natural gas. Under the terms of this contract, we are committed to acquire 206 GW of natural gas per annum (with the flexibility to either increase or decrease this amount by 20%). The contract expires in December 2017; if we have not consumed 80% of the total volume of natural gas we have committed to acquire under the contract by this time, we may either extend the length of the contract or pay a small penalty.

In addition to the above obligation, we enter into a large number of short- and long-term agreements for the purchase of standing timber or biomass. 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 authorisations. From January 2013 to January 2020, our regulatory allocation of CO2 rights was reduced from an average of 657,970 tonnes annually in the period from 2008 to 2012, to an average of 107,848 tonnes annually, which creates a deficit for our operational requirements. However, we secured sufficient emissions rights to conduct our activities and are contractually committed to the forward purchase of allowances covering a total of 551,000 tonnes, including 401,000 tonnes at a price of €15.87/tonne exercisable in December 2017 and 150,000 tonnes at €15.85/tonne exercisable in December 2018. Following the termination of the pulp production activity in Huelva, including a gas cogeneration facility with a capacity of 50 MW (the main consumer of CO2 emission rights in our group), it is estimated that some of the rights which we have committed to purchase, amounting to approximately 234,672 tonnes of rights, will not be used during the period of the current EU plan for 2013–2020. Therefore, for accounting purposes, a market valuation has been used, which has led to the recognition of a provision of €2.2 million.

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 summarises our estimated derivative positions as at December 31, 2016, as adjusted to give effect to the issue of the Notes offered hereby and the use of the proceeds therefrom:

	As at December 31, 2016		
Liabilities/Assets	**Current Assets**	**Non-current liabilites**	**Current Liabilities**
		(€ in millions)	
IRS Swap-Project Finance	0	7.8	2.7
Currency Hedges	0	3.9	10.5
Hedging Pool Price	0	0	1.6
Total	**0**	**0**	**14.8**

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 Group revenues by approximately 3.5% in the year ended December 31, 2016.

Energy price

For purposes of our Energy Business, we had previously hedged electricity prices through the use of derivative instruments. Based on Group´s revenue, a 5% change in the tariffs that determine the revenue generated by the energy business would have an impact of revenue of approximately 1.3% in the year ended December 31, 2016.

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 maximise the value added in our products by increasing our use of certified timber, which is more costly. We estimate that a 5% increase in the price per cubic meter of eucalyptus timber used in the production process would have reduced our operating margin by approximately €9.1 million in the year ended December 31, 2016.

Foreign Exchange Risk

Although the majority of our sales are made in the European market, revenues from sales of pulp are affected by the U.S. dollar/euro exchange rate because the benchmark sale price of pulp on the international market is calculated in U.S. dollars per tonne. Since our cost structure is primarily in euro, changes in the U.S. dollar exchange rate can have a significant impact on earnings volatility. We estimate that a 5% increase in the international pulp price in euro would have increased our Consolidated Group revenues by approximately 3.1% in the year ended December 31, 2016.

We continuously monitor our foreign exchange risk and, from time to time, enter into certain hedging transactions when deemed appropriate in order to eliminate the uncertainties arising from fluctuations in foreign currency exchange rates, and in particular to fluctuations in the value of the U.S. dollar and the euro. Whilst the majority of our sales are made in the European market, revenues from sale of pulp are affected by the U.S. dollar/euro exchange rate since the benchmark sale price on the international market is in U.S. dollars per tonne. As of December 31, 2016, we arranged tunnel structure options for the period from January 2017 to December 2018 over U.S. dollars to hedge future revenue benchmarked to that currency in a notional amount of $541.7 million; the exercise prices for the options purchased range between $/€ 0.989 and $/€ 1.132 and, for the options sold, between $/€ 1.180 and $/€ 1.100.

All hedging schemes are subject to the approval of our Board of Directors. The negative market value of these instruments as of December 31, 2016 amounts to € 14.5 million.

Interest Rate Risk

Following the Offering, the Restricted Group will have limited exposure to floating interest rate debt since its primary obligation will be the Notes offered hereby. However, the Unrestricted Group is exposed to floating rate debt, primarily due to its project financing arrangement. We use interest rate swap contracts to manage our exposure to interest rate movements on portions of such existing debt. As at December 31, 2016, our hedges associated with the project financing of our Huelva and Mérida facilities covered 84% of the Project Finance Amount.

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 judgements 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 judgements could cause actual results to differ.

Our accounting policies are more fully described in Note 4 to our audited consolidated financial statements for the year ended December 31, 2016. 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 judgements.

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	8–25
Other fixtures, tools and furniture	5–12
Other items of property, plant and equipment	5–10

Whilst 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 recognised under ''Buildings.'' This cost and the cost of any other permanent fixtures located on concession land is depreciated over the shorter of the asset's useful life or the term of the concession.

Fair Value of Financial Assets, Financial Instruments and Derivatives

Financial Assets

We classify our financial assets into two categories:

I. *Loans and receivables*: trade receivables and financial assets with fixed or determinable payments arising from non-trade operations arising from the sale of goods or the provision of services.
II. *Available-for-sale financial assets*: these include debt securities and equity instruments of other companies that are not classified in any other category.

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

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

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

Financial Liabilities

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

Hedge accounting is discontinued when the hedge is no longer highly effective. In this case, the cumulative gain or loss arising on the hedging instrument that was recognized directly in equity is maintained until the expected commitment or transaction materializes, when it is transferred to the consolidated income statement. Where the commitment or transaction envisaged is not expected to occur, any accumulated gain or loss previously recognized in equity is taken to the consolidated income statement.
The fair value of financial instruments of this kind which are not traded on an active market is calculated applying measurement techniques that maximize the use of observable market data, and to a lesser extent, estimates. On this basis, the measurement techniques applied to derivative financial instruments are, in general, second-level methods, because the key data employed to calculate fair value *(interest rate curves and the cellulose pulp price curve) are observable.*

Equity instruments

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

Commitments with Employees

The fair value of the Special Variable Executive Compensation Plan, our management incentive plan, has been determined using the Black-Scholes method, which is generally accepted for financial instruments of this type.

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.

BUSINESS

We are a pulp and energy production company and rank amongst the largest pulp businesses in Europe. Our Pulp Business is the largest producer of market BHKP from eucalyptus in Europe, measured by capacity, with an annual maximum installed capacity of 1,070,000 tonnes of pulp as at December 31, 2016. During the twelve months ended December 31, 2016, we produced 931,433 tonnes of pulp across our two pulp production facilities located in Navia and Pontevedra, Spain. Our pulp-linked energy generation and cogeneration activity, through which we produce energy, sell it to the grid and then repurchase it to power our pulp production facilities, had an installed capacity of 112 MW as at December 31, 2016. In addition, as at December 31, 2016, we owned or managed, pursuant to long-term arrangements, 71,340 hectares of forest land.

Our standalone Energy Business, which is run separately from our Pulp Business, had an installed capacity as at December 31, of approximately 143 MW across three energy generation facilities located in Huelva and Mérida, Spain and including the two new facilities acquired from Enel Green Power in Ciudad Real and Jaén.

We are publicly listed on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges, through the Automated Quotation System (Continuous Market) (*Bolsas de Valores de Madrid, Barcelona, Valencia y Bilbao, a través del Sistema de Interconexión Bursátil español, Mercado Continuo)* with a market capitalisation of €628.2 million as at December 31, 2016. For the twelve months ended December 31, 2016, we generated Consolidated Group revenue of €605.4 million, Consolidated Group Adjusted EBITDA of €138.0 million and Consolidated Group recurrent free cash flow (excluding one off payments, expansion and environmental capex and divestments and shareholders remuneration) of €109.1 million

Business Areas

We currently organise our economic activities into two business areas, comprising our Pulp Business and our standalone Energy Business. The Issuer and its subsidiaries engaged in our Pulp Business will comprise the Restricted Group and will be subject to the restrictive covenants under the Indenture. The subsidiaries of the Group engaged in our Energy Business will be designated as Unrestricted Subsidiaries within the meaning of the Indenture and will therefore comprise the Unrestricted Group and not be subject to the restrictive covenants under the Indenture.

Pulp Business

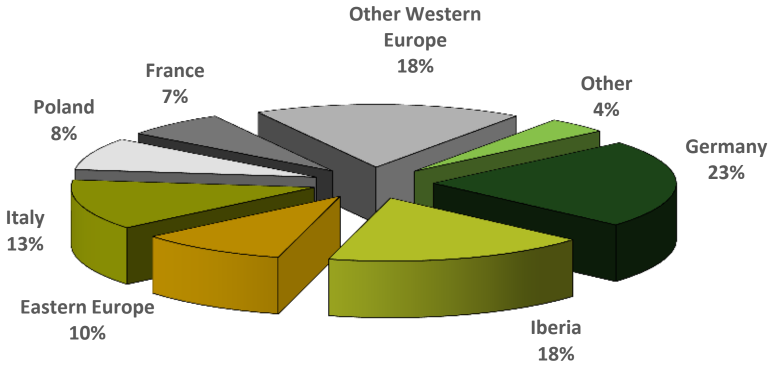
We are the largest BHKP producer in Europe, focused on eucalyptus pulp, with an annual maximum installed capacity of 1,070,000 tonnes as at December 31, 2016, more than 18% above that of the next largest market BHKP producer in Europe. For the twelve months ended December 31, 2016, our Pulp Business generated Restricted Group revenue of € 514.3 million (representing 84.9% of our Consolidated Group revenue), Restricted Group Adjusted EBITDA of €104.0 million (representing 75.4% of our Consolidated Adjusted EBITDA), comprised assets of €1,140.5 million (representing 92.6% of our Consolidated Group assets).

Our activities within our Pulp Business are organised into three segments: Pulp, which includes our pulp-linked energy generation and sales activities; Pulp forest assets, which includes our forestry management and eucalyptus timber procurement activities; and *Forest services & other*.

We have two pulp production facilities in Navia and Pontevedra, Spain. During the twelve months ended December 31, 2016, we produced an aggregate of 931,433 tonnes of eucalyptus pulp from our pulp production facilities, representing a utilisation rate of 87.05%.

We principally sell our pulp to customers in western European countries (particularly Germany, Italy, Spain and France) where we are able to leverage our logistical advantages which we believe make our high-quality products cost-competitive with foreign imports of pulp into the European Union. During 2016, we exported approximately 78% of our eucalyptus pulp production to the western European market (excluding Spain). Including Spain, we hold a estimated 11% market share in Western Europe, which is the largest global pulp market after China and a net importer of market pulp. We hold leading positions in market share by volume for BHKP in each of Germany, Iberia, Italy, Poland and France, the principal markets for our pulp products, which accounted for 23%, 18%, 13%;8% and 7% of our sales volume, respectively, for the twelve months ended December 31, 2016. During the same period, we also exported our pulp products to other western European countries (18%) and to eastern European countries (10%) as well as, on an opportunistic basis to countries outside of Europe (4%).

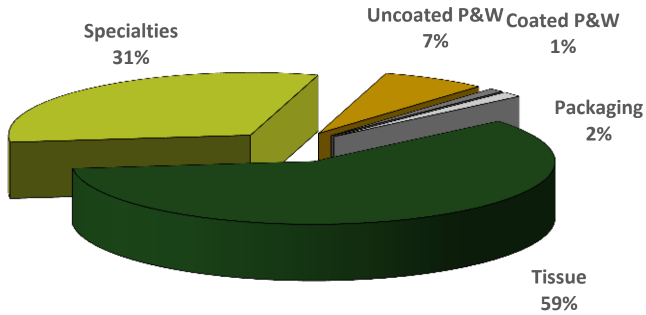
The following chart shows the sales (by volume) of our pulp products by country for the twelve months ended December 31, 2016:



Source: Company records.

Our sales are focused on end-market paper segments with high forecasted growth rates. Our biggest end-market by volume is the tissue segment (generally used for the production of household and hygienic disposable products), which represented 59% of our pulp sales by volume during 2016. According to RISI, the tissue segment benefits from a resilient and stable end-customer demand, and is forecasted to grow globally at a CAGR by volume of 3.5% from 2016 to 2021, which is, according to RISI, the highest forecasted CAGR amongst the various paper segments by global demand during that period. Of the remaining 41% of our pulp sales by volume for 2016, 31% came from specialty paper and packaging segments, including beauty products and white-top packaging, whilst 8% came from the P&W segment. According to RISI, the specialties and packaging and the containerboard segments are expected to grow globally at a CAGR by volume of 2.4% and 2.6%, respectively, from 2016 to 2021, whilst the P&W and newsprint segments are expected to shrink globally at a CAGR by volume of 0.4% and 3.6%, respectively, from 2016 to 2021.

The following charts show the percentage of our sales by volume generated from each end-market for 2016:



Source: Company records.

As part of the pulp production process, the eucalyptus wood is separated into fibre, water and lignin. To produce energy, we burn the lignin to heat water, creating steam that is then converted into electricity, which is in turn sold to the grid and repurchased for use in the pulp production process. This use of such energy is referred to as ‘‘cogeneration’’ and is an integral part of our Pulp Business, enabling us to recover heat that would otherwise be wasted and convert it into electricity to power our pulp production facilities. We also independently generate energy at an energy generation facility in Navia to supplement, when necessary, the energy cogenerated in the pulp production process at our Navia pulp production facility. Our two cogeneration facilities at our Navia and Pontevedra sites are fully integrated into our respective pulp production facilities at those sites and are primarily fuelled by the lignin produced during the wood separation process, whilst our independent energy facility at Navia is fuelled by waste and agricultural residue (consisting of both wood barks and other wood-based residues related to our own harvesting activities and purchased from third parties). We currently have a total installed energy generation and cogeneration capacity of approximately 112 MW within our Pulp Business.

All of our generation facilities use an ''all–all'' sale and purchase system, such that all energy generated at our facilities is sold at a specific level of remuneration that includes the price obtained in the Spanish wholesale market, as well as an amount intended to cover the costs (both in terms of our investment in the facility itself and our operational costs) that we are otherwise unable to recover on the Spanish electricity market (the ''Regulated Remuneration''). All electricity required to power our pulp production processes is subsequently repurchased at a market rate (plus an access toll). For more information on the regulations governing our renewable energy generation activities, Some of the waste and agricultural waste that we use to fuel our independent energy facility at Navia is waste from harvesting activities related to forestry management activities.

Finally, our two other segments within our Pulp Business consist of: (i) the management of eucalyptus plantations (primarily comprised of the globulus variety of eucalyptus) owned by third parties pursuant to long-term forestry management contracts; and (ii) the sourcing, purchase and supply of timber to our facilities, both through the purchase and supply of such timber from third parties in Spain or Portugal, as well as from our own forestry assets, including through overseeing the harvesting and/or transport of this timber to our facilities.

We have over 55 years of experience in the forestry business. As at December 31, 2016, we managed approximately 71,340 hectares of forest plantations, of which we owned approximately 64%, with the remainder being managed in collaboration with third parties. Under typical management arrangements, the land continues to be owned by a third party, whilst we manage the preparation, planting and maintenance of the land. These arrangements usually have a duration of two to three rotation cycles (the period necessary for a tree to grow and reach a harvestable maturity), or approximately 30 years.

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 for our Pulp Business (wood from our plantations accounted for only 1.4% of our total wood supply as at December 31, 2016) has led us to look for opportunities to divest our forestry asset base and move towards an asset-light forestry management model. We divested 27,780 hectares in Uruguay and an additional 2,608 hectares in Portugal, both of which closed in 2013. We intend to continue to look for opportunities to reduce our forestry asset base in Spain, particularly in our remaining forestry lands in southern Spain where we no longer engage in pulp production. During 2016 we had raised €38.7 million we and have announced an intention to raise approximately €2.0 million during 2017 through disposals from the sale of energy crop assets.

Energy Business

Our other core business is our standalone Energy Business, which corresponds to our reportable segment. Our Energy Business will be operated by subsidiaries designated as Unrestricted Subsidiaries under the Indenture and therefore will not be subject to the restrictive covenants of the Indenture.

Our Energy Business, which is primarily fuelled by agricultural and forest waste residues (consisting of both wood barks and other wood-based residues related to our own harvesting activities and purchased from third parties), generates renewable electricity independently from the pulp-linked energy we produce as part of our Pulp Business. We sell all of the electricity that we produce in our Energy Business to the national electricity grid in Spain.

We currently operate five standalone energy generation facilities in Spain, located in Huelva, Mérida, Ciudad Real y Jaén. Our two standalone energy generation facilities in Huelva are comprised of a 50 MW biomass energy generation facility, which we took possession of in February 2013 following the completion of its construction, and a 41 MW generation installation that was reactivated after the shutdown of our pulp production facility at Huelva. We also operate a 20 MW biomass energy generation facility in Mérida, which we took possession of in September 2014 following the completion of its construction. On December 29, 2016, we acquired to Enel Green Power 64.07% of the share capital of Energía La Loma, S.A. and 68.42% of Energías de la Mancha ENEMAN, S.A., both dedicated to the generation of energy with agricultural biomass mainly coming from the olives. All of these facilities use an ''all–all'' sale and purchase system and are entitled to preferential Regulated Remuneration as well as guaranteed sale of the energy generated.

Our Energy Business currently has a total installed capacity of approximately 143 MW. For the twelve months ended December 31, 2016, our Energy Business produced revenues of €95.98 million (representing 14.7% of our Consolidated Group revenue) and Adjusted EBITDA of €34.17 million (representing 24.64% of our Consolidated Group Adjusted EBITDA).

Industrial Footprint

We have a high-quality asset base underpinning our strong operating and environmental performance, having invested, between 2009 and December 31, 2016, over €711 million in our consolidated asset base (of which over €424 million was invested in our pulp production assets, including in our pulp production facility at Huelva which is no longer operational).

We support internationally recognised standards on health and safety and voluntarily adhere to applicable environmental and pollution prevention best practices, and also adhere to internationally recognised guidelines on corporate responsibility and sustainability. As at December 31, 2016, approximately 65% of our owned forestry assets were certified under the Programme for the Endorsement of Forest Certification (''PEFC'') scheme and 19% under the Forest Stewardship Council (''FSC'') scheme, both of which are internationally recognised certification schemes promoting sustainable forest management. We intend to continue focusing on the sustainability of our production as well as to continue complying with strict environmental standards.

Our History

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 maintain today. In 1987, the Motril facility was sold and, in 1999, we acquired full ownership of Celulosa de Asturias, S.A., which owned the Navia facility. We underwent two partial privatisations in 1990 and 1995 (which included public listings), followed by a full privatisation in 2001. The configuration of our pulp production and forestry activities took place in 1995. We began generating renewable energy in 1997.

Group Efficiency Initiatives and Optimisation of Production

Our company has faced significant market, regulatory and other external changes and demands. Our management has taken action to align our operations to such conditions, including undertaking significant transformation of, and changes in, our strategy over the last eight years, thereby demonstrating our ability to quickly adapt to the changing economic and regulatory environment.

Prior to 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, a greenfield pulp production project in

Uruguay, as well as, in line with the then-existing renewable energy regulatory regime in Spain, a pipeline of biomass projects), which were managed with internal financial and construction resources. During this period, our revenue from our energy generation business represented less than 10% of our total revenue, and we financed our biomass expansion projects on our balance sheet. As a consequence of this focus on growth, we were highly leveraged. We also operated a forestry ownership business model with only a limited focus on sourcing wood from third parties.

From 2010 onwards, our management's focus and strategy shifted from capacity expansion to cost optimisation and efficiency improvements across our pulp production facilities to exploit the business cash flow potential and to better protect our financial performance during challenging macroeconomic periods. As a result, we reduced fixed costs and introduced our Total Quality Management programme in 2011, designed to drive operational efficiencies, balance maintenance capital expenditure requirements across our facilities and significantly improve utilisation rate and productivity levels. In May 2014, we introduced our Competitiveness Recovery Plan aimed at offsetting the negative impact of regulatory changes in Spain that eliminated cogeneration premiums (which we estimate at €59 million on an annualised basis based on the historical performance of our facilities). As part of this strategy, we shut down our pulp production facility in Huelva in October 2014 (which had a one-off negative impact on EBITDA of €43.0 million during the second half of 2014) and eliminated €16 million in annual costs at our remaining pulp production facilities in Navia and Pontevedra and at our headquarters in Madrid, 90% of which had been realised as at December 31, 2014.

In addition, during 2015, we paid €15 million in restructuring costs related to the shutdown of our Huelva pulp production facility. These restructuring costs related primarily to the cancellation of contracts in relation thereto.

We also made efficiency-related investments of €35.8 million during 2016 at our facilities in Navia and Pontevedra. During 2016, we finished a capacity increase of 40,000 tonnes at our Navia pulp production facility.

As a result of our adaptation process, we have been able to significantly reduce our net debt as well as successfully adapt our business, strategy and focus to movements in pulp prices, changes in the regulatory environment and cost pressures. We have also put in place a conservative financial policy, characterised by low leverage and adequate liquidity, which is a fundamental element of our strategy to further enhance the resilience of our business.

Our Key Strengths

Leading Market Positions

We are the largest BHKP producer in Europe, focused on eucalyptus pulp, with an annual maximum installed capacity of 1,0700,00. tonnes as at December 31, 2016, more than 18% above that of the next largest BHKP producer in Europe. During 2016, we exported approximately 82% of our eucalyptus pulp production, primarily to customers in the western European market, the largest global pulp market after China, where we have an estimated market share of 11%. We hold a leading market position in terms of market share by volume for our pulp products in each of Germany, Iberia, Italy, Poland and France, the principal markets for our pulp products, which accounted for 23%, 18%, 13%;8% and 7% of our sales volume, respectively, for the twelve months ended December 31, 2016. During the same period, we also exported our pulp products to other western European countries (18%) and to eastern European countries (10%)as well as, on an opportunistic basis to countries outside of Europe (4%).

We believe that our leading market positions provide us with significant economies of scale and flexibility, and thus a competitive advantage over South American pulp producers in particular. In addition, the adaptation of our pulp production processes to the changing demands of customers for certain types and grades of pulp and for the use of either the elemental chlorine free (ECF) or the totally chlorine free (TCF) bleaching method helps us to retain our leading market positions.

Focus on Key Growth Segments of the Paper Market

The type of pulp that we produce, BHKP, is made from hardwood (eucalyptus), whose shorter fibres make this type of pulp generally better suited to the manufacturing of tissue paper, which is a segment that exhibits particularly strong growth potential in our core markets. Short fibres are also the best type for the manufacturing of wood-free paper with good printability, smoothness, opacity and uniformity. By contrast, pulp made from softwood (or long fibre), such as pine, spruce or fir, has longer fibres and is generally better suited for the manufacturing of paper that requires durability and strength.

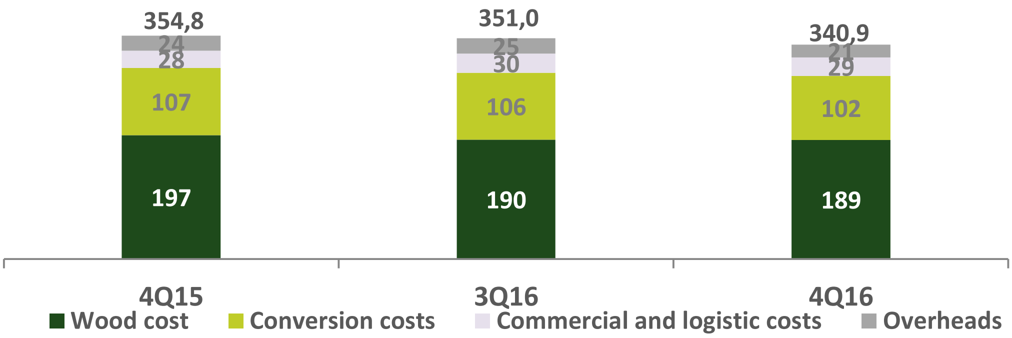
The global BHKP market grew at a CAGR by volume of approximately 3.2% over the period from 2006 to 2016, compared to the market for BSKP, which grew at a lower CAGR of 1.3% over the same period. According to RISI, growth in the BHKP market is expected to continue over the period from 2016 to 2021 at a global CAGR by volume of 3.0%, including by a CAGR of 1.2% in Europe, primarily driven by continued underlying growth in the demand for tissue. Our hardwood eucalyptus pulp is highly suited to the tissue segment in particular, which accounted for 59% of our pulp sales by volume for 2016. According to RISI, demand in the tissue segment is forecasted to grow globally at a CAGR by volume of 3.5% per annum over the period from 2016 to 2021. We believe that our ability to adapt our pulp production process to create specialty pulp products, particularly products intended for the tissue segment, leads to a differentiated and less commoditised product and hence increased customer satisfaction and retention. For example, different customers require different degrees of whiteness or softness in the pulp they use to manufacture various products including decorative paper, cigarette paper and paper for money, which we are able to adapt our production processes to produce. We are also able to produce pulp with different levels of bulk and porosity, as well as types of pulp that do not require significant amounts of processing by end-customers.

Of the remaining 41% of our pulp sales by volume for, 2016, 31% came from certain specialty paper and packaging segments, including beauty products and white-top packaging, whilst 8% came from the P&W segment. According to RISI, the specialties and packaging and the containerboard segments are expected to grow globally at a CAGR by volume of 2.4% and 2.6%, respectively, from 2016 to 2021, whilst the P&W and newsprint segments are expected to shrink globally at a CAGR by volume of 0.4% and 3.6%, respectively, from 2016 to 2021. We also believe that because short fibre pulp is primarily used to make household paper products, the BHKP market has been affected significantly less by the trend towards digitalisation that has adversely affected the market for paper used for newspaper, office products and advertising.

Strong Focus on Cost Leadership

Our focus on cost reduction across all of our business activities, including through improving the cost base and production efficiency of our pulp production facilities, shifting from a forestry ownership to a forestry management business model, divesting non-core assets, increasing and stabilising production and reducing overhead costs, has allowed us to optimise our business and run it more efficiently. For example, we introduced our Total Quality Management programme in 2011, which is designed to drive operational efficiencies, balance maintenance capital expenditure requirements across our facilities and significantly improve utilisation rates and productivity levels. More recently, our Competitiveness Recovery Plan, introduced in May 2014, enabled us to quickly and effectively respond to the evolving regulatory environment in Spain, and, in particular, to offset the negative impact of certain regulatory changes resulting from the completion of a structural reform of the Spanish energy industry undertaken by the Spanish government during 2012 and 2013 and which we believe has established a stable energy generation framework under which we can develop our business in the medium- to long-term, through the implementation of a comprehensive cost optimisation strategy. As part of this plan, we completely shut down our pulp production and energy cogeneration activities at Huelva in October 2014, which were no longer profitable due to a reduction in cogeneration premiums, cost inefficiencies at this particular facility and a lack of local timber supplies. At our other facilities at Navia and Pontevedra, we have also increased our focus on automation, which has enabled us to reduce our workforce and other costs, and plan to continue to work to reduce raw material usage and, more generally, to increase operational efficiencies at these facilities.

As a result of these initiatives, our Cash Costs decreased by 3.9% from €354.8 per tonne in the fourth quarter 2015 to €340.9 per tonne in the fourth quarter, 2016. In addition, our Total Average Costs in the year ended December 31, 2015 and in December 31, 2016 were €359.0 per tonne and €356.7 per tonne, respectively.



Strategically Located Production Facilities

Our two pulp production facilities are strategically located along the northern Spanish coast, in close proximity to a significant supply of wood, our core customer base and port terminals. The strategic locations of our pulp production facilities, and our ability to manage the logistics and supply-chain elements of shipping and delivery to 13 different ports, gives us an advantage over South American pulp producers in particular, since this enables us to (i) maintain low transportation costs (using a combination of trucks, trains, vessels and barges), (ii) reduce inventory levels and (iii) provide quality customer service since we are able to respond quickly to our customers' specific product and delivery needs, thus delivering a higher value-added, more specialised and hence less commoditised product directly addressing customer requirements on a timely basis. For example, it would typically take only four days for pulp we ship to reach a customer in Amsterdam, as opposed to the approximately twenty days that we estimate would be required for a competitor located in southern Brazil to ship a similar order of pulp to Amsterdam, not including the time required to process and package the order.

Well-Invested and Efficient Facilities Benefiting from Significant Barriers to Entry

Having invested over €711 million in our consolidated asset base between 2016 (of which over €424 million was invested in our pulp production assets, including in our pulp production facility at Huelva which is no longer operational), we now have cost-efficient, low-maintenance production facilities with improved environmental performance. As a result, we had a 85.7% utilisation rate (excluding routine maintenance stoppages) during the twelve months ended December 31, 2016 at our pulp production facilities in Navia and Pontevedra.

We also benefit from significant barriers to entry in our market, which include the complexity and cost of wood supply, the high investment required in industrial equipment, the significant lead times and financing necessary to build new production facilities, the required regulatory consents, the establishment of customer relationships with large paper companies and the development of the necessary logistics expertise to provide certainty of supply to such customers.

Due in large part to the shutdown of the pulp production facility in Huelva in October 2014 and the capital improvements at our facilities in Navia and Pontevedra, we expect our maintenance capital expenditure (excluding expansion programmes and restructuring costs related to the shutdown at Huelva) for our Pulp Business, to remain low, at approximately €20.0 million to €30.0 million per annum.

Cash Generation Underpinned by a Strong Balance Sheet

For the twelve months ended December 31, 2016, we generated a Consolidated Group recurrent free cash flow (excluding one off payments, expansion and environmental capex and divestments and shareholders remuneration) of €109.1 million.

We have successfully reduced our Consolidated Group net debt from €241.2 million as at December 31, 2015 to €218.3 million as at December 30, 2016.

Experienced and Proven Management Team Complemented by a Supportive Shareholder Base

We have an experienced, proven and fully committed management team with a history of successfully managing both our Pulp Business and our Energy Business through several industry cycles. Our management team has an average operating experience of over 14 years in both the pulp and paper and renewable energy sectors, including within highly ranked multinationals. Our senior management team also includes individuals with strong backgrounds in applying cost reduction techniques and cost efficiency initiatives in an industrial setting, as well as significant experience in treasury management and financial reporting.

Our major shareholders as at the date of these Listing Particulars remain fully committed to the business. Our largest shareholder, Retos Operativos XXI, S.L., has held a shareholding interest in excess of 20% of our shares since 2007. In addition, Juan Luis Arregui, who represents the interests of Retos Operativos XXI, S.L., which currently owns 26.7% of our shares, is currently the Chairman of our Board of Directors.

Our Strategy

For our Pulp Business, our strategy is to conservatively grow this business organically using only local timber supplies and with a focus on harnessing operational efficiencies from our pulp production and cogeneration facilities. We intend to achieve this strategy through the continual improvement of the operational performance of our existing pulp production facilities and by focusing on strict cost reduction and efficiency, stability of production, delivering superior customer satisfaction and maintaining an efficient equilibrium between pulp production and forestry supply management. In addition, we intend to continue maximising cash flow generation through strategic capital expenditures and a conservative financial policy. We also intend to continue to explore opportunities to grow our Pulp Business through limited capacity expansions in order to optimise the balance of efficiency and cost reductions.

For our standalone Energy Business, we intend to employ a separate strategy of selective expansion, as well as to leverage our extensive experience in building and operating standalone biomass-based renewable energy generation facilities in order to optimise efficiency at our existing facilities.

Maintain Low-Cost, Efficient Pulp Production with a Focus on International Markets

We believe that we are amongst the lowest-cost pulp producers in Europe, largely as a result of our significant past investments in our production facilities, resulting in well-invested, cost-efficient production facilities with high utilisation rates and expected low maintenance capital expenditures. Our cost leadership is also underpinned by the strategic location of our production facilities. We seek to further optimise our production process and improve the cost efficiency at all of our facilities. Our strategy is to do so by leveraging the operational advantages that our integrated business model, including our pulp-linked energy generation and forestry activities, provide, thereby reducing the need for further investments and further enhancing our competitiveness, profitability and cash generation. We strive to continuously increase the productivity of our Pulp Business (as measured by tonnes produced per employee) and at the same time maintain the competitive performance of our production facilities against internal and external industry benchmarks relating to key operational indicators and raw material consumption, including through strong management attention to these indicators and through internal processes which ensure the sharing of best practices across our facilities.

In May 2014, we introduced our Competitiveness Recovery Plan, aimed at offsetting the negative impact of regulatory changes in Spain that eliminated cogeneration premiums. In October 2014, as part of this strategy, we shut down our pulp production facility in Huelva, Spain in the wake of losses for three consecutive quarters as a result of the reduction in cogeneration premiums, cost inefficiencies at this facility and the lack of local timber supplies. This resulted in a reduction of our installed annual pulp production capacity to 1,070,00 tonnes from the previous 1,340,000 tonnes. Whilst year-on-year energy sales had increased between 2009 and 2013, the shutdown also resulted in the loss of 77 MW of cogeneration capacity, thus reducing our total energy generation capacity from our Pulp Business to 112 MW. As part of the Competiveness Recovery Plan, we have also implemented a 20% reduction in our workforce, as well as a reduction of €16 million of annual costs at our remaining pulp production facilities in Navia and Pontevedra and at our headquarters in Madrid, 90% of which had been realised as December, 2015.

In addition, during 2015, we paid €15 million in restructuring costs related to the shutdown of our Huelva pulp production facility. These restructuring costs related primarily to the cancellation of contracts in relation thereto.

We also made efficiency-related investments of €35.8 million during 2016 at our facilities in Navia and Pontevedra. During 2016, we finished implemented a capacity increase of 40,000 tonnes at our Navia pulp production facility.

Additionally, we seek to maintain and strengthen our leading market positions across Europe, maintaining a diversified client base with long-standing customer relationships in such key countries as Germany, Spain, Italy Poland and France, expanding pulp sales in the high growth tissue market and maintaining a selective approach to other international markets such as Eastern Europe and China.

Continue Shift to Asset-Light Forestry Supply Management Model

As part of a broader move towards an asset-light forestry supply management model, we intend to continue to focus on selectively divesting our owned forestry asset base and managing plantations owned by third parties whilst at the same time increasing our direct purchases of standing timber from local landowners, which we believe will enable us to reduce costs derived across the entire wood value chain. Leveraging our 55 years of experience in the forestry business, we aim to increase our collaboration with plantation owners through long-term agreements and shared know-how on forestry management and logistics, thereby ensuring the long-term availability of wood from local supplies. We also intend to continue to focus on increased purchases from small suppliers in order to leverage our purchasing power and diversify our wood supply sources. Currently, we are able to source 100% of our wood supply from the open market, principally from suppliers in Spain and Portugal. We have also already eliminated the percentage of imported wood (which can be up to 50% more expensive than wood sourced from Spain and Portugal due to transportation costs) within our wood supply, which has further reduced costs and improved our efficiency.

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

Our strategy across all of our business activities underpins our focus on continued strong free cash flow generation whilst maintaining a conservative financial policy, which includes the continuing divestiture of certain non-core assets and cost optimisation. In past years, we have successfully reduced our net debt by using proceeds from disposals from our Uruguayan and Portuguese forestry assets. We seek to further optimise capital expenditures and working capital in order to maintain our leading cash conversion capabilities amongst our European peers.

Selective Further Expansion of Our Energy Business

We will operate our Energy Business through Unrestricted Subsidiaries within the meaning of the Indenture governing the Notes offered hereby. We aim to leverage our extensive experience in building and operating standalone biomass-based renewable energy generation facilities to optimise efficiency at our existing facilities as well as to grow selectively in the biomass renewable energy sector by developing profitable opportunities both domestically and internationally that fulfil our disciplined return-on-investment and operational criteria. We also intend to continue to selectively explore and potentially pursue opportunities for further expansion in the biomass renewable energy sector in Spain as well as in other jurisdictions that offer attractive regulatory regimes for such investments.

Going forward, we expect that the Unrestricted Group will be financed independently from the Restricted Group using the Energy Business' own cash flows and credit fundamentals, as well as through proceeds from the sale of certain assets (currently classified as ''held for sale'' within our financial statements) that we no longer consider central to our business model. We intend to finance any potential expansion opportunities on a non-recourse project finance basis and transfer the execution risk to engineering, procurement and construction (''*EPC*'') providers, and we anticipate approaching international opportunities through carefully vetted strategic partnerships in order to reduce our equity contribution whilst proactively managing associated risks.

On December 29, 2016, Ence Energía, S.L.U., 100% owned by Ence energia y Celulosa, S.A. And holding of the "Business Energy" acquired to Enel Green Power 64.07% of the share capital of Energía La Loma, S.A. and 68.42% of Energías de la Mancha ENEMAN, S.A., both dedicated to the generation of energy with agricultural biomass mainly from the olive, for an amount of € 22.5 million.

Our Businesses

Pulp Business

Our pulp activities comprise managing the production of pulp at our two pulp production facilities in Navia and Pontevedra, Spain (and, until October 2014, at our former pulp production facility in Huelva, Spain).

The combined nominal production capacity of our two pulp production facilities is 1,070,000 tonnes per annum and, during the twelve months ended December 31, 2016, the combined utilisation level of these two facilities was 87.05%.

The pulp that we produce is used for the manufacture of tissue (including hygienic tissues, facial tissues, kitchen tissues, wrapping tissue, toilet paper and table napkins), specialty paper and packaging (including packaging for beauty products, labels, cigarette papers, currency, coasters and decor paper), and P&W paper, with the principal western European paper producers being our primary clients.

Pulp Production and Sales

Pulp Production

We produce short-fibre chemical pulp exclusively from eucalyptus timber.

Two types of wood pulp can be produced. Pulp made from hardwood (or short fibre), such as eucalyptus, aspen, birch or acacia, has shorter fibres and is generally better suited for the manufacturing of, for example, tissue papers and P&W papers. Short fibres are the best type for manufacturing wood-free paper with good printability, smoothness, opacity and uniformity. Pulp made from softwood (or long fibre), such as pine, spruce or fir, has longer fibres and is generally better suited for manufacturing paper that requires durability and strength.

We use the Kraft process, which consists of treating wood chips with a mixture of sodium hydroxide and sodium sulphide to break the bonds linking the lignin to the cellulose, in our pulp production facilities. Our pulp production facility in Navia, Spain, produces pulp by using the 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 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 utilisation as at and for the twelve months ended December 31, 2016 for each of our facilities are detailed below:

Facility	**Installed capacity**	**Production**	**Percentage utilization**
Navia	605.0	509.2	84.2%
Pontevedra	465.0	422.2	90.8%
Total	**1,070,000.0**	**931.4**	**87.0%**

Pulp production installed capacity for a particular period represents the average installed capacity during such period

In addition to eucalyptus timber, received in the form of logs (mainly with bark) or in the form of chippings, 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, and antifoaming and dispersion agents are also used.

- *Lignin.* 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 fibres) present in the wood, thus causing the cellulose fibres to separate. The resulting mixture is washed with water in a virtually closed circuit, separating the dissolved lignin from the suspended cellulose fibres 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 a 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 cogeneration 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.

Customers

During the twelve months ended December 31, 2016, our top ten customers by pulp volume sold accounted for 53.2%, and our top 50 customers accounted for 92.9 %, of our consolidated revenues from sales of pulp.

We principally sell to customers in western European markets where we are able to leverage our logistical advantages. Our most important markets are Germany, Italy, Iberia, Poland and France which accounted for 23%, 18%, 13%;8% and 7% of our sales volume, respectively, for the twelve months ended December 31, 2016. During the same period, we also exported our pulp products to other western European countries (18%) and to eastern European countries (10%)as well as, on an opportunistic basis to countries outside of Europe (4%)

We have long-standing 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 to supply their requirements during the following year, which can account for up to 100% of our yearly pulp sales. These contracts outline agreed sales volumes and product specifications (including certifications), and provide the basis for any agreed commercial discounts that will be applied to any purchases by a particular customer. These contracts also typically 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. Annual pulp contracts for larger customers usually specify a total volume in tonnes and the distribution of deliveries to the relevant customer’s facilities. We invoice on delivery, with payment generally settled between 30 to 90 days following such invoice, depending on the customer and market practice in the buyer’s country. Delivery logistics are coordinated centrally in Madrid. Because our prices are usually set on a Cost, Insurance and Freight (CIF) basis, i.e. including freight and insurance, 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. Under these circumstances, we retain the risk of loss for our products until delivery is made at the point of delivery specified by the customer.

Logistics

Most of our pulp deliveries are to customers in 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 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. Further, the flow of goods from northern Europe to southern Europe around Spain and Portugal is greater than the reverse, which enables us to operate in a market with a surplus of logistical resources, including ships, that would otherwise be forced to return to northern Europe empty or not filled to capacity, enabling us to obtain lower logistics costs when shipping our goods to northern Europe.

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

These facilities are designed to provide us with the manufacturing flexibility to tailor our pulp products to the specifications of each individual client. This, and our relative proximity to the majority of our clients, gives us an additional advantage over our Latin American competitors, which, given the logistical difficulties in accessing Europe, tend to ship pulp of a single grade in bulk.

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 unsold pulp is stored in covered buildings located close to our pulp production facilities for less than 20 days. Different products are clearly marked and stored separately. In addition, to ensure that our high standards in quality assurance are met, damaged and/or contaminated pulp is identified and stored separately.

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 out in our pulp production facility management systems. Further, since December 2008, all of our pulp facilities have been required to receive a corresponding Integrated Environmental Authorisation, certifying that the facility complies with certain environmental and anti-pollution regulations.

Under the Spanish Greenhouse Regulations we are required to obtain certain greenhouse gas emission authorisations. From January 2013 to January 2020, our regulatory allocation of CO_2 rights was reduced from an average of 657,970 tonnes annually in the period from 2008 to 2012, to an average of 107,848 tonnes annually, which creates a deficit for our operational requirements. However, we secured sufficient emissions rights to conduct our activities and are contractually committed to the forward purchase of allowances covering a total of 551,000 tonnes, including 401,000 tonnes at a price of €15.87/tonne exercisable in December 2017 and 150,000 tonnes at €15.85/tonne exercisable in December 2018.Following the termination of the pulp production activity in Huelva, including a gas cogeneration facility with a capacity of 50 MW (the main consumer of CO_2 emission rights in our group), it is estimated that some of the rights which we have committed to purchase, amounting to approximately 248,672 tonnes of rights, will not be used during the period of the current EU plan for 2013–2020. Therefore, for accounting purposes, a market valuation has been used, which has led to the recognition of a provision of €1.6 million.

Energy Cogeneration

Our cogeneration installations generate both electricity and steam that are used in the pulp production processes at Navia and Pontevedra. Our efforts are focused on reducing steam consumption in order to maximise the amount of electricity that will be sold to the grid. We subsequently repurchase from the grid the electricity we generate in order to use it for our own purposes, with an annual net effect on EBITDA ranging from €1.0 million to €3.0 million due to the price differential between energy sold and our energy purchases. In addition, the Navia complex has two condensing turbines to maximise the quantity of energy generated from biomass.

Our energy sales by location and installed capacity in MW for the twelve months ended December 31, 2016 were as follows:

	(total sales in GWh)	**(installed capacity in MW)**
Pontevedra	194.7	34.6
Navia	484.9	77.0
Total	**679.6**	**111.6**

Source: Forestry Management

We have over 55 years of experience in the forestry business. Our forestry activities currently consist of two distinct activities: (i) the management of eucalyptus plantation assets, which are comprised primarily of the globulus variety of eucalyptus; and (ii) the facilitation of the sourcing, purchase and supply of eucalyptus timber to our facilities, both from our own forestry assets (around 1.4%) and through the purchase and supply of such timber from third parties (around 98.6%) in Spain and Portugal.

Wood represents the largest portion of the cost of the production of pulp. Whilst we previously sourced wood through direct purchases from large and small local and international suppliers, and from our own forestry assets, we now focus on increasing direct purchases of standing timber from local landowners so as to reduce the costs derived across the entire wood value chain and increase visibility on the availability of wood for our facilities. By increasing the proportion of our total wood supply sourced locally, we have significantly reduced our reliance on wood imports. As a result of the continuing implementation of this strategy, the proportion of imported wood within our total wood supply decreased from 11.4% during the year ended December 31, 2012 to 0% during the twelve months ended December 30, 2015, and following the closure of our pulp production facility at Huelva in October 2014, we no longer need to import wood.

For the twelve months ended December 31, 2016, our forestry activities produced revenues of €18.0 million, representing 2.9% of our total pulp revenue.

Management

As at December 31, 2016, we managed approximately 71,340 hectares of forest plantations in Spain and Portugal, of which we owned approximately 64%, with the remainder being managed in collaboration with third parties.

Where we manage forests on behalf of third parties, the owner will retain the ownership of the land whilst 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 programme seeks to achieve greater productivity of future assets by applying forestry technology (primarily consisting of planting techniques and treatments, land preparation, fertilisation 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 and Navia, Spain. We planted 251 hectares during the twelve months ended December 31, 2016.

- *Maintenance.* We carried out conservation and forestry work on 2.199 hectares during the twelve months ended December 31, 2016.

- *Harvesting.* The crop cycle for pulp wood is ten to 14 years. We harvested 161.5 thousand m3 from our owned plantations during the twelve months ended December 31, 2016. (

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

As at December 31, 2016, 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	12,669	**2,693**	21%
Southwest Spain	53,336	**42,101**	79%
Portugal	1,746	**0**	—
Total	**67,752**	**44,794**	**66%**

During the twelve months ended December 31, 2016, our total investments in forests in the Iberian Peninsula amounted to € 3.3 million.

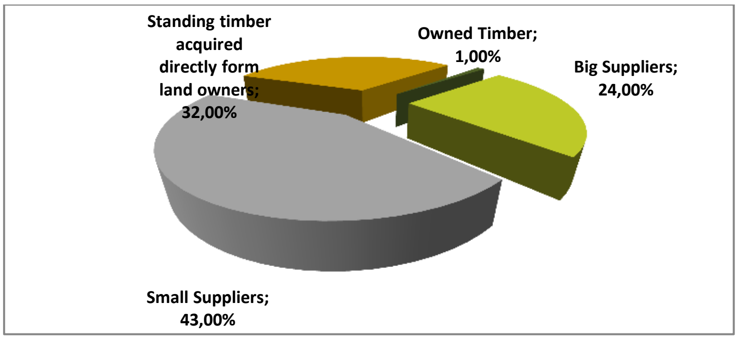
Our RD&I has reduced the acquisition cost of our raw materials compared with the cost of purchasing from suppliers. However, according to the new remuneration parameters included in RD 413/2014 issued by the Ministry of Industry, the specific energy crop tariffs are to be eliminated and are expected to ultimately have the same remuneration as forestry and agricultural waste, thereby damaging the profitability of our energy crop plantations. We have therefore stopped investing in energy crops and intend to progressively dismantle these plantations. As part of our estimation of the quantitative impact of the application of these regulations, we have already recognised an impairment loss amounting to a total of €63.7 million, of which €26.9 million was recognised during the year ended December 31, 2013 and the remaining €36.8 million recognised during the year ended December 31, 2014.

We also engage in RD&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 at December 31, 2016, the net book value of the standing timber in our owned forest plantations was € 82.7 million.

Timber Supply

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 and certain third-party suppliers. During the twelve months ended December 31, 2016, we sourced our timber as follows:



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 favourable conditions for the development of forest plantations, and where current wood growth and availability is in excess of our timber requirements.

- *Own wood.* Although we have been providing 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.

- *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 continue increasing 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 silviculture 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.

- *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. On average the timber is delivered from locations within 100 kilometres of 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 whilst simultaneously reducing costs. We are not reliant on any particular supplier and we believe that we will have access to significant quantities of timber for the foreseeable future.

- *Imports.* We define ''imports'' as timber sourced from outside Spain and Portugal. Since the shutdown of our pulp production facility in Huelva in October 2014, we no longer need to import wood.

In addition to sourcing, our forestry activity includes the harvesting of timber and the logistics of delivering this timber to our facilities when these services are not provided by the seller of the wood. We have been focusing on the mechanisation of the harvesting process in order to generate cost savings and, when the timber must be manually harvested, we outsource the harvesting. On the logistics side, we monitor the transportation of wood by subcontractors in order to decrease inefficiencies.

Energy Business

We are a biomass renewable energy generator. We generate renewable electricity independent from our pulp production, primarily fuelled by biomass from energy crops and forestry residues (mostly consisting of wood barks and other wood-based residues related to harvesting activities). We sell all of the electricity that we produce to the national electricity grid in Spain.

Production Process

We currently operate five standalone energy generation facilities in Spain, located in Huelva, Mérida, Ciudad Real y Jaén. Our first standalone biomass power facility 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 February 2013, following the successful completion of a test phase in December 2012. The Huelva standalone biomass energy facility was specifically designed to produce electricity from energy crops and forestry waste and is currently the largest biomass energy facility supplying electricity to the Spanish electricity grid. We also own a 20 MW biomass energy facility in Mérida, Spain, which received its definitive commissioning certificate on March 31, 2014. We took ownership of this facility from our EPC in September 2014. The renewable biomass energy facilities in Huelva and Mérida are entitled to receive the Regulated Remuneration.

On December 29, 2016, we acquired to Enel Green Power 64.07% of the share capital of Energía La Loma, S.A. And

68.42% of Energías de la Mancha ENEMAN, S.A., both dedicated to the generation of energy with agricultural biomass mainly coming from the olives.

Our energy sales by location and installed capacity for the twelve months ended December 31, 2016, by location, were as follows:

	2016	
	(total sales in GWh)	**(installed capacity in MW)**
Huelva 50 MW	337.2	50 MW
Mérida 20 MW	136.9	20 MW
Huelva 41 MW	154.3	41 MW
Total.......................................	628.4	111 MW

For the twelve months ended December 31, 2016, our electricity sales from our Energy Business produced revenue of € 96.0 million, representing 15.8 % of our total revenue.

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, amongst others.

The biomass which we currently use as raw material for renewable energy generation originates from 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 the 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 lower cost.

Regulation

On July 12, 2013, Royal Decree Law 9/2013 adopted urgent measures to guarantee the financial stability of the national electricity grid, amending the Electricity Act and the ‘‘special regime remuneration system’’ and providing for a transitional period until the effective date of Royal Decree 413/2014 and Ministerial Order IET/1045/2014. Amongst other measures, this law repealed RD 661/2007 and article 4 of RDL6/2009, which created the pre-allocation registry, in preparation for the current remuneration regime. The main characteristic of the regime included guaranteeing a pre-tax return on investment in Renewable Energy Facilities equivalent to the yield on the ten-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 supplement for efficiency and the reactive energy bonus. On June 6, 2014, Royal Decree 413/2014 established the regulatory framework for renewable energy sources, cogeneration and waste and, on June 16, 2014, Ministerial Order IET/1045/2014 established the remuneration parameters for such energy, both of which are retroactively effective from July 14, 2013.

Conversely, we acquire the electricity necessary to supply our production processes at the pool price plus an access toll (payable by persons accessing the national electricity 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 national electricity grid and all electricity required by the facilities to cover production process needs is purchased from the national electricity grid.

All facilities with an installed capacity exceeding 10 MW (and groupings of power generation facilities amounting to 10 MW or more) must be built or connected to a generation control centre (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 in order to ensure the reliability of the electricity system at all times. We have our own generation control centre which is responsible for the operation as well as the negotiation of energy in the electricity market. Our generation control centre 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 Españolol, S.A. (''OMEL''), responsible for managing the bid system, and also interfaces with the system operator Red Eléctrica de Españaa, S.A.U. (''REE''), the CNMC, the Ministry of Industry, Energy and Tourism and other industry public authorities.

Ancillary Businesses

In addition to our three primary activities, we also have several ancillary activities, including our RD&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 ancillary RD&I activity covers the whole spectrum of our activities, from the cultivation of raw materials through to the production process. Our RD&I activity is focused on three basic objectives:

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

- in energy generation, optimising renewable energy products as measured in Kcal per hectare per year; and

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

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

Our Sites and Facilities

Pulp Business sites and facilities

Navia

Our Navia facilities are situated on land owned by us which measures approximately half a million square meters. Following the completion of a 40,000-tonne capacity increase at our pulp production facility at our Navia pulp production facility had, as at December 31, 2016, a capacity of approximately 605,000 tonnes of pulp annually. At this facility, we use the ECF process to perform the bleaching of the pulp. This process uses chlorine dioxide instead of elemental chlorine gas during the bleaching process, thus preventing the formation of dioxins and other carcinogens. During the twelve months ended December 31, 2016, the pulp production facility at Navia produced a total of 509,186 tonnes of pulp.

There are also two electricity facilities with a total installed nominal power of 77.0 MW on-site: CEASA NAVIA I (an electrical biomass cogeneration facility of 40.3 MW) and BIOMASA CEASA (an electrical biomass generation facility of 36.7 MW). During the twelve months ended December 31, 2016, these two facilities together produced a total of 484.9 GWh of energy which was sold to the Spanish national grid at the Regulated Remuneration on operations (in €/MWh produced, up to a cap on production hours per year), calculated to cover, when appropriate, the standard operating costs (defined according to a standard installation applicable in each case) not recovered through the sale of electricity at the expected wholesale market price. All the energy produced at Navia is then repurchased and used in the pulp production process.

Pontevedra

Our pulp production facility at Pontevedra has a maximum production capacity of 465,000 tonnes of pulp annually. At this facility, we use the TCF process to perform the bleaching of the pulp. This process uses an oxygen bleaching process (typically utilising hydrogen peroxide) instead of the chlorine dioxide that is used in the ECF process. During the twelve months ended December 31, 2016, our pulp production facility at Pontevedra produced a total of 422,257 tonnes of pulp.

We also have an electrical biomass cogeneration facility situated on this site, which is composed of two counter-pressure turbines of 8.0 MW and 26.6 MW, respectively, with a combined total installed nominal power of 34.6 MW. During the twelve months ended December 31, 2016, this facility produced a total of 194.7 GWh of energy in electricity sales. This facility currently sells its energy to the Spanish national grid at the Regulated Remuneration on operations (in €/MWh produced, up to a cap on production hours per year), calculated to cover, when appropriate, the standard operating costs (defined according to a standard installation applicable in each case) not recovered through the sale of electricity at the expected wholesale market price.

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, although according to the subsequent Coast Act the expiry date of the concession would be July 2018.

On October 10, 2014, Spanish Royal Decree 876/2014, implementing the General Coast Regulations (which took effect on October 12, 2014) and the amended Coast Act passed in May 2013, established the legal framework governing the renewal of concessions located on public-domain coastal land. This new regulation gives us the right to extend the concession for a maximum of 60 years from the date the application for such an extension is filed.

On November 8, 2013, we asked the State Administration to grant us an extension of the concession for up to the maximum term permitted by law, which we reactivated on July 31, 2015 following a decision by the Ministry for Agriculture, Food and the Environment on July 30, 2015 that the concession should be partially terminated, with such partial termination not affecting the land on which our pulp production facility is located or that is otherwise essential to our pulp production activities at this site. Ence´s concession to occupy the land on wich its manufacturing complex in Pontevedra is located was extended by virtue of a ruling issued by de Director General of Coastal and Marine Sustainability, at the behest of the Ministry for Agriculture, Food and the Environment, notified to the Company on 25 January 2016. The extension has been granted for a period of 60 years starting from the extension application date, 8 November 2013. The additional term granted beyond the initially-contemplated maximum term of 50 years, i.e. 10 years, is tied to execution of a series of investments appraised at € 61.0 million. These investments are already contemplated in the business plan announced by Company on 19 November 2015. Of this total, €12.7 million has already been invested.

Huelva pulp production facility

Our Huelva pulp production facility had a maximum production capacity of approximately 410,000 tonnes of pulp annually. We also had three electricity generation facilities situated on the site of the Huelva pulp production facility: CENER I (a natural gas cogeneration facility with a nominal installed power of 49.94 MW), CBIO (an electrical biomass cogeneration facility with a nominal installed powerof 27.50 MW) and CENER II (a condensation installation with a nominal installed power of 40.95 MW, using biomass as fuel), with a combined total installed nominal power of 118.4 MW. However, on September 4, 2014, we announced plans to transform the Huelva complex, which had been adversely affected by a reduction in cogeneration premiums, cost inefficiencies and a lack of local timber supplies, into a renewable energy facility, thus discontinuing the production of pulp and our related cogeneration activities at this site. Pulp production at our Huelva pulp production facility ceased on October 11, 2014 and a closure agreement was reached with the facilities employees on October 20, 2014.

Energy Business sites and facilities

Huelva energy production facility

When the Huelva pulp production facility closed, we decided to keep the condensation installation CENER II operational, with energy generation at this facility resuming on November 1, 2014 after being temporarily shut down for one month following the shutdown of the pulp production facility in October 2014.

CENER II is a condensation installation that uses biomass as a fuel with a nominal installed power of 40.95 MW, comprised of a turbo alternator. This facility currently uses forestry and agricultural waste as fuel. During the year ended December 31, 2014 and the twelve months ended December 31, 2015 (including a one-month shutdown in October 2014), this facility produced a total of 86.3 GWh and 160.6 GWh of electricity, respectively.

In addition, in September 2012, a 50 MW standalone biomass generation facility at a nearby site in Huelva, Spain became operational following the completion of its construction, which had been conducted through Ence Energía Huelva, S.L.U. This facility was specifically designed to produce electricity from agricultural and forestry waste. The test phase for this facility was completed in December 2012, with its ownership subsequently transferred from our EPC contractor to us in February 2013. Our standalone biomass generation facility at Huelva is entitled to sell all of the energy it produces at the Regulated Remuneration. During the year ended December 31, 2014 and the twelve months ended December 31, 2015, this facility produced a total of 202.9 GWh and 324.9 GWh of electricity, respectively. The Huelva facility has a maximum energy generation allowance of 6,500 hours per year which, multiplied by its installed capacity, allows for a total generation of 325 GWh.

Mérida

In September 2014, we took possession of our second standalone biomass generation facility, a 20 MW facility located in Mérida, Spain. The construction of this facility had been conducted through Ence Energía Extremadura, S.L.U., with the facility receiving its Definitive Certificate of Commissioning from the Extremadura Department of Agriculture, Rural Development, Environment and Energy on March 31, 2014, which enabled it to begin supplying energy to the Spanish electrical grid. This facility, like our other standalone biomass generation facility in Huelva, was specifically designed to produce electricity from energy crops and forestry waste, and is entitled to sell all the energy it produces at the Regulated Remuneration. During the year ended December 31, 2014 and the year ended December 31, 2015, this facility produced a total of 83.0 GWh and 129.8 GWh of electricity, respectively. The Mérida facility has a maximum energy generation allowance of 6,500 hours per year which, multiplied by its installed capacity, allows for a total generation of 130,000 MW.

Jaén and Ciudad Real

On December 29, 2016, Ence Energía, S.L.U., 100% owned by Ence energia y Celulosa, S.A. and holding of the "Business Energy" acquired to Enel Green Power 64.07% of the share capital of Energía La Loma, S.A. 16 MW standalone facility And 68.42% of Energías de la Mancha ENEMAN, S.A. 16 MW standalone facility, both dedicated to the generation of energy with agricultural biomass mainly from the olive, for an amount of € 22.5 million.

New Capacity

Ence has been awarded the concession to operate 40 MW of capacity pursuant to the auction held in Spain on 14 January 2016 to adjudicate up to 200 MW of capacity entitled to the remuneration regime specifically applicable to new biomass facilities, as defined in section two, 1.a) of Spanish Royal Decree 947/2015, of 16 October 2015, and in article 2.1.a) of Ministerial Order IET/2212/2015, of 23 October 2015. As a result, Ence has begun the process of permitting a new facility to be located in Huelva.

Raw Materials

For our Pulp Business, the principal raw materials used to manufacture our products are wood, energy, water and chemicals. We believe that we have access to adequate sources of the raw materials necessary to ensure that there is no interruption to our required supply of such materials for the foreseeable future.

Wood. Eucalyptus wood is the principal raw material used by us to manufacture pulp. Wood Costs accounted for over 55% of our Cash Costs. The price we pay for 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. Although we maintain our own timber resources based on plantations that we own or manage, the majority of the wood we use is sourced from third parties from plantations in Spain and Portugal. Our wood supply contracts are typically evidenced by written contracts of one year's duration that specify the amount of wood to be purchased in that particular year as well as the type of wood required, the frequency and point of delivery and certification specifications. Suppliers are responsible for the harvesting of the wood and its transportation to either Navia or Pontevedra. Invoices are produced at delivery and payment is typically remitted by us within 30 days.

Energy. Energy costs for electricity also constitute a significant component of our costs. During the years ended December 31, 2016, energy costs were equivalent to .0% of our consolidated Cash Costs. We also make use of non-biomass fuels, which accounted for approximately 3.6% of our Cash Costs during 2016. The non-biomass fuels that we use in our operations are composed primarily of fuel oil, propane and petroleum coke and are produced as waste from our pulp production process and purchased from third parties. The fuel supply contracts are typically evidenced by written contracts for durations of one year or one month, but are typically extended for subsequent periods. The contracts specify a maximum price of fuel for the duration of the agreement, with a reference point to the current market price of fuel and adjustments to be made based on price fluctuations. The contracts also specify a minimum amount of fuel to be delivered on a monthly basis.

Chemicals. Chemical costs accounted for approximately 8.1 % of our Cash Costs during 2016. We use a number of chemicals, including caustic soda, cryogenic oxygen, EDTA, sodium chlorate, hydrogen peroxide, sulphate 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. We purchase these chemicals from third parties. These supply contracts are typically multi-year agreements, with prices negotiated between the parties based on a number of market factors (for example, the average price of other suppliers with quotes in writing or mathematical adjustments to the price based on fluctuations in market prices) and specify the minimum amount to be supply on an annual basis. Approximately 60% of the chemicals we use tend to have their prices closely linked to that of electricity.

The prices of certain raw materials are subject to commodity price fluctuations, and generally the relevant contract includes an index mechanism which recalculates the cost according to an industry benchmark. In addition, due to competitive pressures, the prices of our products are not always correlated with increases and decrease in the cost of raw materials.

Competitors

We sell the majority of the pulp we produce to customers in the western European market, due in part to a shortage of fibre 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 in Portugal and Fibria, Suzano and Cenibra in Latin America.

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

Competition in the pulp industry is primarily based on price. We also differentiate ourselves from our competitors by providing a flexible, low-cost and high-value service, including sales and distribution support. We also provide technical support for both pulp and paper production. Our production process is tailored to customer preferences on pulp grade and type, since, amongst other capabilities, we are able to produce both TCF and ECF processed pulp. In addition, the pulp we produce from eucalyptus globulus is generally considered to be better suited for the production of certain paper grades due to its unique characteristics, which differentiate it from the pulp produced by our Latin American competitors from eucalyptus urograndis. Further, our proximity to European clients is an advantage to us because we are able to offer a faster service with lower logistical costs. For example, it would typically take only four days for pulp we ship to reach a customer in Amsterdam, as opposed to the approximately 20 days that we estimate would be required for a competitor located in southern Brazil to ship a similar order of pulp to Amsterdam, not including the time required to process and package the order.

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

Seasonality

The demand for our pulp is not subject to seasonality in any material way.

Since we are currently subject to a cap of 6,500 MWh per year, we aim to undertake the annual maintenance stoppages for our standalone biomass power facilities during the second quarter. Historically, pool prices in Spain have fallen during this quarter due to the increased availability of hydro-generated electricity.

Intellectual Property

We seek to protect our intellectual property rights in Spain, Portugal and other markets. We also have trade secret protected intellectual property 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 and 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. We currently carry property, loss of profits, general liability, product liability, transportation, environmental impairment and management liability insurance. However, our current property insurance does not cover damage to our property, and in particular to our forestry assets, resulting from forest fires, although we do make a provision in our accounts in an amount which we believe is sufficient to cover this risk.
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, during the year ended December 31, 2016, the total amount we paid for insurance premiums in relation to policies held by us was € 3.4 million.

We believe that prevention, protection and employee training are key means of defending ourselves against loss from workplace incidents.

Employee Matters

As at December 31, 2016, we had 891 employees in total, including 777 full-time equivalent employees and 114 temporary employees.

Substantially all of our employees are represented by labour unions pursuant to collective bargaining agreements. We observe local practice and legislation in our labour relations matters and in negotiating collective bargaining agreements. The following collective bargaining agreements are currently in effect: a collective bargaining agreement for the Pontevedra work centre and for the office centre, which was effective from 2014 to 2016 is currently under negotiation; a collective bargaining agreement for our headquarters in Madrid, which was effective from 2014 to 2016 is currently under negotiation; and an Asturias pulp workers collective bargaining agreement, which is effective from 2014 to 2017. However, recent labour law reforms in Spain have reduced the automatic extension of union agreements from two years to only one year from the date of such agreements' respective expiry dates, which we believe increases employees' incentive to negotiate for more favourable terms since the expiry of such an extension would result in the employees becoming subject to the less favourable general labour regulations.

We believe that we maintain generally good relations with our employees and their representatives. However, we experienced labour disturbances, including a two-day strike, at certain facilities located in Huelva and Pontevedra in June 2014. In addition, we are obliged in certain situations to enter into agreements with our employees regarding workforce reductions, closures and other restructurings, which can lead to labour disturbances. For example, in

October 2014 employees at our former pulp production facility in Huelva went on strik for ten days, whilst employees at our pulp production facilities in Navia and Pontevedra went on strike for four days, following the negotiation of a restructuring agreement that affected 226 employees in our former pulp production facility located in Huelva and at our headquarters in Madrid.
During 2016 a three-day strike, at the facility located in Navia.

Our employees participate in defined contribution plans. Certain executives also participate in a long-term management incentive plan consisting of the granting of options over shares.

Environmental, Health and Safety Matters

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 odour 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 licences, each of which is subject to periodic and increasingly more stringent modifications and requirements. Violations of these laws, regulations or permits and licences 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 licences.

All of our pulp production facilities have environmental management systems in place that are presently certified to the ISO 14001 standard (including in relation to sustainable forestry management) of the International Organisation for Standardisation. These standards are routinely renewed following routine voluntary certification audits. The International Organisation for Standardisation (to which 163 nations currently belong) is a global association comprised of representatives of several national standard organisations that establishes and maintains international proprietary, industrial and commercial standards for, amongst other things, certain technical measurements. 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 operations have obtained certifications from the Spanish national certifying body of either the PEFC or the FSC, the two industry bodies responsible for the certification of sustainable forestry management, including the sustainable use of timber resources and related environmental management. In addition, our pulp production operations have obtained chain of custody certification from the FSC which covers pulp delivery to clients, thus enabling us to market and sell pulp that is FSC-certified. For purchases of timber from third parties, our standard contract for such purchases also includes representations regarding the origin of the timber and its lawful harvesting as well as undertakings by the supplier to provide chain of custody information to us upon our request. Certifications typically require renewal every five years.

We also endeavour to ensure that our contractors adhere to the same environmental, health and safety standards through the inclusion of representations and undertakings in our standard contractual arrangements.

The health and safety of persons is a priority 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 as well as in the 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 Occupational Health and Safety Advisory Services (the "*OHSAS*"), similar to the International Organisation for Standardisation, is an internationally applied set of health and safety standards designed to provide best practices for employers and employees to protect against occupational hazards and boost employee morale. The industrial complexesat our forestry subsidiaries Norte Forestal, S.A.U. and Silvasur Agroforestal, S.A.U., as well as our Navia and Pontevedra pulp production facilities, are certified in accordance with these standards. Our Navia facility has received the OHSAS certification, as well as the equivalent certification from the health and safety accreditation body in Spain (*Asociación Española de Normalización y Certificación*). In addition, our Employee Code of Conduct encourages behaviour that guarantees the health, safety and well-being of all employees by encouraging the adoption of attitudes that respect the health and safety of all employees, clients, supplier and other third parties visiting or working with us.

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. The system also 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. Whilst 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.

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 proceedings 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 2009 share purchase agreement in an aggregate amount of approximately US$3.8 million, which we are contesting. However, no arbitral proceedings have yet begun in conjunction with these claims.

The Spanish tax authorities concluded several tax inspections encompassing several Group companies during the first half of 2013. As a result of that process, 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 object of the assessments is not subject to fine) were signed under protest; of this balance, just €4,037 thousand would result in an outflow of cash. Ence appealed the assessments before the National Economic-Administrative Court, which rejected its appeal on 16 June 2016. Ence has since lodged a new appeal against this ruling before the National Appellate Court.

In the opinion of Ence and its tax advisors, there are solid arguments in favour of a positive ruling on the appeals lodged before the latter court, which is why it has not recognised any provision in this respect.

In what concerns the challenge of the decision on the early termination of the concession (the decision impacts only to the land affected by a pipeline, a urban waste water treatment facility and a sports field which do not affect our production process) and of the extension of our concession (decisions by the Ministry for Agriculture, Food and the Environment date on July 30, 2015 and January 25, 2016 respectively) the following lawsuits have been raised:

a) Early termination decision: Such decision has been opposed by the Ayuntamiento de Pontevedra and by Asociación pola Defensa da Ría in two lawsuits (numbers 85/2016 and 373/2016) at the Audiencia Nacional.

b) Decision on the extension of the concession. Such decision has been opposed by Greenpeace España, by Asociación pola Defensa da Ría and by Ayuntamiento de Pontevedra in lawsuits at the Audiencia Nacional (numbers 700/2016; 268/2016 and 484/2016. The decision has also been opposed by Asociación Gallega Petón do Lobo which has not raised its claim to the Audiencia Nacional yet.

These claims, if successful, could ultimately reverse all or part of any extension of our concession which will have material adverse effect on our business, financial condition and results of operation.

INDUSTRY OVERVIEW

Our Pulp Business is active in the production and sale of wood pulp, specifically Bleached Hardwood Kraft Pulp (BHKP), the generation and sale of energy from biomass (lignin and forestry waste) linked to the production of wood pulp and forestry management. In our Energy Business, we focus solely on the operation and development of standalone biomass energy projects that are completely independent from the pulp production facilities we operate in Navia and Pontevedra.

Introduction

Wood pulp is one of the principal raw materials required to manufacture paper and paperboard. Wood pulp is classified according to the type of wood or fibre from which it is made (hardwood or softwood), the manner in which it is processed (chemical or mechanical process) and whether it is bleached or not. Paper and paperboard may alternatively be manufactured from recycled fibre.

Two types of wood pulp are generally produced. Pulp made from hardwood (short fibre), such as eucalyptus, aspen, birch or acacia, has shorter fibres and is better suited for the manufacturing of, for example, tissue paper. Short fibres are the type of pulp best suited for manufacturing wood-free paper with good printability, smoothness, opacity and uniformity. In contrast, pulp made from softwood (long fibre), such as pine, spruce or fir, has longer fibres and is better suited for manufacturing paper that requires durability and strength, such as paper used for packaging.

The pulp manufacturing process determines the suitability of pulp for particular end-uses. Pulp is converted from wood by means of either chemical or mechanical processes. Chemical pulp is produced by cooking wood chips in chemical solutions, with the goal of separating the cellulose fibres and removing lignin, a chemical compound which fills the space between the cellulose fibres and provides strength to the wood. On the other hand, lignin remains in mechanical pulp, the fibres of which are separated by a mechanical process. The mechanical process exerts greater physical impact on the cellulose fibres, resulting in a higher fibre yield and a shorter fibre length.

Wood pulp can be bleached for whiteness, particularly when manufacturing printing, writing, specialty and tissue papers. Unbleached pulp is brown and is used in the production of corrugated board, paperboard, packaging papers and bags. We believe that hardwood pulp derived from eucalyptus is superior to that produced from other hardwood trees, as the greater consistency and uniformity of its fibres improves the opacity, softness and printability of the produced paper. Eucalyptus trees also have a shorter growth cycle than other types of hardwood trees, yield higher productivity per hectare planted and require a smaller amount of space between individual facilities to grow. According to RISI, BEKP is thus widely used by producers of printing, writing and tissue paper worldwide because of its properties and accounts for an increasing percentage of globally produced hardwood pulp.

According to RISI, global paper grade virgin wood pulp consumption (market and integrated) is estimated at 170 million tonnes in 2016, of which chemical pulp amounted to 142 million tonnes and the remaining 28 million tonnes to mechanical pulp.

Approximately 40% of this 170 million tonnes of global paper grade virgin wood pulp is used for graphic paper production (newsprint and P&W paper), another 20% for packaging production, 15% for tissue paper production, and the remaining 25% to other speciality paper and packaging products.

According to RISI, graphic paper apparent consumption has declined at a compounded annual growth rate of 1.8% during the last 10 years (2005-2015) and is expected to continue falling at an average rate of 1.0% during the next five years.

Packaging apparent consumption has increased at a compounded annual growth rate of 2.5% during the last 10 years (2005-2015) and is expected to continue growing at an average rate of 2.6% during the next five years.

Tissue apparent consumption is the fastest growing paper segment which has increased at a compounded annual growth rate of 3.0% during the last 10 years (2005-2015) and is expected to continue growing at an average rate of 3.5% during the next five years.

Demand for tissue has historically been resilient and has continued to grow even during economic downturns. Its consumption is less dependent on the economic cycle than the consumption of printing and writing grades or packaging grades. The main drivers of tissue demand are rapid urban growth and enhanced living standards in emerging markets such as China.

Other speciality paper and packaging products apparent consumption has grown at a compounded annual growth rate of 1.5% during the last 10 years (2005-2015) and is expected to continue growing at an average rate of 2.4% during the next five years.

The pulp we produce is sold to third parties rather than being used in integrated pulp and paper mills and is termed ''market pulp.'' Out of the 142 million tonnes of global chemical pulp consumption in 2016, 79 million tons were integrated with paper mills and the remaining 59 million tonnes were market pulp, of which, according to PPPC December 2016 G-100 report, 32 million tonnes were hardwood pulp (BHKP) and the remaining 27 million tons mainly corresponded to softwood pulp (BSKP).

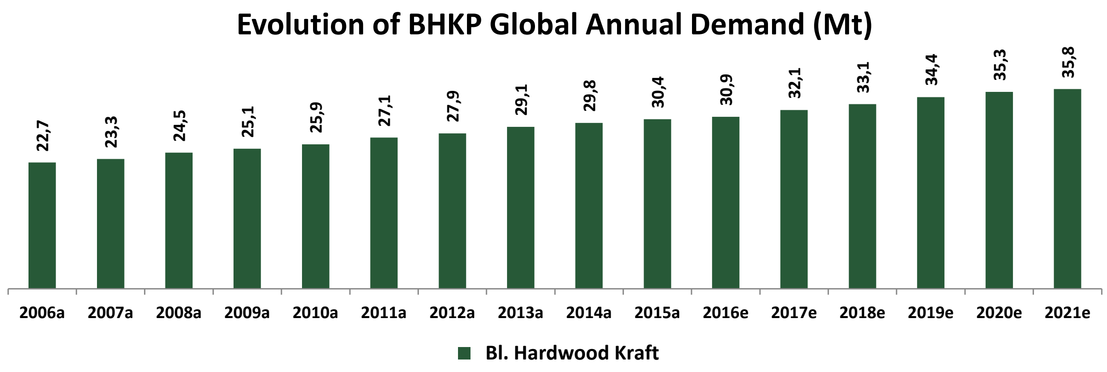
We compete in the hardwood pulp (BHKP) segment of the market pulp industry, and more specifically in the eucalyptus segment (BEKP), as we use 100% eucalyptus wood in our production process. According to PPPC December 2016 G-100 report, BEKP accounted for 73% of BHKP consumption in 2016. It is gaining market share from other less efficient hardwood fibres and it will likely continue to do so in the future, as all of the new projects in Latin America are based on eucalyptus plantations. The remaining BHKP produced is mainly sourced from acacia fibre (usually cultivated in Asia) and a mix of hardwood from North America and Europe.

Europe is expected to remain a net importer of BHKP due to expected regional demand remaining larger than local production supply. Our estimated market share for BHKP in western Europe, based on sales volume in the twelve months ended December 31, 2016, was 11%. On the other hand, according to RISI´s pulp production capacity statistics, as at December 31, 2016, the ENCE group is the largest single BHKP production capacity in western Europe (with approximately 26% of total European BHKP production capacity), together with Altri (with 25%).

Analysis of hardwood pulp demand

According to RISI, global market BHKP demand has risen at a compound annual growth rate of 3.2% during the las ten years and is projected to continue growing at an average annual rate of 3%, equivalent to about 1 million tonnes per year, over the next five years driven by sharp growth in global demand for tissue paper, in turn shaped by rapid urban growth and enhanced standards of living in emerging markets such as China.

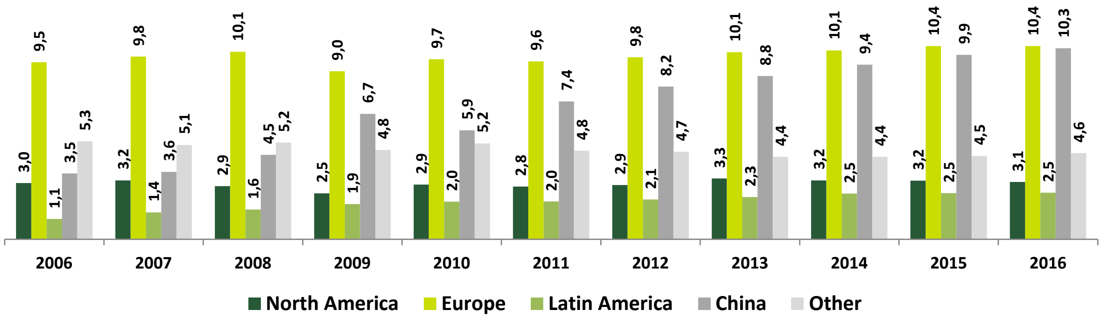
The chart below sets out the global annual demand for BHKP from 2006 through 2016 and a growth projection between 2016 and 2021:



Source: RISI

About one third of global market BHKP is consumed in China and this figure is projected to rise at an average annual gain of about 0, 6 million tonnes per year over the next five years. However, with some market BHK capacity in China in the process of being integrated forward into paper, the outlook for BHK imports into China is somewhat stronger than overall demand. Net BHKP imports into China are projected to grow by about 0,9 million tonnes per year. Due to the lack of domestic eucalyptus plantations, China is heavily dependent on hardwood imports to satisfy the demand for tissue paper.

Geographic Evolution of Global Annual Demand in BHKP (Mt)



Another third of global market BHKP is consumed in Europe where its demand is expected to trend slightly upward over the next five years at an average annual gain of 0,1 million tonnes.

In North America, Latin America and other emerging markets, market BHKP demand is expected to also post a solid growth, although from a lower base, with an average gain of about 0,1 million tons per year respectively.

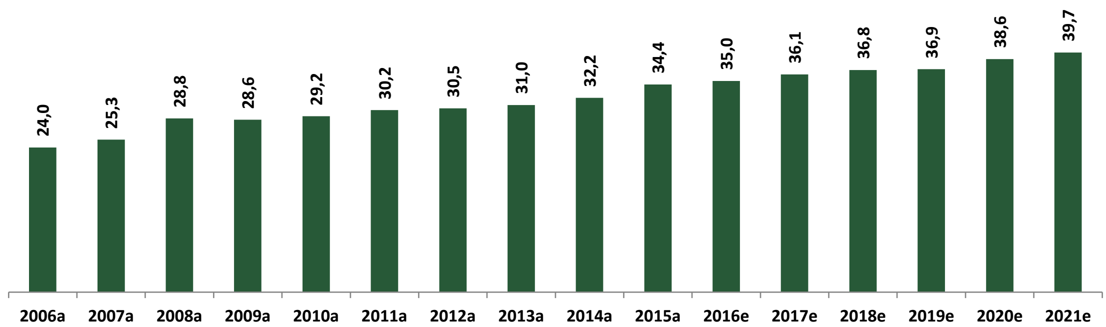
Analysis of hardwood pulp capacity

According to RISI, global BHKP production capacity was 35.0 million tonnes in 2016. It has grown at a compound annual growth rate of 3.8% in the last 10 years, equivalent to 11 million tonnes, of which Brazil alone accounted for 8 million tonnes as a result of the favourable conditions for capacity expansion in South America.

BHKP production capacity is expected to continue growing at an average rate of 3.0% over the next five years, equivalent to about 1.1 million tonnes per year.

The chart below shows the evolution of annual BHKP production capacity from 2006 through 2016 and a projection of annual BHKP production capacity growth between 2016 and 2021:

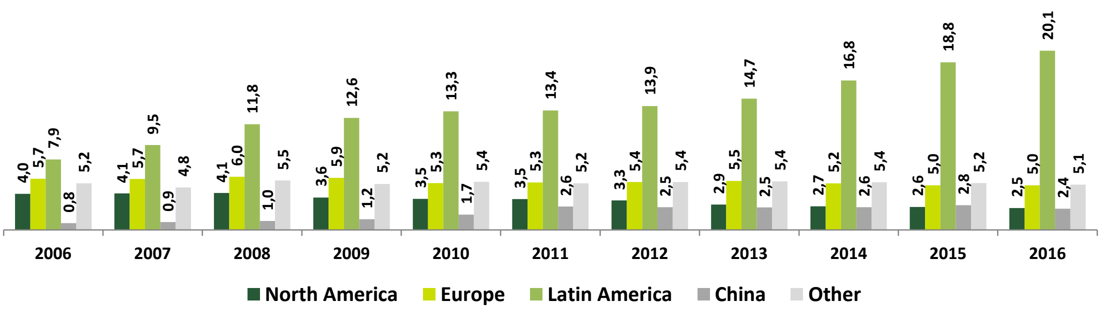
Evolution of BHKP Global Annual Capacity (Mt)



Source: RISI

In 2016, Latin America had the largest regional BHKP production capacity worldwide, with 20 million tonnes. The chart below illustrates the geographic evolution of global annual BHKP production capacity:

Geographic Evolution of Global Annual Capacity in BHKP (Mt)

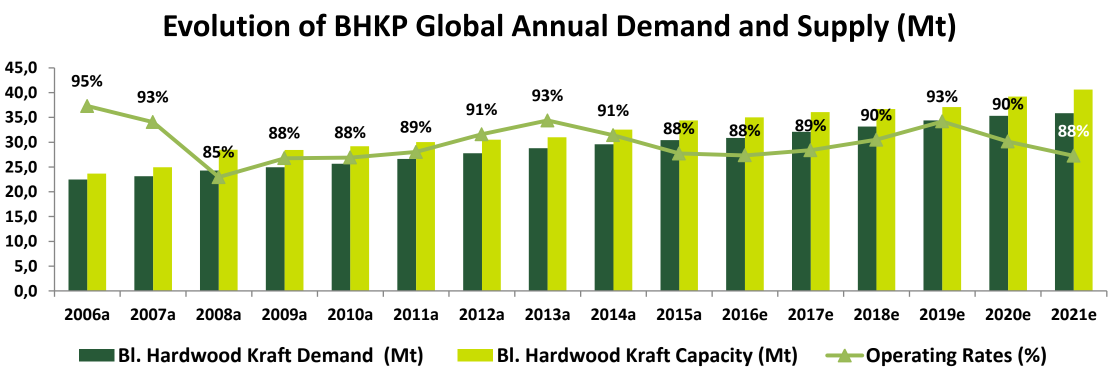


Source: RISI

The table below lists the main new BHKP projects that, as at February 2017, are expected by RISI to be launched in 2016-2018:

Company	Location	Country	Mkt Capacity (Mt)	Year	Quarter
Klabin	Ortigueira	Brazil	1.1 (New Line)	2016	1
PT OKI (APP)**	Sumatra	Indonesia	2.8 (Greenfield)	2016	4
Fibria	Tres Lagoas	Brazil	1.9 (New Line)	2017	4

The chart below sets out the global annual demand and capacity balance for BHKP from 2006 through 2016 and a growth projection between 2016 and 2021:



Source: RISI

Therefore, operating rates are estimated by RISI in the range of 88–93% for the period 2016–2021.

According to RISI, the 10 largest BHKP producers account for 74% of global BHKP market share. The largest global BHKP producers in 2016 were Fibria (6.0 million tonnes of installed capacity), APRIL (3.7 million tonnes of installed capacity), Suzano (3.5 million tonnes of installed capacity), CMPC (3.1 million tonnes of installed capacity), Arauco (2.2 million tonnes of installed capacity), UPM (1.8 million tonnes of installed capacity), El Dorado (1.7 million tonnes of installed capacity), Cenibra (1.2 million tonnes of installed capacity),Ence (1.0 million tonnes of installed capacity) and Altri (1.0 million tonnes of installed capacity).

According to RISI, Ence is the largest BHKP producer in Europe with slightly more capacity than the next largest BHKP producer in Europe, Altri.

Pricing Environment

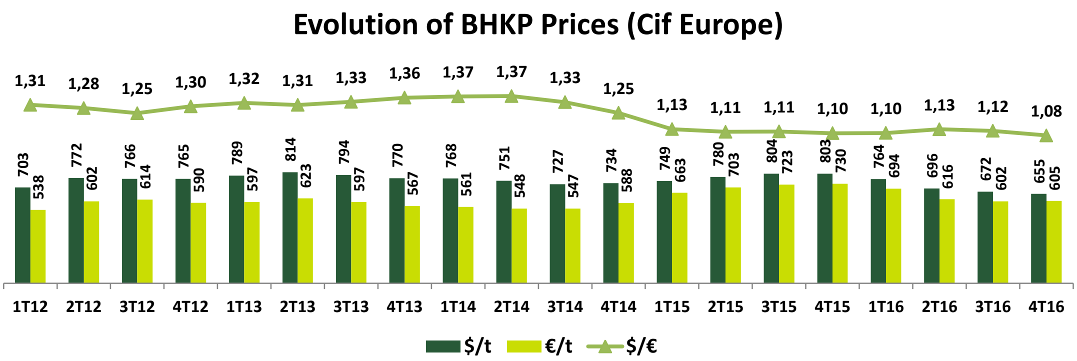
The pulp industry is highly competitive. It is also sensitive to changes in industry supply, shifts in producer and consumer inventories, economic cycles and fluctuations in demand for paper. Global pulp prices are cyclical because demand for certain paper grades depends on general economic conditions and because production supply tends to adjust slowly to any changes in demand. The price of BHKP generally increases as the global economy expands. Pulp 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 due to mill openings and closures and supply and demand for both raw materials and finished products, amongst other factors. Prices for BHKP are generally set by producers on a monthly basis, based on pulp delivered to North American, European and Asian ports.

According to PPPC, the chart below illustrates the historical evolution of BHKP producer days of inventories from January 2006 through December 2016, which ended the year at average levels:

Source: PPPC

The divergence in pulp demand between China and the rest of the world continues to grow, and is now the key feature of the demand side of the pulp market. We believe that the volatility in China's demand has become the key driver of short-term cycles in the world pulp market and price evolution.

Over the past five years, average list prices of BHKP in Europe have been volatile. The chart below shows the quarterly price evolution for BHKP per metric tonne for pulp delivered in Northern Europe between 2012 and 2016:



Source: FOEX; Reuters

Cost of Production

According to RISI, the average total cost of producing one tonne of BHKP to be delivered to Europe averaged U.S. $451 in 2016 amongst the major producing countries, which include Brazil, Canada, Chile, Indonesia, Portugal, Spain, Finland, Sweden and the United States. Over the next 15 years, RISI forecasts nominal U.S. dollar-denominated production costs for BHKP to trend upward at an average 4% rate.

RISI projects that Brazil will continue to retain its position as one of the countries with the lowest variable cost of production. However, Brazilian pulp mills source a high proportion of wood from their own plantations, with only a small amount bought from third parties, making comparisons to pulp mills located in other countries difficult. The average cost of wood referenced above refers only to the costs of harvesting and transportation and excludes silviculture (forestry management) costs, which are capitalised. Self-supplied wood cost is considered depreciable as a depreciation of biological assets (usually called forestry depletion) and does not impact variable costs and EBITDA. The differential in variable costs between Brazilian and other producers is therefore largely driven by varied accounting for forestry depletion. On a total cost basis, Brazilian producers have cost levels comparable with other producers because Brazilian producers incur higher depreciation, amortisation and financial expenses, resulting from the necessary financing of silviculture.

Iberian pulp companies manage their own plantations but nevertheless source a high proportion of wood from third parties, mainly from small domestic plantation owners. Timber costs in Iberia have remained stable as producers have been able to maintain balance in the domestic market by managing the amount of imports. This contrasts with higher cost volatility driven by an increasing demand for wood seen in international wood markets in which producers lack a strong influence over imports. The depreciation of the euro has also lowered U.S. dollar costs for Iberian BHKP producers in absolute terms.

Note: 2016 data used in this section is preliminary and could change pending of final update

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

Directive on industrial emissions

In January 2011, the European Parliament and Council passed Directive 2010/75/EC, which regulates industrial emissions through an integrated framework of pollution prevention and control (the ''IED''). The IED replaces Directive 2008/1/EC (the ''*IPPC Directive*'') whilst also subsuming Directive 2001/80/EC (the ''LCP Directive''). Now covered by the IED, the LCP Directive limited emissions of certain air pollutants from large combustion facilities with a thermal capacity of at least 50 MW, and curbed emissions from specific sources, such as sulphur dioxide, nitrogen oxide and their particulates.

As part of the IED's integrated pollution prevention and control mechanism, the IED regulates air, water and ground pollution. The IED also contains provisions designed to prevent waste generation in an effort to advance a comprehensive framework of environmental protection. Finally, the IED establishes rigorous deadlines for compliance; subject to temporary derogation mechanisms available under the IED, we must comply with the new air emissions requirements by January 1, 2016.

The IED was implemented in Spain through Law 16/2002 of July 1, 2002 and Royal Decree 815/2013 of October 18, 2013. Royal Decree 430/2004 implemented the previous LCP Directive now covered by the IED, which applies to our facilities with a thermal capacity of over 50 MW. Law 16/2002 of July 1, 2002 was revoked by Real Decreto Legislativo 1/2016, of December 16, 2016, which approves the Consolidated text of the Integrated Pollution Prevention and Control Act. All of our facilities of this size hold all required permits under these directives and decrees, and are compliant with their limits.

Environmental Liability Directive

The European Parliament and Council's Directive 2004/35/EC on environmental liability regulates prevention, avoidance and remediation relating to environmental damage (the ''ELD''). The ELD framework is based on the ''polluter pays'' principle, which holds that an operator whose activity has caused or may threaten to cause environmental damage should be financially liable to the extent of damage. Under this regime, operators will be obliged to return affected sites to their original condition. The ELD was implemented in Spain by Law 26/2007 of October 23, 2007 and Royal Decree 2090/2008 of December 22, 2008. Law 26/2007 is aimed at preventing and remedying environmental damages under the principles of ''prevention'' and ''polluter pays'' and establishes a number of preventive and reparative administrative obligations and applies generally to operators whose activities cause environmental damage or an imminent threat of environmental damage.

Further, such facilities are subject to Law 22/2011 of July 28, 2011 On Waste and Contaminated Soils (*Ley 22/2011, de 28 de julio, de Residuos y Suelos Contaminados*) concerning both contaminated soils and the management of hazardous waste. The infringement or the failure to comply with the obligations stated in the above-mentioned regulations may trigger administrative sanctions, including fines, the disqualification to carry out certain activities, and the obligation to compensate for damages and restore the environment to the status it had before the relevant infringement.

Emissions Trading System

Our operations are subject to the EU Emissions Trading System (''ETS''), which the European Parliament and Council introduced through Directive 2003/87/ECof October 13, an amendment to Directive 96/61/EC and amended by Directive 2009/29/EC. The ETS is an EU-wide system of trading allowances that covers industrial greenhouse gas emissions. It has been coming into force gradually over three phases: Phase I between 2005 and 2007; Phase II between 2008 and 2012; whilst Phase III is ongoing and applies between 2013 and 2020.

ETS-regulated industrial sites receive a certain number of allowances that correspond to allowable carbon dioxide (CO2) emissions. These sites must surrender one allowance for each equivalent ton of CO2 emitted. Sites that exceed their allowable emissions limits must purchase further allowances from other sites whose emissions fall beneath their allowable limits. Non-compliance will give rise to penalties in addition to the obligation to acquire missing allowances.

The current Phase III of ETS provides for a single EU-wide cap on emissions, decreasing annually. Phase III also contemplates the gradual replacement of free allowance credits with an auctioning system. As a result of this system, we will be required to purchase an increasing number of emissions allowances in the future.

Directive 2003/87 has been implemented in Spain by Law 1/2005 and Royal Decree 1722/2012. Law 1/2005 governs the system of trading allowances whilst Royal Decree 1722/2012 develops certain aspects of the allocation of allowances.

Regulation Promoting Renewable Energy and Biomass Generation

The following paragraphs describe the main industry-related regulations that are currently in force in Spain and the European Union, applying more specifically to our Renewable Energy Facilities.

European Framework and Spanish Targets in the Renewable Sector

On November 26, 1997, the EU published a report (the ''White Paper''), which outlined an action plan for the European Community that aimed at doubling energy production from renewable sources in the European Union from 6% in 1996 to 12% by 2010. This became even more important after the European Union and its Member States ratified the Kyoto Protocol, which imposed a target of reducing EU greenhouse gas emissions by 8% by 2012. The White Paper proposed several measures to promote the use of renewable energy sources, including the provision of better access to the electricity market for renewable energy activities.

In March 2007, the European Council approved a Climate and Energy Package that included a series of legislative instruments that aimed to support the European Union's efforts to meet ambitious climate and energy targets by 2020. These targets, known as the ''20–20–20'' targets, set the following three objectives for 2020: (i) a 20% reduction in EU greenhouse gas emissions from 1990 levels; (ii) raising the share of EU energy consumption produced from renewable sources to 20%; and (iii) 20% improvement in the European Union's energy efficiency. The European Parliament adopted this legislative package in December 2008.

The European Parliament and Council's Directive 2009/28/EC on the promotion of the use of energy from renewable sources (the "*2009 Renewable Energy Directive*'') set national targets for each Member State consistent with the European Union's objective to derive 20% of its total energy use from renewable energy sources by 2020. In order to comply with these mandatory targets, all EU Member States, including Spain, were required to develop a national action plan in the form of a National Renewable Energy Action Plan 2011–2020 (''*NREAP*''). Issued on June 30, 2010, Spain's NREAP set out a target of 22.7% of total energy use as coming from renewable energy sources by 2020.

In 2011, the European Parliament and Council of the European Union developed Renewable Energies Plan, known as REP 2011–2020 (the ''REP''). The REP added a new target to the 2009 Renewable Energy Directive: a minimum of 10% of transportation energy consumption to be supplied from renewable energy sources in each Member State by 2020. Hence, in addition to Spain's NREAP target of 22.7%, the REP requires Spain to derive 10% of its transportation consumption from renewable sources by 2020.

Article 3.3(a) of the 2009 Renewable Energy Directive states that in order to reach the targets set for 2020, Member States may apply support schemes and incentives for renewable energy. These support systems or incentives are different in each country, but the most common are:

(i) *Green certificates*. Producers of renewable energy receive a ''green certificate'' for each MWh they generate, and suppliers of energy have an obligation to purchase part of the energy that they supply from renewable sources.

(ii) *Investment grants and direct subsidies*. These help defray the costs of installing renewable energy generation facilities.

(iii) *Tax exemptions or relief*. These include cash grants in lieu of tax credits and accelerated depreciation, amongst others.

(iv) *System of direct support of prices*. These include regulated tariffs and premiums and involve a regulatory guarantee to purchase energy generated by a renewable energy facility for an allotted period of time at a fixed tariff per kWh for a maximum annual number of hours. This ensures that the producer achieves a reasonable return on its investment.

On October 24, 2014, the European Council published its conclusions regarding the ''2030 Climate and Energy Policy Framework,'' which set out the European Union's climate and energy goals to be achieved by 2030. Amongst other things, the framework proposes that by 2030, emissions of greenhouse gases should be reduced by 40% from 1990 levels, energy efficiency should be increased to 27% and 27% of total energy consumption should come from renewable energy sources.

Spanish Framework

Since the enactment of Royal Decree 661/2007, of May 25, regulating the activity of electricity production under a special regime (''RD 661/2007''), a special regulatory regime applied to cogeneration facilities, mini-hydro power stations and other facilities using renewable energy sources which have an installed capacity of 50 MW or less. However, this special regulatory regime no longer exists as it has been replaced by a new regulatory scheme.

During 2012 and 2013, the Spanish government completed a structural reform of the energy industry to establish a new regulatory framework in order to reduce and control one of the main problems of the Spanish energy sector: the ''tariff deficit,'' which is the divergence between the electricity costs and the income obtained from regulated electricity activities. Royal Decree Law 6/2009, dated April 30, had previously attempted to limit the increase of the aforementioned general tariff deficit; however, it was not sufficient, given that only a year later further steps needed to be taken by the government: a new Royal Decree Law 14/2010 was passed for the same purpose. The purpose of Royal Decree Law 1/2012 was to limit the impact of renewable premiums in the tariff deficit, thus reducing costs; in similar terms, Royal Decree Law 2/2013 aimed to mitigate the tariff deficit by modifying the remuneration system of regulated activities as well as the remuneration formula of the special regime facilities.

The reform began with the enactment of Royal Decree Law 9/2013, of July 12, whereby certain urgent measures were taken to ensure the financial stability of Spain's electrical system. The main changes introduced by such regulation aimed to provide the industry with a uniform, transparent and stable regulatory framework as well as to give economic and financial sustainability to the electricity system and avoid the generation of tariff deficit.

The new Electricity Act 24/2013 of December 26, which repealed the former Electricity Act 54/1997, of November 27, sets out the main provisions governing all aspects of the electricity industry. Articles 14 and 21 to 27 specifically govern the generation of electricity, including some provisions applicable to facilities using renewable energy sources, cogeneration and waste (''*Renewable Energy Facilities*''). The distinction between the ordinary and the special regime contained in former regulations has been abolished and the former economic framework applicable to Renewable Energy Facilities has been repealed.

Generally, the applicable legal framework in Spain for Renewable Energy Facilities is set out in the following legal sources:

(i) Royal Decree Law 9/2013, of July 12, 2013, containing urgent measures to guarantee the financial stability of the electricity system (''*Royal Decree Law 9/2013*''). This regulation establishes the remuneration principles to be applied to existing Renewable Energy Facilities in operation on the date on which it came into force.

(ii) Law 24/2013, of December 26, 2013, on the Electricity Sector (the ''*2013 Electricity Act*''). This law sets out the general rules applicable to the entire electricity sector, and incorporates the main principles set out by Royal Decree Law 9/2013 in respect of the renewable energy sector.

(iii) Royal Decree 413/2014, of June 6, 2014, governing electricity production from renewable energy sources, combining heat, power and waste (''*Royal Decree 413/2014*''). This decree implements the rules contained in both Royal Decree Law 9/2013 and the 2013 Electricity Act regarding the specific remuneration regime applicable to Renewable Energy Facilities.

(iv) Order IET/1045/2014, of June 16, 2014, establishing the remuneration parameters applicable to existing electricity generation facilities using renewable energy sources, combining heat, power and waste (''*Ministerial Order IET/1045/2014*'').

Change of Remuneration Scheme Applicable to Renewable Energy Facilities by Royal Decree Law 9/2013 and the 2013 Electricity Act

The purpose of Royal Decree Law 9/2013 was to adopt a set of measures to ensure the sustainability of the electricity system and, in particular, to combat the shortfalls between the electricity system revenues and costs (referred to as the ''tariff deficit'' and further explained below). Royal Decree Law 9/2013 and the 2013 Electricity Act established an entirely new remuneration scheme applicable to, amongst other things, all Renewable Energy Facilities, abolishing the previous feed-in-tariff system. This new regime applies to existing facilities in operation at the time the Royal Decree Law 9/2013 entered into force, as well as to facilities beginning operations following its enactment.

The provisions contained in Royal Decree Law 9/2013 relating to the remunerative system of energy producers from renewable sources, cogeneration and waste have basically been passed to the new 2013 Electricity Act. Accordingly, Section 5 of Article 14 of said Act determines that the remuneration for generation activities will include the following concepts:

- the correspondent remuneration for the participation in the generation daily and intra-day market;
- the system adjustment services required to guarantee a suitable supply to the consumer;
- when applicable, the remuneration for the capacity mechanism;
- when applicable, the additional remuneration for the generation activities carried on in the electricity systems of non-peninsular territories; and
- when applicable, the specific remuneration for the generation of electricity using Royal Decree Law 9/2013.

Royal Decree Law 9/2013 provided for a transitional settlement regime under which regulated payments, during the period until the effective date of Royal Decree 413/2014 and Ministerial Order IET/1045/2014, would be made in accordance with the former remuneration regime. After Royal Decree 413/2014 and Ministerial Order IET/1045/2014 come into effect, any amounts received during the transitional settlement regime in excess of or below the new regulated payments provided for in Royal Decree 413/2014 and Ministerial Order IET/1045/2014 would be reimbursed by or paid to renewable producers.

Calculation of the Remuneration to be received by existing Renewable Energy Facilities

Until the entry into force on July 14, 2013 of Royal Decree Law 9/2013 (and transitionally until Royal Decree 413/2014 and Ministerial Order IET/1045/2014 entered into force), Renewable Energy Facilities were entitled to receive a regulated remuneration level tied to their electricity produced through a feed-in tariff system composed by: (i) the pool price of the electricity sold in the market; and (ii) an equivalent premium, consisting of the difference between the pool price and the set feed-in tariff for each technology (feed in tariff = pool price plus equivalent premium). This revenue was received for a maximum annual number of hours and for a predetermined number of years, depending on the technology used in each case. For any additional hours produced, producers received the pool price.

Pursuant to the 2013 Electricity Act, the principles driving the new economic regime are that the incentives that an electricity producer receives should be equivalent to the costs that it is unable to recover on the electricity market where it competes with non-renewable technologies. The new economic regime seeks to allow a ''well-run and efficient undertaking' to recover the costs of building and running a facility, plus a reasonable return on investment (the ''*Reasonable Rate of Return*''). In order to reach this Reasonable Rate of Return, renewable energy producers may receive, in addition to the price obtained in the Spanish wholesale market, a specific level of remuneration that covers the costs (investment and operation) that they are unable to recover on the Spanish electricity market.

According to these criteria, producers will receive:

(i) a market remuneration (in €/MWh produced) equivalent to the renewable production sold every hour to the wholesale market price;

(ii) in addition to the electricity market price, renewable biomass energy facilities may also receive a specific remuneration composed of a return on operation (retribución a la operación) (in €/MWh produced, up to a cap of production hours per year), which has been calculated to cover, when appropriate, the standard operating costs (defined according to a standard installation applicable in each case) not recovered through the sale of electricity at the expected wholesale market price. This supplementary remuneration must be sufficient to reach the minimum level necessary to cover all the costs which, unlike conventional technologies, producers cannot recover in the market. Operating expenses include, as applicable, the cost of land, electricity, gas and water bills, management, security, corrective and preventive maintenance, market representation costs, the Spanish tax on special real properties, insurance, applicable generation charges (including a €0.5/MWh access fee to be paid by electricity producers) and a generation tax equal to 7% of total revenue; and

(iii) a return on investment (*retribución a la inversión*) per unit of installed capacity (in €/MW of installed capacity), which covers, when appropriate, the investment costs for each standard installation (without any relation whatsoever to the amount of power they generate), which cannot be recovered through the sale of the energy on the market in question.

Ministerial Order IET/1045/2014 establishes a number of parameters for calculating the return on investment and the return on operation for Renewable Energy Facilities. The most relevant parameters are: (i) the standard value of the initial investment; (ii) the estimated daily and intra-day market price received; (iii) the number of hours of operation annually; (iv) the estimated future revenues from the market; and (v) the estimated future operating cost.

In addition, Ministerial Order IET/1045/2014 establishes a number of remuneration parameters for each type of Renewable Energy Facility, the most relevant parameters of which include: (i) the return on investment; (ii) the return on operation; (iii) the regulatory useful life; (iv) the minimum number of operating hours; (v) the operation threshold; (vi) the maximum number of operating hours for the purposes of receiving the return on operation; and (vii) the upper and lower annual limits of the market price.

Reasonable Rate of Return

The Royal Decree 413/2014 defines the concept ''Reasonable Rate of Return'' by referencing the pre-tax return on the secondary market average yield on Spanish government ten-year bonds for the 24 months prior to the month of May of the previous year as at the beginning of the statutory period, increased by a spread. Each statutory period will last for six years, the first beginning on July 14, 2013, and lasting until December 31, 2019. Therefore, those facilities that benefited from a feed-in tariff regime as at July 14, 2013 will receive a Reasonable Rate of Return as determined by reference to market yields for the ten-year Spanish government bond during the ten years prior to July 14, 2013, plus a spread of 300 basis points.

For existing facilities that were entitled to receive incentives at the time Royal Decree Law 9/2013 entered into force (as at July 14, 2013), the Reasonable Rate of Return is 7.398% pre-tax, and will apply until December 31, 2019 (when the first statutory period nds)

Annex III of Ministerial Order IET/1045/2014 specifies that the ten-year average yield for the ten-year bond is 4.398%, which, increased by 300 basis points, results in 7.398% per annum.

For new Renewable Energy Facilities, the specific remuneration will be granted by means of a comprehensive tendering process respecting transparency, non-discrimination and objectivity principles.

Revision of the Remuneration Parameters

Royal Decree 413/2014 establishes statutory periods of six years, with the first statutory period running from July 14, 2013 (the date of entry into force of Royal Decree Law 9/2013) to December 31, 2019. Each statutory period is divided into two statutory half-periods of three years. The first such half-period runs from July 14, 2013 to December 31, 2016.

This ‘‘statutory period’’ mechanism aims to set out how and when the government is entitled to revise the different parameters used to determine the remuneration to be received by the Renewable Energy Facilities. Neither the parameters of the regulatory useful life nor the standard value of the initial investment can be modified.

At least every year the government is entitled to update the cost of fuel for those renewable energy or CHP assets that use fuel in their operations and that, therefore, have a variable cost linked to commodities energy prices.

End of Statutory Half-period

At the end of each statutory half-period the Spanish government may amend (i) the remuneration per investment to be received (Ri), in accordance with the difference, whether positive or negative, between the actual average wholesale market price during the half-period and the estimated average wholesale market price at the beginning of the half-period*; as well as (ii) the remuneration per operation (Ro), according to the estimates on revenues to be achieved by the Renewable Energy Facilities during the next half-period to come (taking into account the estimates on the average future wholesale market price for such half-period).

End of Statutory Period

At the end of each statutory period, the Spanish government may amend the following:

(i) The remuneration to investment, in this case not only to adjust it in respect of the wholesale market pricedeviations from estimates, but also to:

(ii) The rate of return (currently 7.398% for our assets).

(iii) Remuneration to operation, in this case not only to adjust it in respect of the future wholesale market price estimations, but also to the estimated operating costs.

More precisely, the rate of return may be revised every six years based on the cyclical situation of the Spanish economy and the profitability of the power generation business in view of the Spanish economy as well as electricity demand.

Before the start of a new statutory period (i.e. from the second statutory period onwards) a revised Reasonable Rate of Return can be established for each type of facility (as identified in Ministerial Order IET/1045/2014) calculated as the average yield on Spanish government ten-year bonds on the secondary market in the 24 months preceding from the month of May prior the commencement of the new statutory period (e.g. the second statutory period beginning on January 1, 2020) plus a spread.

This spread is based on the following criteria: (i) appropriate profit for this specific type of technology and the electricity generation business as a whole, considering the financial condition of the Spanish electricity system and Spanish prevailing economic conditions; and (ii) borrowing costs for an efficient and well-run electricity generation company using renewable energy sources with regulated payment systems within Europe.

Renewable installations only receive the specific remuneration until they reach their regulatory useful life, at which time they cease to receive the return on investment and the return on operation. Such installations can continue to sell the energy generated to the market.

(*)Market price adjustments

Market price estimates are made by reference to the annual average price of the future arrangements negotiated in the Iberian Energy Derivatives Exchange (OMIP) in the six months preceding the start date of the relevant statutory half-period.

If the real annual average hourly wholesale market prices in the daily and intra-day wholesale markets actually achieved deviate significantly from the estimated wholesale market prices in a given statutory half-period, the remuneration per investment to be received by the corresponding facilities are adjusted upwards or downwards, as the case may be. Such ‘‘adjustment for market price deviation’’ is made every statutory half-period (i.e. every three years).

The regulation provides for two floors (LI1 and LI2) and two caps (LS1 and LS2), as determined by the Ministry of Industry, Energy and Tourism, for how potential deviations from the estimated wholesale market price will be compensated. Risk shifts from the Spanish government to producers of energy depending upon where such risk falls on the scale between the established floors and caps as follows:

(i) for market risk within the first band, i.e. between the estimated market price and LS1 or LI1, producers bear the market risk;

(ii) for market risk that deviates beyond the second band, producers compensate the electricity system if prices are above LS2 or are compensated by the electricity system if prices are below LI2, by means of a corresponding adjustment to be applied in the next statutory half-period (pursuant to certain formulas included in Royal Decree 413/2014); and

(iii) for market risk between the first and second band, i.e. between LS1 and LS2 and LI and LI2, producers share 50% of such risk with the electricity system.

For the first statutory half-period, the average price for the period from July 14 to December 31, 2013, as published by OMIE, was €51.29/MWh. Based on that amount, Ministerial Order IET/1045/2014 sets out the following bandsand values for the first statutory half-period:

	2014	2015	2016	2017 and onwards
LS2	56.21	57.52	57.75	60
LS1	52.21	53.52	53.75	56
Estimated market prices (E/MWh)	48.21	49.52	49.75	52
LI1	44.21	45.52	45.75	48
LI2	40.21	41.52	41.75	44

These values are then modified by an adjusting coefficient (coeficiente de apuntamiento), which varies depending on the type of technology.

The real annual average hourly wholesale market prices in the daily and intra-day wholesale markets for the first statutory half-period was:

2014: 42,06 €/MWh
2015: 50,30 €/MWh
2016: 38, 33 €/MWh

Ministerial Order ETU/130/2017 sets out the following bands and values for the second statutory half-period 2017-2020 (taking into account the future wholesale market price for this half-period):

	2017	2018	2019	2020 and onwards
LS2	49.81	48.30	48.68	60
LS1	46.33	44.92	45.28	56
Estimated market prices (E/MWh)	42.84	41.54	41.87	52
LI1	39.35	38.16	38.46	48
LI2	35.87	34.78	35.06	44

Transitional Regime Applicable to Renewable Energy Facilities Already in Operation

Royal Decree Law 9/2013 provides that the new remuneration scheme for Renewable Energy Facilities would be applied from July 14, 2013, but only once the implementing regulations (i.e. Royal Decree 413/2014 and Ministerial Order IET/1045/2014) were put in place, which did not occur until June 2014. Royal Decree Law 9/2013 and Royal Decree 413/2014 provide that: (i) from July 14, 2013 until the date on which Royal Decree 413/2014 became effective, settlements corresponding to Renewable Energy Facilities already operating would be made in accordance with the former regulated tariff regime; and (ii) there would be an adjustment mechanism for the reimbursement of those amounts received in excess of or below the regulated amount by the renewable producers as a result of the application of the transitional regime, as described below.

In this sense, the Third Transitional Provision of Royal Decree Law 9/2013 provides for the adjustment of the amounts actually received during this transitional period so that renewable producers reimburse the excess or default earnings achieved during the July 2013 to June 2014 period by means of corresponding adjustments to nine settlements of the electricity system applicable to the relevant facilities, commencing with settlement No. 7/2014. The total amount corresponding to this adjustment will be equally distributed amongst these nine settlements. However, the adjustment is capped at 50% of the total amount to be received under each of the affected settlements.

Notwithstanding the above, under no circumstances will amounts received by producers for electricity generated before July 14, 2013 be required to be returned or reimbursed under the new system.

Regime Applicable to New Renewable Projects

The entitlement to receive a specific remuneration for Renewable Energy Facilities, developed after the entry into force of the new regime in June 2014, will be established by public tender processes. These processes will be called by the Spanish authorities if needed in order to meet the 20% renewable target set out in the EU policy.

Until such competitive proceedings are organised, new facilities may be developed and constructed outside the specific remuneration scheme and will only receive the market price (although there are some exceptions and specific provisions applicable to non-mainland Renewable Energy Facilities included in the 2013 Electricity Act).

A new royal decree to allocate new capacity for new wind (up to 500 MW) and biomass (up to 200 MW) projects has been approved by the Spanish government by means of new Royal Decree 947/2015, of October 16, pursuant to which a tender for the granting of the specified system of remuneration to new biomass production facilities in the peninsular electric system and for wind power technology installations and Ence has been awarded the concession to operate 40 MW of capacity As a result, Ence has begun the process of permitting a new facility to be located in Huelva.

Generally, the authorisations, permits, licences and registrations required for new Renewable Energy Facilities to be constructed and operated do not differ from those required from Renewable Energy Facilities already operating.

Access Fee to Be Paid by Electricity Producers

Royal Decree Law 14/2010 was also passed in order to solve the problem of the tariff deficit, which reached approximately €28 billion as at December 2013.

The First Transitional Provision of Royal Decree Law 14/2010 states that the owners of electricity production facilities must pay a fee to the transmission and distribution companies for access to the electricity grid from January 1, 2011. Such access was previously free of charge. The access fee was set out on a temporary basis as follows: (i) calculated at €0.5 per MWh delivered to the network; or (ii) any other amount that the Ministry of Industry, Energy and Tourism establishes.

Royal Decree 1544/2011 implemented the First Transitional Provision of Royal Decree Law 14/2010 and confirmed the interim access fee imposed on electricity producers (€0.5 per MWh), subject to the adoption of a final method for calculating the access fee, which has not yet been approved.

Financing the Tariff Deficit

As stated above, the main purpose of the electricity reform contained in the 2013 Electricity Act is to resolve the tariff deficit problem from previous years, where the regulated costs, such as the remuneration of distribution and transmission activities, the servicing of the tariff deficit debt, the additional production cost outside the Spanish mainland, and the former premiums payable to Renewable Energy Facilities, have exceeded the regulated income, namely, tolls and charges paid by the consumers for the use of the electricity network.

In this regard, the 2013 Electricity Act states that from January 1, 2014, the tariff deficit will be financed by the companies that receive regulated payments on a pro-rata basis, including distributors, transporters, producers of electricity from renewable energy sources, companies receiving payments for availability of production capacity and others (as opposed to the previous regime, under which only the five most significant electric utility companies were obliged to finance the tariff deficit). Each of these entities will temporarily fund the tariff deficit in proportion to the costs that they represent for the electricity system in a given year.

There are two types of tariff deficit, provisional and final, and the mechanism to recover each one is different. Such different mechanisms are related to the settlement procedure of the regulated activities, which consists mainly of distribution and transmission of electricity in Spain, and is managed by the National Markets and Competition Commission (''*CNMC*''):

(i) All sector agents provide the CNMC with information on their electricity system revenues and costs on a monthly basis. Each natural year, there are 14 provisional settlements and one final settlement approved in December of the following year. There are 14 provisional settlements (one per month of the corresponding year and two further on the months of January and February of the following year) due to the fact that transmission and distribution companies charge access fees corresponding to each calendar year on invoices submitted from January of the relevant year to February of the following year.

(ii) In each settlement, transmission and distribution companies include the amounts received from their suppliers/consumers corresponding to the third-party access tariffs.

(iii) The CNMC settles its accounts by either depositing, or receiving the difference between, the amounts collected and the payments recognised in favour of each of them, respectively. These are the main revenues of the Spanish electricity system.

(iv) If revenues are not sufficient to cover all system costs, there is a ''provisional tariff deficit.'' The provisional deficit which appears in each of the 14 provisional settlements is financed by the ''agents subject to the settlement system'' in proportion to the payments they receive in each monthly settlement. ''Agents subject to the settlement system'' are those who receive settlement of their payments with a charge to the various system cost items, directly or through the system operator or distributors (such as renewable energy producers).

(v) The ''final tariff deficit'' results from the final settlement approved in December of the following year and will also be financed proportionally by those subject to the settlement system. These amounts are entitled to recover amounts paid in the corresponding settlements within the five years after the deficit arose. The amounts paid for this reason will be repaid plus interest on terms equivalent to the market.

The final tariff deficit cannot exceed 2% of the estimated system revenues for each year. Further, the accumulated debt due to previous years' deficit also cannot exceed 5% of the estimated system revenues for that period. If these thresholds are exceeded, the government is forced to review the access fees so that the system revenues increase accordingly.

Tax on Electricity Sales

On December 27, 2012, the Spanish Parliament approved Law 15/2012 on tax measures to achieve environmental sustainability which became effective as at January 1, 2013. The aim of Law 15/2012 is also to help solve the problem of the tariff deficit.

Law 15/2012 establishes a tax triggered by the sale of electricity and affects all electricity producers in Spain. The tax on electricity generation (the ''TEG''), a flat rate of 7%, is levied on the total revenue achieved by the electricity producers from the power produced at each of their facilities.

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

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

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

- The applicable rate is 7%.

Thus, every calendar year, the owners of Renewable Energy Facilities must pay 7% of the total amount they are entitled to receive in connection with their electricity production activity, measured as the net output generated.

Forestry Management Regulation

European Union regulation

EU Regulation 995/2010 (the ''Timber Regulation'') sets out the obligations of operators who place timber and timber products on the market, imposing the following key obligations:

(i) The Timber Regulation 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.

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

(iii) Traders (those after the operators in the supply chain) mus keep records of their suppliers (and customers). In this way the operators can always be traced.

The Timber Regulation does not need to be implemented in Spanish law as the regulation is binding in its entirety and directly applicable in all Member States.

Spanish regulation

In Spain, the main legal framework consists of the Hillside Act 43/2003, of November 21 (Ley de Montes) and the rules concerning the organisation of hillsides (*ordenación de montes*), both nationwide and at the autonomous community level. Pursuant to these regulations, the relevant public authorities regularly approve and review forest management and organisation plans.

Other rules of an environmental nature such as those on waste, water or protected spaces or species may also apply.

Internationally recognised initiatives

In addition to EU and Spanish regulations applicable to forestry management activities, there is a set of sustainable forest management practices and internationally accepted criteria acknowledged by the Food and Agriculture Organisation of the United Nations since 1981. These have been promoted regularly since the Río de Janeiro Earth Summit of 1992. Over the years, these practices and criteria have been implemented and broadened through regulation and on a voluntary basis in successive international summits and by means of non-governmental initiatives.

The most common forest certification system worldwide is the Program for the Endorsement of Forest Certification, with more than 240 million certified hectares. Further, the Forest Stewardship Council, or FSC, has over 180 million certified hectares.

In Spain, the UNE-EN-ISO 14001-2004 environmental certification applies to all of our forestry activities. Moreover, approximately 70% of our owned forest assets are certified in accordance with PEFC systems and, 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 foratters 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	73	Chairman
Ignacio de Colmenares y Brunet	55	Chief Executive Officer and Vice-Chairman
Retos Operativos XXI, S.L., represented by Oscar Arregui Abendivar	43	Non-Executive Proprietary Director
Pascual Fernández Martínez	56	Non-Executive Proprietary Director
Javier Echenique Landiribar	56	Non-Executive Director
José Carlos del Álamo Jiménez	65	Non-Executive Independent Director
Fernando Abril-Martorell Hernández	54	Non-Executive Director
Luis Lada Díaz	67	Non-Executive Independent Director
José Guillermo Zubía Guinea	70	Non-Executive Independent Director
Mendibea 2002, S.L., represented by Jose Ignacio Comenge Sánchez –Real	65	Non-Executive Proprietary Director
Pedro Barato Triguero	57	Non-Executive Independent Director
Isabel Tocino Biscarolasaga	67	Non-Executive Independent Director
Victor de Urrutia Vallejo	74	Non-Executive Proprietary Director

Juan Luís Arregui Ciarsolo is Chairman of the Board of Directors, Chairman of the Executive Committee and a 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, specialising 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 cogeneration 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 and, in 2002, created Foresta Biomasa, which became the world leader in the production of plants with in vitro technology. He became our Chairman in 2006 and has led the diversification of our activities with the production of renewable energy through forest biomass. He has also served as 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 CEO and Vice Chairman of ENCE, member of the Executive Committee at Ence, Voting member of the Advisory Committee on Forestry and Regulatory Policy, and member of the governing board of the Spanish pulp, paper and cardboard manufacturers association (ASPAPEL). He joined us in December 2010.

Mr. de Colmenares y Brunet holds a law degree from the Universidad Central in Barcelona and a Master's degree in Economics and Business Management from the Instituto de Estudios Superiores de la Empresa (IESE) in Barcelona.
He has extensive professional experience in the steel and energy sectors. He was Export and Trading Manager at Compañía Española de Laminación, spin-off of steel group CELSA. He later was the Commercial Director of Nueva Montaña Quijano, a common steelworks company, and General Manager of the CELSA Trefilerías Group.
In 1996, he assumed General Management of Trenzas y Cable de Acero-TYCSA, company specialising in the manufacturing of steel, aluminium and fibre optic cables. He then become General Manager of the steel group Global Steel Wire in 2001, a responsibility that he made compatible with the Corporate Development Director of the CELSA Group.
Before joining Ence, in 2008 he was CEO of Isofotón, photovoltaic panel manufacturer and solar power facility promoter, which he restructured company technologically, industrially and commercially. He was also Chairman and CEO of Bergé Lift, a group of companies that import, distribute, rent and maintain service equipment.

Oscar Arregui Abendivar is the individual representative of the Nominee Director of Ence RETOS OPERATIVOS XXI, SL. He is also a member of the company's Forestry and Regulatory Advisory Committee. He joined us in April 2013.

He has held positions of great responsibility within Guascor group, both in research and development side and its expansion in the North American market. He is actually manager in Cermanca XXI, S.L., Vice secretary of Torneados Numéricos, S.A. and Daima Global, S.L., and chair of Turina 2000, S.L.

Pascual Férnandez Martínez is member of the board of directors of Ence as external proprietary director, member and secretary of the appointments and remuneration committee, and member of the company's Advisory Committee on Forestry and Regulatory Policy. He joined us in May 2005.

Mr. Fernández Martínez has a Doctorate in Economic and Business Sciences, and has carried out his professional career primarily in the public sector as professor and researcher at universities such as Universidad Autónoma de Madrid, Universidad Rey Juan Carlos de Madrid and Universidad de Valladolid; in the administration of the regions of Castilla y León and Madrid, and at the Ministries of the Economy, Inland Revenue and the Environment.

He is currently the Deacon-Chairman of the Madrid School of Economics, professor of applied economics at Universidad Rey Juan Carlos in Madrid, professor in the Master's programme on Public Service Infrastructure and Management for the School of Civil Engineering at Universidad Politécnica in Madrid, and member of the Association of European Conjuncture Institutes (l'Association D'Instituts Européens de Conjoncture Economique AIECE) and of the Global Hight Level Panel on Water and Peace (UN). He was also member of the boards of directors of various companies, including Sodical, Renfe, Instituto de Crédito Oficial (ICO), Gran Telescopio de Canarias (where he was chairman from 1997 and 2001), Sociedad Gestora de Planes de Pensiones de Caja Madrid and Gamesa, where he was chairman of the appointments and remuneration committee from 2006 to 2010.

Javier Echenique Landiribar Javier Echenique is Director at Ence and member of Ence's Executive Commission 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, as well as member of the board of directors of Telefónica Móviles, S.A., Telefónica Móviles México, Sevillana Electricidad, S.A., Acesa, Hidroeléctrica del Cantábrico, Metrovacesa, Corporación Patricio Echevarría, Corporación IBV, Grupo BBVA Seguros, Uralita, Abertis Infraestructuras, S.A., Banco Guipuzcoano, S.A. del que fue Presidente and Celistics.

He is currently Vice Chairman of Banco Sabadell, S.A. and a board member of REPSOL, ACS Actividades de Construcción y Servicios, S.A., ACS Servicios, Comunicaciones y Energía, S.L., and Telefónica S.A. He is also a delegate of the board of Telefónica in the Basque Country, counsel of Calcunor, S.A., trustee of the Novia Salcedo Foundation and director of Deusto Business School.

José Carlos del Alamo Jiménez currently holds the position of independent board member of Ence. He joined us in June 2009.

Mr. del Álamo Jiménez has a Degree in forestry from the Polytechnic University of Madrid and a Diploma from ESADE and developed two doctor courses in the Higher Technical School of Forestry Engineers. 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 Polytechnic University 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 great responsibility in both 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, President of the Professional Union of Engineering Associations (UPCI) and Professional Union of Engineering Associations.

He is President of the Engineering Institute of Spain, chair of the Consejo de la Red de Parques Nacionales del MAPAMA, patron of the patronato del Parque Nacional de la Sierra de Guadarrama, secretary of forum "Forests and Climate Change", President of " Environmental Forum for Economic and Social Progress " and chair of Castilla y León and Madrid Environment Council.
He is currently vice chairman of TYPSA Group and chairman of TYPSA Estadística y Servicios.

Fernando Abril-Martorell Hernández holds the position of external board member of Ence, member of the Executive Commission and member of the Appointments and Remuneration Committee. He joined us in March 2007.

He has developed his activity in different companies and financial entities. Since January 2015, he is Chief ececutive of Indra. From 2011 to 2014 he has been CEO at Grupo Prisa. From 2005 to 2011 he was CEO at Credit Suisse in Spain and Portugal. He was CEO of Telefónica Group from 2000 to 2003. He has a broad financial experiencia as Managing Director and treasurer of JP Morgan in Spain, for 10 años, before his incorporation to Telefónica.

Luís Lada Díaz is an independent non-executive member of our Board of Directors. He joined us in March 2016.

Mr. Lada Díaz is a Telecommunication Engineer from the Universidad Politécnica de Madrid, of which he is Professor "·Ad Honorem and Academic of the Royal Academy of Engineering. He is currently Director and Member of the Audit and Compliance Committee of Indra Sistemas, director and member of the Executive Committee of Gamesa Corporación Tecnológica and member of the Advisory Board of Assia, Inc. In 1973, he joined the Research and Study Center of Telefónica, a company in which he has spent most of his professional career. Between 1989 and 1993, he worked for the Amper Group as General Director of Planning and Control and Deputy General Manager for the Presidency, after which Telefónica was reinstated as Deputy Director General of Subsidiaries and Affiliates. In 1994 he was appointed President of Telefónica Móviles España and in 2000 was appointed Executive Chairman of Telefónica Móviles, becoming General Director of Development, Planning and Regulation of the Telefónica Group in 2002. Between 2005 and 2006 he was Executive President of Telefónica de España. He has also been Chairman and Advisor of several companies, having received several professional and business distinctions.

José Guillermo Zubía Guinea currently holds the position of independent board member of Ence, and is a member of the company's Executive Committee and Chairman of the Audit Committee. He joined us in March 2007.

Mr. Zubía Guinea has a Degree in Law from the Madrid's Complutense University. He has also studied economics at the Complutense University and taxation at the Centre 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 General Secretary 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 has been a member of the Boards of Directors or Governing Bodies of the main Socioeconomic Institutions of the Basque Country: among others, the Society for the Industrial Promotion and Reconversion, the Economic and Social Councils and Labor Relations. He is also a member of the Economic and Social Council of Spain and its Economic and Labour Relations Committees.

He is currently also a member of the Standing Committee at the Andalusia School of Economics and regularly participates in various courses and conferences at the Universidad Internacional Menéndez Pelayo, the summer courses of El Escorial and the summer University of the País Vasco University.

José Ignacio Comenge Sánchez-Real is the natural person representing the proprietary director of Ence Mendibea 2002, S.L., which is in turn member of Ence's Audit Committee He joined us in June 2014.

Mr Comenge has a degree in Economics and International Banking from the Complutense University in Madrid. He has held various positions at Banco Hispano Americano from 1973 to 1983 as sub-director of the Foreign Trade Department and director of Large Business Accounts. Between 1984 and 2002 he held the following positions at MUTUA MADRILEÑA AUTOMOVILISTA: Director of the Financial Area and Vice Chairman of the Board of Directors.

He is currently Chairman at Ball Beverage Can Iberica, S.L.; and Director at COCA-COLA EUROPEAN PARTNERS, plc; EBRO FOODS; BARBOSA & ALMEIDA, S.A., AZORA EUROPA I, SA, Compañía Vinícola del Norte de España, S.A. and OLIVE PARTNERS, S.A. (in the last two companies, the board member is MENDIBEA 2002, S.L.)

Pedro Barato is an Independent Director at Ence, Chairman of its appointments and remuneration committee, and member of the Executive Committee and Advisory Committee on Forestry and Regulatory Policy. He joined us in June 2008.

Mr. Barato Triguero holds a degree in law and has been a member of the Spanish agricultural and livestock federation (Confederación Nacional de Agricultores y Ganaderos) since 1978, national chairman of the Asociación Agraria-Jóvenes Agricultores (ASAJA) since 1990. He is also member of the Spanish confederation of business organisations (CEOE), member of the chairman's office on the EU's Committee of Professional Agricultural Organisations (COPA), committee member in the European Commission's CAP board, chairman of the cross-industry trade union organisation for Spanish olive oil (Organización Interprofesional del Aceite de Oliva Español), chairman of the Spanish confederation of beet and cane sugar cultivators (Confederación Nacional de Remolacha y Cultivadores de Caña de Azúcar) and chairman of the Spanish federation of self-employed workers (CEAT).

He is currently a proprietary director of DEOLEO, S.A., member of the Advisory Board of MAPFRE AGROPECUARIA, Compañía Internacional de Seguros y Reaseguros, S.A. and voting member of the governing board of FREMAP, S.A.

He was member of the European Social and Economic Commission from 1997 to 2007, and member of the Social and Economic Board from 1991 to 2007.

Isabel Tocino Biscarolasaga Isabel Tocino is external independent director in Ence, and member of both Audit and Forestry and Regulatory Advisory Committees in Ence. She joined us in March 2013.

Ms. Isabel Tocino Biscarolasaga is Doctor in Law and professor of Universidad Complutense de Madrid and she has performed Business Management Programs at IESE and Harvard Business School. She is currently member of la Academia de Doctores, director in ENAGÁS, S.A., director in Banco Santander, S.A. and director in Naturhouse Health, S.A. She was Minister of Environment, Deputy and Chairwoman of the Foreign Affairs Committee and Chairwoman of the European Affairs Committee and Chairwoman for Spain and Portugal and Vice Chairwoman for Europe of Siebel Systems. She participated in Kyoto Protocol on behalf of the Government of Spain as Minister of Environment and she promoted various legislative initiatives on waste, water and water resources and national parks. She previously worked in Nuclear Energy Board (now CIEMAT) and she was a member of the Group of Legal Experts of the European Governmental Energy OECD and currently she is a member of the International Society of Nuclear Law (INLA) and the Spanish Nuclear Society (SNE). She holds the Grand Cross of the Order of Carlos III and the Cross of St. Raymond of Peñafort.

Victor de Urrutia Vallejo is Proprietary director and member of the executive committee of Ence. He joined us in July 2013.

Mr. Urrutia Vallejo has a Ph.D in Economics Sciences (Universidad Complutense de Madrid) and degree in Law (Universidad de Oviedo). He speaks English, French and German. He is currently the Chairman of the Compañía Vinícola del Norte de España, S.A. (CVNE), member of the executive committee and member of the Instituto de Empresa Familiar, Sole Director of Asúa Inversiones, S.L. and Vice Chairman of OCIBAR, S.A. He previously held the position of director at Firestone Hispania, director at IBM España, chairman of Begano, director at Asturbega y Norbega, vice chairman of IBERDROLA, S.A., director at Barclays Bank, S.A.E., chairman and member of the executive committee at Vocento y Prensa Española and chairman of CASBEGA, S.A, and director at Coca-Cola Iberian Partners.

The Senior Management of the Issuer

Our senior management team is led by Juan Luís Arregui Ciarsolo. The following table sets out our current senior management team and their respective ages and positions. The business address of each member of our senior management team is located at Calle de Beatriz de Bobadilla, 14, Planta 4, 28040 Madrid, Spain.

Name	Ag	Positio
Juan Luis Arregui Ciarsolo	73	Chairman
Ignacio de Colmenares y Brunet	55	Chief Executive Officer
Alfredo Avello de la Peña	50	Chief Financial and Corporate Development Officer
José Jaime Argüelles Álvarez	46	Chief Operating Officer
Javier Arregui Abendivar	46	Chief Forestry Officer
Alvaro Eza Bernaola	42	Chief Procurement Officer
María José Zueras Saludas	56	Chief Corporate Resources Officer
Luis Carlos Martínez Martín	57	Chief Communications Officer
Jordi Aguiló Jubierre.	38	Chief Operating Officer for the energy business

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. He joined us in 2013.

Mr. Avello de la Peña joined us as Director of Strategy and Corporate Development in May 2013, and was appointed as our Chief Financial Officer in November 2014. Mr. Avello de la Peña has a law degree from the Universidad San Pablo CEU in Madrid, a master’s degree in International Business Transactions (LLM) from the University of London and a DD in Business Administration from IESE (University of Navarra). Prior to joining us, he served as the Chief Executive Officer of GISA ALFANEXT, Chief Financial Officer at Foresta Capital and Multitel Group and the Director of Finance at Atlantic Copper (Freeport McMoRan Copper & Gold).

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

Mr. Argüelles Álvarez has a degree in industrial engineering from the Escuela Técnica in Gijón, and completed a general management course at IESE (University of Navarra). 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 has a degree in Business Administration from the University of Missouri. Prior to joining us, he worked at several plantations in North and South America, including the development of 10,000 hectares at the Palm Oil Plantations in Ecuador, the management and development of €180 million hard wood plantation in the United States and labour-intensive olive oil plantations in Spain.

Alvaro Eza Bernaola is the Chief Procurement Officer. He joined us in November 2011.

Mr. Eza has a bachelor of science in Electrical Engineering and an MBA from the IESE Business School in Navarra. Prior to joining us, he was the Managing Director of Cosidesa (part of the Celsa group) from 2004 to 2008. Previously, he was the Procurement Director at Celsa.

María José Zueras Saludas is the Chief Corporate Resources Officer.

She joined us in November 2007. Ms. Zueras Saludas has law degrees from the Facultad de Derecho de Zaragoza and the Universidad Complutense in Madrid and a master’s 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 labour relations roles at AXA Winterthur, Telefónica de España, Arcelor and Aceralia. She has also held various positions at TENEO and the State Industrial Agency in Spain.

Luis Carlos Martínez Martín is our Chief Communications Officer. He joined us in January 2012.

Mr. Martínez has 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 Hidroelétrica Española), including Director of the Iberdrola Foundation and Director of Communications Strategy.

Jordi Aguiló Jubierre is our Chief operating officer for the energy business. He joined us in June 2012.

Mr. Aguiló has a degree in Physics Engineering from the University of Barcelona and a doctor´s in thermal engineering from University Politecnica de Cataluña and a MBA from the IESE. Prior join us he has held several managing positions as in COMSA EMTE, Grupo ACS, and PGI Grup.

Corporate Governance

The Board of Directors comprises executive directors (*consejeros executivos*), and non-executive directors, which are divided into proprietary directors (*consejeros dominicales*), independent 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 with us or our subsidiaries other than as a director. The rest of the members of the Board of Directors shall be characterised as non-executive directors. Proprietary directors are those proposed by shareholders or who have been appointed due to a stable holding in our capital. Independent directors are professionals of acknowledged prestige who can contribute their experience and knowledge to corporate governance and who fulfil the remaining conditions required by the regulations, including not being connected to the Issuer, the executive team or to significant shareholders. Finally, other external directors are those directors who cannot be classified as proprietary or independent directors.

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

We include all documentation relating to our annual corporate governance report on our website, www.ence.es, in accordance with Article 540 of the Spanish Companies Act and the 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 for 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 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, if the proposed director is to be classified as ''independent,'' or by favourable report, in all other situations. 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 that the candidates for non-executive directors selected are persons of recognised 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 non-executive directors represent an ample majority amongst 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 free float.

In addition, in accordance with applicable law, the Board of Directors is required to evaluate its own functioning and the quality and effectiveness of its work at least once per year, and pursuant to the applicable board regulations, the performance of the Chairman of the Board of Directors and the 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 Committee; the Audit Committee; the Appointments and Remuneration Committee; and the Advisory Committee for Forestry and Regulatory Policies.

Executive 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 currently comprises of Juan Luís 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 directors and a maximum of seven, all of whom, pursuant to the applicable law, must be non-executive directors, and the majority of which must be independent. In addition, the members of the Audit Committee shall be elected taking into account their knowledge and experience in accounting and/or auditing.

The Audit Committee currently comprises José Guillermo Zubía Guinea (Chairman), Javier Echenique Landiribar, Mendibea 2002, S.L. (represented by Jose Ignacio Comenge Sánchez-Real), Oscar Arregui Abendivar and Isabel Tocino Biscarolasaga.

Appointments and Remuneration Committee

The Appointments and Remuneration Committee reports on proposals to appoint and dismiss directors and senior managers of the Issuer; ensures that the selection procedures for vacancies on the Board of Directors are fair and unbiased; and proposes to the Board of Directors a system and an amount of annual remuneration for the directors, as well as the basic conditions of the agreement with the executive directors including remuneration, and overseeing the fulfilment of the remuneration policy for the Company. The Appointments and Remuneration Committee also oversees succession for the Chairman and the Chief Executive Officer and may present succession proposals to the Board of Directors.

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 and a maximum of seven, the majority of which must be independent.

The Appointments and Remuneration Committee currently comprises Pedro Barato Triguero (Chairman), Fernando Abril-Martorell Hernández, José Guillermo Zubía Guinea, José Carlos del Álamo Jiménez, 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 currently comprises José Carlos del Álamo Jiménez (Chairman), Ignacio de Colmenares y Brunet, Pedro Barato Triguero, Juan Luís Arregui Ciarsolo, Pascual Fernández Martínez, Isabel Tocino Biscarolasaga and Retos Operativos XXI, S.L.

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 amongst 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 €1.5 million, 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, provided the same are held until these directors cease to hold office.

Executive Directors' compensation

Executive directors may receive any other remuneration contemplated in their respective services agreements for other executive functions that they provide to the Company, as long as such compensation is covered in the directors' remuneration policy in force and from time to time approved by the General Shareholders' Meeting.

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 was to incentivise management for the achievement of objectives that were set out for financial years 2010, 2011 and 2012, and was in force until June 30, 2015, the date on which all the granted options had to be exercised (and all non-exercised options expired). For such purposes, each year the Beneficiaries (as defined below) received a number of options over shares of the Company, subject to certain limits for each member of management. The Beneficiaries of the First Plan included our Chief Executive Officer, members of our Management Committee, managers at the ''second rank management level'' (*Segundo Nivel Directivo*), as well as any other manager whom the Board of Directors designated from time to time (the ''*Beneficiaries*'').

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

Additionally, our shareholders approved a new Management Incentive Plan (the ''*Second Plan*'') at the General Shareholders' Meeting held on March 21, 2013. The purpose of the Second Plan is to incentivise management to achieve the 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 determined by the Board of Directors according to the extent the goals set for the Company have been achieved and the particular management level of the Beneficiary. In any case, the maximum amount of incentive that Beneficiaries may receive shall never exceed 120% of average annual compensation over 2013, 2014 and 2015 for each management level. 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 criteria for awarding the incentive, consideration for which will fall to the Board of Directors, shall be as follows: (i) the increase in the value of ENCE stock during the applicable periods, on a percentage basis or 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 capitalisation); (ii) 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 companies in the sector on the terms and conditions established by the Board of Directors; and (iii) the increase in the value of the Company as at December 31, 2015, calculated on the terms agreed to by the Board of Directors, taking into account the EBITDA achieved and outstanding debt with respect to market value of the Company at December 31, 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 formalise the Second Plan, including but not limited to: (i) implement the Second Plan as it sees fit and in the specific manner it deems appropriate; (ii) identify when persons in their role as directors of the company will be designated as beneficiaries of the Second Plan, and specify the levels to which each one will be attributed; and (iii) develop and set the specific terms of the Second Plan where the agreement does not specify, including 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 Second Plan and the power to set the requirements that beneficiaries must meet in order to receive the incentive.

The settlement of this Plan was concluded in 2015 with an impact of profit and loss for that year of €1.9 million Meanwhile, accrual of the "Long-term bonus plan for 2013-2015" was recognised by means of an obligation in the amount of €2,063 thousand which was paid out in 2016.

At the Parent's Annual General Meeting of 16 March 2016, the Company's shareholders approved a "Long-term bonus plan for 2016-2018". This plan is designed to orient the management team towards delivery of the targets set by the Board of Directors throughout the term of the scheme and to help retain talent.

The bonus payment contemplated in this latest plan consists of a percentage of average annual fixed remuneration in 2016-2018 and it will vest depending on delivery of three weighted objectives:

1. 50% to the level of delivery of the EBITDA targets contemplated in the 2016 - 2020 Business plan for 2018.
2. 30% to any outperformance by Ence's shares relative to a basket of pulp sector stocks.
3. 20% to the level of delivery by each beneficiary of the bonus scheme of the targets related to talent development in the team directly under him or her.

During the term of this plan, its fair value, in respect of the portion corresponding to targets tied to the Parent's share price performance, was determined using the Monte Carlo method for quanto basket options, a generally accepted method for valuing financial instruments of this kind. Meanwhile, the liability associated with the EBITDA target is estimated using the most up-to-date information about the outlook for the Group, while it is assumed that the target associated with talent management will be delivered in full.

The bonuses will be paid 30% in cash and 70% in Company shares.

The charge accrued in this respect at 31 December 2016 amounted to €0.9 million and is recognised under: i) "Other equity instruments" in the consolidated statement of financial position in respect of the portion to be settled in shares (€0.7million before the related tax effect); and ii) "Non-current provisions" in the consolidated statement of financial position in respect of the portion to be settled in cash (€0.3 millon)

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.

PRINCIPAL SHAREHOLDERS

As at December 31, 2016, the authorised 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 €0.90. Mr. Juan Luis Arregui, currently the Chairman of our Board of Directors, represents the interests of our largest shareholder, Retos Operativos XXI, S.L., which owns 26.5% of our shares.

The following table sets out information regarding the beneficial ownership of Ence Energía y Celulosa, S.A. as at December 31, 2016:

	Number of shares	Percent
Retos Operativos XXI, S.L.	66,204,504	26,45%
Alcor Holding, S.A.(a)(b)	13,741,646	5,49%
La Fuente Salada, S.L.	14,000,000	5,59%
Asúa Inversiones, S.L.	15,604,000	6,23%
Public Float(d)	135,213,947	54,03%
Treasury Stock(e)	5,508,403	2,20%
Total	**250,272,500**	**100%**

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Transactions with the Unrestricted Group

Certain subsidiaries of the Issuer (namely, Ence Energía, S.L.U., Ence Energía Huelva, S.L.U., Celulosa Energía, S.A.U., Ence Energía Extremadura, S.L.U. and their respective subsidiaries) will each be designated as Unrestricted Subsidiaries within the meaning of the Indenture. As a result, certain transactions with such Unrestricted Subsidiaries will be subject to the covenant described under "*Description of the Notes—Certain Covenants—Transactions with Affiliates.*" However, this covenant is subject to a number of exceptions for transactions that are conducted in accordance with past practice or in the ordinary course of business, including:

- the € 73.6 million intragroup loan between the Issuer, as lender, and Ence Energía, S.L.U., as borrower, as further described under "*Description of Other Indebtedness—Loan from the Issuer to an Unrestricted Subsidiary*";

- the tax guarantee granted by the Issuer in conjunction with certain project finance indebtedness of the Unrestricted Group, as further described under "*Description of Other Indebtedness—Unrestricted Group Financing Arrangements—Tax Guarantee*" (in addition, the Issuer is the holding company of the tax group for all subsidiaries located in Spain (including both Restricted Subsidiaries and Unrestricted Subsidiaries));

Cash pooling transactions with the Unrestricted Group

Celulosa Energía, S.A.U., an entity which will be designated as an Unrestricted Subsidiary under the Indenture, is currently the only entity in our Group that is licensed to invoice and collect money from the national electricity grid of Spain. Celulosa Energía, S.A.U. centralises all energy sales and procurement activity on behalf of the Group, meaning that it sells the energy produced by the Unrestricted Subsidiaries and Restricted Subsidiaries involved in energy generation and collects cash payments from the electricity grid on their behalf, whilst also purchasing energy on behalf of the Restricted Subsidiaries that buy back the energy they produce at their energy generation facilities to support their pulp production activities.

We operate a cash pooling arrangement whereby the Issuer performs cash management for the broader Group on a daily basis. This cash pooling arrangement also captures the cash collected by Ence Energía y Celulosa S.A. from the electricity grid on behalf of the energy generation entities within the Group, both Unrestricted and Restricted Subsidiaries. A portion of the cash placed in the Issuer's bank account as a result of the cash pooling arrangement is required to be returned to the energy generation entities in the Unrestricted Group as payment for the energy generated by such entities and sold to the grid through Ence Energía y Celulosa S.A. as intermediary. As a result of this arrangement, an intercompany payable is created between the Restricted Group and the Unrestricted Group in the normal course of operations and, since the Unrestricted Group produces but does not purchase energy, the payable is always in favour of the Unrestricted Group. Historically, the balance of this intercompany payable by the Issuer has ranged from €10 million to €20 million and is typically settled between 30 and 60 days from the date payment is received from the grid.

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 year 2016 and the years ended December 31, 2014, December 31, 2013 and December 31, 2012:

Treasury Share Sale to La Fuente Salada. S.L. and Asúa Inversiones, S.L.

On June 13, 2013, we sold 12,513,625 treasury shares, representing 5% of our share capital, for a total amount of €27.4 million at a price of €2.19 per share. The shares were acquired in equal proportions by Asúa Inversiones, S.L. and La Fuente Salada, S.L. with a long-term outlook to promote stability in the Company's shareholder base.

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 that will require the payment of €0.25 million per year for the next two years. On May 5, 2013, this services agreement was amended to require making a payment of € 0.12 million in the second year and €0.20 million in the third year.

Share Repurchase from Fidalser, S.L.

On December 7, 2012, we acquired a total of 12,815,353 of our 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.

For further information, please refer to the discussion of related party transactions in the notes to our audited financial statements.

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.''

Revolving Credit Facility

As at October 2015, the Issuer (as original borrower and guarantor), entered into a revolving credit facility agreement (the ''Revolving Credit Facility Agreement'') between, amongst others, Banco Santander, S.A., Banco Bilbao Vizcaya

Argentaria, S.A, and CaixaBank S.A. (as Mandated Lead Arrangers and Bookrunners) and Bankia, S.A., Citibank International Bank plc, Banco de Sabadell S.A. and Bankinter S.A. (as Arrangers), Banco Santander, S.A. (as Facility Agent) and the lenders under the Revolving Credit Facility. The Revolving Credit Facility Agreement provides for a €90 million committed revolving credit facility (the ''Revolving Credit Facility''). In the event that the €90 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 €10 million to up to €100 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. 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 Revolving Credit Facility Agreement bear interest at LIBOR or, in relation to any loan in euro, EURIBOR, plus a margin of 2.25% per annum payable on the last day of each applicable interest period (as determined in accordance with the terms of the Revolving Credit Facility Agreement); provided that at the end of the first quarter following the Issue Date 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 Revolving Credit Facility Agreement) at a rate per annum of between 2.25% and 1.50%. The lowest margin will be applicable if our ratio of Net Debt to EBITDA is less than 1:50, whilst the highest margin will be applicable if our ratio of Net Debt to EBITDA is greater than or equal to 2.50:1. The margin will be increased at a rate per annum of between 0.125% per annum and 0.50% per annum determined by the percentage of total commitments under the Revolving Credit Facility that have been utilised. The lowest increase will be applicable if less than 33% of the total commitments have been utilised and the highest increase will be applicable if 66% or more of the total commitments have been utilised.

The termination date of the Revolving Credit Facility is the fifth anniversary of the Issue Date. The Issuer may request that the termination date of the Revolving Credit Facility be extended to the sixth anniversary of the Issue Date. In accordance with this clause as at September 20, 2016 the Issuer requested the extension of the termination date therefore the new termination date is October 30, 2021.

Covenants and Events of Default

The Revolving Credit Facility Agreement contains certain restrictive covenants and events of default which, subject to conforming amendments, largely reflect the covenants and events of default contained in the Notes. The Revolving Credit Facility 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 (a ''Senior Note Purchase'') or offer to do so unless (to the extent such Notes purchases made since the date of the Revolving Credit Facility Agreement have resulted in the aggregate principal amount outstanding under the Notes being 70% or less than the aggregate principal amount outstanding under the Notes on the Issue Date) the commitments under the Revolving Credit Facility Agreement are also cancelled in a pro rata amount and no Event of Default (as defined in the Revolving Credit Facility Agreement) is outstanding or would result from the Senior Note Purchase.

Guarantees

Our obligations under the Revolving Credit Facility Agreement are unsecured. Guarantees, subject to certain limitations in relation to unlawful financial assistance, were jointly and severally provided by the same subsidiaries guaranteeing the Notes.

In particular, the obligations and liabilities of any Spanish Guarantor or Portuguese Guarantor must 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*) or article 322 of the Portuguese Companies Code, as applicable.

Voluntary Prepayments

The Issuer and, in the case of voluntary prepayment, 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 €500,000 (and in multiples of €500,000 or 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 Notes, 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.

Bilateral Loans

On April 22, 2015, the Issuer entered into a loan agreement with Bankia, S.A. (the ''Bankia Loan'') for an amount of €15 million, all of which is outstanding. The Bankia Loan matures on March 19, 2019 and is guaranteed by Celulosa de Asturias, S.A.U., Norte Forestal, S.A.U. and Silvasur Agroforestal, S.A.U. The loan bears interest at EURIBOR plus a margin of 2.1%. The Bankia Loan was obtained to finance part of the capital expenditure investment in the Navia facility.

The Bankia Loan contains, inter alia, the following covenants: (i) the Issuer will not transfer, sell, segregate, spin-off, cede, convey or dispose any asset or receivable that individually or in aggregate represents more than 20% of the Issuer's consolidated net assets as reflected on its latest consolidated balance sheet, except (a) when such sale, segregation, spin-off, transfer, conveyance or disposal is made in the context of an asset swap (which is of the same nature) or if payment is received in cash or cash equivalents within two months of the transaction and such cash is reinvested in the company within a period of six months or (b) ordinary course factoring transactions or when the receivables are transferred to a securitisation fund (provided certain requirements provided for therein are met); (ii) the Issuer will not pledge or encumber any assets in excess of 25% of consolidated assets as reflected on its latest consolidated balance sheet; (iii) the Issuer will maintain a ratio of net financial debt to recurring EBITDA of less than 2.5, tested annually; (iv) the Issuer will maintain a guarantor coverage of companies representing 80% of EBITDA (provided that in any event the companies of the Unrestricted Group will become Guarantors under the Bankia Loan); and (v) the Issuer will maintain the Bankia Loan pari passu with the rest of the financing of the Issuer (except when expressly provided for in the agreement). Certain covenants provided for in the Bankia Loan are also applicable to Celulosa de Asturias, S.A.U., Norte Forestal, S.A.U. and Silvasur Agroforestal, S.A.U.

The Bankia Loan contains customary information covenants and events of default, including, inter alia, a €15.0 million cross-default clause and an event of default if assets representing 12% of the consolidated net assets are destroyed, damaged beyond repair or replacement (following any insurance) or expropriated or forcibly seized without the provision of any indemnity of equal value.

In addition, on July 15, 2015, the Issuer entered into the BBVA Loan for an amount of €15 million, all of which is outstanding. The BBVA Loan, which is amortising, matures on June 30, 2020. The loan bears interest at 2.1% per annum, which is payable semi-annually each June 30 and December 31. The BBVA Loan, which is unsecured and is not guaranteed by any of the Issuer's subsidiaries, was obtained to finance part of the capital expenditure investments in the pulp production facilities.

Working Capital Facilities

We have a number of non-recourse factoring lines in place for an aggregate amount of €70.0 million, of which € 47.2 million were drawn as at December 31, 2016, related to pulp and energy receivables. No individual facility is considered material in order to meet our working capital requirements.

As at December 31, 2016, we also had ordinary course of business confirming lines in place with an aggregate limit of € 105.0 million, of which €56.5 million were drawn.

Hedging Arrangements

As part of our risk management of fluctuations in interest rates, exchange rates, pulp prices, gas prices, fuel-oil prices and the cost of electricity, we use a range of derivatives including futures contracts, options and swaps to reduce cash flow and inventory volatility. These derivatives are transacted with banks that have allocated uncommitted credit lines to cover any potential mark-to-market value of these deals. As at December 31, 2016, the aggregate fair value of these derivatives (derivative financial assets less derivative financial liabilities) was negative € 26.4 million.

Loan from the Issuer to an Unrestricted Subsidiary

As at December 31, 2016, € 73.6 million was outstanding under an intragroup loan between the Issuer, as lender, and Ence Energía, S.L.U., as borrower. The purpose of the intragroup loan is to provide financing for the development by Ence Energía, S.L.U. of energy generation facilities.

Although the Issuer can call this intragroup loan at any time, any such call would be subject to the ability of the Unrestricted Group to make payments in accordance with the terms of the Senior Credit Agreement. This intragroup loan has no fixed maturity and regular payments have not been made since the loan was incurred because the loan is intended to finance a portion of the capital expenditures and fixed assets necessary in connection with the development of the Unrestricted Group.

Unrestricted Group Financing Arrangements

Senior Credit Agreement

On July 31, 2015, Ence Energía Huelva, S.L.U. (''*Ence Huelva*'') and Ence Energía Extremadura, S.L.U. (''*Ence Extremadura*''), as borrowers, Ence Energía, S.L.U., and Ence Energía y Celulosa, S.A. (only for the purposes of the tax guarantee described below), entered into a €135 million project financing credit facility agreement (the "*Financing*" or the "*Senior Credit Agreement*'') with Banco Santander, S.A., Caixabank, S.A., Banco Bilbao Vizcaya Argentaria, S.A., Bankinter, S.A., Banco de Sabadell, S.A., and Instituto de Crédito Oficial. The total outstanding amount as at December, 31 2016 was € 107 million

Ence Energía, S.L.U., a wholly owned subsidiary of the Issuer, is the sole shareholder of Ence Huelva. and Ence Extremadura. Ence Energía, S.L.U., Ence Huelva and Ence Extremadura as well as their respective subsidiaries, will each be designated as Unrestricted Subsidiaries within the meaning of the Indenture.

The Senior Credit Agreement replaces the two project financing entered by Ence Huelva and Ence Energía in June 2011 and June 2012, respectively (the "*Huelva Project Finance*" and the "*Mérida Project Finance*'').

The Senior Credit Agreement is divided into two tranches: (i) the Huelva Tranche, for an amount of €96.5 million which purpose is the repayment in full of the outstanding amounts under the Huelva Project Finance by ENCE Huelva and the partial repayment of the outstanding amounts under the related subordinated debt agreement; and (ii) the Mérida Tranche, for an amount of €38.5 million, which purpose is the repayment in full of the outstanding amounts under the Mérida Project Finance by ENCE Extremadura and the partial repayment of the outstanding amounts under the related subordinated debt agreement.

The Senior Credit Agreement bears an interest rate equal to EURIBOR plus a margin of 2.50% during years one through four, 2.75% during years five through seven and 3% from year eight onwards, with a maturity date of June 30, 2025.

The Senior Credit Agreement contains certain customary events of default that entitle the lenders to terminate it early, including, amongst others, and subject to certain exceptions and grace periods, defaults in the payment or prepayment of any amounts payable, the breach of any obligations or undertakings provided for therein, the breach of any representation or warranties, the enforcement of security, the failure to comply with certain financial covenants, a cross-default under other financing agreements entered into in relation to the Senior Credit Agreement and the occurrence of certain bankruptcy and insolvency events.

Security package

In connection with the Senior Credit Agreement, Ence Energía, S.L.U. granted a pledge over the shares of Ence Huelva and Ence Extremadura. In addition, each of Ence Huelva and Ence Extremadura granted a security package which includes pledges over certain credit rights, pledges over biomass stock, and a commitment to mortgage the surface rights of the land where the Huelva biomass facility is located (including the Huelva biomass energy generation facility itself) and the land where the Ence Extremadura biomass plant is located (including the Mérida biomass energy generation facility itself), respectively.

Likewise, Ence Huelva and Ence Extremadura irrevocably guaranteed on first demand, unconditionally, jointly and expressly waiving the benefits and exceptions that may apply to them, all obligations assumed by the other party under the relevant tranche and the hedging agreements related to the Financing.

In addition, Ence Energía, S.L.U. granted certain guarantees within the framework of the Financing and also undertook to comply with certain obligations, including, but not limited to, an electricity production shortfall guarantee, a biomass supply guarantee, a guarantee related to termination of land leases and the pay-in of a share capital increase for an amount of € 5.4 million to be carried out by Ence Extremadura.

Tax Guarantee

The Issuer has also agreed to compensate Ence Energía Huelva and Ence Energía Extremadura for the consequences that they may suffer as a result of their inclusion in the tax group of the Issuer for corporate tax purposes (the ''*ENCE Tax Group*''). This guarantee covers the tax consequences of (i) both improved profits and extra losses due to their inclusion within the Ence Tax Group and/or (ii) an adverse tax treatment/position under the interest barrier rules applicable in Spain as a consequence of Energía Huelva and Ence Energía Extremadura being included within the ENCE Tax Group.

Others Loans

As at December 29, 2106 Ence Energía, S.L.U entered into a loan agreement for an amount of € 7.5million, with Bankinter, S.A. (the ''*Bankinter Loan*'') to finance the acquisition to Enel Green-Power the 68.42 % of Energías de la Mancha ENEMAN, S.A. The Bankinter Loan matures on December 29, 2021 and bear interest at Euribor plus a spread of 2.25%. It is secured by the pledges of the acquired shares of Energías de la Mancha ENEMAN, S.A

As at December 29, 2106 Ence Energía, S.L.U entered into a loan agreement for an amount of € 7.5million, with Santander, S.A. (the ''*Santander Loan*'') to finance the acquisition to Enel Green-Power the 64.07 % of Energía La Loma, S.A. The Santander Loan matures on December 29, 2023 and bear interest at Euribor plus a spread of 1.90%. It is secured by the by the pledges of the acquired shares of Energía de la Loma, S.A.

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."

GLOSSARY OF SELECTED TERMS

The following terms used in this Offering Memorandum have the meanings assigned to them below:

“BEKP”...	Bleached Eucalyptus Kraft Pulp.
“BHKP”	all grades of Bleached Hardwood Kraft Pulp, including BEKP, birch, SMHW and NMHW.
“biomass”.......................................	all materials of biological origin excluding those which have been encompassed in geological formations undergoing a mineralization process, which include coal, oil and gas (in accordance with European Technical Specification CEN/TS 14588).
“BSKP”...	Bleached Softwood Kraft Pulp.
“ECF”...	Elemental Chlorine Free.
“EDTA”	Ethylenediaminetetraacetic acid.
“EPC”...	Engineering, procurement and construction.
“Forestry depletion”	the depreciation of biological assets (plantations) as related to the harvesting of pulp plantations.
“Kraft process”................................	the process for the conversion of wood into almost pure cellulose fibers through the use of sodium sulfate, which breaks the bonds that link lignin to the cellulose.
“Ktpa”	thousands of tonnes per annum.
“Moratorium”	the elimination of economic incentives for the implementation of special regime energy production facilities and the suspension of the proceedings for registration with the pre-allocation registries, vested by the Royal Degree Law 1/2012.
“NMHW”...	Northern Mixed Hardwood (kraft) pulp.
“SMHW”..	all Mixed Hardwood kraft pulp produced in the United States.
“TCF”	Totally Chlorine Free.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 31 DECEMBER 2016 AND 2015

Thousands of euros	Year-end 2016				Year-end 2015			
	Pulp Business	**Energy Business**	**Adjustments & Eliminations**	**CONSOLIDATED TOTAL**	**Pulp Business**	**Energy Business**	**Adjustments & Eliminations**	**CONSOLIDATED TOTAL**
NON-CURRENT ASSETS:								
Intangible assets	15,204	2,735	-	17,939	12,573	40	-	12,613
Property, plant and equipment	451,359	234,940	-	686,299	457,716	184,214	-	641,930
Biological assets	79,038	4,373	-	83,411	83,658	4,235	-	87,893
Non-current investments in group companies				-				-
Equity instruments	198,599	-	(198,599)	-	170,544	-	(170,544)	-
Loans to group companies	71,804	1	(71,805)	-	63,310	27,445	(90,755)	-
Other financial assets	5,640	5,994	-	11,634	2,703	324	-	3,027
Deferred tax assets	57,174	11,283	(1)	68,456	61,104	9,727	-	70,831
	878,818	**259,326**	**(270,405)**	**867,739**	**851,608**	**225,985**	**(261,299)**	**816,294**
CURRENT ASSETS:								
Non-current assets held for sale	6,487	396	-	6,883	48,143	2,195	-	50,338
Inventories	35,363	8,244	-	43,607	34,473	5,742	-	40,215
Trade and other receivables								
Trade receivables, third parties	73,597	4,625	-	78,222	70,161	42,352	-	112,513
Trade receivables, related parties	9,721	22,797	(32,518)	-	27,092	7,335	(34,427)	-
Other receivables	1,943	56	-	1,999	9,393	63	-	9,456
Receivable from public authorities	8,477	302	32	8,811	8,952	83	-	9,035
Income tax receivable from tax authorities	912	547	-	1,459	959	-	-	959
Current financial assets:			-				-	
Derivatives	-	-	-	-	127	118	-	245
Other financial assets	9,575	5	-	9,580	8,695	4	-	8,699
Cash and cash equivalents	112,098	97,766	-	209,864	93,895	65,670	-	159,565
Other current assets	3,485	85	-	3,570	614	(142)	-	472
	261,658	**134,823**	**(32,486)**	**363,995**	**302,504**	**123,420**	**(34,427)**	**391,497**
TOTAL ASSETS	**1,140,476**	**394,149**	**(302,891)**	**1,231,734**	**1,154,112**	**349,405**	**(295,726)**	**1,207,791**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 31 DECEMBER 2016 AND 2015

Thousands of euros	Year-end 2016				Year-end 2015			
	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL
EQUITY:								
Equity attributable to owners of the parent	**609,203**	**143,727**	**(198,599)**	**554,331**	**630,260**	**108,499**	**(170,539)**	**568,218**
Non-controlling interests		**7,234**		**7,234**				
TOTAL EQUITY	**609,203**	**150,961**	**(198,599)**	**561,565**	**630,260**	**108,499**	**(170,539)**	**568,218**
NON-CURRENT LIABILITIES:								
Bonds and other marketable securities	243,631	-	-	243,631	243,108	-	-	243,108
Bank borrowings	25,714	107,218	-	132,932	30,000	113,527	-	143,527
Grants	8,454	1,217	-	9,671	11,206	48	-	11,254
Derivative financial instruments	3,992	7,756	-	11,748	665	6,982	-	7,647
Other financial liabilities	39,419	-	-	39,419	6,687	-	-	6,687
Deferred tax liabilities	17,308	3,204	-	20,512	20,304	256	-	20,560
Non-current provisions	5,845	322	-	6,167	8,498	762	-	9,260
Non-current borrowings from group companies	1	71,800	(71,801)	-	27,439	63,223	(90,662)	-
	344,364	**191,517**	**(71,801)**	**464,080**	**347,907**	**184,798**	**(90,662)**	**442,043**
CURRENT LIABILITIES:								
Bank borrowings	6,713	13,763	-	20,476	2,763	12,050	-	14,813
Derivative financial instruments	11,663	3,078	-	14,741	2,999	2,924	-	5,923
Other financial liabilities	1,305	-	-	1,305	1,356	-	-	1,356
Trade and other payables								
Trade payables, third parties	132,552	21,617		154,169	149,826	12,642	(395)	162,073
Trade payables, related parties	22,800	9,722	(32,522)	-	7,333	26,765	(34,098)	-
Income tax payable	117	(4)	4	117	57	-	-	57
Other payables to public authorities	7,133	3,495	27	10,655	5,284	1,718	-	7,002
Other current liabilities				-	21	9	(30)	-
Current provisions	4,626	-	-	4,626	6,306	-	-	6,306
	186,909	**51,671**	**(32,491)**	**206,089**	**175,945**	**56,108**	**(34,523)**	**197,530**
TOTAL EQUITY AND LIABILITIES	**1,140,476**	**394,149**	**(302,891)**	**1,231,734**	**1,154,112**	**349,405**	**(295,724)**	**1,207,791**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT BY BUSINESS FOR 2016 AND 2015

	2016				2015			
Thousands of euros	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL
Continuing operations:								
Revenue	514,256	95,984	(4,792)	605,448	569,771	97,006	(2,865)	663,912
Gain/(loss) on hedging transactions	(224)	1,195	-	971	(874)	(756)		(1,630)
Changes in inventory of finished goods and work in progress	1,107	-	-	1,107	4,800	-		4,800
Cost of sales	(243,756)	(29,280)	4,785	(268,251)	(251,570)	(23,371)	1,957	(272,984)
GROSS PROFIT	**271,383**	**67,899**	**(7)**	**339,275**	**322,127**	**72,879**	**(908)**	**394,098**
Own work capitalised	5,602	939	-	6,541	5,403	4,123		9,526
Other operating income	17,586	1,168	(13,542)	5,212	13,814	(3)	(7,816)	5,995
Grants taken to income	2,336	99		2,435	2,606	-		2,606
Employee benefits expense	(64,293)	(4,135)		(68,428)	(62,526)	-		(62,526)
Depreciation and amortisation charges	(56,739)	(12,989)		(69,728)	(50,680)	(8,300)		(58,980)
Depletion of forest reserve	(5,976)	(1,175)		(7,151)	(5,582)	(2,865)	265	(8,182)
Impairment of and gains/(losses) on disposals of intangible assets and PP&E	20,198	3,836		24,034	5,932	1,933	747	8,612
Other operating expenses	(137,197)	(35,819)	13,549	(159,467)	(123,431)	(41,938)	7,455	(157,914)
OPERATING PROFIT/(LOSS)	**52,900**	**19,823**	**-**	**72,723**	**107,663**	**25,829**	**(257)**	**133,235**
Finance income:								
From interests in equity instruments in group companies	-	-	-	-	-	-		-
From marketable securities & other financial instruments:				-				-
Related parties	2,468	202	(2,670)	-	4,617	4,320	(8,937)	-
Third parties	177	108	-	285	341	3		344
Finance costs:				-				-
Related-party borrowings	(202)	(2,468)	2,670	-	(4,320)	(4,618)	8,938	-
Third-party borrowings	(16,834)	(3,530)	-	(20,364)	(44,507)	(9,414)		(53,921)
Change in fair value of financial instruments	(100)	-	-	(100)	(2,868)	(11,122)		(13,990)
Exchange differences	(1,452)	6	-	(1,446)	1,379	(9)		1,370
Impairment of and gains/(losses) on disposal of financial assets	-	-		-	3,434	-	(3,434)	-
NET FINANCE COST	**(15,943)**	**(5,682)**	**-**	**(21,625)**	**(41,924)**	**(20,840)**	**(3,433)**	**(66,197)**
PROFIT/(LOSS) BEFORE TAX	**36,957**	**14,141**	**-**	**51,098**	**65,739**	**4,989**	**(3,690)**	**67,038**
Income tax	(8,729)	(3,658)		(12,387)	(16,361)	(611)	(211)	(17,183)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**28,228**	**10,483**	**-**	**38,711**	**49,378**	**4,378**	**(3,901)**	**49,855**
PROFIT/(LOSS) FOR THE YEAR	**28,228**	**10,483**	**-**	**38,711**	**49,378**	**4,378**	**(3,901)**	**49,855**