Ence Energía y Celulosa, S.A. and subsidiaries

Condensed consolidated financial statements for the six-month period ended 30 June 2016 prepared under the International Financial Reporting Standards adopted by the European Union and the corresponding Group Management Report

Condensed consolidated financial statements for the six months ended 30 June 2016

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2016 AND 31 DECEMBER 2015

Thousands of euros	Note	30/06/2016 (*)	31/12/2015
NON-CURRENT ASSETS:			
Intangible assets	10	14,572	12,613
Property, plant and equipment	11	651,085	641,930
Biological assets	12	85,674	87,893
Other financial assets		1,633	3,027
Deferred tax assets	22	69,453	70,831
		822,417	**816,294**
CURRENT ASSETS:			
Non-current assets held for sale	13	49,441	50,338
Inventories	14	42,034	40,215
Trade and other receivables	15	106,853	121,969
Receivable from public authorities	22	18,963	9,035
Income tax receivable from tax authorities	22	845	959
Current financial assets:			
Derivatives	21	517	245
Other financial assets	19	11,299	8,699
Cash and cash equivalents	19	124,814	159,565
Other current assets	1.5	6,857	472
		361,623	**391,497**
TOTAL ASSETS		**1,184,040**	**1,207,791**
EQUITY:			
Issued capital	17	225,245	225,245
Share premium	17	170,776	170,776
Parent company reserves	17	161,556	135,096
Reserves in fully-consolidated companies	17	48,325	60,510
Valuation adjustments	17	47,036	51,028
Parent company retained earnings (prior-period losses)		(109,117)	(109,117)
Profit for the year		11,358	49,855
Interim dividend		-	(10,951)
Translation differences		(605)	(1,116)
Own shares - parent company shares	17	(4,291)	(3,108)
Other equity instruments - shareholder remuneration plan	6 & 17	728	-
Equity attributable to owners of the parent		**551,011**	**568,218**
TOTAL EQUITY		**551,011**	**568,218**
NON-CURRENT LIABILITIES:			
Bonds and other marketable securities	19	243,360	243,108
Bank borrowings	19	127,236	143,527
Grants		10,931	11,254
Derivative financial instruments	21	10,969	7,647
Other financial liabilities	19	6,715	6,687
Deferred tax liabilities	22	20,614	20,560
Non-current provisions	18	6,648	9,260
		426,473	**442,043**
CURRENT LIABILITIES:			
Bank borrowings	19	16,922	14,813
Derivative financial instruments	21	2,889	5,923
Other financial liabilities	19	1,319	1,356
Trade and other payables	16	170,846	162,073
Income tax payable	22	874	57
Other payables to public authorities	22	6,332	7,002
Other current liabilities		33	-
Current provisions	18	7,341	6,306
		206,556	**197,530**
TOTAL EQUITY AND LIABILITIES		**1,184,040**	**1,207,791**

The accompanying notes 1 to 26 are an integral part of the condensed consolidated statement of financial position at 30 June 2016.

(*) Unaudited figures.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016 AND 2015

Thousands of euros	Note	1H16 (*)	1H15 (*)
Continuing operations:			
Revenue	4	289,164	313,202
Gain/(loss) on hedging transactions	21	3,431	(551)
Changes in inventory of finished goods and work in progress		(3,504)	(4,749)
Cost of sales	5	(131,355)	(129,671)
GROSS PROFIT		**157,736**	**178,231**
Own work capitalised	10 & 11	4,702	4,773
Other operating income		2,062	2,726
Government grants taken to income		1,152	1,274
Employee benefits expense	6	(35,026)	(30,055)
Depreciation and amortisation charges	10 & 11	(25,870)	(27,237)
Depletion of forest reserve	12	(3,898)	(4,599)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	10, 11 & 12	301	196
Other operating expenses	7	(77,422)	(79,674)
OPERATING PROFIT/(LOSS)		**23,737**	**45,635**
Finance income		134	130
Change in fair value of financial instruments	21	2,874	942
Other finance costs	8	(10,077)	(16,488)
Net exchange gains		(1,194)	706
NET FINANCE COST		**(8,263)**	**(14,710)**
PROFIT/(LOSS) BEFORE TAX		**15,474**	**30,925**
Income tax	22	(4,116)	(8,792)
PROFIT/(LOSS) FOR PERIOD FROM CONTINUING OPERATIONS		**11,358**	**22,133**
Discontinued operations:			
Profit/(loss) after tax for the period from discontinued operations		-	-
PROFIT/(LOSS) FOR THE PERIOD		**11,358**	**22,133**
Earnings/(loss) per share:			
Basic	17	**0.05**	**0.09**
Diluted	17	**0.05**	**0.09**

The accompanying notes 1 to 26 are an integral part of the condensed consolidated income statement for the six months ended 30 June 2016.

(*) Unaudited figures.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2016 AND 2015

Thousands of euros	Note	1H16 (*)	1H15 (*)
CONSOLIDATED PROFIT/(LOSS) FOR THE PERIOD (I)	**21**	**11,358**	**22,133**
Income and expense recognised directly in equity:			
- Cash flow hedges (*)		(1,328)	(1,526)
- Translation differences (*)		308	(162)
- Tax effect		332	458
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY (II)	**21**	**(688)**	**(1,230)**
Amounts transferred to the consolidated income statement			
- Cash flow hedges (*)		(3,508)	1,871
- Tax effect		877	(562)
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS (III)	**21**	**(2,631)**	**1,309**
TOTAL COMPREHENSIVE INCOME/(EXPENSE) (I+II+III)		**8,039**	**22,212**

The accompanying notes 1 to 26 are an integral part of the condensed consolidated statement of comprehensive income for the six months ended 30 June 2016.

(*) Unaudited figures.

(**) Items that may be subsequently be reclassified to profit or loss.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2016 AND 2015

2016 (thousands of euros)	Balance at 1/1/2016	Total recognised income/ (expense)	Appropriation of prior-year profit/(loss): Dividends	Appropriation of prior-year profit/(loss): Other	Trading in own shares	Other movements	Balance at 30/06/2016 (*)
Issued capital	225,245	-	-	-	-	-	225,245
Share premium	170,776	-	-	-	-	-	170,776
Legal reserve	45,050	-	-	-	-	-	45,050
Other reserves/Parent company retained earnings (prior-period losses)	(19,071)	-	(24,886)	51,251	95	-	7,389
Reserves in fully-consolidated companies	60,510	365	-	(12,347)	-	(203)	48,325
Interim dividend	(10,951)	-	-	10,951	-	-	-
Translation differences	(1,116)	308	-	-	-	203	(605)
Own shares	(3,108)	-	-	-	(1,183)	-	(4,291)
Valuation adjustments	51,028	(3,992)	-	-	-	-	47,036
Other equity instruments - shareholder remuneration plan	-	-	-	-	-	728	728
Consolidated profit/(loss) for the period	49,855	11,358	-	(49,855)	-	-	11,358
	568,218	**8,039**	**(24,886)**	**-**	**(1,088)**	**728**	**551,011**

2015 (thousands of euros)	Balance at 1/1/2015	Total recognised income /(expense)	Appropriation of prior-year profit/(loss)	Distribution of dividend with charge against reserves	Trading in own shares	Other movements	Saldo al 30/06/2015 (*)
Issued capital	225,245	-	-	-	-	-	225,245
Share premium	195,665	-	-	(24,889)	-	-	170,776
Legal reserve	45,050	-	-	-	-	-	45,050
Other parent company reserves	54,915	-	(109,118)	-	1,000	-	(53,203)
Reserves in fully-consolidated companies	123,282	651	(35,658)	-	-	-	88,275
Translation differences	(1,077)	(162)	-	-	-	-	(1,239)
Own shares	(5,744)	-	-	-	3,023	-	(2,721)
Valuation adjustments	46,501	(410)	3,867	-	-	-	49,958
Consolidated profit/(loss) for the period	(140,909)	22,133	140,909	-	-	-	22,133
	542,928	**22,212**	**-**	**(24,889)**	**4,023**	**-**	**544,274**

The accompanying notes 1 to 26 are an integral part of the condensed consolidated statement of changes in equity for the six months ended 30 June 2016 .

(*) Unaudited figures.

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2016 AND 2015

Thousands of euros	1H16 (*)	1H15 (*)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated profit/(loss) for the period before tax	15,474	30,925
Adjustments for:		
Depreciation	24,732	26,613
Depletion of forest reserve	3,898	4,599
Amortisation	1,138	624
Changes in provisions and other deferred expense (net)	6,660	8,959
Impairment of and gains/(losses) on disposals intangible assets and PP&E	(301)	(393)
Finance income	(134)	(130)
Finance costs	8,332	14,840
Adjustment for accruals	(3,461)	(1,793)
Government grants taken to income	(785)	(949)
	40,079	52,370
Changes in working capital:		
Inventories	(1,739)	1,671
Trade and other receivables	(5,049)	(10,177)
Short-term investments	(2,600)	(29)
Trade payables, other payables and other liabilities	(3,754)	356
	(13,142)	**(8,179)**
Other cash flows from operating activities:		
- Interest paid	(11,385)	(15,363)
- Interest received	134	130
- Income tax received (paid)	(761)	9,310
	(12,012)	**(5,923)**
Net cash generated from operating activities (I)	**30,399**	**69,193**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments:		
Property, plant and equipment and biological assets	(28,913)	(14,471)
Intangible assets	(3,931)	(1,783)
Other financial assets	1,120	112
	-31,724	**-16,142**
Proceeds:		
Property, plant and equipment and biological assets	7,246	**3,626**
Other financial assets	91	-
	7,337	**3,626**
Net cash used in investing activities (II)	**(24,387)**	**(12,516)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from and payments for equity instruments		
Buyback of own equity instruments	(19,582)	(250)
Disposal of own equity instruments	18,494	4,275
	(1,088)	**4,025**
Proceeds from and repayments of financial liabilities:		
Proceeds from issuance of bonds and other marketable securities, net of issuance costs	(180)	(25,000)
Increase/(decrease) in bank borrowings, net of issuance costs	(14,273)	10,597
Repayment of other borrowings and cancellation of derivatives	-	(3,339)
Grants received	(336)	-
	(14,789)	**(17,742)**
Dividends and payments on other equity instruments		
Dividends	(24,886)	(24,889)
	(24,886)	**(24,889)**
Translation differences	-	13
Net cash used in financing activities (III)	**(40,763)**	**(38,593)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)	**(34,751)**	**18,084**
Cash and cash equivalents, opening balance	159,565	73,428
Cash and cash equivalents, closing balance	124,814	91,512

The accompanying notes 1 to 26 are an integral part of the condensed consolidated statement of changes in cash flow for the six months ended 30 June 2016.

(*) Unaudited figures.

Explanatory notes to the condensed consolidated financial statements for the six months ended 30 June 2016

Contents

Ence Energía y Celulosa, S.A. and subsidiaries

Explanatory notes accompanying the condensed consolidated financial statements for the six-months ended 30 June 2016

1. Business activity, basis of presentation of the condensed consolidated interim financial statements, accounting policies and other information

1.1. Business activity

Ence Energía y Celulosa, S.A. (hereinafter “ENCE”, the “Company” or the “Parent”) was incorporated in 1968. Its registered office is located at Calle Beatriz de Bobadilla, 14 in Madrid. It formerly went by the name of Empresa Nacional de Celulosas, S.A. until 1999 and Grupo Empresarial ENCE, S.A. until 2012.

Its corporate purpose, as per its bylaws, consists of:

a) The manufacture of cellulose pulp and derivatives thereof, the obtainment of the products and other elements necessary to this end and the use of the sub-products of both;

b) The production by any means, sale and use of electric energy and other sources of energy and of the materials and primary energies needed for its generation, as permitted under prevailing legislation; and the marketing, sale-purchase and supply thereof under any of the formulae permitted under law;

c) The cultivation, exploitation and use of forests and forest land, afforestation work and the provision of expert forestry-related services and works. The preparation and transformation of forestry products. The use and exploitation for commercial and business purposes of all manner of forestry products (including biomass and forest energy products), their derivatives and their sub-products. Forestry studies and projects;

d) The planning, development, construction, operation and maintenance of the facilities referred to in sections a), b) and c) above.

The Group has structured its activities around two business lines:

The Pulp Business-

Includes the production of bleached eucalyptus kraft pulp (BEKP) by means of elementary chlorine free (ECF) and totally chlorine free (TCF) bleaching sequences.

To carry out this activity, the Group has two factories in Spain (located in Asturias and Pontevedra) with combined nominal capacity of approximately 980,000 tonnes per annum.

These mills use the kraft process to produce pulp. This productive process includes the co-generation of electric power fuelled by the parts of timber that cannot be transformed into pulp: lignin or biomass. The Group’s aggregate nominal installed electric power generation capacity (integrated within the Asturias and Pontevedra factories) is approximately 112 megawatts (MW).

In order to facilitate procurement of the timber supplies needed for the pulp manufacturing process, the Group manages 71,720 hectares of forested land in Spain and Portugal, 46,153 hectares of which it owns.

Energy Business-

In recent years, ENCE has developed several power generation facilities that are fuelled by forestry and agricultural biomass; these plants operate on a standalone basis, separately to the pulp business.

The 50-MW power generation plant in Huelva began to operate in February 2013, while the 20-MW plant in Mérida started up in September 2014. In addition to these two plants, and as a result of the decision to discontinue pulp production at the industrial complex in Huelva, this business line now also includes a third generation plant, with capacity of 41 MW, which was formerly integrated into the pulp operations. Factoring in this third facility, power generation capacity at the stations independent of pulp operations stands at 111 MW.

All of the Company's shares are represented by book entries and are officially listed on the Spanish stock exchanges and traded on the continuous market (SIBE for its acronym in Spanish).

1.2. Basis of presentation of the condensed consolidated interim financial statements under the IFRS adopted by the European Union

The 2015 consolidated annual financial statements were prepared from the accounting records and annual financial statements of the Parent and Group companies. They were prepared in accordance with the prevailing financial reporting framework, specifically the International Financial Reporting Standards (IFRS) adopted by the European Union, as provided for in Regulation (EC) No. 1606/2002 of the European Parliament, and Spanish Law 62/2003 (30 December 2003) on tax, administrative and corporate measures, to give a true and fair view of the Group's financial position at 31 December 2015 and of its financial performance and cash flows for the year then ended.

The accompanying condensed consolidated interim financial statements were drawn up in keeping with IAS 34 - Interim Financial Information and were authorised for issue by the Board of Directors of Ence Energía y Celulosa, S.A. on 20 September 2016.

In keeping with IAS 34, the interim financial information has been prepared solely for the purpose of providing an update with respect to the last complete set of annual consolidated financial statements authorised for issue and accordingly focuses on new activities, events and circumstances arising in the six-month period and does not duplicate the information previously reported in the 2015 consolidated annual financial statements. Accordingly, for adequate reader comprehension, the information included in these condensed consolidated interim financial statements should be read in conjunction with the Group's 2015 consolidated annual financial statements, which were ratified by the Company's shareholders at the Annual General Meeting held on 16 March 2016.

1.3. Accounting policies and basis of consolidation

In drawing up the accompanying condensed consolidated interim financial statements, ENCE has applied the same accounting policies and consolidation rules as were used to prepare the 2015 consolidated financial statements, as detailed in notes 3.5 and 4 thereof, except as outlined in section 2 below.

1.4. Comparative information

The information provided in these condensed consolidated interim financial statements in respect of the first half of 2015 is presented solely and exclusively to allow the reader to compare the figures with those corresponding to the first half of 2016.

1.5. Seasonal nature of the Group's transactions

Given the nature of the Group companies' business operations, its transactions are not cyclical or seasonal in nature. Consequently, the notes to the accompanying condensed consolidated financial statements for the six months ended 30 June 2016 do not include specific seasonality disclosures.

Note, however, that the production of pulp requires annual stoppages of between 10 and 15 days for maintenance purposes. The mills in Pontevedra and Asturias carried out these annual stoppages during the first half of 2016. In this respect, an asset has been recognised in the amount of €3,557 thousand at 30 June 2016 (€3,117 thousand at 30 June 2015) corresponding to fixed costs accrued during the stoppages which, in keeping with the income and expense matching principle, will be recognised in the income statement during the second half of 2016.

1.6. Materiality

In determining the information to be disclosed in the explanatory notes for the various headings of the condensed consolidated interim financial statements, the Group assessed materiality in relation to the financial statements themselves, in accordance with IAS 34.

1.7. Changes in the Group's consolidation scope

There were no changes in Ence Energía y Celulosa, S.A.'s consolidation scope during the first half of 2016.

2. Accounting policies and measurement criteria

2.1. New and amended standards taking effect during the reporting period

The following new and amended standards took effect in 2016 and were applied in preparing the accompanying condensed consolidated interim financial statements:

Standard	Contents
Amendments to IAS 16 / IAS 38 - Acceptable methods of depreciation and amortisation	These amendments clarify which depreciation and amortisation methods are acceptable, stating that revenue-based depreciation methods are not permitted.
Amendments to IFRS 11 - Accounting for acquisitions of interests in joint operations	As amended, IFRS 11 requires the use of the acquisition method prescribed in IFRS 3 - Business combinations when joint operations are businesses.
Amendments to IAS 16 and IAS 41 - Bearer plants	As amended, bearer plants will have to be carried at cost instead of fair value.
Amendment to IAS 27 - Equity method in separate financial statements	This amendment will reinstate the use of the equity method to measure investments in an investor's separate financial statements.
Amendments to IAS 1: Disclosure initiative	Multiple clarifications with respect to disclosure requirements (materiality, aggregation, note order, etc.).
Amendments to IAS 19 - Employee contribution to defined benefit plans	This amendment will allow for the deduction of such contributions from service cost in the same reporting period as they are paid for, subject to delivery of certain requirements.
Annual Improvements to IFRSs, 2010-2012 Cycle	Minor amendments to IFRS 2 (definition of 'vesting condition'), IFRS 3 (accounting for contingent consideration in a business combination), IFRS 8 (aggregation of operating segments), IFRS 13 (short-term receivables and payables), IAS 16 (revaluation method - proportionate restatement of accumulated depreciation) and IAS 24 (key management personnel).
Annual Improvements to IFRSs, 2012-2014 Cycle	Minor amendments to IFRS 5 (changes in method of disposal), IFRS 7 (serving contracts and applicability of the amendments to IFRS 7 to condensed interim financial statements), IAS 19 (regional market issue) and IAS 34 (disclosure of information 'elsewhere in the interim financial report').

2.2. Standards and interpretations issued but not yet effective

At the date of authorising the accompanying consolidated interim financial statements for issue, the most significant standards and interpretations published by the International Accounting Standard Board (IASB) but not yet effective, either because they have yet to be adopted by the European Union or because their date of effectiveness is subsequent to that of authorisation, are the following:

Standard	Contents	Application from
Amendments to IFRS 10, IFRS 12 and IAS 28	Introduction of clarifications regarding application of the consolidation exception to investment entities.	1 January 2016
Amendments to IAS 7 - Disclosure initiative	Introduces additional disclosure requirements to reconcile the movement in financial liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.	1 January 2017
Amendments to IAS 12 -	Recognition of deferred tax assets for unrealised losses. Clarifies the related recognition principles.	1 January 2016
IFRS 15 - Revenue from contracts with customers and related clarifications.	Replaces prevailing IAS 18 and IAS 11 as well as the current interpretations of revenue. The new revenue recognition model is more restrictive and rule-based.	1 January 2018
IFRS 9 - Financial instruments	Replaces IAS 39 Changes the model for classifying and measuring financial assets to one that reflects the business model in which they are managed. The new approach to hedge accounting is less rule-based and attempts to better reflect the economics of risk management. Elsewhere, the impairment model shifts away from incurred losses to a forward-looking expected loss model.	1 January 2018
Amendments to IFRS 2 - Share-based payments	Amendments designed to clarify specific issues such as the effects of vesting conditions on the measurement of a cash-settled share-based payment.	1 January 2018
IAS 16 - Leases	IAS 16 replaces IAS 17 and associated interpretations. The new standard puts forward a single accounting model for all leases (with limited exemptions), which will be recognised on the balance sheet in a manner similar to how finance leases are currently treated.	1 January 2019

The Group is in the process of analysing what impact these new and amended standards could have on its financial statements if adopted. The Group has not early applied any of these new or amended standards.

3. Critical accounting estimates and judgements

Preparation of the condensed consolidated interim financial statements for the six months ended 30 June 2016 in accordance with EU-IFRS requires the use of assumptions and estimates that affect the amounts of related assets, liabilities, revenues, income and expenses recognised and the corresponding disclosures. The accounting policies that incorporate management assumptions and estimates that are material in respect of the accompanying condensed consolidated financial statements are:

- The asset impairment charges associated with the discontinuation of pulp production at the Huelva plant (note 18)
- The impact of changes in the Spanish energy sector regulatory framework (note 18)
- Calculation of income tax and the recoverable amount of deferred tax assets (note 22)
- The assumptions used to calculate certain obligations to employees (note 6)
- The fair value of certain assets, principally financial instruments (note 20)
- The recoverable amount of certain assets, mainly biological assets (note 12)
- The useful lives of fixed and intangible assets (notes 10 and 11)
- Calculation of the provisions recognised to cover liabilities arising under lawsuits in progress and bad debt (note 18)

Some of these accounting policies require management to exercise judgement in selecting the best assumptions for arriving at these estimates. These assumptions and estimates are based on historical experience, the advice of experts, forecasts and other circumstances and expectations prevailing at the reporting date.

By their very nature, these judgements are subject to a high degree of intrinsic uncertainty, which is why actual results could differ materially from the estimates and assumptions used. At the date of authorising these condensed consolidated interim financial statements for issue, these estimates are not expected to change significantly.

The directors believe that as of 30 June 2016 there is no new information that significantly changes the estimated impairment provisions recognised against the Group's various industrial and biological assets, as disclosed in notes 4.1, 4.2, 14, 15 and 16 of the consolidated financial statements for the year ended 31 December 2015.

Although these estimates were made on the basis of the best information available at each reporting date regarding the facts analysed, events occurring after the date of authorising these financial disclosures for issue could make it necessary to revise these estimates (upwards or downwards) in the future. Changes in accounting estimates would be applied prospectively in accordance with IAS 8, recognising the effects of the change in estimates in the related consolidated income statement.

4. Revenue

The breakdown of Group revenue by business in the first halves of 2016 and 2015 is as follows:

Thousands of euros	1H16 Pulp Business	1H16 Energy Business	1H16 Consolidated Group	1H15 Pulp Business	1H15 Energy Business	1H15 Consolidated Group
Business metrics						
Pulp sales volume (tonnes)	448,643	-	448,643	431,767	-	431,767
Energy sales volume (MWh)	308,408	238,151	546,559	329,225	275,771	604,996
Revenue						
Pulp	217,644	-	217,644	228,416	-	228,416
Electric energy	25,497	36,205	61,702	32,877	43,210	76,087
Sales of timber and forestry services	9,814	-	7,545	8,373	406	7,908
Inter-segment	438	1,835	2,273	426	365	791
	253,393	**38,040**	**289,164**	**270,092**	**43,981**	**313,202**

(*) The difference between the figures presented under "Consolidated Group" for 2016 and 2015 and the addition of the figures corresponding to the "Pulp" and "Energy" businesses corresponds to the elimination of transactions between these business segments in the first six months of 2016 and 2015 in the amounts of €2,269 thousand and €365 thousand euros, respectively.

All of the revenue from energy sales is generated in Spain via the national electricity market.

During the first half of 2016, the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €72.8 million (1H15: €101.6 million).

4.1. Geographic revenue split

The breakdown of revenue from pulp sales by geographic market is as follows:

% of revenue	1H16	1H15
Germany	23.1	23.7
Italy	12.2	21.2
Spain	15.5	17.5
Austria	3.7	9.9
France	7.8	6.3
United Kingdom	3.6	4.9
Netherlands	2.3	4.7
Poland	7.5	4.6
Slovenia	2.6	3.6
Greece	1.8	2.6
Turkey	4.4	-
Other	15.5	1.0
	100.0	**100.0**

One customer generated sales volumes in 1H16 which account for over 10% of Group revenue from pulp sales.

5. Cost of sales

Consumption of raw materials and other consumables in the first six months of 2016 and 2015 breaks down as follows:

Thousands of euros	1H16 Pulp Business	1H16 Energy Business	1H16 Consolidated Group	1H15 Pulp Business	1H15 Energy Business	1H15 Consolidated Group
Purchases	114,153	8,734	120,980	109,978	7,261	116,497
Change in raw materials and other inventories	(5,323)	337	(4,986)	(2,730)	(491)	(3,222)
Other external expenses	14,350	1,372	15,361	11,537	4,859	16,396
	123,180	**10,443**	**131,355**	**118,785**	**11,629**	**129,671**

(*) The difference between the figures presented under "Consolidated Group" for 2016 and 2015 and the addition of the figures corresponding to the "Pulp" and "Energy" businesses corresponds to the elimination of transactions between these business segments in the first six months of 2016 and 2015 in the amounts of €2,268 thousand and €743 thousand euros, respectively.

This heading mainly includes the timber, chemical products, fuel and other variable costs incurred in the pulp production process.

6. Employee benefits expense

The breakdown of the employee benefits expense incurred in the first six months of 2016 and 2015 is provided below:

Thousands of euros	1H16 Pulp Business	1H16 Energy Business	1H16 Consolidated Group	1H15 Pulp Business	1H15 Energy Business	1H15 Consolidated Group
Wages and salaries	24,431	753	25,184	20,017	-	20,017
Social Security	5,735	171	5,906	5,341	-	5,341
Pension contributions and other benefits	1,465	25	1,490	1,168	-	1,168
	31,631	949	32,580	26,526	-	26,526
Long-term remuneration plans	1,386	-	1,386	3,155	-	3,155
Termination benefits (note 18)	627	433	1,060	374	-	374
	33,644	**1,382**	**35,026**	**30,055**	-	**30,055**

Several measures were taken in the first half of 2016 to conclude the separation of the Pulp and Energy business units. Among others, the 89 people who were devoted exclusively to energy-related work were transferred to the Energy business, along with certain assets located within the Huelva industrial complex that service the 41-MW Huelva power plant.

6.1. Headcount

The breakdown of the Group's average headcount at 30 June 2016 and 2015 is as follows:

Job category	1H16 Male	1H16 Female	1H16 Total	1H15 Male	1H15 Female	1H15 Total
Executives	6	1	7	6	1	7
Individual job contracts	222	61	283	197	55	252
Collective bargaining agreement	402	55	457	396	58	454
Temporary workers	95	42	137	93	29	122
	725	**159**	**884**	**692**	**143**	**835**

The Board of Directors comprises 13 members, 12 of whom men, at 30 June 2016.

6.2. Long-term bonus plan

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 between 2016 and 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. Elsewhere, the liability associated with delivery of the EBITDA and talent development targets was estimated assuming that these objectives are met in full.

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

The liability accrued in this respect at 30 June 2016 amounted to €1,386 thousand and is recognised under: i) “Other equity instruments” in the condensed consolidated statement of financial position in respect of the portion to be settled in shares (€970 thousand before the related tax effect); and ii) “Non-current provisions” in the condensed consolidated statement of financial position in respect of the portion to be settled in cash (€416 thousand) (note 18).

7. Other operating expenses

The breakdown of this heading of the condensed consolidated income statement for the six months ended 30 June 2016 and 2015:

Thousands of euros	1H16 Pulp Business	1H16 Energy Business	1H16 Consolidated Group	1H15 Pulp Business	1H15 Energy Business	1H15 Consolidated Group
External services	57,258	15,128	61,676	56,036	13,493	65,936
Use of emission allowances (note 18)	593	5	598	392	(604)	1,057
Taxes other than income tax and other management charges	1,595	65	1,660	619	930	1,549
Electricity generation levy	1,797	2,544	4,341	3,239	2,111	5,350
Change in trade and other provisions	(90)	-	(90)	1,278	(2)	1,277
Impact of the closure of the Huelva factory (note 18)	540	-	540	1,399	-	1,399
Other non-recurring charges	5,619	3,130	8,697	2,829	275	3,106
	67,312	**20,872**	**77,422**	**65,792**	**16,203**	**79,674**

(*) The difference between the figures presented under “Consolidated Group” for 2016 and 2015 and the addition of the figures corresponding to the “Pulp” and “Energy” businesses corresponds to the elimination of transactions between these business segments in the first six months of 2016 and 2015 in the amounts of €10,762 thousand and €2,321 thousand euros, respectively.

“Other non-recurring charges” includes €2,857 thousand corresponding to the difference between estimated remuneration for the generation and sale of energy from renewable sources at the 41-MW biomass power plant in Huelva between 2013 and 2015 and that ultimately recognised by the regulator (note 18). This heading also includes consultancy fees and the impact of extraordinary equipment failure.

7.1. External services

The breakdown of "External services" in the interim reporting periods is as follows:

Thousands of euros	30/06/2016 Pulp Business	30/06/2016 Energy Business	30/06/2016 Consolidated Group	30/06/2015 Pulp Business	30/06/2015 Energy Business	30/06/2015 Consolidated Group
Transport, freight and business expenses	15,394	46	15,440	18,083	198	18,281
Utilities	12,421	435	12,856	17,699	411	17,999
Repairs and upkeep	8,850	3,392	12,242	7,624	2,624	10,248
Rent and fees	2,717	316	3,023	1,531	1,296	2,449
Insurance premiums	1,623	466	2,089	1,945	363	2,307
Independent professional services	2,240	185	2,425	2,791	212	3,002
Banking and similar services	605	61	666	703	30	734
Advertising, publicity and public relations	286	-	286	385	-	384
Research and development expenses	1,406	-	1,406	5	-	5
Other services	11,716	10,228	11,243	5,270	8,359	10,527
	57,258	**15,129**	**61,676**	**56,036**	**13,493**	**65,936**

(*) The difference between the figures presented under “Consolidated Group” for 2016 and 2015 and the addition of the figures corresponding to the “Pulp” and “Energy” businesses corresponds to the elimination of transactions between these business segments in the first six months of 2016 and 2015 in the amounts of €10,711 thousand and €3,593 thousand euros, respectively.

8. Finance costs

The breakdown of this condensed consolidated income statement heading in the reporting periods:

Thousands of euros	1H16			1H15		
	Pulp Business	Energy Business	Group Consolidated	Pulp Business	Energy Business	Group Consolidated
High-yield bond	6,718	-	6,718	9,677	-	9,677
Project finance facilities	-	1,615	1,615	-	1,937	1,937
Credit, factoring and reverse factoring lines	712	-	712	746	-	746
Fees recognised in profit and loss	884	265	1,149	2,300	319	2,619
Capitalised borrowing costs (note 12)	(39)	-	(39)	(58)	-	(58)
Finance costs - Group companies	202	1,183	-	2,316	3,061	-
Other	-	-	-	4	-	4
	8,476	3,063	10,154	14,985	5,317	14,925
Derivatives:						
Settlement of the project finance interest-rate swap (note 21)	-	(77)	(77)	-	1,578	1,578
Settlement of the equity swap	-	-	-	(15)	-	(15)
	-	(77)	(77)	(15)	1,578	1,563
	8,476	**2,986**	**10,077**	**14,970**	**6,895**	**16,488**

(*) The difference between the figures presented under “Consolidated Group” for 2016 and 2015 and the addition of the figures corresponding to the “Pulp” and “Energy” businesses corresponds to the elimination of transactions between these business segments in the first six months of 2016 and 2015 in the amounts of €1,385 thousand and €5,377 thousand euros, respectively.

9. Operating segments

ENCE has defined the following reporting segments for which it has full and independent financial information that is reviewed regularly by senior management in order to evaluate the performance of the Group's two core lines of business as follows:

Pulp Business

This business line encompasses the following reportable segments:

- Pulp. This segment includes the pulp production activities carried out at the productive facilities located in Pontevedra and Asturias and the power co-generation and generation activities related to the production of pulp and integrated therein, making use of the parts of timber that cannot be transformed in pulp, essentially lignin and biomass, as inputs.
- Forest Management This operating segment essentially includes the forest crops and forest cover that are later used as raw materials in the pulp production process or sold to third parties.
- Forest Services & Other. This segment includes residual business activities carried out by the Group, including forest services provided to third parties, etc.

Energy Business

This business line/segment includes the plants that generate electric power using forestry and agricultural biomass; they are developed and operated separately and independently from the pulp business. This segment currently encompasses the 50-MW Huelva, 41-MW Huelva and 20-MW Mérida biomass generation plants.

Appendix I, attached, provides the condensed statement of financial position at 30 June 2016 and 31 December 2015 and the condensed income statement and statement of cash flows for the six month periods ended 30 June 2016 and 2015 for the Pulp and Energy businesses.

9.1. Operating segment reporting

The table below details the earnings performance by operating segment in the first six months of 2016 and 2015, based on the management information reviewed regularly by senior management:

1H16	Thousands of euros							
	PULP Business							
Income statement	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations	Total
Revenue:								
Third parties	251,008	1,941	10	-	252,959	36,205	-	289,164
Inter-segment revenue	290	3,579	-	(3,436)	433	1,835	(2,268)	-
Total revenue	**251,298**	**5,520**	**10**	**(3,436)**	**253,392**	**38,040**	**(2,268)**	**289,164**
Earnings:								
EBITDA (*)	**42,239**	**3,675**	**(1,072)**	**(79)**	**44,763**	**8,441**		**53,204**
Operating profit/(loss)	**22,747**	**786**	**(1,077)**	**-**	**22,456**	**1,281**		**23,737**
Finance income	3,660	-	-	(2,401)	1,259	260	(1,385)	134
Finance costs	(8,514)	(2,310)	(53)	2,401	(8,476)	(2,986)	1,385	(10,077)
Hedging derivatives - restatement to fair value	2,874	-	-	-	2,874	-	-	2,874
Exchange differences	(650)	-	(544)	-	(1,194)	-	-	(1,194)
Tax	(5,042)	260	322	-	(4,460)	344	-	(4,116)
Profit/(loss) for the period	**15,075**	**(1,264)**	**(1,352)**	**-**	**12,459**	**(1,101)**	**-**	**11,358**

(*) This metric is not disclosed in the consolidated income statement; it is calculated as earnings before depreciation and amortisation charges, depletion of forest reserve charges, impairment charges and gains/losses on non-current assets.

1H15 Income statement	Thousands of euros							
	PULP business							
	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations	Total
Revenue:								
Third parties	266,688	2,298	600	-	269,586	43,616	-	313,202
Inter-segment revenue	420	6,296	-	(6,210)	506	365	(871)	-
Total revenue	**267,108**	**8,594**	**600**	**(6,210)**	**270,092**	**43,981**	**(871)**	**313,202**
Earnings:								
EBITDA (*)	**55,961**	**3,835**	**(59)**	**-**	**59,737**	**18,827**	(1,289)	**77,275**
Operating profit/(loss)	**33,140**	**(218)**	**(112)**	**-**	**32,810**	**13,862**	(1,037)	**45,635**
Finance income	7,326	58	-	(4,193)	3,191	2,316	(5,377)	130
Finance costs	(14,963)	(4,170)	(30)	4,193	(14,970)	(6,895)	5,377	(16,488)
Hedging derivatives - restatement to fair value	942	-	-	-	942	-	-	942
Exchange differences	573	-	142	-	715	(9)	-	706
Tax	(7,285)	776	24	-	(6,485)	(2,597)	290	(8,792)
Profit / (loss) for the period	**19,733**	**(3,554)**	**24**	**-**	**16,203**	**6,677**	**(747)**	**22,133**

(*) This metric is not disclosed in the consolidated income statement; it is calculated as earnings before depreciation and amortisation charges, depletion of forest reserve charges, impairment charges and gains/losses on non-current assets.

9.2. Disclosures by productive plant

To complement the operating segment disclosures, the table below provides profit and loss disclosures by pulp and energy production facility:

1H16	Thousands of euros						
	Pontevedra factory	Navia factory	Corporate	Other (a)	Subtotal	Eliminations	Total
Business metrics:							
Pulp output (ADt)	203,591	236,921	-	-	440,512	-	440,512
Pulp sales volume (ADt)	204,817	243,826	-	-	448,643	-	448,643
Energy sales volume (MWh)	86,181	222,227	-	238,151	546,559	-	546,559
Continuing operations:							
Revenue	105,900	137,525	-	71,801	315,226	(26,062)	289,164
Gross profit	**53,707**	**68,798**	**(4)**	**35,520**	**158,021**	**(285)**	**157,736**
Employee benefits expense	(11,491)	(11,338)	(8,065)	(4,132)	(35,026)	-	(35,026)
Other operating expenses	(23,304)	(22,005)	(4,752)	(19,730)	(69,791)	285	(69,506)
Overhead passed on	(5,812)	(6,491)	14,064	(1,761)	-	-	-
EBITDA	**13,100**	**28,964**	**1,243**	**9,897**	**53,204**	**-**	**53,204**
Depreciation & amortisation	(4,288)	(13,899)	(1,226)	(6,457)	(25,870)	-	(25,870)
Depletion of forestry reserve	-	-	-	(3,898)	(3,898)	-	(3,898)
Impairment of and gains/losses on non-current assets	(14)	(73)	(17)	405	301	-	301
OPERATING PROFIT/(LOSS)	**8,798**	**14,992**	**-**	**(53)**	**23,737**	**-**	**23,737**
Net finance expense	(2,559)	(2,979)	-	(2,725)	(8,263)	-	(8,263)
PROFIT/(LOSS) BEFORE TAX	**6,239**	**12,013**	**-**	**(2,778)**	**15,474**	**-**	**15,474**
Income tax	(1,525)	(2,935)	-	344	(4,116)	-	(4,116)
PROFIT/(LOSS) FOR THE YEAR	**4,714**	**9,078**	**-**	**(2,434)**	**11,358**	**-**	**11,358**

(a) Includes the forestry and energy crop activities, the 50-MW Huelva, 41-MW Huelva and 20-MW Mérida plants, companies that are virtually inactive and the Group's subsidiaries in Uruguay.

1H15	Thousands of euros						
	Pontevedra factory	Navia factory	Corporate	Other (a)	Subtotal	Eliminations	Total
Business metrics:							
Pulp output (ADt)	194,417	225,235	-	-	419,652	-	419,652
Pulp sales volume (ADt)	197,681	234,086	-	-	431,767	-	431,767
Energy sales volume (MWh)	97,448	231,777	-	275,771	604,996	-	604,996
Continuing operations:							
Revenue	113,543	184,769	-	80,498	378,810	(65,608)	313,202
Gross profit	**60,745**	**78,836**	**(355)**	**39,170**	**178,396**	**(165)**	**178,231**
Employee benefits expense	(9,538)	(9,618)	(7,918)	(2,981)	(30,055)	-	(30,055)
Other operating expenses	(18,620)	(23,680)	(5,005)	(23,761)	(71,066)	165	(70,901)
Overhead passed on	(6,533)	(5,445)	13,992	(2,014)	-	-	-
EBITDA	**26,054**	**40,093**	**714**	**10,414**	**77,275**	**-**	**77,275**
Depreciation & amortisation	(8,010)	(12,215)	(714)	(6,299)	(27,238)	-	(27,238)
Depletion of forestry reserve	-	-	-	(4,599)	(4,599)	-	(4,599)
Impairment of and gains/losses on non-current assets	(320)	29	-	488	197	-	197
OPERATING PROFIT/(LOSS)	**17,724**	**27,907**	**-**	**4**	**45,635**	**-**	**45,635**
Net finance cost	(4,689)	(5,433)	-	(4,588)	(14,710)	-	(14,710)
PROFIT/(LOSS) BEFORE TAX	**13,035**	**22,474**	**-**	**(4,584)**	**30,925**	**-**	**30,925**
Income tax	(2,380)	(4,103)	-	(2,309)	(8,792)	-	(8,792)
PROFIT/(LOSS) FOR THE YEAR	**10,655**	**18,371**	**-**	**(6,893)**	**22,133**	**-**	**22,133**

(a) Includes the forestry and energy crop activities, the 50-MW Huelva, 41-MW Huelva and 20-MW Mérida plants, companies that are virtually inactive and the Group's subsidiaries in Uruguay.

10. *Intangible assets*

The reconciliation of the opening and closing carrying amounts of the various components of intangible assets and accumulated amortisation for the first half of 2016 is as follows:

Thousands of euros	Balance at 01/01/2016	Additions/ Charges	Derecognitions/ Decreases	Transfers	Balance at 1H16
Computer software	17,510	50	-	-	17,560
Emission allowances	1,303	734	(1,565)	-	472
Prepayments	2,366	796	-	(2,334)	828
Other intangible assets (*)	14,432	3,084	-	2,334	19,850
Total cost	**35,611**	**4,664**	**(1,565)**	**-**	**38,710**
Computer software	(9,019)	(1,074)	-	-	(10,093)
Other intangible assets (*)	(10,379)	(66)	-	-	(10,445)
Total amortisation	**(19,398)**	**(1,140)**	**-**	**-**	**(20,538)**
Other intangible assets	(3,600)	-	-	-	(3,600)
Total impairment	**(3,600)**	**-**	**-**	**-**	**(3,600)**
Total	**12,613**				**14,572**

(*) Mainly includes development expenses.

10.1. Computer software and other assets

The Group continues to strategically upgrade the IT systems supporting its key business processes.

In June 2016, ENCE culminated what it had dubbed Project FARO, which consisted of redesigning the operating processes in the Pulp business with a view to boosting efficiency, increasing mill availability and eking out competitiveness gains. The investments capitalised in 2016, which correspond to own staff costs and, mainly, the cost of services received from one of the leading engineering and consultancy firms in the sector, amounted to €2,009 thousand. These costs have been capitalised within “Development costs”.

10.2. Emission allowances

The reconciliation of the opening and closing Group-owned carbon allowance balances for the six months ended 30 June 2016 is provided in the next table:

	Number of allowances	Thousands of euros
Opening balance	122,605	1,303
Allocations	91,287	734
Delivered (*)	(162,503)	(1,565)
Closing balance	**51,389**	**472**

(*) Corresponds to the allowances used in 1H15.

In November 2013, the Spanish Parliament approved the New National Allocation Plan under which it will allocate emission allowances free of charge in 2013-2020. The new plan upholds the criteria adopted by Decision 2011/278/EU of the European Commission. Under the Plan, the Group received allowances equivalent to 91,287 tonnes of carbon emissions, valued at €734 thousand, in the first half of 2016.

“Non-current provisions” on the liability side of the consolidated interim statement of financial position includes €638 thousand in this respect at 30 June 2016, corresponding to the liability derived from the consumption of 79,179 tonnes of carbon in the first half of 2016 (note 18).

11. Property, plant and equipment

The reconciliation of the opening and closing carrying amounts of the various components of this heading of the condensed consolidated statement of financial position for the first half of 2016 is as follows:

Thousands of euros	Balance at 01/01/2016	Additions/ Charges	Derecognitions/ Decreases	Transfers	Balance at 1H16
Forest land	82,867	-	-	-	82,867
Other land	8,108	-	(6)	-	8,102
Buildings	96,875	1,617	(33)	858	99,317
Plant and machinery	1,034,869	13,533	(1,994)	24,730	1,071,138
Other items of PP&E	23,582	366	7	588	24,543
Prepayments and PP&E in progress	34,989	18,132	(5)	(26,249)	26,867
Cost	**1,281,290**	**33,648**	**(2,031)**	**(73)**	**1,312,834**
Buildings	(58,632)	(1,067)	14	-	(59,685)
Plant and machinery	(556,142)	(22,716)	215	73	(578,570)
Other items of PP&E	(12,688)	(947)	1	-	(13,634)
Depreciation	**(627,462)**	**(24,730)**	**230**	**73**	**(651,889)**
Land and buildings	(1,985)	-	-	-	(1,985)
Plant and machinery	(8,334)	-	2,038	-	(6,296)
Other items of PP&E	(1,579)	-	-	-	(1,579)
Impairment	**(11,898)**	**-**	**2,038**	**-**	**(9,860)**
Total	**641,930**				**651,085**

11.1. Additions

The Group invested at all its facilities with a view to making its pulp production processes more efficient, boosting power generation and making them more environmentally friendly. This capital expenditure breaks down as follows by facility:

	Thousands of euros	
	1H16	1H15
Navia (Asturias)	19,109	38,476
Huelva Energy - 41 MW	2,109	4,526
Pontevedra	11,731	9,084
Other	699	1,451
	33,648	**53,537**

During the first half of 2016, the Group completed phase two of its project to add 40,000 tonnes of pulp production capacity at the Navia industrial complex (Asturias). In addition, it made investments designed to make the complex more efficient and reduce production costs. At the Pontevedra facility, capital expenditure was earmarked mainly to improving its environmental performance as well to replacement investments.

11.2. Public-domain concession arrangement

The concession for the use of the public-domain coastal land on which the Pontevedra operations centre sits was granted to ENCE by Ministerial Order on 13 June 1958 and was due to terminate on 29 July 2018. On 20 January 2016, the Spanish Ministry of Agriculture, Food and the Environment agreed to extend the concession for 60 years, i.e., until 8 November 2073.

Of the agreed-upon 60-year extension, 10 years are the result of a commitment on the part of ENCE to make certain investments at the facility. These investment undertakings, which total €61 million, break down as follows:

i. €30.2 million to be put towards unlocking significant efficiency improvements at the factory, in turn driving growth in pulp manufacturing and renewable energy generation capacity;

ii. €27 million to be earmarked towards environmental improvements, €15 million of which will be invested in a facility that will recover the bulk of the water generated in the process, thereby minimising discharges, and €12 million of which will be invested to eliminate odour, noise and steam and ensure environmental performance over and above legal requirements.

iii. €4 million to be devoted to designing and executing a landscaping project for the factory in Lourizán which will significantly enhance its visual impact on the Pontevedra Bay area.

These undertakings have been similarly factored into the Environmental Pact entered into with the Environmental Department of the regional government of Galicia (note 25), along with other undertakings such as the commitment to install three bioenergy centres and a biomass-fuelled co-generation facility in Galicia entailing investment of up €94 million.

ENCE had been depreciating the industrial assets located at its industrial complex in Pontevedra over the shorter of their remaining useful life and the term of the concession agreement. Against this backdrop, the ministerial ruling extending the concession has had the effect of eliminating the time limit implied by the concession termination date and consequently had a positive impact on the income statement via reduced industrial asset depreciation charges, an effect estimated at approximately €8.5 million considering the charge recognised in 2015.

11.3. Asset revaluations

The Group restated all its forest land to fair value as of 1 January 2004, the date of transition to IFRS-EU. This value was determined by independent expert appraisers. As permitted under IFRS, these revalued amounts were considered deemed cost. The gain on the revaluation, net of the corresponding deferred tax liability of €16,954 thousand, amounts to €50,926 thousand and is included in “Valuation adjustments” in equity. That fair value benchmark has been used as deemed cost in subsequent years.

11.4. Insurance cover

It is Group policy to take out the insurance policies necessary to cover the potential risks to which the various items of property, plant, and equipment are exposed. The Parent’s directors believe that the coverage provided by these policies at the reporting date is sufficient.

11.5. Additional considerations

Ence has been awarded the concession to operate 40 MW of capacity pursuant to the auction held 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.

The Company is currently in the process of assessing this project's design, capital expenditure requirement and final location. It will only be executed if all the profitability criteria are met.

12. Biological assets

"Biological assets" exclusively comprises the Group's forest cover; the forest land owned by the Group is presented under "Property, plant and equipment - Forest land". These assets break down as follows at 30 June 2016 and 31 December 2015:

Thousands of euros	30/06/2016	31/12/2015
Cover earmarked for pulp	85,044	86,814
Cover earmarked for energy crops	17	663
Cover earmarked for other uses	613	416
	85,674	**87,893**

The movement in this heading during the first half of 2016:

	Thousands of euros			
	Balance at 31/12/2015	Additions/(charges)	Derecognitions	Balance at 30/06/2016
Earmarked for pulp & other uses:				
Forest cover	164,214	1,655	(3,810)	162,059
Depletion of forest reserve	(40,523)	(3,707)	1,965	(42,265)
Provision for impairment	(36,461)	-	1,728	(34,733)
	87,230	**(2,052)**	**(117)**	**85,061**
Earmarked for energy crops:				
Forest cover	11,497	547	(6,775)	5,269
Depletion of forest reserve	(763)	(86)	-	(849)
Provision for impairment	(10,071)	-	6,264	(3,807)
	663	**461**	**(511)**	**613**
	87,893			**85,674**

In the first half of 2016, the Group planted 100 hectares of land and carried out forest preservation and protection work on 1,009 hectares.

12.1. Additions to forest cover

In the first half of 2016, the Group capitalised forest plantation, preservation and silviculture services received in the amount of €2,163 thousand (€6,188 thousand in 1H15).

The Group capitalised €39 thousand of borrowing costs under forest cover in the first half of 2016 (€115 thousand in 1H15); this addition is accounted for in the consolidated income statement as a reduction in "Other finance costs" (note 8).

13. Non-current assets held for sale

The reconciliation of the related consolidated statement of financial position headings at the beginning and end of the first half of 2016 is as follows:

Thousands of euros	Balance at 01/01/2016	Additions	Consumption	Derecognitions due to disposals	Balance at 30/06/2016
Huelva industrial complex	26,207	-	-	-	26,207
Forest land and cover					
Forest land	22,276	-	-	(747)	21,529
Forest cover	1,855	44	(105)	(89)	1,705
Total	**50,338**	**44**	**(105)**	**(836)**	**49,441**

Huelva industrial complex

The decision to cease pulp production at the Huelva industrial complex at the end of 2014 has meant that some of its industrial assets are no longer used for productive purposes and have accordingly been transferred to assets held for sale. These assets are measured at fair value, determined using appraisals performed by experts in valuing this class of assets and non-binding bids, an exercise that implied the recognition of impairment charges of €50,744 thousand in prior years (note 18).

ENCE continues to pursue specific initiatives under the scope of the plan drawn up for the sale of this group of assets which is expected to close during the second half of 2016.

Forest land and cover

At the end of 2014, ENCE began the process of exiting the forest management business in southern Spain in an orderly fashion; these assets are related to energy crops, with watering entitlements, encompassing approximately 2,000 hectares of irrigated land and an additional 1,000 hectares of adjacent non-irrigated land.

In the first half of 2016, it sold 68 hectares (1,328 hectares in 1H15) (68% of which, irrigated land) for €1,307 thousand (€28,037 thousand), generating a gain of €471 thousand (1H15: €11,578 thousand), which is recognised in "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the accompanying condensed consolidated income statement for the six months ended 30 June 2016.

In addition, at 30 June 2016, the Group had signed deposit agreements for the sale of 1,484 hectares for €33.6 million; the sale of this land is expected to close during the second half of 2016 and generate an estimated gain of €14 million.

14. Inventories

The breakdown of the Group's inventories at 30 June 2016 and 31 December 2015 is as follows:

Thousands of euros	30/06/2016	31/12/2015
Timber	24,526	19,201
Other raw materials	954	1,210
Spare parts	20,591	20,876
Finished goods	11,936	15,440
Prepayments to suppliers	869	636
Impairment (*)	(16,842)	(17,148)
	42,034	**40,215**

(*) Related primarily to slow-moving parts.

There are no restrictions on title to inventories.

It is Group policy to take out the insurance policies necessary to cover the potential risks to which its inventories are exposed and management believes that its coverage at the reporting date is adequate.

15. Trade and other receivables

The breakdown at 30 June 2016 and 31 December 2015 of "Trade and other receivables" in the condensed consolidated statement of financial position is as follows:

Thousands of euros	30/06/2016	31/12/2015
Trade receivables:		
Pulp	60,822	73,401
Energy	43,421	40,515
Forestry and other	4,090	1,466
Sundry receivables and receivable from employees	1,359	9,456
Provision for impairment	(2,839)	(2,869)
	106,853	**121,969**

The regulatory changes introduced in the Spanish energy sector have included, among other measures, the obligation on the part of all parties receiving remuneration from the system operator to finance the electricity tariff deficit. The Group's share of the financing of this deficit pending collection at 30 June 2016 amounts to €8,664 thousand.

The average credit period on pulp and energy sales averages between 50 and 60 days. The fair value of these receivables does not differ significantly from their carrying amount.

At 30 June 2016, the Group had €28.7 million of US dollar-denominated accounts receivable (30 June 2015: €22.5 million).

The Group has drawn down €39,354 thousand under several factoring agreements deemed non-recourse, as all the risks intrinsic to monetisation of the underlying receivables have been transferred, with an aggregate limit of €70,000 thousand at 30 June 2016 (€44,746 thousand and €70,000 thousand, respectively, at 31 December 2015). The Group pays interest equivalent to 3-month Euribor plus a spread ranging between 1% and 2% on the receivables discounted under these agreements.

16. Trade and other payables

The breakdown at 30 June 2016 and 31 December 2015 of "Trade and other payables" in the condensed consolidated statement of financial position is as follows:

Thousands of euros	30/06/2016	31/12/2015
Trade payables	141,326	139,101
Payable to fixed asset suppliers	24,505	16,027
Employee benefits payable	5,015	6,945
	170,846	**162,073**

The average payment period on goods and services purchased ranges between 65 and 75 days. The fair value of trade payables does not differ significantly from their carrying amount.

The Group has drawn down €60,597 thousand under non-recourse reverse factoring agreements with an aggregate limit of €100,000 thousand at 30 June 2016 (€70,956 thousand and €114,000 thousand, respectively, at 31 December 2015).

The Group did not have any US dollar-denominated accounts payable at 30 June 2016 (€37 thousand at 31 December 2015).

17. Equity

17.1. Issued capital

The share capital of Ence Energía y Celulosa, S.A. at 30 June 2016 was represented by 250,272,500 fully subscribed and paid bearer shares, each with a par value of €0.90.

The chart below depicts the Company's shareholder structure at 30 June 2016 and 31 December 2015:

Shareholder	% 30/06/2016	31/12/2015
Retos Operativos XXI, S.L.	26.5	26.5
Alcor Holding, S.A.	5.9	5.9
Mendibea 2002, S.L.	5.6	5.4
Asúa Inversiones, S.L.	6.0	5.2
Amber Capital UK LLP (*)	-	4.0
Norges Bank Investment Management	3.1	-
LSV Asset Management (*)	-	3.0
Treasury shares	0.7	0.6
Free float	52.2	49.4
Total	**100.0**	**100.0**

(*) This shareholder has informed the securities market regulator that its shareholding has been reduced to below the 3% threshold, so that this investor is now included within the free float

The Company's shares are represented by book entries and are officially listed on the Spanish stock exchanges and traded on the continuous market. All of its shares confer equal voting and dividend rights.

17.2. Shareholder remuneration

At the Annual General Meeting held on 16 March 2016, the shareholders of Ence Energía y Celulosa, S.A. ratified the motion to pay a final dividend against 2015 profits in the amount of €0.10 per Ence Energía y Celulosa, S.A. share. The dividend, which totalled €24,889 thousand, was paid out on 14 April 2016. The Company had already paid out an interim dividend from 2015 profits of €0.044 per share as per a board resolution dated 30 September 2015.

In addition, on 23 June 2016, the Board of Directors approved a share buyback programme with the aim of complementing shareholder remuneration by subsequently cancelling the shares, thereby increasing earnings per share. The key characteristics of this programme are: 1) effectiveness until 28 June 2017; 2) the maximum amount earmarked by ENCE to the repurchase of its shares under the scope of the programme is €10 million; and 3) the maximum number of shares to be bought back by ENCE is 4 million, which is equivalent to 1.6% of share capital as of the date of approval of the programme. The programme will be managed by Mercados y Gestión de Valores Agencia de Valores, S.A., the financial broker similarly appointed to manage the share liquidity contract entered into by ENCE on 22 December 2015.

17.3. Earnings per share

The earnings per share calculations (which coincide with diluted earnings per share) for the six-month period ended 30 June 2016 are shown below:

Earnings per share (€)	30/06/2016
Group profit/(loss) attributable to owners of the parent (€ 000)	11,358
Weighted average ordinary shares (*)	250,272,500
Basic and diluted earnings per share (euros)	**0.05**

(*) The number of ordinary shares did not change during the first half of 2016

17.4. Parent Company shares

The reconciliation of "Own shares - parent company shares" at the beginning and end the six-month period ended 30 June 2016 is as follows:

	No. of shares	Thousands of euros
Opening balance	1,406,466	3,108
Purchases	7,307,485	19,582
Sales	(6,941,465)	(18,399)
Closing balance	**1,772,486**	**4,291**

The own shares held as treasury stock are intended for trading in the market as well as cancellation under the scope of the share buyback programme (note 17.2).

18. Provisions, impairment charges, guarantees and contingent liabilities

18.1. Provisions and impairment charges

The reconciliation of the opening and closing balances of current and non-current provisions for the six months ended 30 June 2016 is as follows:

	Thousands of euros				
	Balance at 01/01/2016	Additions/(charges)	Derecognitions or decreases	Transfers	Balance at 30/06/2016
Non-current:					
Costs of unwinding energy crop and other lease agreements	713	-	(340)		373
Employee commitments (notes 6)	2,063	416	-	(2,063)	416
Emission allowances (note 10)	1,604	638	(1,604)	-	638
Discontinuation of pulp production in Huelva	3,402	905	(338)	-	3,969
Other	1,478	308	(534)	-	1,252
	9,260	**2,267**	**(2,816)**	**(2,063)**	**6,648**
Current					
Employee commitments (*)	-	-	-	2,063	2,063
Discontinuation of pulp production in Huelva	6,306	616	(1,644)	-	5,278
	6,306	**616**	**(1,644)**	**2,063**	**7,341**

(*) This obligation corresponds to the "Long-term bonus plan for 2013-2015" which expired on 31 December 2015 and is due for settlement in the fourth quarter of 2016 once the prerequisite that the plan beneficiaries remain in the employment of ENCE at 1 October 2016 has been verified.

Impact of changes in the Spanish energy sector's regulatory framework

In 2013 and 2014, the Spanish government passed a series of laws and regulations which have had the effect of modifying the remuneration and tax regime applicable to the generation of energy from renewable sources, including generation and co-generation facilities fuelled by biomass.

These new regulations, which put energy crops in the same category as forest and agricultural waste for remuneration purposes, obliged ENCE to abandon the management of its energy crop plantations in an orderly fashion. Moreover, the regulatory changes were undertaken without any consideration whatsoever for compensating developers for these heavy investments, triggering the need to write down the investments in energy crops and other assets for impairment and to recognise provisions to cover the costs of unwinding the related lease agreements and other associated costs.

The following table itemises the impact on profit and loss of the corresponding impairment provisions recognised against the Group's various assets and the costs incurred to unwind the estate lease arrangements, as well as the outstanding related obligations as of 30 June 2016:

Thousands of euros	Total impact on profit and loss (*)	Impairment & outstanding obligations
Impairment:		
Energy crop plantations (note 12)	32,767	6,247
Irrigation facilities (note 11)	8,524	1,111
Energy crop R&D (note 10)	2,853	2,853
Energy project development costs (note 11)	2,110	1,578
	46,254	11,789
Unwinding of lease arrangements	10,971	373
	57,225	**12,162**

(*) Accrued between 2013 and 2015.

Elsewhere, in the course of implementing Ministerial Order IET/1045/2014 (of 16 June), the Spanish Ministry of Industry initially classified the Pontevedra (34.57 MW), Navia (37 MW) and Huelva (41 MW) power plants incorrectly, including them in the wrong category. The appeals lodged by the Group with the aim of rectifying this classification error were resolved favourably in respect of the Navia and Pontevedra power plants in 2015. On 20 June 2016, the Group received a favourable ruling with respect to the 41-MW Huelva plant, triggering the right to collect, in August and December 2016, premiums due to the facility since July 2013, which is when the Electricity Sector Act (Law 24/2013, of 26 December 2013) took effect, in the amounts of €18,754 thousand and €10,084 thousand, respectively.

Discontinuation of pulp production in Huelva

The lack of competitiveness of the industrial complex in Huelva caused, among other factors, by the impact of the regulatory reforms undertaken in the Spanish energy sector, forced ENCE to announce, on 4 September 2014, its decision to specialise in clean energy generation at the Huelva complex and to cease the production of pulp.

The following table itemises the impact on profit and loss of the corresponding impairment provisions recognised against the Group's various assets, as well as the outstanding related obligations as of 30 June 2016:

Thousands of euros	Impact on profit and loss			Impairment and outstanding obligations
	2014	2015	2016	
Asset impairment:				
Industrial facilities (note 11)	44,744	6,000	-	50,744
Forest plantations (note 12)	20,949	-	-	19,338
Spare parts (note 14)	6,027	(479)	-	4,352
Quarry mining rights (note 10)	746	-	-	746
	72,466	5,521	-	75,477
Contractually-assumed obligations	16,498	2,371	540	9,247
Employee benefits expense	20,395	-	-	-
	109,359	**7,892**	**540**	**84,724**

18.2. Guarantees extended to third parties

At 30 June 2016, several financial institutions had extended the various Group companies guarantees. The guarantees have in turn been provided as follows:

	Thousands of euros
Electricity market regulator	13,586
Subsidised loans (note 19)	9,994
Receivable discounting lines	5,500
Tax claims (note 18.3)	4,690
Pontevedra concession (note 11)	3,050
Execution of forest projects	2,027
Payments to suppliers	1,564
Environmental performance	1,511
Customs	1,241
Other	3,385
	46,548

The Board of Directors does not expect the amounts guaranteed or the guarantees extended to result in material liabilities for the Group.

18.3. Contingent assets and liabilities

At the June 2016 close, the Group is party to legal claims and controversies that arose in the ordinary course of its business. The most significant claims are detailed below. Management estimates that none of these, either individually or on aggregate, will have a material adverse impact on the consolidated financial statements:

Changes in the Spanish energy sector regulatory framework

On 14 and 31 July 2014, several Group companies exercised their right to seek damages from the Spanish state, specifically seeking an award of €52,069 thousand for damages caused by the retroactive application of the new regulatory regime applicable to the generation of power using biomass obtained from energy crops. The claim has been presented as an open-ended claim and the award sought will be increased to reflect the costs the ENCE Group has been incurring in dismantling energy crop estates and unwinding leases at the estates on which the energy crops are being grown. The administration has yet to rule on this claim.

In addition, on 30 July 2014, a challenge was lodged before appeal court three of the Supreme Court against Royal Decree 413/2014 (6 June 2014), regulating the production of electric power using renewable sources, co-generation and waste, and Ministerial Order IET/1045/2014 (16 June 2014), enacting the standard facility remuneration parameters applicable to certain electricity producing facilities that use co-generation, renewable energy sources or waste.

On 19 May 2016, ENCE formerly presented a lawsuit seeking acknowledgement within the new regulatory regime of the real cost of lignin, the fuel used in the Group's existing co-generation plants integrated within its pulp operations and, by extension, an update of the remuneration parameters in order to reflect these real costs. Management estimates that lignin costs per MWh produced are €40-€60 higher than the cost contemplated in the current regulations, which translates into an impact at the Pontevedra and Navia industrial complexes in the range of €20,000 - €30,000 thousand in annual revenue terms.

Pontevedra public-domain concession

As a result of a Supreme Court ruling dated 11 July 2014 (upholding a ruling issued by the Appellate Court on 19 May 2011), the Pontevedra Provincial Coastal Service initiated proceedings seeking termination of the concession for the use of the public-domain coastal land on which ENCE's factory in this Spanish province sits; the Company has already presented its arguments in this case.

The case was closed by means of a resolution dated 24 July 2015. The resolution declares the concession partially terminated, specifically in respect of the land affected by the wastewater treatment plant, the underwater discharge pipeline and the football pitch, enabling the continuation of the Company's activities at the Pontevedra operations centre. This resolution has been challenged by the Town Council of Pontevedra before the Appellate Court, although the Town Council has yet to formally submit its appeal.

Elsewhere, the concession's extension has been challenged in the courts by Greenpeace Spain and the local association, Petón do Lobo. Also, another local association, Asociación pola Defensa da Ría, has challenged the Ministry of Agriculture, Food and the Environment's decision not to give it access to the case file in its capacity as affected party.

Tax contingencies

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.

19. Borrowings and cash and cash equivalents

The breakdown of the Group's borrowings at 30 June 2016 and 31 December 2015 is as follows:

	30/06/2016		31/12/2015	
Thousands of euros	current	Non-current	current	Non-current
High-yield bond	-	250,000	-	250,000
Loans and credit facilities	2,243	27,857	300	30,000
Project finance facilities	12,397	101,360	12,040	115,791
Arrangement fees (a)	-	(8,621)	-	(9,156)
Accrued interest payable and other	2,282	-	2,473	-
	16,922	**370,596**	**14,813**	**386,635**

(a) Considering data as of 30 June 2016 and 31 December 2015 - the HY bonds: €6,640 thousand and €6,892 thousand, respectively; the 50-MW project finance facility: €1,393 thousand and €1,621 thousand, respectively; and the 20-MW project finance facility: €588 thousand and €643 thousand, respectively.

The breakdown of bank borrowings at 30 June 2016 and 31 December 2015 corresponding to loans, credit facilities and discounting facilities, classified by their respective maturities, is as follows:

			Maturity				
June 2016 (thousands of euros)	Limit	Drawn down	2016	2017	2018	2019	Beyond
High-yield bond	250,000	250,000	-	-	-	-	250,000
Revolving credit facility	90,000	-	-	-	-	-	-
Project finance facilities	113,757	113,757	6,020	12,754	13,424	13,590	67,969
Other loans	30,100	30,100	100	4,286	4,286	19,286	2,142
Arrangement fees	-	(8,621)	-	(1,277)	(1,288)	(1,301)	(4,755)
Interest and other	-	2,282	2,282	-	-	-	-
	483,857	**387,518**	**8,402**	**15,763**	**16,422**	**31,575**	**315,356**

In addition, the Group has receivables factoring facilities with a limit of €70 million (note 15) and reverse factoring lines with a limit of €100 million (note 16).

19.1. ENCE bond issue

On 30 October 2015, ENCE Energía y Celulosa, S.A. closed the placement of a €250 million bond issue with qualified institutional investors under Rule 144A and Regulation S of the US Securities Act of 1933, as amended. The issue was carried out under New York state law and the bonds are traded on the Luxembourg Euro MTF exchange. They were issued to refinance the Company's 2013 bond issue.

On 1 December 2015, the Company bought back 100% of its 2013 bond issue.

The newly-issued bonds are due on 1 November 2022. They carry a fixed annual coupon of 5.375%, payable twice-yearly, and are guaranteed by the main subsidiaries devoted to the PULP business (see note 1 of the 2015 consolidated annual financial statements).

As is customary for these kinds of securities, the new bonds imply certain disclosure requirements and restrictions on the payment of dividends and arrangement of additional borrowings in the event of failure to comply with certain financial ratios. The cost of issuing these long-term bonds was approximately €7 million.

In conjunction with this issue, two international credit ratings agencies issued an opinion on the creditworthiness of the Group as a whole and of its bond issue. The current issuer and issue credit ratings assigned by Standard&Poors and Moody's are BB-/BB- and Ba3/B1, respectively.

Also under the scope of this issue, a revolving €90 million credit facility was arranged with a syndicate of prestigious Spanish and international banks. This facility accrues interest at a rate benchmarked to Euribor and matures in 2020. It was fully available for draw down at the reporting date.

Both the bond indenture and the revolving credit agreement are governed by UK and Welsh law.

19.2. Huelva 50-MW and Mérida 20-MW project finance facility

On 31 July 2015, the Group and a syndicate of six banks entered into project finance loan agreements to fund the construction of two biomass-fuelled power generation plants. The loan agreements executed by Ence Energía Huelva, S.L.U. and Ence Energía Extremadura, S.L.U. in the amount of €135,018 thousand encompass two tranches of €96,531 thousand and €38,487 thousand, which are assigned to the Huelva 50-MW and Mérida 20-MW power plants, respectively.

Amortisation of the refinanced facility began on 30 December 2015; it is scheduled for full repayment by 30 December 2024. It accrues interest at a floating rate benchmarked to Euribor plus a spread ranging between 2.50% and 3.00%, depending on the loan repayment period. The commissions paid in connection with this facility in 2015 totalled €2,540 thousand.

The main collateral securing this loan is a pledge over the shares of ENCE Energía, S.L.U., a 100%-owned subsidiary of ENCE Energía y Celulosa, S.A., ENCE Energía Huelva, S.L.U. and ENCE Energía Extremadura, S.L.U., as well as their current and future assets and credit claims. In parallel, ENCE Energía, S.L.U. has presented additional guarantees: it has entered into a 2-year supply agreement covering 130% of the plants' needs, provided a financial biomass stock guarantee equivalent to €10 million and warranted to unwind the former energy crop estate lease agreements and to keep the plants operational and available.

This loan similarly includes certain obligations, which are customary in these types of facilities, mainly related to the disclosure of specific business and financial information, compliance with certain financial ratios determined on the basis of the annual financial statements of ENCE Energía Huelva, S.L.U. and ENCE Energía Extremadura, S.L.U., the requirement to maintain a specific volume of felled biomass stock, and cash sweeps, namely the earmarking of 50% of surplus cash to early repayment of the loan until 50% has been repaid and, subsequently, 25% of surplus cash until facility maturity date (note in this respect that as at 30 June 2016, €8,054 thousand had been early repaid from the 2015 cash surplus, thereby eliminating the loan's final instalment). The covenants similarly impose certain restrictions, mainly on the distribution of dividends and the raising of new financing.

In order to hedge the risk deriving from this floating-rate financing facility, the Group restructured its interest-rate hedges with four of the project financiers in order to adapt them to the new loan structure. The restructured hedges have been written over approximately 80% of the estimated drawdowns to be made throughout the term of the loan, locking in a fixed rate of 2.8% (note 21).

19.3. Other loans

On 23 April 2015, ENCE arranged a €15 million loan repayable in a single bullet payment on 24 March 2019. This loan accrues interest at Euribor plus 2.1% and is guaranteed solely by the Group companies devoted to the Pulp business.

Then, on 15 July 2015, ENCE arranged another €15 million loan due 30 June 2020; this loan is structured into a two-year grace period followed by repayment in equal instalments during the remaining three years. It accrues interest at a fixed rate of 2.1% and is secured by several of the Group companies engaged in the Pulp business.

These two loans were taken out to fund some of the investments carried out at the Navia factory (Asturias) and planned capacity additions (quantified in note 11 above).

19.4. Other financial liabilities

The amount recognised in the accompanying consolidated statement of financial position corresponds primarily to loans extended at below-market rates and sometimes even interest-free.

The breakdown by maturity at 30 June 2016 and 31 December 2015 is as follows:

Thousands of euros	30/06/2016	31/12/2015
2016	1,222	1,356
2017	1,240	1,212
2018	1,254	1,254
2019	1,254	1,254
2020 and beyond	3,722	3,740
Unwind of discount	(658)	(773)
	8,034	**8,043**

19.5. Cash and cash equivalents

“Cash and cash equivalents” includes the Group’s cash on hand and short term bank deposits with original maturities of three months or less. The carrying amount of these assets approximates their fair value. These assets earned an average rate of 0.218% in the first half of 2016 (0.34% in 1H15).

The Group had €124.8 million of cash and cash equivalents at 30 June 2016 (€159.6 million at year-end 2015). Of this total, some €26,023 thousand are subject to certain restrictions. Specifically:

i. €8,850 thousand can only be used to service debt under the Huelva and Mérida project finance facilities in 2016 and €300 thousand must be earmarked to execution of certain maintenance tasks.

ii. €10,000 thousand secures the obligation assumed under the refinanced project finance agreement in relation to the covenanted minimum stock of biomass for the power plants, as detailed in note 24.2 above. This deposit will be replaced by a surety.

iii. €6,873 thousand secures obligations undertaken under the electricity price hedge agreements entered into with the Electricity Market Operator, OMIE, and under forward carbon allowance purchase commitments.

The 30 June 2016 statement of financial position includes €10,134 thousand of cash denominated in US dollars (year-end 2015: €9,568 thousand).

19.6. Other financial assets

This heading mainly includes the deposits set up to guarantee obligations assumed in writing certain derivative financial instruments (described in note 21), as well as those deriving under the agreements entered into for the future purchase of emission allowances (described in note 10).

20. Financial instruments by nature and category

The Group's financial instruments mainly include deposits, trade and other receivables, derivatives and loans. The table below reconciles the Group's financial instruments by category and the consolidated statement of financial position headings:

30/06/2016 Thousands of euros	Loans and receivables / payables	Hedging derivatives	Held-to-maturity investments	Total at 30/06/2016
Derivative financial instruments	-	517	-	517
Financial accounts receivable	-	-	11,299	11,299
Trade and other receivables	125,694	-	-	125,694
Cash and cash equivalents	124,814	-	-	124,814
Total financial assets	**250,508**	**517**	**11,299**	**262,324**
Non-recourse borrowings	111,776	-	-	111,776
Recourse borrowings	275,742	-	-	275,742
Derivative financial instruments	-	13,858	-	13,858
Trade and other payables	178,052	-	-	178,052
Other financial liabilities	8,034	-	-	8,034
Total financial liabilities	**573,604**	**13,858**	**-**	**587,462**

30/06/2015 Thousands of euros	Loans and receivables / payables	Hedging derivatives	Held-to-maturity investments	Total at 31/12/2015
Derivative financial instruments	-	245	-	245
Financial accounts receivable	-	-	8,699	8,699
Trade and other receivables	131,963	-	-	131,963
Cash and cash equivalents	159,565	-	-	159,565
Total financial assets	**291,528**	**245**	**8,699**	**300,472**
Non-recourse borrowings	125,585	-	-	125,585
Recourse borrowings	275,863	-	-	275,863
Derivative financial instruments	-	13,570	-	13,570
Trade and other payables	169,132	-	-	169,132
Other financial liabilities	8,043	-	-	8,043
Total financial liabilities	**578,623**	**13,570**	**-**	**592,193**

The financial assets and liabilities measured at fair value are mostly derivative financial instruments. They are valued using different quoted price variables that are observable, either directly, or indirectly using valuation techniques (fair value hierarchy level 2).

The fair value of the Group's financial assets and liabilities is not significantly different from their carrying amount. Note that the bonds issued by ENCE in 2015 were trading at 104.9% of par at 30 June 2016.

21. Derivative financial instruments

In keeping with the risk management policy outlined in note 6 of the Group’s 2015 consolidated annual financial statements, the Group arranges derivative contracts, mainly to hedge the risks deriving from fluctuations in interest rates, exchange rates, pulp prices, gas prices, fuel-oil prices and the cost of the electricity used in its productive processes.

The breakdown of this condensed consolidated statement of financial position heading at 30 June 2016 and 31 December 2015, which corresponds with the fair value of the derivatives at the reporting dates, is provided in the next table:

	Current assets		Non-current liabilities		Current liabilities	
Thousands of euros	30/06/2016	31/12/2015	30/06/2016	31/12/2015	30/06/2016	31/12/2015
Cash flow hedges:						
Energy sale hedges	202	245	-	-	-	-
IRS - project finance facilities	-	-	9,643	6,982	2,889	2,924
Currency hedges	315	-	1,326	665	-	2,999
Total	**517**	**245**	**10,969**	**7,647**	**2,889**	**5,923**

These financial instruments arranged have been measured subsequent to initial recognition by reference to observable market data, either directly (i.e., prices), or indirectly (i.e. inputs derived from prices).

The techniques used to value the instruments written, in keeping with prevailing accounting rules, consist of discounting known or estimated future cash flows to present value using discount curves built from benchmark market interest rates adjusted for credit risk as a function of the terms of the various instruments. The main inputs used to value the financial instruments vary by instrument type but predominantly include exchange rates (spot and forward), interest rate curves, counterparty risk curves and volatility metrics for all of these inputs. In all instances the market data are obtained from reputed information providers or correspond to the prices published by official bodies.

A fair value gain of €3,508 thousand on derivatives designated as hedging instruments was reclassified to profit and loss in the first half of 2016 (a loss of €15,400 thousand in 1H15).

21.1. Currency hedges

In order to hedge the risks to which the Group is exposed as a result of fluctuations in the dollar-euro exchange rate, which have a significant impact on pulp sales prices, ENCE has arranged a tunnel option strategy (Asian options) over US dollars (this means using the average exchange rate for a given period instead of the rate on a specific date as the benchmark). The breakdown of these options at 30 June 2016 is as follows:

Underlying	Expiration	Strike price Call	Strike price Put	Notional amount (Millions of USD)
EUR/USD	3Q16	1.086	1.156	67.5
EUR/USD	4Q16	1.081	1.153	64.5
EUR/USD	1Q17	1.081	1.153	64.5
EUR/USD	2Q17	1.065	1.148	65.5
EUR/USD	3Q17	1.117	1.170	71.5
EUR/USD	4Q17	1.127	1.132	48.5

(*) The contracts outstanding at 30 June 2016 cover roughly 50% of the pulp sales forecast for the next 18 months.

These instruments presented a negative fair value at 30 June 2016 of €1,011 thousand; this loss is recognised in "Derivative financial instruments" within current assets and non-current liabilities in the consolidated statement of financial position. The change in the fair value of these instruments in the first six months of 2016 is recognised as follows: 1) as a gain within “Change in the fair value of financial instruments” in the consolidated income statement for the six months ended 30 June 2016 in respect of the time value of these instruments in the amount of €2,874 thousand; and 2) a credit to “Equity - Valuation adjustments” in the condensed consolidated statement of financial position in respect of the intrinsic value of the instruments in the amount of €225 thousand (before the related tax effect).

The intrinsic value reclassified to profit and loss in the first half of 2016 in respect of currency hedging derivatives entailed a charge of €4 thousand (1H15: charge of €52 thousand).

Considering the hedges arranged, dollar depreciation of 5% relative to the spot price as at 30 June 2016 would imply a cash inflow of €3,479 thousand in the second half of 2016. In contrast, dollar appreciation against the euro of 5% would imply a cash outflow of €9,936 thousand in 2H16.

21.2. Energy sale hedges

The Group has written commodity swaps covering the price at which it sells its power output to the national electricity system (OMEL). The breakdown of the hedges outstanding at 30 June 2016:

Maturity	Amount (MWh)	Price range in euros
2H16	208,320	45.80 / 42.38
1H17	22,320	41.35

These instruments presented a positive fair value of €202 thousand at 30 June 2016 (€245 thousand at year-end 2015) which is recognised in "Current financial assets – derivatives" in the consolidated statement of financial position with a balancing entry, net of the corresponding tax effect, in "Equity – Valuation adjustments".

A fair value gain of €3,435 thousand on energy sale hedges was reclassified to profit and loss in the first half of 2016 (1H15: a loss of €1,578 thousand).

Considering the hedges arranged, an increase in electricity sales prices of 10% with respect to the price prevailing at 30 June 2016 would imply a cash outflow of €1,074 thousand in the second half of 2016. In contrast, a 10% drop in electricity sales prices would result in a cash inflow of the same magnitude in 2H16.

21.3. Interest rate swaps

The Group actively manages its exposure to interest rate risk derived from borrowings taken out at floating rates.

The interest rate derivatives arranged by the Group and outstanding at the reporting date are shown below:

30 June 2015

	Fair	Notional amounts at reporting date:					
Thousands of euros	value	2016	2017	2018	2019	2020	2021
IRS - project finance facilities	12,532	92,632	82,420	71,691	60,819	49,950	38,322

The interest rate swaps associated with the project finance loans funding the 50-MW project in Huelva and the 20-MW project in Mérida qualify as effective accounting hedges.

A fair value gain of €77 thousand on interest rate swaps was reclassified to profit and loss in the first half of 2016 (1H15: a fair value loss of €1,578 thousand) (note 8).

22. Tax matters

The balances receivable from and payable to the tax authorities at 30 June 2016 and 31 December 2015 are shown below:

	Thousands of euros			
	30 June 2016		31 December 2015	
	Taxes receivable	Taxes payable	Taxes receivable	Taxes payable
Non-current:				
Deferred tax assets	69,453	-	70,831	-
Deferred tax liabilities	-	20,614	-	20,560
Total	**69,453**	**20,614**	**70,831**	**20,560**
Current:				
Income tax receivable and VAT payable	18,392	978	8,532	1,657
Corporate income tax	845	874	845	-
Electricity levy	-	1,958	-	3,062
Sundry taxes receivable from and payable to the tax authorities	571	3,396	617	2,340
Total	**19,808**	**7,206**	**9,994**	**7,059**

Current tax expense was calculated using the prevailing tax rates of 25% and 28% in 1H16 and 1H15, respectively.

22.1. Deferred tax assets

The reconciliation of the opening and closing balances of “Deferred tax assets” and "Deferred tax liabilities" for the six months ended 30 June 2016 is shown below:

	Thousands of euros				
	Deferred tax assets				
	Unused tax losses and tax credits (*)	Hedging instruments	Other deferred tax assets	Total	**Deferred tax liabilities**
Opening balance	47,687	(64)	23,208	70,831	20,560
Estimated 2016 income tax	(2,556)	-	-	(2,556)	-
Change in fair value of hedging instruments	-	1,153	-	1,153	-
Other	25	-	-	25	54
	45,156	**1,089**	**23,208**	**69,453**	**20,614**

(*) Utilisation of tax losses is limited to 60% of taxable income in 2016.

The deferred tax assets have been recognised in the condensed consolidated statement of financial position based on the judgement, using the best estimate of the profits of the companies comprising the consolidated Tax Group, that it is highly probable that future taxable profit will be available against which the tax assets can be utilised within the prescribed term.

As provided in Spanish legislation, unused tax losses generated during a given year can be offset against taxable income generated by the consolidated Tax Group No. 149/02 in successive years, as they do not prescribe.

22.2. Years open to inspection and tax inspections

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the inspection period in effect in each tax jurisdiction has prescribed (four years in Spain and Portugal and five years in Uruguay). The directors believe that the tax contingencies that could arise from the investigations underway and from any review of the returns still open to inspection, if any, will not have a material impact on the accompanying condensed consolidated financial statements.

23. Director and key management personnel pay and other benefits

Note 29 to the Group's 2015 consolidated annual financial statements details the agreements in force regarding the remuneration and other benefits provided to the members of the Company's Board of Directors and its senior management team.

The table below summarises the most significant items of remuneration and benefits accrued during the six months ended 30 June 2016:

	Thousands of euros
Members of the Board of Directors:	
Type of remuneration-	
Fixed remuneration	283
Meeting attendance fees	240
Other expenses	5
	528
Executives:	
Total remuneration received by executives	**2,285**
	2,813

The list of key management personnel as of 30 June 2016 is as follows:

Name	Position
Ignacio de Colmenares y Brunet	Chief Executive Officer
Jaime Argüelles Álvarez	Pulp and Energy Operations Officer
Javier Arregui Abendivar	Forestry Officer
Alvaro Eza Bernaola	Procurements Officer
María José Zueras Saludas	Corporate Resources Officer
Alfredo Avello de la Peña	Finance and Corporate Development Officer
Luis Carlos Martínez Martín	Communication and Institutional Relations Officer

The Parent has no pension or alternative insurance related obligations to its directors. However, the Chief Executive Officer, by virtue of his service agreement, shares in certain company profits, which are included in the corresponding pension contributions and payments.

24. Related-party transactions

The Company performed the following transactions with related parties in the first six months of 2016 and 2015:

Related party	Transaction type	Thousands of euros	
		1H16	1H15
Agroluan, S.L.	Services received	-	50
Grupo Foresta	Biomass	49	606

These transactions were arranged on an arm's length basis.

25. Environment

Each of ENCE's four Operations Centres, located in Huelva, Navia, Pontevedra and Mérida, holds the corresponding integrated environmental permit for the pursuit of its industrial activity and the generation of electricity from biomass.

The Group's total quality management system (TQM) embeds the quality concept into all of its processes, which are carried out in pursuit of managerial excellence and are articulated around three cornerstones:

1. Managing improvement
2. Managing processes
3. Managing everyday activities

This management model is based on a continuous improvement approach with a focus on maximising efficiency and competitiveness by addressing matters related to quality, health and safety, environmental protection and pollution prevention as one. Against this backdrop, the Group has established targets with a clear environmental focus aimed specifically at:

- Reducing odour pollution
- Improving the quality of wastewater
- Boosting energy efficiency
- Reducing the consumption of raw materials
- Cutting waste generation

In addition, the Huelva, Navia and Pontevedra Operations Centres have an integrated management system which meets the following international standards:

- UNE-EN-ISO 9001 (quality management)
- UNE-EN-ISO 14001 (environmental management)
- OHSAS 18001 (workplace health and safety management)

This integrated system is certified by an accredited organism that audits it annually. The overriding goal of the system is to ensure that all of ENCE's activities are carried out under the scope of the management policy set by senior management and the Group's defined strategic targets are met. The management system is articulated around processes that are identified and evaluated in order to facilitate control tasks and their continual improvement.

These three facilities also participate in the Community eco-management and audit scheme (EMAS) governed by Regulation (EC) No. 1221/2009. Validation of the environmental statement enables continued participation by these facilities in this scheme, each of which was the first in their respective regions to assume this demanding voluntary commitment which only a limited number of companies uphold today.

The various environmental requirements are laid down in the corresponding integrated environmental permits which define the environmental criteria for operating an industrial facility. The goal is to prevent, or at least minimise, and control the impact of the Group's business operations on air, water and soil contamination with a view to protecting the environment as a whole.

Accordingly, the permit sets emission limits for each facility based on best available techniques as well as monitoring and control plans in respect of all significant environmental parameters.

Ence's environmental management strategy seeks to go beyond mere compliance with prevailing legislation: Ence wants to be a sector benchmark in terms of its environmental management and record.

To this end, under the scope of the TQM model, it has developed the operating standards needed to optimally control and manage potential environmental fallout. Improved process control thanks to the Plan-Do-Check-Act (PDCA) and Standardise-Do-Check-Act (SDCA) cycles and improvements in the key process indicators (KPIs) are delivering results that evidence the effectiveness of this management model.

These achievements are the result of the commitment of all the people working at Ence and the investment effort undertaken in recent years, underpinned by implementation of the best available techniques (BAT) and best environmental practices (BEP) defined in the sector BREF (Best Available Techniques Reference Document for the pulp and paper industry, 2014) approved by the European Parliament's ENVI Committee.

By way of example of what can be achieved with these environmental milestones, the pulp produced in Pontevedra and Navia carries the Nordic Swan seal. This is the official Scandinavian ecolabel, which was created in 1989 by the Nordic Council of Ministers with the aim of making a positive contribution to sustainable consumption. The goal of this ecolabel is to help consumers take purchasing decisions that respect environmental sustainability.

Huelva Operations Centre

At the Huelva facility, the first half of 2016 was marked by consolidation of the biomass-fuelled power generation business at the HU-40 and HU-50 plants.

As for this facility's wastewater readings, both the volume discharged into the Tinto River and the main indicators tracking the quality of the effluents discharged were broadly stable year-on-year, having already improved significantly with respect to prior years due to the discontinuation of pulp manufacturing operations.

In relation to air pollution, a large-scale modification to the existing electro-filter was carried out during the annual stoppage so that the level of particles emissions remained below the level stipulated in prevailing legislation.

Lastly, in relation to waste generation and management, the use of sand and ash from the biomass furnaces as secondary raw materials for another process has enabled their management mostly for the production of aggregates in the case of the sand and agricultural recovery in the case of the ash, entrenching the alternative waste management strategy embarked on in 2015.

Navia Operations Centre

At the Navia factory, the project for upgrading and fine-tuning the facility's technology, initiated in 2015, forged ahead. This initiative encompasses technical improvements to a significant number of productive processes, delivering an aggregate increase in capacity of 40,000 ADt. This is 8% more than productive capacity in 2014.

During the first half of the year, improvements were made in a bid to reduce noise emissions in the vicinity of the complex, having successfully executed the first of the three phases contemplated in the project, which included the assembly of mufflers and noise absorbers in noisy equipment.

Projects were also developed to reduce the odour impact, namely doubling the capacity for treating diluted odorous gases at the facility and increasing the points for generating these gases by 20%. This project will reduce the odour with repercussions outdoors by 85% thanks to an exhaustive study of the complex's diffuse sources of odour.

The blow tank was replaced by one with more capacity with the aim of eliminating bottlenecks in the process which could generate process instability.

A new debarking and chipping line was installed to add flexibility and capacity to the timber processing phase, increasing the availability of raw material at the complex and feeding more biomass into the bark furnace.

New technology was introduced into the bleaching line, adding a Dual D sequence and increasing lignin extraction during the EPO sequence, reducing the consumption of chemical products in the process

To reduce particles emissions from the biomass furnace, internal furnace elements were reconfigured to optimise the temperature in the gas circuit. Rectifiers were also installed in the electro-filters to ensure their continuous availability.

As a result, the first-half 2016 performance readings consolidate the improvements achieved on the odour reduction front in 2015, when emissions from channelled sources fell by 94% from 2014, implying an 99.8% reduction in emissions since the “Zero odour” programme was rolled out in 2011.

As for air pollution, the technical and operating improvements made to the recovery furnace drove a further 16% year-on-year reduction in NOx emissions and a 37% year-on-year reduction in SOx emissions in the first half of 2016.

As for liquid effluents, since the biological plant was commissioned in 2013, it has been delivering steady operating improvements and growing stability, so that the performance indicators were stable year-on-year, implying a 77% improvement in wastewater chemical oxygen demand readings with respect to the old treatment system.

Pontevedra Operations Centre

On 20 January 2016, the Spanish Ministry of Agriculture, Food and the Environment agreed to extend the concession to use the land on which the factory is located for 60 years. Renewal of the concession implies making a series of investments in efficiency and environmental performance, including:

1) Optimisation of the productive process
2) Odour reduction
3) Noise reduction
4) Reduction in plumes
5) Landscaping
6) Improved environmental reliability

7) Enhanced process efficiency

8) Enhanced counter pressure turbine efficiency

With a view to further orienting the company's social corporate responsibility efforts towards continuous improvement of its environmental record and making a positive contribution to the communities affected by its business activities, on 28 June, 2016, ENCE entered into an "Environmental Pact" with the Department of the Environment of the regional government of Galicia for the development of specific projects associated with environmental upgrades at the Pontevedra Operations Centre that will keep it at the vanguard of the industry in terms of its environmental record, while contributing to the sustainability of its activities and surroundings. This form of legal agreement, provided for in Galician legislation, has been used by ENCE and the regional government for similar purposes in the past. ENCE had, generically, already itemised the items and set aside the amounts needed to comply with these and other environmental undertakings in its 2016-2020 business plan.

Under the Environmental Pact, it has been agreed that ENCE will undertake certain environmental work at the Pontevedra industrial complex to reduce water consumption, improve energy efficiency, better integrate the factory into the landscape, reduce emissions and improve wastewater quality, as well as installing a biomass-fuelled cogeneration plant and three bioenergy centres. It will also foster job creation by using regional forest resources and create a research centre focused on creating specialist jobs to be initially installed at Pazo de Lourizán, agreeing to enter into a collaboration agreement with the regional government of Galicia to this end.

This Environmental Pact, coupled with the complementary Collaboration Agreement, entered into between ENCE and the regional government of Galicia on 28 July, is framed by the Company's corporate social responsibility objectives. Its overriding purpose is to better integrate ENCE's business activities with the surrounding Bay area and its community, actively helping to make a difference to the sustainable social and economic development of all its residents, while staying at the fore in terms of environmental performance. To this end, the Collaboration Agreement contemplates the contribution of as much as €15 million to upgrading and modernising the urban waste treatment plant historically located within the perimeter of the concession land and now located beside the Pontevedra facilities, with which use of the underwater discharge pipeline is shared, an initiative that will deliver a significant reduction in the odour impact, with attendant benefits for the company's business activities; the contribution of up to €5 million to the construction or refurbishment of the building in which the research centre is to be located; and the organisation, articulated around certain framework programmes endowed with up to €3 million per annum, of the rest of the activities related with the Company's corporate social responsibility strategy, namely projects that contribute to sustainable forestry, energy efficiency, the development of renewable energy, environmental reliability, training and the promotion of job creation and research, including a specific commitment to build a football pitch in the vicinity of Lourizán to replace the sports facilities in existence until January 2015 for which a budget of €1 million has been set aside. Execution of these projects will last for the term for which ENCE's concession in Pontevedra has been granted and begin as soon as the necessary licences and permits, already applied for, for the expansion of the factory and installation of a biomass co-generation facility, among other things, have been granted.

As part of the energy efficiency enhancement project, ENCE has filed an application with the regional government of Galicia to install a new 40-MW biomass power plant, having already filed to have the environmental impact study started and the Integrated Environmental Permit modified.

"Zero odours" is a priority goal for Ence in Pontevedra on which it is working tirelessly. To this end, and to improve the facility's environmental performance, ENCE completed phase II of the environmental reliability plan designed to prevent air emissions, focusing on the diluted and concentrated gas circuits. The main projects are virtually complete and all the initiatives are slated for finalisation by the end of August.

In addition, the improvements achieved thanks to the Plan-Do-Check-Act (PDCA) and Standardise-Do-Check-Act (SDCA) cycles have driven a 26% drop in odour (measured in minutes) at channelled sources compared to the first half of 2015; this figures increases to 50% in the case of minutes from diffuse sources.

This implies that the number of odorous episodes has declined by over 99% since the facility embarked on its odour elimination programme in 2010.

The wastewater discharge readings consolidate the Pontevedra Operation Centre's position as a sector benchmark in this respect. For example, chemical oxygen demand is 77% below the threshold recommended in the pulp and paper BREF paper. Elsewhere, the facility is also outperforming the BREF recommendations on suspended solids by 55 %.

These figures mean that the Pontevedra factory is already compliant with the BREF benchmark ranges that will be mandatory from 2018.

However, Ence has set its sights on making the Pontevedra Operations Centre a global benchmark for innovation, which is why it has rolled out a project called “New Water Cycle”. This project, which is the first of its kind in the pulp industry, will entail the construction of a new wastewater treatment facility to complement the existing one which will reduce the amount of water taken from the Lérez River and the volume of wastewater discharged into the bay by up to 90%.

Having completed the pilot tests and received bids from the four finalist bidders, the project will shortly be adjudicated to one of them so that construction of the treatment plant can begin during the last quarter.

Lastly, true to its environmental pledge, the Pontevedra Operations Centre publishes daily environmental performance indicators on its website, www.encepontevedra.com, showing levels for the last 30 days; the reported figures are adapted for ready comparison with the parameters defined in the integrated environmental permit and the benchmark indicators used in the EU's pulp and paper sector BREF report.

Mérida Operations Centre

After year one of operations at the Mérida plant and having achieved the production objectives set, year two is one of consolidation, fine-tuning and optimisation of the various systems, framed by the pursuit of continuous improvement.

The wastewater and air emissions readings have remained at all times within the limits established in the Integrated Environmental Permit.

As for noise emissions, execution of the plan for the installation of acoustic insulation, the replacement of mechanical parts in the cooling towers and the full sealing of the furnace's side walls was completed, leaving only the final report on these initiatives and conclusions pending.

The Environmental Monitoring Programme to Control Risks to Fauna remains ongoing with the goal of ensuring that operation of the plant, and all of the activities that this entails, is being conducted in keeping with the environmental limits imposed in the environmental impact study and declaration with respect to birds and animals.

In order to improve the facility's visual impact, the work to reforest the plant's outer enclosure was completed in February.

Lastly, the Mérida Operations Centre continues to collaborate, along with other companies in the region, with the EC-approved LIFE ICIRBUS project whose aim is recovery of the waste generated at water treatment plants and from burning biomass. This project is highly rated by the European Commission as it encompasses all the players in the circular economy, from waste-generating companies to research centres which add value to this waste and finally the companies that use the recovered waste. The results obtained during the initial phases of this project are very encouraging as the ash contributed by Ence to the project is very high-performing in terms of drawing heavy metals from the sludge deriving from the treatment process.

Forestry

During the first half of 2016, Ence consolidated its position and role as the main forest manager and supplier of timber-based products in Spain. Its proprietary forest management business is carried out by its corporate team of forestry experts who engage with the properties and tracts of forest operated under consortia or leased by its forest management subsidiaries; the commercial side of the business - supplies and biomass - is handled by the corporate purchasing department. In both the proprietary and third-party segments, the management requirements are based on an integrated forest management system which is in turn articulated around the benchmark sustainable forestry management and chain of custody standards: FSC® (Forest Stewardship Council) and PEFC® (Programme for the Endorsement of Forest Certification Schemes).

The environmental sustainability approach is complemented by the social responsibility strategy targeted at the generation of earnings and jobs in rural areas, thereby contributing to regional development. The work performed to finance certification bodies, transfer know-how to forest owners and companies and disseminate information through regular meetings and bulletins makes a real contribution to the sector's development, all of which underpinned by the Group's environmental and social responsibility policies.

The biggest challenge lies with the development of stakeholder policies (owners, suppliers, sellers of standing timber, associations, etc.). Accordingly, the Group's specific environmental and social policies are transmitted to the company's stakeholders before work begins. This management approach is focused on ensuring forest asset longevity, minimising impacts, preserving structural and specific diversity, fostering multiple uses for goods and services, stimulating ongoing innovation, extending forestry in rural areas out of principle, actively engaging with stakeholders and promoting forest certification. These principles are applied across the board to all sources of supply (own assets, whether held for production or conservation, standing timber purchases and suppliers). The fruits of this policy are evident in the gradual increase in the percentages of incoming timber that is certified, having risen from 42% and 6% at Navia and Pontevedra, respectively, to levels of 92% and 76%, respectively, as of May 2016 (there is a time lag of two months from when the timber enters the factory and verification of certification due to the additional controls required by Ence in order to guarantee total traceability of the timber).

In the proprietary forestry management segment, the optimisation of the acreage managed by Ence via the deployment of sustainable forest management criteria enabled the production of 88,239m^3 of timber and 44,323 tonnes of biomass, implying an investment of close to €2.2 million in these assets as a whole, €1.1 million of which corresponding to the generation of income and royalties and €1.06 million to forestry care work. All of Ence's proprietary forestry management activity was audited during the first half in accordance with the PEFC and FSC standards with satisfactory outcomes. As a result, Ence's management of its owned forests remains a benchmark not only in terms of technical management at the national level but also as a source of timber, for the large part with dual certification, making it an example of the effectiveness of the dual-certification policy Ence has advocated in the market; in fact, all of the certification bodies have adopted and implemented it. Not only does Ence's forest management division produce timber, it is an active generator of income and of intangible environmental and social benefits. Against this backdrop, Ence wants to take its strategy to the next level with the rollout of carbon footprint and fair timber certification demonstrations in the second half of this year.

On the technical management front, the following benchmark projects stand out:

Development of the SAP IT system throughout the forestry business unit, following the initial phases, implementing new management and monitoring tools such as Business Warehouse (BW);

Culmination of the environmental recovery project at the Rubín marsh in Cantabria, a project carried out in collaboration with FAPAS (the Astur Fund for the Protection of Wild Fauna) and the Banco Santander Foundation; the eucalyptus trees and other invasive species have already been cleared allowing the tide to flow into the area once again;

The project for the recovery of forest tracts affected by fire, which consists of helping with the technical management of these sites, fostering the generation of new productive plantations framed by efficiency, profitability and adequate planting and management criteria;

Geographic information system monitoring the sale of plants at nurseries to enable analysis of where enhanced plants are being introduced to in turn facilitate oversight of the distribution by region of the various species of eucalyptus, their production and management, etc.

Creation of a cross-border group (Spain-Portugal) for the exchange of know-how and strategies for fighting the eucalyptus snout beetle; and

The rollout of two bio-factories (in Huelva and Pontevedra) related with the Anaphes niten egg parasite to demonstrate to the sector the viability of integrated pest control efforts framed by efficiency criteria.

On the environmental management front, the biodiversity strategies are worth highlighting. To this end it has agreements with the University of Huelva for the inventorying and classification of the so-called 'forest land with high conservation value' and the areas of special importance for conservation and production purposes.

In addition to the management of its own forests, Ence takes a proactive stance towards third-party forests, articulating know-how transfer policies (the provision of training and support for producers and associations via forums, talks and financing formulae addressing issues such as forest care, plant selection, pest control, legal compliance and forestry certification) and policies for the promotion of standing timber and supplier purchases.

Standing timber and supplier purchases constituted 98.77% of all the timber supplied to the Navia and Pontevedra factories in the first half of 2016.

During the first half of 2016, Ence carried out the corresponding traceability audits in accordance with the FSC and PEFC regimes encompassing all of its business activities (the entire chain, from timber production through purchases and procurements to pulp sales).

Ence has been particularly active in applying the European timber regulation (EUTR), specifically the due diligence requirement with respect to the legal origin of timber and the Royal Decree transposing it into Spanish law. In its capacity as agent, it has submitted its first document attesting compliance with the the EUTR and decisively fostered sector engagement by giving briefing talks, distributing bulletins and providing sector companies with an e-mail inbox for resolving queries regarding legal compliance vis-a-vis the authorities. All of this has contributed to the fact that the sector, for the large part, has managed to comply with the new requirements.

On the forestry logistics front, market adjustments affecting availability at the Pontevedra factory led to a reduction in the average supply distance from 135 km in 2H15 to 125 km in 1H16. At the Navia factory, similar adjustments meant that the average distance increased slightly from 98 km in 2H15 to 104 km on average in 2H16. As for the companies working with Ence on forest logistics tasks, the number of available equipment carriers was increased to 248 in the northern region, making the fleet in use more flexible and diverse.

Lastly, on the occupational safety front, Ence continued to give safety talks at the firms it subcontracts (bi-monthly talks, refresher sessions at the start of works) and to its own staff (training courses at which attendance is mandatory).

26. Events after the reporting date

As indicated in note 13, at the end of 2014, ENCE began the process of exiting the forest management business in southern Spain in an orderly fashion; these assets are related to energy crops. In the third quarter of 2016, it closed the sale of 928 hectares, of which 70% is irrigated land, for €21 million, generating a gain of €8.5 million.

Appendices

Condensed statement of financial position at 30 June 2016 and 31 December 2015 and income statement and statement of cash flows for the six month periods ended 30 June 2016 and 2015 for the PULP and ENERGY businesses

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 30 JUNE 2016 AND 2015

Thousands of euros	30 June 2016				31 December 2015			
	Pulp Business	**Energy Business**	**Adjustments & Eliminations**	**CONSOLIDATED TOTAL**	**Pulp Business**	**Energy Business**	**Adjustments & Eliminations**	**CONSOLIDATED TOTAL**
NON-CURRENT ASSETS:								
Intangible assets	14,533	39	-	14,572	12,573	40	-	12,613
Property, plant and equipment	442,352	208,733	-	651,085	457,716	184,214	-	641,930
Investment properties	-	-	-	-	-	-	-	-
Biological assets	81,389	4,285	-	85,674	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	66,027	6	(66,033)	-	63,310	27,445	(90,755)	-
Other financial assets	1,438	195	-	1,633	2,703	324	-	3,027
Deferred tax assets	58,385	11,214	(146)	69,453	61,104	9,727	-	70,831
	862,723	**224,472**	**(264,778)**	**822,417**	**851,608**	**225,985**	**(261,299)**	**816,294**
CURRENT ASSETS:								
Non-current assets held for sale	48,028	1,413	-	49,441	48,143	2,195	-	50,338
Inventories	35,158	6,876	-	42,034	34,473	5,742	-	40,215
Trade and other receivables								
Trade receivables, third parties	81,184	24,309	-	105,493	70,161	42,352	-	112,513
Trade receivables, related parties	1,721	19,362	(21,083)	-	27,092	7,329	(34,421)	-
Other receivables	1,309	51	-	1,360	9,393	63	-	9,456
Receivable from public authorities	18,387	719	(143)	18,963	8,946	89	-	9,035
Income tax receivable	845	-	-	845	959	-	-	959
Current financial assets:			-				-	
Derivatives	375	142	-	517	127	118	-	245
Other financial assets	11,295	4	-	11,299	8,695	4	-	8,699
Cash and cash equivalents	60,767	64,047	-	124,814	93,895	65,670	-	159,565
Other current assets	6,475	382	-	6,857	614	(142)	-	472
	265,544	**117,305**	**(21,226)**	**361,623**	**302,498**	**123,420**	**(34,421)**	**391,497**
TOTAL ASSETS	**1,128,267**	**341,777**	**(286,004)**	**1,184,040**	**1,154,106**	**349,405**	**(295,720)**	**1,207,791**
				-				

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 30 JUNE 2016 AND 2015

Thousands of euros	30 June 2016 Pulp Business	30 June 2016 Energy Business	30 June 2016 Adjustments & Eliminations	30 June 2016 CONSOLIDATED TOTAL	31 December 2015 Pulp Business	31 December 2015 Energy Business	31 December 2015 Adjustments & Eliminations	31 December 2015 CONSOLIDATED TOTAL
EQUITY:								
Equity attributable to owners of the parent	**617,562**	**132,048**	**(198,599)**	**551,011**	**630,260**	**108,499**	**(170,539)**	**568,218**
TOTAL EQUITY	**617,562**	**132,048**	**(198,599)**	**551,011**	**630,260**	**108,499**	**(170,539)**	**568,218**
NON-CURRENT LIABILITIES:								
Bonds and other marketable securities	243,360	-	-	243,360	243,108	-	-	243,108
Bank borrowings	27,857	99,379	-	127,236	30,000	113,527	-	143,527
Grants	9,640	1,291	-	10,931	11,206	48	-	11,254
Derivative financial instruments	1,327	9,642	-	10,969	665	6,982	-	7,647
Other financial liabilities	6,715	-	-	6,715	6,687	-	-	6,687
Deferred tax liabilities	20,352	262	-	20,614	20,304	256	-	20,560
Non-current provisions	6,259	389	-	6,648	8,498	762	-	9,260
Non-current borrowings from group companies	1	66,028	(66,029)	-	27,439	63,223	(90,662)	-
	315,511	**176,991**	**(66,029)**	**426,473**	**347,907**	**184,798**	**(90,662)**	**442,043**
CURRENT LIABILITIES:								
Bank borrowings	4,525	12,397	-	16,922	2,763	12,050	-	14,813
Derivative financial instruments	3	2,886	-	2,889	2,999	2,924	-	5,923
Other financial liabilities	1,319	-	-	1,319	1,356	-	-	1,356
Trade and other payables								
Trade payables, third parties	156,466	14,380	-	170,846	149,826	12,642	(395)	162,073
Trade payables, related parties	19,363	1,721	(21,084)	-	7,327	26,765	(34,092)	-
Income tax payable	1,161	-	(287)	874	57	-	-	57
Other payables to public authorities	4,991	1,341	-	6,332	5,284	1,718	-	7,002
Other current liabilities	25	13	(5)	33	21	9	(30)	-
Current provisions	7,341	-	-	7,341	6,306	-	-	6,306
	195,194	**32,738**	**(21,376)**	**206,556**	**175,939**	**56,108**	**(34,517)**	**197,530**
TOTAL EQUITY AND LIABILITIES	**1,128,267**	**341,777**	**(286,004)**	**1,184,040**	**1,154,106**	**349,405**	**(295,718)**	**1,207,791**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENT BY BUSINESS FOR THE SIX MONTHS ENDED 30 JUNE 2016 AND 2015

	1H16				1H15			
Thousands of euros	**Pulp Business**	**Energy Business**	**Adjustments & Eliminations**	**CONSOLIDATED TOTAL**	**Pulp Business**	**Energy Business**	**Adjustments & Eliminations**	**CONSOLIDATED TOTAL**
Continuing operations:								
Revenue	253,392	38,040	(2,268)	289,164	270,092	43,981	(871)	313,202
Gain/(loss) on hedging transactions	1,011	2,420	-	3,431	(507)	(45)	1	(551)
Changes in inventory of finished products and work in progress	(3,504)	-	-	(3,504)	(4,749)	-		(4,749)
Cost of sales	(123,180)	(10,443)	2,268	(131,355)	(118,785)	(11,629)	743	(129,671)
GROSS PROFIT	**127,719**	**30,017**	**-**	**157,736**	**146,051**	**32,307**	**(127)**	**178,231**
Own work capitalised	4,049	653	-	4,702	2,072	2,701		4,773
Other operating income	12,824	-	(10,762)	2,062	6,189	2	(3,465)	2,726
Government grants taken to income	1,126	26		1,152	1,274	-		1,274
Employee benefits expense	(33,645)	(1,381)		(35,026)	(30,055)	-		(30,055)
Depreciation and amortisation charges	(19,754)	(6,116)		(25,870)	(23,092)	(4,147)	2	(27,237)
Depletion of forest reserve	(3,024)	(874)		(3,898)	(3,908)	(752)	61	(4,599)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	471	(170)		301	72	(46)	170	196
Other operating expenses	(67,310)	(20,874)	10,762	(77,422)	(65,794)	(16,203)	2,323	(79,674)
OPERATING PROFIT/(LOSS)	**22,456**	**1,281**	**-**	**23,737**	**32,809**	**13,862**	**(1,036)**	**45,635**
Finance income:								
From interests in equity instruments in group companies	-	-	-	-	-	-		-
From marketable securities & other financial instruments:				-				-
Related parties	1,183	202	(1,385)	-	3,062	2,316	(5,378)	-
Third parties	76	58	-	134	130	-		130
Finance costs:				-				-
Related-party borrowings	(202)	(1,183)	1,385	-	(2,316)	(3,062)	5,378	-
Third-party borrowings	(8,274)	(1,803)	-	(10,077)	(12,655)	(3,833)	-	(16,488)
Change in fair value of financial instruments	2,874	-	-	2,874	942			942
Exchange differences	(1,194)	-	-	(1,194)	715	(9)		706
Impairment of and gains/(losses) on disposal of financial assets	-	-		-	-	-		-
NET FINANCE COST	**(5,537)**	**(2,726)**	**-**	**(8,263)**	**(10,122)**	**(4,588)**	**-**	**(14,710)**
PROFIT/(LOSS) BEFORE TAX	**16,919**	**(1,445)**	**-**	**15,474**	**22,687**	**9,274**	**(1,036)**	**30,925**
Income tax receivable	(4,460)	344		(4,116)	(6,483)	(2,597)	288	(8,792)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS	**12,459**	**(1,101)**	**-**	**11,358**	**16,204**	**6,677**	**(748)**	**22,133**
PROFIT/(LOSS) FOR THE PERIOD	**12,459**	**(1,101)**	**-**	**11,358**	**16,204**	**6,677**	**(748)**	**22,133**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN CASH FLOW BY BUSINESS FOR THE SIX MONTHS ENDED 30 JUNE 2016 AND 2015

Thousands of euros	1H16 Pulp Business	1H16 Energy Business	1H16 Adjustments & Eliminations	1H16 CONSOLIDATED TOTAL	1H15 Pulp Business	1H15 Energy Business	1H15 Adjustments & Eliminations	1H15 CONSOLIDATED TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:								
Consolidated profit/(loss) for the period before tax	16,919	(1,445)	-	15,474	22,687	9,274	(1,036)	30,925
Adjustments for:								
Depreciation and amortisation	24,302	5,466	-	29,768	27,000	4,899	(63)	31,836
Changes in provisions and other deferred expense (net)	417	2,782	-	3,199	6,159	(603)	1,610	7,166
Impairment of and gains/(losses) on disposals intangible assets and	(471)	170	-	(301)	72	46	(511)	(393)
Finance income	(1,259)	(260)	1,385	(134)	(3,192)	(2,316)	5,378	(130)
Finance costs	6,732	2,985	(1,385)	8,332	13,314	6,904	(5,378)	14,840
Government grants taken to income	(759)	(26)	-	(785)	(949)	-	-	(949)
	28,962	**11,117**	**-**	**40,079**	**42,404**	**8,930**	**1,036**	**52,370**
Changes in working capital:								
Inventories	(1,928)	189	-	(1,739)	2,163	(492)	-	1,671
Trade and other receivables	(214)	(4,835)	-	(5,049)	(5,967)	(4,210)	-	(10,177)
Short-term investments	(2,600)	-	-	(2,600)	(29)	-	-	(29)
Trade payables, other payables and other liabilities	(4,087)	333	-	(3,754)	(1,704)	2,060	-	356
	(8,829)	**(4,313)**	**-**	**(13,142)**	**(5,537)**	**(2,642)**	**-**	**(8,179)**
Other cash flows from operating activities:								
- Interest paid	(8,113)	(4,657)	1,385	(11,385)	(14,071)	(6,670)	5,378	(15,363)
- Interest received	1,259	260	(1,385)	134	3,192	2,316	(5,378)	130
- Income tax received (paid)	(635)	(126)	-	(761)	1,208	8,102	-	9,310
	(7,489)	(4,523)		(12,012)	(9,671)	3,748	-	(5,923)
Net cash from operating activities (I)	29,563	836	-	30,399	49,883	19,310	-	69,193
CASH FLOWS FROM INVESTING ACTIVITIES:								
Investments:								
Property, plant and equipment and biological assets	(27,787)	(1,126)	-	(28,913)	(11,227)	(3,244)	-	(14,471)
Intangible assets	(3,893)	(38)	-	(3,931)	(1,523)	(260)	-	(1,783)
Other financial assets	991	129	-	1,120	112	-	-	112
	(30,689)	**(1,035)**	**-**	**(31,724)**	**(12,638)**	**(3,504)**	**-**	**(16,142)**
Proceeds:								-
Property, plant and equipment and biological assets	7,246	-	-	7,246	3,626	-		3,626
Other financial assets	91	-	-	91	-	-		-
	7,337	**-**	**-**	**7,337**	**3,626**	**-**	**-**	**3,626**
Net cash used in investing activities (II)	**(23,352)**	**(1,035)**	**-**	**(24,387)**	**(9,012)**	**(3,504)**	**-**	**(12,516)**
CASH FLOWS FROM FINANCING ACTIVITIES:								
Proceeds from and payments for equity instruments								
Buyback of own equity instruments	(19,582)	-	-	(19,582)	(95,750)	95,500	-	(250)
Disposal of own equity instruments	18,494	-	-	18,494	4,275	-	-	4,275
	(1,088)	**-**	**-**	**(1,088)**	**(91,475)**	**95,500**	**-**	**4,025**
Proceeds from and repayments of financial liabilities:								
Group companies and associates	(12,650)	12,650	-	-	96,895	(96,895)	-	-
Proceeds from issuance of bonds and other marketable securities, net of is	(180)	-	-	(180)	(25,000)	-	-	(25,000)
Increase/(decrease) in bank borrowings, net of issuance costs	(199)	(14,074)	-	(14,273)	14,905	(4,308)	-	10,597
Repayment of other borrowings and cancellation of derivatives	-	-	-	-	(3,339)	-	-	(3,339)
Grants received	(336)	-	-	(336)	-	-	-	-
	(13,365)	**(1,424)**	**-**	**(14,789)**	**83,461**	**(101,203)**	**-**	**(17,742)**
Dividends and payments on other equity instruments				-				
Dividends	(24,886)	-	-	(24,886)	(24,889)	-	-	(24,889)
	(24,886)	**-**	**-**	**(24,886)**	**(24,889)**	**-**	**-**	**(24,889)**
Translation differences	-	-	-	-	13	-	-	13
Net cash used in financing activities (III)	**(39,339)**	**(1,424)**	**-**	**(40,763)**	**(32,890)**	**(5,703)**	**-**	**(38,593)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)	**(33,128)**	**(1,623)**	**-**	**(34,751)**	**7,981**	**10,103**	**-**	**18,084**
Cash and cash equivalents, opening balance	93,895	65,670		159,565	73,103	325		73,428
Cash and cash equivalents, closing balance	60,767	64,047		124,814	81,084	10,428		91,512

Ence Energía y Celulosa, S.A. and subsidiaries

Group management report
for the six months ended 30 June 2016

Organisational structure

Except for matters reserved for approval by the shareholders in general meeting, the Board of Directors is the highest decision-making body of ENCE Energía y Celulosa, S.A. (the "Company"). The Board's policy is to delegate the management of the Company in its executive team and to concentrate its activities on its general supervisory role, without prejudice to the duties that cannot be so delegated, such as approval of the Company's general strategies, investing and financing policies and the remuneration policy applicable to the directors and most senior officers. The Board's actions are guided at all times by the criteria of maximising the value of the Company in the interest of its shareholders.

The Board of Directors is entitled to delegate duties falling under its purview in committees made up of directors and/or chief executive officer(s), albeit exercising due oversight over these bodies and setting the guidelines under which they should operate.

The Board of Directors is made up of executive, proprietary, external and independent directors, in line with corporate governance regulations and best practices. The Board has a non-executive Chairman and a Vice-Chairman. The vice-chairmanship is currently held by the CEO. The current Secretary of the Board of Directors is not a director.

The Board is currently supported by an Executive Committee (in which it has delegated all of the powers that can be delegated) and three advisory committees tasked with providing it with information, advice and proposals on the matters falling under their respective remits: the Audit Committee, the Appointments and Remuneration Committee and the Forest Policy and Regulatory Advisory Committee.

The Company has a Chief Executive Officer (CEO) who is responsible for the Company's everyday management. He is supported in this work by the Management Committee, which comprises the Company's senior management, specifically the heads of the various business units and corporate departments: the Pulp and Energy Operations Officer, the Forestry Officer, the Procurements Officer, the Finance and Corporate Development Officer, the Corporate Resources Officer and the Communication and Institutional Relations Officer. These officers report directly to the Company's CEO, who sets the guiding lines of initiative within each officer's area of responsibility.

In addition, ENCE has an Internal Audit Department which reports directly to the Audit Committee.

The Company is the parent of a group of companies (the "Group"), whose management is fully integrated and centralised within the former, as the scope of the specific duties assigned to the Company's executive team extends to all the Group companies. In this respect, the Company singly manages all of the companies within its Group.

Business activity

ENCE has articulated its activities around two core businesses: the production of pulp, which represented 84.2% of Group EBITDA in the first half of 2016, and the generation of energy from renewable sources at standalone power plants, which accounted for the remaining 15.8%.

Ence has two eucalyptus pulp mills in Spain: a 540,000-tonne-capacity facility in the town of Navia, Asturias, and a 440,000-tonne-capacity complex in Pontevedra, Galicia.

As an integral part of its pulp production process, Ence uses the lignin and forest waste derived from its manufacturing to generate the energy needed for the process. To this end, it operates a 34.6-MW co-generation plant, integrated within the Pontevedra mill, and a 40.3-MW co-generation plant and a 36.7-MW biomass generation plant, both of which are integrated within the pulp production process at the Navia facility. The energy produced at these power plants is sold to the grid and subsequently repurchased.

The pulp business therefore includes both the production and sale of pulp and the generation and co-generation of energy at the plants involved in the productive process, as well as the supply of timber from the plantations managed by the company.

The energy business, meanwhile, encompasses the generation of power from renewable sources - forestry and agricultural biomass - at plants that have no relation to the pulp production process. Ence currently has two such power plants in Huelva, one with capacity of 50 MW and the other with capacity of 41 MW, as well as a 20-MW power plant in Merida.

These assets position Ence as one of Europe's largest short-fibre pulp (BHKP) producers, with installed capacity of 980,000 tonnes between the two mills in Galicia and Asturias, and as the biggest generator of biomass-fuelled renewable energy, with installed capacity of 112 MW integrated within the pulp plants and another 111 MW distributed between three standalone plants located in Andalusia and Extremadura. Moreover, Ence is Spanish leader in the end-to-end and responsible management of forest land and crops.

Pulp is the basic raw material used to manufacture of the various kinds of paper that form part of our everyday lives. More specifically, Ence makes pulp from cultivated eucalyptus timber acquired in Galicia and along the Cantabria coast.

The eucalyptus is a natural, renewable and indigenous resource. It grows abundantly in the north of Spain but is scarce in most of the world as it only grows in very specific climate conditions, normally warm subtropical regions.

In addition, eucalyptus timber is very valuable because it provides the best quality pulp for the manufacture of tissue paper, i.e. sanitary paper products, such as kitchen paper, facial tissues, paper napkins, toilet paper, etc.

The tissue paper segment is the main end use given to the pulp sold by Ence, accounting for 57% of the total sales volume in the first half of 2016, followed by the specialty paper segment, at 32%. The tissue paper segment has been one of the fastest-growing paper segments in recent years and is expected to continue to gain weight in the Company's sales mix relative to slower-growing segments such as printing and writing papers.

Global demand for eucalyptus pulp rose at a compound annual rate of 7.7% between 2005 and 2015, driven by growth in global demand for tissue paper, in turn shaped by rapid growth in urban living and enhanced standards of living in emerging markets such as China.

Most of the pulp produced by Ence is sold in Europe, namely 91% of total sales volumes in the first half of 2016, thanks to an advanced and efficient logistics system.

Europe is the world's number-two pulp market, with annual demand for short-fibre pulp of close to 9 million tonnes, of which over 6 million tonnes are imported, mainly from Latin America due to the scarcity of eucalyptus trees in Europe.

Ence's key competitive advantages relative to other Latin American producers include the strategic location of its factories in northern Spain and its ability to produce differentiated or customer-tailored pulp. The location of the Group's mills means it can service its customers in just five to seven days, compared to over 40 days when ordering pulp from Latin America; in parallel this proximity enables it to reduce logistics and transportation costs and carry lower inventory volumes.

In addition, Ence has a broad and penetrating sales reach in Europe, servicing over 100 customers. In fact, Ence commands a leading position in Germany, Spain, Italy and France, markets which accounted for 23%, 16%, 12% and 8% of the Group's revenue from pulp sales in the first half of 2016, respectively.

Elsewhere, the rapid growth in city populations poses a challenge for the supply of energy from renewable sources.

Against this backdrop, there is clear potential for the development of capacity for the generation of power using biomass. In fact, biomass is the only renewable source which presents a positive economic balance thanks to its far-reaching benefits, including job creation, the development of rural areas and environmental contributions both via carbon capture and the implicated process of caring for and cleaning the woods, which reduces the risk of fires by up to 70%. It is moreover the most stable and only manageable source of renewable energy as it does not depend on unpredictable variables such as the sun or wind.

At Ence, we have developed proprietary know-how for the management of forest resources and the operation of power generation plants that has demonstrated economic, environmental and technical benefits for the Spanish electricity system. Indeed the Group is working towards exporting this know-how to other countries.

In November 2015, Ence unveiled its 2016-2020 business plan which aims at virtually doubling EBITDA and making it more recurring by investing €662 million.

Almost half of this investment, €337 million, will be earmarked to the pulp business with the overriding goal of continuing to make production at the Navia and Pontevedra mills more efficient and remain among the most competitive producers in Europe, bringing cash costs under €330/tonne by 2020.

In addition, the Business Plan contemplates an 18% increase in annual production capacity to 1,110,000 tonnes by 2020 via the elimination of bottlenecks and the introduction of productivity enhancements at the existing mills. The first phase of the planned expansion work was completed in June 2016, having added 40,000 tonnes of capacity at Navia, as planned, lifting this mill's annual capacity to 540,000 tonnes.

The remaining €325 million of capital expenditure will be devoted to the development of the biomass-based renewable energy business, with the aim of bringing installed capacity above 380 MW in 2020.

This capex programme is compatible with maintenance of a conservative financial profile, i.e., keeping leverage below 2.5x in the pulp business and 5x in the energy business.

Business performance and financial results

Business environment and outlook

Global growth continued to slow throughout the first half of 2016, particularly in the emerging economies. Growth continues to be propped up by intervention by the main central banks in the main developed economies.

In its most recent World Economic Outlook report (which dates to July), the International Monetary Fund (IMF) once again cut its forecast for global growth in 2016 and 2017 by 0.1 of a percentage point to 3.1% and 3.4%, respectively, due to the anticipated adverse impact on the British economy of the UK's decision to exit the European Union.

In contrast, the IMF revised its growth forecasts for the emerging economies upwards, shaped by the recovery underway in commodity prices from their lows of February 2016. Specifically, the international organism expects both Brazil and Russia to shake off recession and register growth of 0.5% and 1%, respectively, in 2017.

The sustained drop in oil and other commodity prices since mid-2014 had undermined income and investment in emerging economies such as Brazil and Russia, two economies in the throes of deep recession. However, the recovery underway in commodity prices since February has brightened the outlook for these nations' economic prospects and exchange rates.

In parallel, the fear of a hard landing in China, in the midst of transitioning towards a consumption-based economy following a decade of sharp growth in credit and investment, triggered a sharp correction in the prices of risk assets and commodities at the start of the year. However, the monetary and credit stimulus measures taken by the Chinese government have reduced the risk of a hard landing and the Chinese economy registered growth of 6.7% year-on-year in the first and second quarters of the year. The IMF is forecasting growth of 6.5% in 2016 and 6.2% in China in 2017.

Meanwhile, the main developed economies continue to recover. The recovery is proving modest and compatible with low levels of inflation, enabling the central banks to maintain their lax monetary policies.

Although growth in the eurozone had topped forecasts in the first quarter at 0.6%, it went on to fall back to 0.3% in the second quarter as the French economy stagnated. Inflation in the eurozone remains very low (0.2% in August) and the ECB is estimating overall inflation of just 0.2% in 2016, rising to 1.3% in 2017. The UK's decision to exit the European Union poses a threat to the eurozone's economic recovery.

Against this backdrop, the ECB is expected to extend or even expand its expansionary monetary policy, currently framed by rates of 0% and an €80 billion monthly asset buyback programme.

In the US, although growth fell short of expectations in the first half (registering annualised rates of 0.8% and 1.1% in the first and second quarters, respectively), recent indicators are pointing to growth of over 2% in the second quarter, fuelled by private consumption. The US unemployment rate held steady at 4.9% in July, implying virtual full employment, while inflation was running at 0.8% year-on-year. These strong economic indicators and the improvement in the global backdrop have increased the perceived probability of a second rate hike by the Fed in December.

In Japan, growth stagnated once again in the second quarter, having taken the pundits by surprise in the first quarter (GDP growth: +0.5%), while inflation remains in negative territory (-0.5% in July). Faced with this situation, the Bank of Japan is leaving its benchmark rates at negative levels (-0.1%) and sticking with its annual JPY80 billion asset buyback panel (14% of GDP).

Despite this macroeconomic backdrop, global demand for market pulp, which is more closely correlated with consumption than investment in infrastructure, remained strong during the first half of the year, registering year-on-year growth of 4.0%, compared to growth of 3.2% in 2015 and compound annual growth during the last five years of 2.7% (PPPC W-20).

China remained the key growth engine, posting first-half year-on-year growth of 16.3%, compared to growth of 13.3% in 2015 and compound annual growth during the last five years of 10.5%.

Demand growth continues to be led by demand for eucalyptus pulp, which was 7.6% higher year-on-year in 1H16; this grade continues to win market share from other less-efficient short fibres for which demand contracted by 7.4% year-on-year.

Demand for long-fibre pulp (BSKP), meanwhile, registered year-on-year growth of 3.2% in the first half, compared to a contraction of 0.1% in 2015 and compound annual growth during the last five years of 1.9%, shaped mainly by the narrowing of the price gap with respect to short-fibre pulp to close to $10 per tonne in Europe in January.

European short-fibre pulp (BHKP) prices continued the gradual correction initiated during the last quarter of 2015, closing June at $682 per tonne. As a result, the spread between short (BHKP) and long fibre (BSKP) prices, which had been at lows of close to $10 per tonne in January, had widened to almost $125 per tonne by the end of June, which is above the trailing 10-year average of $90; this should fuel stronger demand for short fibre pulp in the months to come driven by substitution dynamics.

China is the world's largest importer of market pulp as well as boasting local short-fibre (BHKP) production capacity of over two million tonnes, whose average production costs are very close to current price levels according to the sector consultant Hawkins Wright; this factor should lend additional support to short-fibre (BHKP) prices in the medium term.

Pulp Business

In the first half of 2016, the Company sold 3.9% more tonnes of pulp than in 1H15, in line with increased pulp production (+5.0%) in the wake of the addition of 20,000 tonnes of capacity at the Navia mill during the maintenance stoppage carried out in June 2015, coupled with higher capacity utilisation rates at the Pontevedra mill.

The growth in sales volumes largely offset the reduction in average sales prices during the first half (down 8.3% year-on-year), so that revenue from pulp sales declined by 4.7% to €217.6 million.

As is customary, the Pontevedra mill was stopped for maintenance for 12 days in March and the Navia mill was halted for 13 days in June; the latter maintenance stoppage was accompanied by a longer stoppage at the co-generation plants, maintenance work that is carried out every five years.

The stoppage at Navia was used to finalise the programmed efficiency measures and add another 20,000 tonnes of annual production capacity, lifting the total to 540,000 tonnes; these measures, contemplated in the Business Plan, will translate into a lower cash cost at this complex in the coming quarters.

The cash cost amounted to €373.1/tonne in the first half, up 2.3% year-on-year, due mainly to the impact of the breakdown of the turbine rotor at the Pontevedra co-generation plant during the first quarter, which rendered it idle for over a month. That incident was resolved during the March maintenance stoppage, which contributed, coupled with the reduction in overhead, to a 3.4% decline in the cash cost in the second quarter to €366.8/tonne, in line with the 2Q15 metric.

First-half EBITDA, adjusted for non-recurring items, totalled €51.1 million, down 24.4% year-on-year, due mainly to the 8.3% decline in average pulp sales prices during the period, as well as the 2.3% uptick in the cash cost, partially mitigated by growth of 3.9% in sales volumes.

Reported first-half EBITDA amounted to €44.8 million, net of €6.3 million of non-recurring charges. In this respect it is worth highlighting the charges related to the *ad hoc* operating incidents of the first quarter, outlined above, coupled with consultancy fees and expenses related with the long-term staff bonus scheme.

Investments in efficiency and expansion work totalled €20.4 million in the first half, mainly related to the 2015 20,000-tonne capacity expansion and the bleaching phase improvements carried out at Navia. Environmental capex, mianly at the Pontevedra complex, amounted to €2.9 million.

As a result, free cash flow from the pulp business, net of efficiency, growth and environmental capex, totalled €8.8 million in the first half. Net debt in this business unit increased by €30.4 million from year-end 2015 to €211.7 million following distribution of the final dividend from 2015 profits (€24.9 million), as well as movements between the pulp and energy businesses related to the segregation exercise carried out in the last quarter of 2015.

Looking to the second half of the year, net debt is expected to decline by over €27 million following collection of the proceeds totalling €34.9 million from the land sales consummated during the first half (of which €7.3 million has already been collected upfront). These sales will generate a gain of approximately €14 million.

The gross debt of €283.8 million at the June close corresponds mainly to the €250-million corporate bonds due 2022 and two separate €15-million bilateral loans due in 2019 and 2020 taken on to finance the capacity expansion work undertaken in Navia.

Cash and cash equivalents stood at €72.1 million at 30 June 2016; coupled with an undrawn €90 million credit facility, the pulp business had liquidity of €162.1 million at the June close.

Energy Business

Average pool prices in mainland Spain were 35.5% lower year-on-year at €30/MWh in the first half of 2016. This in turn primarily reflects a 41.6% increase in generation at hydro power plants to the detriment of coal and gas-fired stations, whose output fell by 26.2% year-on-year. Moreover, coal and gas prices corrected by 15.5% and 26.8% year-on-year, respectively.

In light of the low pool prices and the annual limit on operating hours of of 6,500 hours for regulatory remuneration purposes, Ence decided to pare back generation at its biomass power plants from an average of 2,578 hours per plant in 1H15 to 2,166 hours in 1H16. The drop in first-half generation will be offset by higher generation in the coming quarters until the Company meets the permitted annual cap.

As is customary, all three plants were stopped for their annual revisions and maintenance work during the second quarter. In the case of the 41-MW Huelva plant, the turbine was overhauled, a revision undertaken every two years.

The attendant 13.6% drop in energy sales volumes in 1H16, coupled with the year-on-year decline in average sales prices, driven by the 35.5% drop in the average pool price, was largely responsible for the 13.8% reduction in revenue in the energy segment in the first half to €38 million.

In addition, during the second quarter, the Ministry of Industry, Energy and Tourism ruled on the government proceedings undertaken in 2014 to secure correct classification within the official remuneration regime registry of the 41-MW plant in Huelva, which is now registered as a hybrid plant (85% biomass; 15% black liquor), in keeping with its profile prior to closure of the pulp mill in 3Q14.

This ministry ruling implies, firstly, the collection between the third and fourth quarters of more than €28 million of outstanding balances due from the electricity system; and, secondly, an annual adjustment of €1.8 million to the remuneration for investment at the Huelva plant from €11.9 million to €10.1 million per annum. Reported first-half revenue already recognises a €0.9 million restatement in this respect.

Elsewhere, Ence had hedged 81% of 1H16 output at a price of €43.9/MWh, a strategy which reported a gain of €2.4 million.

Adjusted first-half EBITDA was €12.0 million, down 37.2% year-on-year, due mainly to the decision to pare back output in light of prevailing low pool prices, a measure that will be largely mitigated by higher power generation in the second half of the year.

Reported first-half EBITDA drops to €8.4 million after factoring in non-recurring charges totalling €3.6 million, of which €2.9 million corresponds to the provision recognised for the impact on the revenue recognised in respect of the 41-MW biomass power plant in Huelva between 14 July 2013 and 31 December 2015 of the afore-mentioned ministry decision to classify this facility as a hybrid plant (85% biomass; 15% black liquor) in the official remuneration regime registry.

Net debt in the energy business decreased by €12.2 million from the year-end 2015 balance to €47.7 million, shaped mainly by movements between the pulp and energy businesses related to the segregation of these units in the last quarter of 2015.

Looking to the second half of the year, net debt is expected to decline by over €28.8 million as a result of the reclassification of the 41-MW Huelva power plant.

The gross debt of €111.8 million at the June 2016 close corresponds to the outstanding balance of €80.6 million on the project finance facility financing the 50-MW plant in Huelva and the €33.1 million project finance facility funding the 20-MW plant in Merida, which should be deducted for arrangement fees pending recognition in profit or loss in the amount of €1.9 million.

Cash at the close stood at €64.0 million.

Environmental performance

The required environmental disclosures are provided in note 25 of the accompanying condensed consolidated interim financial statements for the six months ended 30 June 2016.

Key risks and sources of uncertainty

The risk factors to which the ENCE Group is exposed are identified and described in note 6 to the 2015 consolidated annual financial statements of Ence Energía y Celulosa, S.A. and its subsidiaries.

Events after the reporting date

No significant events have occurred between the reporting date and the date of authorising these condensed consolidated financial statements for issue that have not been disclosed therein.

Corporate governance

The ENCE Group provides all the documentation relating to its annual corporate governance on its corporate website (www.ence.es).

Purchase-sale of own shares

The disclosures regarding the acquisition and sale of own shares in 2016 are provided in note 17.4 to the accompanying condensed consolidated interim financial statements.

Miscellaneous information

Share price performance

Ence's share price corrected by 27% during the first quarter of 2016, ending June at €2.15, down from €3.50 at year-end 2015.

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
Average daily trading volume (shares)	1,382,498	1,094,473	805,633	780,649	1,185,754	1,185,453
Ence's share price performance	60%	(7%)	(6%)	21%	(16%)	(25%)
Ibex 35 performance	12%	(7%)	(11%)	(0%)	(9%)	(6%)
Eurostoxx performance	18%	(8%)	(9%)	5%	(8%)	(5%)

Note: Ence’s share price performance has been adjusted for the €0.10 per share dividend paid on 8 May 2015, the €0.44 per share dividend paid on 7 October 2015 and the €0.10 per share dividend paid on 14 April 2016.

Ence’s shares are part of the IBEX Medium Cap, the IBEX Top Dividendo and FTSE4Good Ibex indices.

In addition to its market presence in its capacity as a listed company, in October 2015, Ence issued €250 million of 5.375% bonds due 2022, using the proceeds to buy back the bonds issued in 2013.

Dividend payments

In recent years, Group policy has been to distribute 40% of consolidated profit in the form of dividends, adjusting the payout ratio upwards or downwards at its discretion depending on specific circumstances.

Credit ratings management

In addition to having its shares publicly traded, the Group has issued €250 million of 5.375% 7-year bonds.

In conjunction with this issue, two international credit ratings agencies issued an opinion on the creditworthiness of the Group as a whole and of its bond issue. The current issuer and issue credit ratings assigned by Standard&Poors and Moody's are BB-/BB- and Ba3/B1, respectively.