



Ence Energía y Celulosa, S.A. and subsidiaries

Condensed Consolidated Interim Financial
Statements for the six-months ended 30 June
2017 prepared under the International
Financial Reporting Standards adopted by
the European Union and the corresponding
Group Management Report

**Condensed consolidated interim
financial statements for the six
months ended 30 June 2017**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2017 AND 31 DECEMBER 2016

Thousands of euros	Note	30/06/2017 (*)	31/12/2016
NON-CURRENT ASSETS:			
Intangible assets			
Goodwill	2	2.613	2.697
Other intangible assets	10	14.264	15.242
Property, plant and equipment	11	673.143	686.299
Biological assets	12	82.877	83.411
Other non-current financial investments			
Hedging derivatives	21	5.145	-
Other financial assets	15	9.644	11.634
Deferred tax assets	22	63.152	69.062
		850.838	868.345
CURRENT ASSETS:			
Non-current assets held for sale	13	4.408	6.883
Inventories	14	39.596	43.607
Trade and other receivables	15	90.419	80.221
Tax receivables	22	11.538	8.811
Income tax receivable	22	1.501	1.459
Current financial assets:			
Hedging derivatives	21	4.002	-
Other short-term investments	19	9.770	9.580
Cash and cash equivalents	19	232.036	209.864
Other current assets		6.486	3.570
		399.756	363.995
TOTAL ASSETS		1.250.594	1.232.340
EQUITY:			
Issued capital	17	221.645	225.245
Share premium	17	170.776	170.776
Parent company reserves	17	158.319	161.269
Parent company retained earnings (prior-year losses)		(92.436)	(109.117)
Reserves in fully-consolidated companies	17	61.210	59.615
Interim dividend		-	(7.825)
Translation differences		59	86
Own shares - parent company shares	17	(3.663)	(11.963)
Valuation adjustments	17	44.561	27.253
Other equity instruments - shareholder remuneration plan		1.370	517
Consolidated profit for the year		31.465	38.475
Equity attributable to owners of the parent		593.306	554.331
Non-controlling interests		7.905	7.234
TOTAL EQUITY		601.211	561.565
NON-CURRENT LIABILITIES:			
Bonds and other marketable securities	19	244.114	243.631
Bank borrowings	19	123.639	132.932
Grants		9.249	9.671
Hedging derivatives	21	5.966	11.748
Other financial liabilities	19	39.390	39.419
Deferred tax liabilities	22	22.176	21.118
Non-current provisions	18	6.142	6.167
		450.676	464.686
CURRENT LIABILITIES:			
Bank borrowings	19	21.236	20.476
Hedging derivatives	21	2.892	14.741
Other financial liabilities	19	1.486	1.305
Trade and other payables	16	154.588	154.169
Income tax payable	22	7.081	117
Taxes payable	22	7.521	10.655
Current provisions	18	3.903	4.626
		198.707	206.089
TOTAL EQUITY AND LIABILITIES		1.250.594	1.232.340

The accompanying notes 1 to 26 are an integral part of the condensed consolidated statement of financial position at 30 June 2017

(*) Unaudited figures

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017 AND 2016

Thousands of euros	Note	1H17 (*)	1H16 (*)
Continuing operations:			
Revenue	4	341.778	289.164
Gain/(loss) on hedging transactions	21	(3.177)	3.431
Changes in inventory of finished goods and work in progress		(8.945)	(3.504)
Cost of sales	5	(134.991)	(131.355)
GROSS PROFIT		194.665	157.736
Own work capitalised	11 & 12	2.370	4.702
Other operating income		4.586	2.062
Grants taken to income		947	1.152
Employee benefits expense	6	(33.842)	(35.026)
Depreciation and amortisation charges	10 & 11	(32.617)	(25.870)
Depletion of forest reserve	12	(2.691)	(3.898)
Impairment of and gains/(losses) on disposals of intangible assets and PP&E	10, 11 & 12	4.106	301
Other operating expenses	7	(80.826)	(77.422)
OPERATING PROFIT/(LOSS)		56.698	23.737
Finance income		469	134
Change in fair value of financial instruments	21	911	-
Other finance costs	8	(10.533)	(10.077)
Net exchange gains/(losses)		(4.240)	(1.194)
Impairment of and gains/(losses) on disposal of financial assets		(124)	-
NET FINANCE COST		(13.517)	(11.137)
PROFIT BEFORE TAX		43.181	12.600
Income tax	22	(10.908)	(3.398)
PROFIT FOR PERIOD FROM CONTINUING OPERATIONS		32.273	9.202
CONSOLIDATED PROFIT FOR THE PERIOD		32.273	9.202
Profit/(loss) attributable to non-controlling interests	17	808	-
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		31.465	9.202
Earnings/(loss) per share attributable to owners of the parent			
Basic	21	0,13	0,04
Diluted	21	0,13	0,04

The accompanying notes 1 to 26 are an integral part of the condensed consolidated income statement for the six months ended 30 June 2017

(*) Unaudited figures

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2017 AND 2016

Thousands of euros	Note	1H17 (*)	1H16 (*)
CONSOLIDATED PROFIT/(LOSS) FOR THE PERIOD (I)	17	32.273	9.202
Income and expense recognised directly in equity:			
- Cash-flow hedges (*)		21.267	(1.226)
- Translation differences (*)		(27)	308
- Tax effect		(5.317)	332
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY (II)	17	15.923	(586)
Amounts transferred to the consolidated income statement			
- Cash-flow hedges (*)		3.245	(3.508)
- Tax effect		(811)	877
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS (III)	17	2.434	(2.631)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) (I+II+III)		50.630	5.985
Attributable to:			
Owners of the parent		49.822	5.985
Non-controlling interests		808	-

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 2017

(*) 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 2017 AND 2016

30 June 2017 - Thousands of euros	Balance at 01/01/2017	Total recognised income/ (expense)	Appropriation of prior-year profit/(loss)	Dividends distributed	Issuance / (cancellation) of shares	Trading in own shares	Other movements	Balance at 30/06/2017 (*)
Issued capital	225.245	-	-	-	(3.600)	-	-	221.645
Share premium	170.776	-	-	-	-	-	-	170.776
Legal reserve	45.050	-	-	-	-	-	-	45.050
Other reserves/Parent company retained earnings (prior-period losses)	7.102	-	30.131	(11.578)	(4.953)	131	-	20.833
Reserves in fully-consolidated companies	59.615	1.076	519	-	-	-	-	61.210
Interim dividend	(7.825)	-	7.825	-	-	-	-	-
Translation differences	86	(27)	-	-	-	-	-	59
Own shares	(11.963)	-	-	-	8.553	(253)	-	(3.663)
Valuation adjustments	27.253	17.308	-	-	-	-	-	44.561
Other equity instruments - shareholder remuneration plan	517	-	-	-	-	-	853	1.370
Consolidated profit/(loss) for the period	38.475	31.465	(38.475)	-	-	-	-	31.465
Total equity attributable to owners of the parent	554.331	49.822	-	(11.578)	-	(122)	853	593.306
Non-controlling interests	7.234	808	-	-	-	-	(137)	7.905
Total equity	561.565	50.630	-	(11.578)	-	(122)	716	601.211

30 June 2016 - Thousands of euros	Balance at 01/01/2016	Total recognised income/ (expense)	Appropriation of prior-year profit/(loss)	Dividends distributed	Issuance / (cancellation) of shares	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)	-	51.251	(24.886)	-	95	-	7.389
Reserves in fully-consolidated companies	62.564	365	(12.347)	-	-	-	(203)	50.379
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	(3.890)	-	-	-	-	-	47.138
Other equity instruments - shareholder remuneration plan	-	-	-	-	-	-	728	728
Consolidated profit/(loss) for the period	49.855	9.202	(49.855)	-	-	-	-	9.202
Total equity attributable to owners of the parent	570.272	5.985	-	(24.886)	-	(1.088)	728	551.011
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	570.272	5.985	-	(24.886)	-	(1.088)	728	551.011

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 2017

(*) Unaudited figures

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2017 AND 2016**

Thousands of euros	Note	1H17 (*)	1H16 (*)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Consolidated profit/(loss) for the period before tax		43.181	12.600
Adjustments for:			
Depreciation		30.976	24.732
Depletion of forest reserve		2.691	3.898
Amortisation		1.641	1.138
Changes in provisions and other deferred expense (net)		4.956	6.660
Impairment of and gains/(losses) on disposals of intangible assets and PP&E		-3.869	-301
Finance income		-469	-134
Finance costs		12.889	11.206
Adjustments for accruals		-839	-3.461
Grants taken to income		-673	-785
		<u>47.303</u>	<u>42.953</u>
Changes in working capital:			
Inventories	14	3.090	-1.739
Trade and other receivables	15	-20.525	-5.049
Financial and other current assets	19	-129	-2.600
Trade payables, other payables and other liabilities	16	1.406	-3.754
		<u>(16.158)</u>	<u>(13.142)</u>
Other cash flows from operating activities:			
- Interest paid	8	(10.700)	(11.424)
- Interest received		469	134
- Income tax received (paid)	22	(3.323)	(761)
- Other receipts / (payments)		-	-
		<u>(13.554)</u>	<u>(12.051)</u>
Net cash from operating activities (I)		60.772	30.360
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investments:			
Property, plant and equipment and biological assets	11 & 12	-21.612	-28.913
Intangible assets	10	-702	-3.931
Other financial assets		1.866	1.120
		<u>-20.448</u>	<u>-31.724</u>
Proceeds:			
Property, plant and equipment and biological assets		2.654	7.246
Other financial assets	17	-	91
		<u>2.654</u>	<u>7.337</u>
Net cash used in investing activities (II)		-17.794	-24.387
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from and payments for equity instruments			
Buyback of own equity instruments	17	-19.105	-19.582
Disposal of own equity instruments	17	18.982	18.494
		<u>-123</u>	<u>-1.088</u>
Proceeds from and repayments of financial liabilities:			
Proceeds from issuance of bonds and other marketable securities, net of issuance costs	19	-	-180
Increase/(decrease) in bank borrowings, net of issuance costs	19	-9.082	-14.234
Repayment of other borrowings and cancellation of derivatives	19	-	-
Grants received		(23)	-336
		<u>-9.105</u>	<u>-14.750</u>
Dividends and payments on other equity instruments			
Dividends	17	(11.578)	(24.886)
		<u>(11.578)</u>	<u>(24.886)</u>
Translation differences		-	-
Net cash used in/from financing activities (III)		(20.806)	(40.724)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)		22.172	(34.751)
Cash and cash equivalents - opening balance		209.864	159.565
Cash and cash equivalents - ending balance		232.036	124.814

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 2017

(*) Unaudited figures

**Explanatory notes to the
condensed consolidated interim
financial statements for the six
months ended 30 June 2017**

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Ence Energía y Celulosa, S.A. and subsidiaries

Explanatory notes accompanying the condensed consolidated financial statements for the six-months ended 30 June 2017

1. Business activity, basis of preparation 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 1,070,000 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 67,486 hectares of forested land in Spain and Portugal, 44,326 hectares of which it owns.

Energy Business-

Ence has developed and acquired several power generation facilities that are fuelled by forestry and agricultural biomass; these plants operate on a standalone basis, separately to the pulp business. Their aggregate power-generating capacity is 143 MW, broken down as follows:

Location	Capacity MW	Regulatory useful life
Huelva	50	2037
Huelva	41	2028
Merida	20	2039
Jaen	16	2027
Ciudad Real	16	2027



Listing of shares-

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 preparation of the condensed consolidated interim financial statements under the IFRS adopted by the European Union

The 2016 consolidated 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 2016 and of its financial performance and cash flows for the year then ended.

The accompanying condensed consolidated interim financial statements were prepared from the accounting records of the Group companies and are presented under the International Financial Reporting Standards adopted by the European Union as of 30 June 2017 and, specifically, in accordance with IAS 34 - Interim Financial Information, the standard which establishes the accounting principles applicable to condensed financial statements, as provided for in article 12 of Royal Decree 1362/2007, and the disclosures required under CNMV Circular 5/2015 (of 28 October 2015), issued by Spain's securities market regulator.

The accompanying condensed consolidated interim financial statements were authorised for issue by the Board of Directors of Ence Energía y Celulosa, S.A. on 26 July 2017.

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 2016 consolidated 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 2016 consolidated financial statements, which were ratified by the Company's shareholders at the Annual General Meeting held on 30 March 2017.

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 2016 consolidated financial statements, as detailed in notes 3.2 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 2016 is presented solely and exclusively to allow the reader to compare the figures with those corresponding to the first half of 2017.

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 2017 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 factories in Pontevedra and Asturias carried out their annual maintenance stoppages during the first half of 2017, as did all of the independent biomass power plants with the exception of that located in Jaen. In this respect, an asset has been recognised in the amount of €2,113 thousand at 30 June 2017 (€3,557 thousand at 30 June 2016) 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 2017.

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 and business combinations

There were no changes in Ence Energía y Celulosa, S.A.'s consolidation scope during the first half of 2017.

On 29 December 2016, Ence Energía, S.L.U., a 100%-owned subsidiary of Ence Energía y Celulosa, S.A. and the holding company for the Group's Energy business, acquired 64.07% of the share capital of Energía La Loma, S.A. and 68.42% of that of Energías de la Mancha ENEMAN, S.A., companies devoted to the generation of power from agricultural biomass, mainly sourced from olives. The purchase price, having factored in the price adjustments contemplated in the purchase agreement, mainly in connection with the cash and working capital of the acquirees at the close date, totalled €24,750 thousand.

The allocation of the purchase prices as part of the process of integrating these investments into the Group's financial statements has implied the restatement of their productive assets by €10,948 thousand and the

recognition of goodwill and a deferred tax liability of €2,737 thousand euros. This business combination has been accounted for provisionally as the prescribed 12-month period - starting from the acquisition date - has yet to elapse; although the accounting treatment would be revised if necessary, no significant additional adjustments are anticipated.

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 2017 and were applied in preparing the accompanying condensed consolidated interim financial statements:

Standard	Contents	Applicable beginning on or after
Amendments to IAS 7 - Disclosure initiative	These amendments introduce additional disclosure requirements with the aim of enhancing the information provided to financial statement users.	1 January 2017
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses.	1 January 2017
Annual Improvements to IFRSs, 2014-2016 Cycle Clarification of IFRS 12	Specifically, clarification of the relationship between IFRS 5 and IFRS 12	1 January 2017

These amendments have not had a significant impact on the accompanying financial statements.

2.2. IFRS 9 - Financial Instruments

The Ence Group has elected to early apply IFRS 9 - Financial instruments, specifically applying the revised version of July 2014. IFRS 9 introduces new requirements for measuring and classifying financial instruments, for writing down financial assets for impairment and for accounting for hedging derivatives.

The new standard has been applied with retroactive effect from 1 January 2016, triggering the restatement of the comparative financial information.

Financial assets-

Financial assets are classified upon initial recognition into three categories: 1) amortised cost; 2) fair value through other comprehensive income (FVOCI); and 3) fair value through profit and loss (FVPL), depending on the entity's business model and the characteristics of the contractual cash flows of the asset. Specifically:

- Financial assets whose contractual cash flows represent solely payments of principal and interest are classified as follows:

- 'Amortised cost' if the business model contemplates holding the financial asset to collect the contractual cash flows. In the event that this method gives rise to an accounting mismatch, the standard contemplates the option of measuring these assets at 'fair value through profit and loss' to the extent so recognised upon initial recognition.
 - 'Fair value through other comprehensive income' if the business model contemplates holding the financial asset to collect the contractual cash flows *and* sell the financial assets. In the event that this method gives rise to an accounting mismatch, the standard also contemplates the option of measuring these assets at 'fair value through profit and loss' to the extent so recognised upon initial recognition.
 - 'Fair value through profit and loss' in other situations. Reporters have the option of measuring their equity instruments at FVOCI to the extent so designated upon initial recognition.
- Other financial instruments: Generally speaking, other financial instruments will be measured at FVPL.

IFRS 9 does not introduce significant changes with respect to the recognition and derecognition of financial assets compared to IAS 39.

Application of IFRS 9 has implied the following reclassifications of the Group's financial assets, without changing their carrying amounts: the financial assets presented under "Other non-current financial investments - Other financial assets" and "Current financial assets - Other short-term investments" have been reclassified to the 'amortised cost' category (under IAS 39 they were classified as 'held-to-maturity' investments).

No financial assets were reclassified between the financial asset categories defined above in 2017.

Elsewhere, IFRS 9 introduces a financial asset impairment model based on expected losses (as opposed to the incurred loss approach prescribed in IAS 39) which is applicable, generally, to the assets measured at amortised cost and at FVOCI. The new model contemplates a three-stage approach to impairment loss recognition:

1. Assets whose credit quality has not deteriorated since they were initially recognised. Impairment of these assets is based on an allowance for the expected credit loss (ECL) for the next 12 months.
2. Assets for which there has been a 'significant increase in credit risk' since their initial recognition. Impairment of these assets is based on an allowance for lifetime ECLs.
3. Assets that are credit impaired at the reporting date. Impairment of these assets is based on an allowance for lifetime ECLs.

The Group has analysed the impact of application of the new expected loss impairment model based on the consideration that its financial assets are mainly either (i) trade accounts receivable deriving from the sale of pulp, which are mostly covered by credit insurance policies which tend to cover between 80% and 90% of the balances pending collection; or (ii) accounts receivable deriving from the energy business which are ultimately backed the Spanish state.

In the wake of this analysis, management concluded that application of this impairment model has not had a significant impact on the accompanying interim financial statements.

Financial liabilities-

Application of IFRS 9 has not had a significant impact on the classification or measurement of the Group's financial liabilities.

Hedge accounting-

IFRS 9 is more flexible about the classes of transactions eligible for hedge accounting, broadening the items that meet the criteria for classification as hedging instruments and the classes of risk components eligible for hedge accounting to include non-financial items. The hedge effectiveness test has also been revised and replaced by the "economic relationship" test (it will no longer be necessary to test hedges retroactively), requiring the use of professional judgement to determine the existence of an economic relationship between the hedged item and hedging instrument. IFRS 9 does not contemplate the possibility of voluntarily terminating hedge accounting.

IFRS 9 amends the accounting treatment of the time value of options in hedging arrangements; the change in these instruments' fair value under certain circumstances may now be temporarily deferred as a hedging cost to be initially recognised in OCI within equity and later reclassified to profit and loss when the hedge is settled.

The financial instruments qualifying as 'hedging instruments' under IAS 39 continue to qualify as such under IFRS 9; this has not changed. The table below itemises the impact on the Group's equity and profit and loss of the recognition in equity of the time value of the options written to hedge exposure to the dollar-euro exchange rate arising from pulp sales:

	Thousands of euros		
	01/01/2016	30/06/2016	31/12/2016
Profit and loss-			
Net finance expense (positive (negative))		(2,874)	(315)
Income tax		719	79
Profit for the period (positive (negative))		(2,156)	(236)
Financial situation - Equity			
Equity (increase (decrease))	2,054	-	-
Deferred tax assets	685	(719)	(79)
Deferred tax liabilities	(685)	719	79

2.3. 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	Applicable beginning on or after
New standards-		
IFRS 15 - Revenue from contracts with customers and related clarifications.	Replaces prevailing IAS 18 and IAS 11 as well as the current revenue recognition interpretations. The new standard is based on the principle that revenue should be recognised when control of a good or service is transferred to the customer	1 January 2018
IFRS 17 - Insurance contracts	Replaces IFRS 4 and sets out the principles for recognising, measuring, presenting and disclosing insurance contracts	1 January 2021
Amended standards-		
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
Amendments to IFRS 4 - Insurance contracts	Gives entities falling under the scope of IFRS 4 the choice of applying a temporary exemption from application of IFRS 9	1 January 2018
Amendments to IAS 40 - Transfers of investment property	These amendments clarify that an investment may only be reclassified in or out of investment property if there is an evident change of use	1 January 2018
Annual Improvements to IFRSs, 2014-2016 Cycle	Narrow-scope amendments to a series of standards	1 January 2018
IFRIC 22 - Foreign currency transactions and advanced consideration	This Interpretation prescribes how to determine the date of the transaction which in turn determines the exchange rate to be used to account for advances received or paid for in foreign currency	1 January 2018
Amendments to IFRS 10 and IAS 28 - Sales or contributions of assets between and investor and its associate or joint venture	Clarification regarding how to account for the gain or loss on these transactions depending on whether the assets constitute a business	No set date
IFRS 16 - Leases	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 2017 in accordance with IFRS-EU 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 recoverable amount of specific assets, mainly biological assets and certain assets related to the closure of Huelva (notes 11, 12 and 18)
- The fair value of the net assets acquired in business combinations (note 1.7)
- Calculation of income tax and the recoverable amount of deferred tax assets (note 22)
- Settlement of balances receivable associated with the energy business (note 15)
- The assumptions used to calculate certain obligations to employees (note 6)
- The fair value of certain assets, principally financial instruments (note 20)
- 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)
- The classification of "Non-current assets held for sale" (note 13)

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.

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 line in the first six months of 2017 and 2016 is as follows:

Thousands of euros	1H17			1H16		
	Pulp Business	Energy Business	Consolidated Group	Pulp Business	Energy Business	Consolidated Group
Business metrics						
Pulp sales volume (tonnes)	480.866	-	480.866	448.643	-	448.643
Energy sales volume (MWh)	346.155	365.786	711.940	308.408	238.201	546.609
Revenue						
Pulp	236.822	-	236.822	217.643	-	217.644
Electric energy	36.224	57.863	94.086	25.497	36.205	61.702
Sales of timber and forestry services	11.828	(960)	9.167	9.814	-	7.545
Inter-segment	371	1.331	1.703	438	1.835	2.273
	285.245	58.234	341.778	253.392	38.040	289.164

(*) The difference between the figures presented under “Consolidated Group” for 1H17 and 1H16 and the addition of the figures corresponding to the “Pulp” and “Energy” businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2017 and 2016 in the amounts of €1,701 thousand and €2,268 thousand euros, respectively.

During the first six months of 2017, the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €117.9 million (1H16: €72.8 million).

4.1. Geographic revenue split

Virtually all of revenue from energy sales was generated in Spain. The breakdown of revenue from pulp sales by geographic market is as follows:

% of revenue	1H17	1H16
Germany	22,6	23,1
Spain	15,9	15,5
Italy	12,5	12,2
Turkey	9,6	4,4
Austria	7,0	3,7
Poland	7,0	7,5
France	6,0	7,8
United Kingdom	3,6	3,6
Greece	2,1	1,8
Slovenia	1,9	2,6
Netherlands	0,5	2,3
Other	11,4	15,5
	100	100

Two customers generated sales volumes accounting for over 10% of Group revenue from pulp sales in the first half of 2017.

5. Cost of sales

Consumption of raw materials and other consumables in the first six months of 2017 and 2016 breaks down as follows:

Thousands of euros	1H17			1H16		
	Pulp Business	Energy Business	Consolidated Group	Pulp Business	Energy Business	Consolidated Group
Purchases	109.346	16.496	125.072	114.153	8.734	120.980
Change in raw materials and other inventories	(3.241)	(2.483)	(5.724)	(5.323)	337	(4.986)
Other external expenses	13.434	3.140	15.643	14.350	1.372	15.361
	119.539	17.153	134.991	123.180	10.443	131.355

(*) The difference between the figures presented under “Consolidated Group” for 1H17 and 1H16 and the addition of the figures corresponding to the “Pulp” and “Energy” businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2017 and 2016 in the amounts of €1,701 thousand and €2,268 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 2017 and 2016 is provided below:

Thousands of euros	1H17			1H16		
	Pulp Business	Energy Business	Consolidated Group	Pulp Business	Energy Business	Consolidated Group
Wages and salaries	21.584	2.396	23.980	24.432	752	25.184
Social Security	5.658	558	6.216	5.735	171	5.906
Pension contributions and other benefits	1.443	86	1.529	1.465	25	1.490
	28.685	3.040	31.725	31.632	948	32.580
Long-term remuneration plans	1.533	92	1.625	1.386	-	1.386
Termination benefits	467	25	492	627	433	1060
	30.685	3.157	33.842	33.645	1.381	35.026

6.1. Employee benefits expense

The breakdown of the Group's average headcount at 30 June 2017 and 2016 is as follows:

Job category	1H17			1H16		
	Men	Women	Total	Men	Women	Total
Executives	7	1	8	6	1	7
Individual job contracts	227	69	296	222	61	283
Collective bargaining agreements	413	62	475	402	55	457
Temporary workers	105	41	146	95	42	137
	752	173	925	725	159	884

The Board of Directors was made up of 13 directors at 30 June 2017, 12 of whom men. Two of the directors represent legal person directors.

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 will vest depending on delivery of three weighted objectives:

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

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

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

The charge accrued during the first half of 2017 amounted to €1,625 thousand and is recognised under: i) "Other equity instruments" in the consolidated statement of financial position in respect of the portion to be settled in shares (€1,138 thousand before the related tax effect); and ii) "Non-current provisions" in the consolidated statement of financial position in respect of the portion to be settled in cash (€488 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 2017 and 2016:

Thousands of euros	1H17			1H16			
	Pulp Business	Energy Business	Consolidated Group	Pulp Business	Energy Business	Adjustments & Eliminations	Consolidated Group
External services	59.408	14.579	70.725	57.258	15.128	(10.710)	61.676
Use of emission allowances (note 18)	645	-	645	593	5	-	598
Taxes other than income tax and other management charges	1.748	342	2.090	1.595	65	-	1.660
Electricity generation levy	2.554	4.065	6.619	1.797	2.544	-	4.341
Change in trade and other provisions	(90)	159	69	(90)	-	-	(90)
Impact of the closure of the Huelva mill	-	-	-	540	-	-	540
Other non-recurring charges	678	-	678	5.619	3.130	(52)	8.697
	64.943	19.145	80.826	67.312	20.872	(10.762)	77.422

(*) The difference between the figures presented under "Consolidated Group" for 1H17 and 1H16 and the addition of the figures corresponding to the "Pulp" and "Energy" businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2017 and 2016 in the amounts of €3,262 thousand and €10,762 thousand euros, respectively.

6.1. External services

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

Thousands of euros	1H17			1H16		
	Pulp Business	Energy Business	Consolidated Group	Pulp Business	Energy Business	Consolidated Group
Transport, freight and business expenses	17.378	123	17.501	15.394	46	15.440
Utilities	18.451	591	19.041	12.421	435	12.856
Repairs and upkeep	6.393	5.632	12.025	8.850	3.392	12.242
Rent and fees	2.597	298	2.832	2.717	316	3.023
Insurance premiums	1.522	465	1.987	1.623	466	2.089
Independent professional services	2.620	57	2.677	2.240	185	2.425
Banking and similar services	487	108	595	605	61	666
Advertising, publicity and public relations (note 25)	1.602	1	1.603	286	-	286
Research and development costs	255	-	255	1.406	-	1.406
Other services	8.103	7.304	12.209	11.716	10.228	11.243
	59.408	14.579	70.725	57.258	15.129	61.676

(*) The difference between the figures presented under "Consolidated Group" for 1H17 and 1H16 and the addition of the figures corresponding to the "Pulp" and "Energy" businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2017 and 2016 in the amounts of €3,262 thousand and €10,711 thousand euros, respectively.

Ence has arranged civil liability insurance which covers all its directors and executives against damages caused by acts or omissions in the course of discharging their duties. In 1H17, this policy cost the Group €33 thousand euros.

8. Finance costs

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

Thousands of euros	30/06/2017			30/06/2016		
	Pulp Business	Energy Business	Total	Pulp Business	Energy Business	Total
High-yield bond	6.719	-	6.719	6.718	-	6.718
Project finance facilities	-	1.353	1.353	-	1.615	1.615
Credit, factoring and reverse factoring lines	1.192	156	1.348	712	-	712
Fees recognised in profit and loss	843	236	1.079	884	265	1.149
Capitalised borrowing costs	(36)	-	(36)	(39)	-	(39)
Finance costs, group companies	-	1.463	-	202	1.183	-
	8.718	3.208	10.463	8.476	3.063	10.154
Derivatives:						
Settlement of the project finance IRS	-	70	70	-	(77)	(77)
	-	70	70	-	(77)	(77)
	8.718	3.278	10.533	8.476	2.986	10.077

(*) The difference between the figures presented under “Consolidated Group” for 1H17 and 1H16 and the addition of the figures corresponding to the “Pulp” and “Energy” businesses corresponds to the elimination of transactions performed between these business segments in the first six months of 2017 and 2016 in the amounts of €1,463 thousand and €1,385 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, 20-MW Merida, Ciudad Real 16-MW and Jaen 16-MW biomass generation plants (note 1).

In order to expand the disclosures provided in this note, the appendices attached to these interim financial statements include the consolidated statement of financial position at 30 June 2017 and 2016 and the consolidated income statement and consolidated statement of cash flows for the six-month periods then ended broken down between 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 2017 and 2016, based on the management information reviewed regularly by senior management:

1H17	Thousands of euros							
	Income statement	PULP business				Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations
Pulp		Forest Management	Forest Services & Other	Adjustments & Eliminations				
Revenue:								
Third parties	281.885	2.030	-	-	283.915	57.863	-	341.778
Inter-segment revenue	770	2.974	-	(2.414)	1.330	371	(1.701)	-
Total revenue	282.655	5.004	-	(2.414)	285.245	58.234	(1.701)	341.778
Earnings:								
EBITDA (*)	66.783	2.360	103	1	69.247	18.653	-	87.900
Operating profit/(loss)	46.158	(124)	(137)	1	45.898	10.800	-	56.698
Finance income	11.237	-	-	(1.546)	9.691	241	(9.463)	469
Finance costs	(8.753)	(1.429)	(82)	1.546	(8.718)	(3.278)	1.463	(10.533)
Hedging derivatives - restatement to fair value	942	-	-	-	942	(31)	-	911
Net exchange gains/(losses)	(4.222)	(1)	(13)	-	(4.236)	(4)	-	(4.240)
Impairment of and gains/(losses) on disposal of financial assets	-	(124)	-	-	(124)	-	-	(124)
Income tax	(9.340)	275	90	-	(8.975)	(1.933)	-	(10.908)
Profit/(loss) for the period	36.022	(1.403)	(142)	1	34.478	5.795	(8.000)	32.273
Profit/(loss) attributable to non-controlling interests	-	-	-	-	-	808	-	808
Profit/(loss) attributable to equity holders of	36.022	(1.403)	(142)	1	34.478	4.987	(8.000)	31.465

(*) 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.

1H16	Thousands of euros							
	Income statement	PULP business				Total Pulp	ENERGY Business & Segment	Adjustments & Eliminations
Pulp		Forest Management	Forest Services & Other	Adjustments & Eliminations				
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
Net exchange gains/(losses)	(650)	-	(544)	-	(1.194)	-	-	(1.194)
Income 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.

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:

1H17	Thousands of euros						
	Pontevedra factory	Navia factory	Corporate	Other (a)	Subtotal	Eliminations	Total
Business metrics:							
Pulp output (ADt)	206.109	247.015	-	-	453.124	-	453.124
Pulp sales volume (ADt)	217.950	262.984	-	-	480.934	-	480.934
Energy sales volume (MWh)	100.792	245.363	-	365.785	711.940	-	711.940
Continuing operations:							
Revenue	117.870	155.490	-	92.578	365.938	(24.160)	341.778
Gross profit	60.750	81.625	-	52.582	194.957	(292)	194.665
Employee benefits expense	(8.498)	(9.683)	(12.477)	(3.184)	(33.842)	-	(33.842)
Other operating expenses	(22.848)	(24.879)	(3.943)	(21.545)	(73.215)	292	(72.923)
Overhead passed on	(6.430)	(7.900)	16.420	(2.090)	-	-	-
EBITDA	22.974	39.163	-	25.763	87.900	-	87.900
Depreciation and amortisation	(4.926)	(15.740)	-	(11.951)	(32.617)	-	(32.617)
Depletion of forestry reserve	-	-	-	(2.691)	(2.691)	-	(2.691)
Impairment of and gains/losses on non-current assets	(119)	473	-	3.752	4.106	-	4.106
OPERATING PROFIT/(LOSS)	17.929	23.896	-	14.873	56.698	-	56.698
Net finance cost	(5.330)	(3.467)	-	(4.720)	(13.517)	-	(13.517)
PROFIT/(LOSS) BEFORE TAX	12.599	20.429	-	10.153	43.181	-	43.181
Income tax	(3.183)	(5.161)	-	(2.565)	(10.908)	-	(10.908)
PROFIT/(LOSS) FOR THE YEAR	9.416	15.268	-	7.588	32.273	-	32.273

(a) Includes the forestry activity, the power plants comprising the Energy business (note 1), companies that are virtually inactive and the Group's subsidiaries in Uruguay.

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 and 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 cost	(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 Merida 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, including accumulated amortisation, for the first half of 2017 is as follows:

1H17	Thousands of euros				
	Balance at 01/01/2017	Additions (charges)	Derecognitions or decreases	Transfers	Balance at 30/06/2017
Software	19.060	380	(4)	45	19.481
Development costs	17.092	78	(3)	1.199	18.366
Prepayments	1.448	194	(1)	(1.231)	410
Other intangible assets	3.167	0		-	3.167
Total cost	40.767	652	(8)	13	41.424
Software	(11.171)	(1.240)	6	-	(12.405)
Development costs	(9.437)	(391)	1	-	(9.827)
Other intangible assets	(1.317)	(10)	(1)	-	(1.328)
Total amortisation	(21.925)	(1.641)	6	-	(23.560)
Development costs	(2.854)	-	-	-	(2.854)
Other intangible assets	(746)	-	-	-	(746)
Total impairment	(3.600)	-	-	-	(3.600)
Total	15.242				14.264

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 2017 is as follows:

1H17	Thousands of euros				
	Balance at 01/01/2017	Additions/ (charges)	Derecognitions or decreases	Transfers	Balance at 30/06/2017
Forest land	82.865	-	(97)	-	82.768
Other land	9.422	1	(21)	387	9.789
Buildings	107.679	1	(299)	1.598	108.979
Plant and machinery	1.400.642	1.288	(869)	4.476	1.405.537
Other items of PP&E	43.377	362	(73)	3.192	46.858
Prepayments and PP&E in progress	17.598	12.268	5	(9.583)	20.288
Cost	1.661.583	13.920	(1.354)	70	1.674.219
Buildings	(60.787)	(858)	209	(4.360)	(65.796)
Plant and machinery	(832.973)	(29.266)	582	4.277	(857.380)
Other items of PP&E	(25.551)	(852)	(11)	-	(26.414)
Depreciation	(919.311)	(30.976)	780	(83)	(949.590)
Land and buildings	(1.985)	-	-	-	(1.985)
Plant and machinery	(52.409)	-	4.487	-	(47.922)
Other items of PP&E	(1.579)	-	-	-	(1.579)
Impairment	(55.973)	-	4.487	-	(51.486)
Carrying amount	686.299				673.143

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	
	30 June 2017	30 June 2016
Pulp Business:		
Navia	4.743	33.060
Pontevedra	6.820	22.378
Energy Business:		
41-MW Huelva plant	671	1.682
50-MW Huelva plant	314	814
20-MW Merida plant	298	141
Plant development	639	279
Other	435	92
	13.920	58.446

Capital commitments

At 30 June 2017, the Group had contractually committed to future capital expenditure at its factories of €14.0 million.

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 totalling €61 million at the facility between 2016 and 2017, as follows:

- i. €30.2 million to be earmarked to increasing the mill's capacity and making it more efficient.
- ii. €27 million to be earmarked towards environmental upgrades in order to slash the volume of wastewater, eliminate process odour, noise and steam and raise the facility's environmental performance above the legally required thresholds.
- iii. €4 million to be devoted to designing and executing a landscaping project for the factory in Lourizán.

Of this total, €14.4 million has already been invested, and orders have been placed for another €3.6 million.

These investment undertakings in Pontevedra 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 commitments such as the installation of three bioenergy centres and one biomass CHP facility in Galicia entailing an estimated investment of up to €94 million.

11.3. 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.

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". The movement in this heading during the first half of 2017:

1H17	Thousands of euros				Balance at 30/06/2017
	Balance at 01/01/2017	Addition/ (charges)	Derecognitions or decreases	Transfers	
Pulp Business:					
Forest cover	158.956	1.950	(4.502)	(346)	156.058
Depletion of forest reserve	(45.464)	(2.559)	2.243	203	(45.577)
Provision for impairment	(30.724)	(129)	2.322	143	(28.388)
	82.768	(738)	63	-	82.093
Energy Business:					
Forest cover	5.347	222	(495)	-	5.074
Depletion of forest reserve	(897)	(3)	123	-	(777)
Provision for impairment	(3.807)	-	294	-	(3.513)
	643	219	(78)	-	784
	83.411				82.877

In the first half of 2017, the Group planted 162 hectares of land and carried out forest preservation and protection work on 3,246 hectares.

12.1. Additions to forest cover

In the first half of 2017, the Group capitalised forest plantation, preservation and silviculture services received in the amount of €2,163 thousand.

The Group capitalised €36 thousand of borrowing costs under forest cover in the first half of 2017 (€39 thousand in 1H16); 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 heading at the beginning and end of the first half of 2017 is as follows:

Thousands of euros	Balance at 01/01/2017	Assets consumed and other	Sales	Balance at 31/12/2017
Huelva industrial complex	4,262	-	-	4,262
Forest land and cover	2,621	(202)	(2,273)	146
Total	6,883	(202)	(2,273)	4,408

Huelva industrial complex

The decision to cease pulp production at the Huelva industrial complex meant that some of its industrial assets were no longer used for productive purposes and were accordingly 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.

Ence continues to pursue specific actions under the scope of the original disposal plan to bring about the sale of the remaining assets held for sale in 2017.

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 1H17, it sold 167 hectares (1,736 hectares in 1H16) for €2,303 thousand (1H16: €37,494 thousand), generating a gain of €29 thousand (1H16: €16,297 thousand), which is recognised under “Impairment of and gains/(losses) on disposals of intangible assets and PP&E” in the accompanying condensed consolidated income statement for the first half of 2017.

14. Inventories

The breakdown of the Group’s inventories at 30 June 2017 and 31 December 2016 is as follows:

Thousands of euros	30/06/2017	31/12/2016
Timber	23.025	17.394
Other raw materials	1.159	2.122
Spare parts	20.972	21.862
Greenhouse gas emission allowances	225	-
Finished goods	7.602	16.547
Prepayments to suppliers	584	566
Impairment (*)	(13.969)	(14.884)
	39.598	43.607

(*) 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 the coverage at the reporting date is adequate.

14.1. Emission allowances

The reconciliation of the opening and closing Group-owned emission carbon allowance balances for the six months ended 30 June 2017 is provided in the next table:

	Number of allowances	Thousands of euros
Opening balance	101.389	1.263
Allocations	89.558	547
Delivered (*)	(163.626)	(1.586)
Closing balance	27.321	225

(*) Corresponds to the allowances used during the previous year

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 89,558 tonnes of carbon emissions, valued at €547 thousand, in the first half of 2017.

“Non-current provisions” on the liability side of the consolidated interim statement of financial position includes €664 thousand in this respect at 30 June 2017, corresponding to the liability derived from the consumption of 70,857 tonnes of carbon in the first half of 2017 (note 18).

Elsewhere, the Group has contractually committed to the forward purchase of allowances covering a total of 551,000 tonnes of carbon at a price of €15.87/tonne and exercisable in 2017 and 2018. It is estimated that part of the allowance purchases committed to, approximately 247 thousand allowances, will not be consumed within the term of the current 2013-2020 Plan, to which end these allowances have been valued at market value. This has entailed the recognition of a €2,682 thousand euro provision within "Non-current provisions - Onerous contracts" on the accompanying consolidated statement of financial position (year-end 2016: €2,190 thousand) (note 18).

15. Trade and other receivables

The breakdown at 30 June 2017 and 31 December 2016 of “Trade and other receivables” in the condensed consolidated statement of financial position is as follows:

Thousands of euros	30/06/2017	31/12/2016
Trade receivables:		
Pulp	58.169	47.431
Energy	26.926	29.803
Other items	2.945	4.126
Sundry receivables	5.305	1.998
Provision for impairment	(2.926)	(3.137)
	90.419	80.221

The credit period on pulp and energy sales averages between 60 and 65 days. The fair value of these receivables does not differ significantly from their carrying amount.

€21.2 million of of the Group's accounts receivable were denominated in US dollars at 30 June 2017.

15.1. Balances receivable associated with the energy business

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 balance receivable by the Group associated with the financing of this deficit amounted to €13,873 thousand at 30 June 2017.

"Other non-current financial investments" on the accompanying consolidated statement of financial position at 30 June 2017 includes the non-current portion of the Group's claim vis-a-vis the sector regulator, the CNMC, in the amount of €8,114 thousand (the current portion at 30 June 2017 of €428 thousand is presented under "Current financial assets"), under the scope of Spanish Royal Decree 413/2014, regulating the production of electric power using renewable sources, co-generation and waste, in respect of "Adjustments for tariff shortfall" corresponding to 2014-2016. As provided for in that piece of legislation, this balance will be collected, as a general rule, over the remaining useful lives, for regulatory purposes, of the power generation and co-generation plants, earning interest at a rate of 7.398%.

15.2. Non-recourse factoring

The Group has drawn down €47,585 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 2017 (€47,198 thousand and €70,000 thousand, respectively, at 31 December 2016). 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 2017 and 31 December 2016 of "Trade and other payables" in the condensed consolidated statement of financial position is as follows:

Thousands of euros	30/06/2017	31/12/2016
Trade payables	138.379	129.768
Payable to fixed-asset suppliers	11.956	16.963
Employee benefits payable	4.253	7.438
	154.588	154.169

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 had drawn down €58,442 thousand under non-recourse reverse factoring agreements with an aggregate limit of €110,000 thousand at 30 June 2017 (€56,503 thousand and €105,000 thousand, respectively, at 31 December 2016).

€26 million of the Group's accounts payable were denominated in US dollars at 30 June 2017.

17. Equity

17.1. Share capital

The share capital of ENCE Energía y Celulosa, S.A. at 30 June 2017 was represented by 246,272,500 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 2017 and 31 December 2016:

Shareholder	%	
	30/06/2017	31/12/2016
Retos Operativos XXI, S.L.	27.5	26.7
Asúa Inversiones, S.L.	6.3	6.2
Alcor Holding, S.A.	5.6	5.9
Mendibea 2002, S.L.	5.7	5.6
Norges Bank	3.1	-
Own shares held as treasury stock	0.6	2.2
Free float	51.2	53.4
Total	100	100

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.

Capital reduction

The Company's Board of Directors agreed on 26 April 2017 to execute the capital decrease ratified at the Annual General Meeting held on 30 March 2017, reducing share capital by 3,600,000 euros by cancelling 4,000,000 own shares, with a unit par value of €0.90, held as treasury stock.

The capital reduction fell under the scope of the share buyback programme approved by the Board of Directors on 23 June 2016 and completed on 29 September 2016 with the repurchase of 4 million shares for €8,553 thousand.

For the purposes of the capital reduction, the Company has created a reserve for cancelled shares, with a charge against unrestricted reserves, of €3,600,000, which is subject to the same requirements as are set forth for reducing capital, pursuant to article 335.c of Spain's Corporate Enterprises Act.

17.2. Shareholder remuneration

At the Annual General Meeting held on 30 March 2017, the shareholders of Ence Energía y Celulosa, S.A. ratified the motion to pay a final dividend against 2016 profits in the amount of €0.047 per Ence Energía y Celulosa, S.A. share. The dividend, which totalled €11,578 thousand, was paid out on 18 April 2017. The Company had already paid out an interim dividend from 2016 profits of €0.032 per share as per a board resolution dated 22 November 2016.

Shareholder remuneration was complemented by the cancellation during the first half of 2017 of the four million shares bought back for €8,553 thousand under the scope of the Company's share buyback programme (note 17.1).

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 2017 are shown below:

Earnings per share (€)	1H17
Group profit/(loss) attributable to owners of the parent (thousands of euros)	32,273
Weighted average ordinary shares (*)	246,272,500
Basic and diluted earnings per share (euros)	0.13

(*) The number of ordinary shares did not change during the first half of 2017

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 2017 is as follows:

	No. of shares	Thousands euros
Opening balance	5.508.463	11.963
Shares purchased	6.315.774	19.105
Shares cancelled	(4.000.000)	(8.553)
Shares sold	(6.326.774)	(18.852)
Closing balance	1.497.463	3.663

The own shares held by the Company at 30 June 2017 represent 0.6% of its share capital (2.2% at year-end 2016) and are carried at €3,663 thousand (€11,963 thousand at 31 December 2016). These shares were acquired at an average price of €2.45 per share. The own shares held by the Parent are held for market trading purposes.

17.5. Trading liquidity

The Company has a liquidity agreement with a financial broker the object of which is to foster the frequency and regularity with which the Company's shares are traded, within the limits established at the Company's Annual General Meeting and, specifically, CNMV Circular 1/2017 on liquidity agreements.

17.6. Non-controlling interests

The reconciliation of "Equity - Non-controlling interests" at the beginning and end the six-month period ended 30 June 2017 is as follows:

Company	Balance at 01/01/2017	Profit/(loss) attributable to NCI	Other	Balance at 30/06/2017
Energía de la Loma, S.A.	4.122	334	(87)	4.369
Energías de la Mancha Eneman, S.A.	3.112	474	(50)	3.536
Total	7.234	808	(137)	7.905

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 2017 is as follows:

1H17	Thousands of euros				Balance at 30/06/2017
	Balance at 01/01/2017	Additions/ (charges)	Derecognitions or decreases	Transfers	
Non-current:					
Employee commitments (note 6)	295	488	-	-	783
Emission allowances (note 14)	1.605	664	(1.605)	-	664
Onerous contracts (note 14)	2.190	492	-	-	2.682
Discontinuation of pulp production in Huelva	453	-	-	-	453
Other	1.624	183	(246)	-	1.561
	6.167	1.826	(1.851)	-	6.142
Current					
Discontinuation of pulp production in Huelva	4.626	-	(723)	-	3.903
	4.626	-	(723)	-	3.903

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. At 30 June 2017, the Group still recorded provisions totalling €4,356 thousand to cover the estimated costs associated with the commitments assumed with third parties.

18.2. Guarantees extended to third parties

At 30 June 2017, several financial institutions had extended the various Group companies the following guarantees:

	Thousands of euros
Permitting of power plants	11,698
Supply guarantee	11,100
Soft and subsidised loans (note 19)	8,600
Receivables discounting lines	6,000
Tax claims (note 22)	4,517
Execution of forest projects	3,099
Pontevedra concession (note 18)	3,050
Electricity market regulator	2,101
Environmental	1,512
Payments to suppliers	648
Other	3,279
	55,604

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 2017 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 accompanying condensed interim financial statements:

Energy sector regulations in Spain – Energy crops

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, a process it concluded in 2015. 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 recognise provisions to cover the costs of unwinding the related lease agreements and other associated costs.

On 14 and 31 July 2014, several Group companies filed a claim against the Spanish state, specifically seeking an award of €69,813,419 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 was substantiated with an expert report. It was presented as an open-ended claim and the award sought will be increased over time 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.

Having concluding the dismantling work, the same independent expert was commissioned to issue a second expert report, in which it estimates the damages at €60,809,559. The finishing touches are being put on that second report before submitting it to the administration.

The administration has yet to rule on the claim seeking damages from the state.

Energy sector regulations in Spain – Recovery of lignin

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 formally presented a lawsuit seeking acknowledgement within the new regulatory regime of the real cost of black liquor, 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 black liquor 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.

The lawsuit brought before the Supreme Court questions the accuracy of the Royal Decree insofar as it fails to assign any value to black liquor fuel. The amount being sought has not been quantified.

In the wake of the Solicitor General's response to its lawsuit, Ence asked to have the expert reports issued by KPMG Asesores, S.L. and Roland Berger Strategies Consultant, S.A. ratified. The Supreme Court ratified these expert reports on 21/12/2016.

The appeal is in turn pending ruling.

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.

This case was resolved by means of a resolution of the Ministry for Agriculture, Food and the Environment on 24 July 2015. That 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.

The 24 July 2015 resolution has been challenged by the town council of Pontevedra and a local association, *Asociación pola Defensa da Ría*, before the National Appellate Court (Chamber for Contentious Administrative Proceedings). In both cases Ence is acting as co-defendant, upholding the legality of the Ministry's actions. Both cases are ongoing.

Subsequently, the Ministry issued another resolution on 20 January 2016 granting the extension of the concession for a total term of 60 years (10 years of which subject to the performance of specific works in the energy efficiency, water savings and environmental areas). That resolution has also been challenged firstly through administrative channels and subsequently in court by three environmentalist associations.

Their challenges have given rise to four separate court proceedings numbered which are still with the above Chamber of the Appellate Court. Ence has appeared in court in all four cases in its capacity as co-defendant, arguing the legality of the actions of the Ministry in extending the concession. All four proceedings remain ongoing.

The resolution has also been challenged through administrative channels by a fifth association but as far as the Company is aware, that association has not brought its case before the courts.

19. Borrowings and cash and cash equivalents

The breakdown of the Group's borrowings at 30 June 2017 and 31 December 2016 is as follows:

Thousands of euros	30/06/2017		31/12/2016	
	Current	Non-current	Current	Non-current
High-yield bond	-	250.000	-	250.000
Loans and credit facilities	5.298	37.062	5.286	39.714
Project finance facilities	13.089	88.271	12.754	94.983
Arrangement costs	-	(7.580)	-	(8.134)
Accrued interest payable and other	2.849	-	2.436	-
	21.236	367.753	20.476	376.563

(a) High-yield bond: €5,886 thousand at 30 June 2017 (€6,369 thousand at year-end 2016). Project finance facility: €1,571 thousand at 30 June 2017 (€1,765 thousand at year-end 2016). Other loans: €123 thousand at 30 June 2017.

The breakdown of bank borrowings at 30 June 2017 and 31 December 2016 corresponding to loans, credit facilities and discounting facilities, classified by their respective maturities, is as follows:

30 June 2017 (thousands of euros)	Limit	Amount drawn	Maturity				
			2017	2018	2019	2020	Beyond
High-yield bond	250.000	250.000	-	-	-	-	250.000
Revolving credit facility	90.000	-	-	-	-	-	-
Project finance facilities	101.360	101.360	6.377	13.424	13.590	13.587	54.383
Other loans	42.360	42.360	2.646	5.445	22.695	5.552	6.022
Arrangement fees	-	(7.580)	-	(1.343)	(1.357)	(1.374)	(3.506)
Interest and other	-	2.849	2.849	-	-	-	-
	483.720	388.989	11.872	17.526	34.928	17.765	306.899

In addition, the Group has receivables factoring facilities with a limit of €70 million (note 15) and reverse factoring lines with a limit of €110 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 (note 2) and are therefore non-recourse to the ENERGY business.

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 2021, having been renegotiated in 2016. 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 agreement executed by Ence Energía Huelva, S.L.U. and Ence Energía Extremadura, S.L.U. in an aggregate 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 Merida 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 Huelva, S.L.U. and ENCE Energía Extremadura, S.L.U. and 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 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 the facility maturity date. The covenants similarly impose certain restrictions, mainly on 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 29 December 2016, Ence Energía, S.L. arranged two separate €7.5 million loans which fall due on 29 December 2021 and 2023, respectively, and bear interest at Euribor plus spreads of 1.9% and 2.25%, respectively. They are secured by the shareholdings acquired by the ENERGY business in Energías de la Mancha ENEMAN, S.A. and Energía de la Loma, S.A.

Elsewhere, Ence has also taken on two loans to fund some of the investments carried out at the Navia factory (Asturias) related with the capacity additions (outlined in note 11 above). The first was arranged on 23 April 2015 for €15 million, 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.

The second was arranged on 15 July 2015, similarly for €15 million, and is repayable in a single bullet payment on 30 June 2020. This loan has a two-year grace period after which it will be repaid 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.

19.4. Other financial liabilities

The amount recognised under this heading on the accompanying condensed consolidated statement of financial position corresponds mainly to loans obtained from public organisms, usually at below-market or even zero rates. The proceeds so obtained have been used to finance projects undertaken by the Group to expand and upgrade the productive capacity of its pulp plants, as well as its research and development work.

The breakdown of these liabilities by maturity at 30 June 2017 and 31 December 2016 is as follows:

Thousands of euros	30/06/2017	31/12/2016
2017	1.362	1.305
2018	1.213	1.213
2019	1.213	1.213
2020	6.060	6.060
2021 and beyond	31.480	31.479
Unwind of discount	(452)	(546)
	40.876	40.724

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 0.05% in the first half of 2017 (0.06% in 1H16).

The Group had €232,036 thousand of cash and cash equivalents at 30 June 2017 (€141,949 thousand of which corresponding to the PULP business and €90,087 thousand to the ENERGY business). Of this total, some €15,610 thousand is subject to certain restrictions (€6,760 thousand of which corresponding to the PULP business and €8,850 thousand to the ENERGY business). Specifically:

- i. €8,850 thousand can only be used to service debt under the Huelva and Merida project finance facilities in 2016 and €300 thousand must be earmarked to execution of certain maintenance tasks.
- ii. €6,760 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 2017 statement of financial position includes €8,984 thousand of cash denominated in US dollars (year-end 2016: €6,892 thousand).

19.6. Other financial assets

This heading mainly includes the deposits set up to guarantee obligations assumed in writing certain 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 14).

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:

30/06/2017	Amortised cost	Hedging derivatives	Other derivatives	Total at 30/06/2017
Thousands of euros				
Derivative financial instruments	-	8.616	531	9.147
Financial accounts receivable	19.414	-	-	19.414
Trade and other receivables	103.458	-	-	103.458
Cash and cash equivalents	232.036	-	-	232.036
Total financial assets	354.908	8.616	531	364.055
Non-recourse borrowings	99.789	-	-	99.789
Recourse borrowings	289.200	-	-	289.200
Derivative financial instruments	-	8.827	31	8.858
Trade and other payables	169.190	-	-	169.190
Other financial liabilities	40.876	-	-	40.876
Total financial liabilities	599.055	8.827	31	607.913

30/06/2016	Amortised cost	Hedging derivatives	Other derivatives	Total at 30/06/2016
Thousands of euros				
Derivative financial instruments	-	382	135	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	261.807	382	135	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

The financial assets and liabilities measured at fair value are 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 amounts. Note that the bonds issued by Ence in 2015 were trading at 107.15% of par at 30 June 2017.

21. Derivative financial instruments

In keeping with the risk management policy outlined in note 6 of the Group's 2016 consolidated 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 2017 and 31 December 2016, which corresponds with the fair value of the derivatives at the reporting dates, is provided in the next table:

Thousands of euros	Non-current assets		Current assets		Non-current liabilities		Current liabilities	
	30/06/2017	31/12/2016	30/06/2017	31/12/2016	30/06/2017	31/12/2016	30/06/2017	31/12/2016
Cash flow hedges:								
Energy sale hedges	-	-	-	-	-	-	254	1.525
IRS - project finance facilities	-	-	-	-	5.935	7.756	2.638	2.729
IRS - other loans	-	-	-	-	31	-	-	-
Currency hedges	5.145	-	4.002	-	-	3.992	-	10.487
Total	5.145	-	4.002	-	5.966	11.748	2.892	14.741

These financial instruments 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).

A fair value loss of €3,245 thousand on derivatives designated as hedging instruments was reclassified to profit and loss in the first half of 2017 (a gain of €3,508 thousand in 1H16).

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 2017 is as follows:

Underlying	Maturity	Strike price		Notional amount (USD m)
		Call	Put	
EUR/USD	3Q17	1,078	1,156	86,5
EUR/USD	4Q17	1,086	1,154	87,5
EUR/USD	1Q18	1,101	1,167	69,0
EUR/USD	2Q18	1,066	1,148	71,0
EUR/USD	3Q18	1,080	1,142	61,1
EUR/USD	4Q18	1,093	1,135	55,7
EUR/USD	1Q19	1,086	1,114	22,0

(*) The contracts outstanding at 30 June 2017 cover roughly 50% of the pulp sales forecast for the next 18 months.

Considering the hedges arranged, dollar depreciation of 5% relative to the spot price as at 30 June 2017 would imply a cash inflow of €7,510 thousand in the second half of 2017. In contrast, dollar appreciation against the euro of 5% would imply a cash outflow of €3,529 thousand in 2H17.

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 2017:

Maturity	Amount (MWh)	Price in euros
2H17	46,368	44.95

Considering the hedges arranged, an increase in electricity sales prices of 10% with respect to the price prevailing at 30 June 2017 would imply a cash outflow of €210 thousand in the second half of 2017. In contrast, a 10% drop in electricity sales prices would result in a cash inflow of the same magnitude in 2H17.

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 2017

Thousands of euros	Fair value	Notional amounts at reporting date:					
		2017	2018	2019	2020	2021	2022
IRS - project finance facilities	8,573	82,420	71,691	60,819	49,950	38,322	-
IRS - other loans	31	10,627	9,864	7,395	4,910	4,093	1,218

A fair value loss of €70 thousand on interest rate swaps was reclassified to profit or loss in the first half of 2017 (a gain of €77 thousand in 1H16).

During the first half of 2017, Ence Energía, S.L. arranged interest-rate swaps (IRS) over 75% of the financing taken on to finance the acquisition of shares in Energía La Loma, S.A. and Energías de la Mancha ENEMAN, S.A.

Considering the hedges arranged at 30 June 2017, a 10% increase in the Euribor forward curve would imply a cash inflow of €348 thousand in 2H17. In contrast, a 10% decline in the Euribor interest rate curve would result in a cash outflow of the same magnitude in the second half of the year.

22. Tax matters

The balances receivable from and payable to the tax authorities at 30 June 2017 and 31 December 2016 are shown below:

	Thousands of euros			
	30 June 2017		31 December 2016	
	Taxes receivable	Taxes payable	Taxes receivable	Taxes payable
Non-current:				
Deferred tax assets	63,152	-	69,062	-
Deferred tax liabilities	-	22,176	-	21,118
Total	63,152	22,176	69,062	21,118
Current:				
Income tax receivable and VAT payable	10,796	2,014	8,135	2,922
Current tax on profits for the year	1,501	7,081	1,459	117
Electricity levy	128	3,588	217	4,519
Sundry taxes receivable from and payable to the tax authorities	614	1,919	459	3,214
Total	13,039	14,602	10,270	10,772

Current tax expense was calculated using the prevailing tax rates of 25% in Spain and 21% in Portugal in 1H17 and 1H16.

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 2017 is shown below:

	Thousands of euros				Deferred tax liabilities
	Deferred tax assets			Total	
	Unused tax losses and tax credits (*)	Hedging instruments	Other deferred tax assets	Total	
Opening balance	41,704	4,811	22,547	69,062	21,118
Estimated 2017 income tax	(3,183)	-	-	(3,183)	-
Change in fair value of hedging instruments	-	(2,520)	-	(2,520)	1,453
Other	-	-	(207)	(207)	(395)
	38,521	2,291	22,340	63,152	22,176

(*) Utilisation of tax losses is limited to 25% of taxable income in 2017

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 Group's Spanish subsidiaries mainly have their books open to inspection for the last four years in respect of the major applicable taxes.

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-payment interest 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. That lawsuit has since been formally processed, the proposed tests performed and the deed outlining the conclusions presented, leaving just the sentencing pending.

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. They further 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 2016 consolidated 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 2017:

	Thousands of euros
Members of the Board of Directors:	
Type of remuneration-	
Fixed remuneration	387
Meeting attendance fees	299
Other	9
	695
Key management personnel:	
Total remuneration	1,882

The non-executive directors only receive the fixed remuneration and attendance fees indicated; they are excluded from the Company's performance-based bonus schemes. The Group companies have not extended the directors any advances or loans; nor have they assumed any pension or alternative insurance related obligations on their behalf. 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.

The directors did not conclude any material transactions with the Company or any of the Ence Group companies outside the ordinary course of business or on terms other than on an arm's length basis in the first six months of 2017.

The list of key management personnel as of 30 June 2017 is as follows:

Name	Position
Ignacio de Colmenares y Brunet	Chief Executive Officer
Jaime Argüelles Álvarez	Pulp Operations Officer
Jordi Aguiló Jubierre	Energy Operations Officer
Javier Arregui Abendivar	Director of New Power Plant Development and Forest Assets
Alvaro Eza Bernaola	Director of Supply Chain Operations
María José Zuera Saludas	Corporate Resources Officer
Alfredo Avello de la Peña	Finance and Corporate Development Officer
Luis Carlos Martínez Martín	Communication and Institutional Relations Officer

The remuneration accrued by the members of the Executive Committee in 1H17 includes that accrued for the vice-chairmanship and chief executive duties carried out by Ignacio de Colmenares y Brunet under a service provision agreement.

The expense recognised in the first half of 2017 in connection with the "Long-term bonus plan for 2016-2018" allocated to the Executive Committee amounted to €913 thousand.

24. Related-party transactions

The Company performed the following transactions with related parties in the first six months of 2017 and 2016:

Related party	Item	Thousands of euros	
		1H17	1H16
Grupo Foresta	Biomass	80	171

These transactions were arranged on an arm's length basis and in accordance with agreements entered into on 20 December 2012.

25. Environmental disclosures

Each of the Operations Centres of **Ence Energía y Celulosa**, located in Huelva, Navia, Pontevedra, Merida, Ciudad Real and Jaen holds, the corresponding integrated environmental permit for the pursuit of its industrial activity and the generation of electricity from biomass.






The acquisition last December of the shares held by Enel Green Power España (Endesa) in the biomass renewable power plants located in Enemasa (Ciudad Real) and La Loma (Jaen) enabled Ence to increase installed capacity in its Energy business by 29% to 143 MW.

These plants prioritise the use of olive pomace (biomass derived from the processing of olives to extract their oil), which is very abundant in the vicinity of both facilities, as fuel.

The Group's total quality management system (TQM) embeds the quality concept into all of its processes, which are carried out emphasising 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, oriented towards 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 which 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 factories 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.

However, Ence's environmental management strategy seeks to go beyond mere compliance with prevailing legislative: Ence wants to set an example with 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 Standardise-Do-Check-Act (SDCA) and Plan-Do-Check-Act (PDCA) cycles and improvements in the key process indicators 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.

25.1. Pulp Business

Navia Operations Centre

The integrated management system at the Navia complex was consolidated with renewal of the environmental and quality management certifications by accredited organisms in accordance with the UNE-EN-ISO 14001:20015 and UNE-EN-ISO 9001:2015 standards, respectively. Adaptation of the ISO standards for the criteria introduced in

2015 implies progress on adapting the integrated management system for the risk assessment analyses in all areas of the company's management as the initial premise for implementing change.

In the first half of 2017, the project for upgrading and fine-tuning the facility's technology, initiated in 2015, continued to yield encouraging results. This initiative encompasses technical improvements to a significant number of productive processes, delivering an aggregate increase in capacity of 40,000 ADt. The following optimisation initiatives stand out:

- 🌱 Optimisation of the expansion of the facility for treating diluted odorous gases at the facility and an increase in the points for generating these gases by 20%. This project has reduced the odour with repercussions outdoors by 80% thanks to an exhaustive study of the complex's diffuse sources of odour.
- 🌱 A new debarking and chipping line adding flexibility and capacity to the timber processing phase (including planks longer than 5m), increasing the availability of raw material.
- 🌱 Operational improvements in the bleaching controls and automation of the additive dispatching systems, reducing the consumption of chemicals by 2.3%.

In addition, work began on major environmental upgrades which will be implemented during the second half of the year:

- 🌱 Operational fine-tuning of the lime kilns to reduce the emission of particles and the number of operational incidents by over 50% and planning for the project for upgrading the electronics at the recovery boiler electro-filter, similarly to reduce particle emissions.
- 🌱 Installation upgrades to reduce noise emissions from the new facilities, focusing particularly on the timber facilities.
- 🌱 Automation of operational controls.

Pontevedra Operations Centre

“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, it has completed phase two of the Environmental Reliability Plan designed to prevent air emissions, focusing on the diluted and concentrated gas circuits.

In addition, the improvements achieved thanks to the Standardise-Do-Check-Act (SDCA) and Plan-Do-Check-Act (PDCA) cycles have driven a 33% drop in odour (measured in minutes) at channelled sources compared to the first half of 2016; this figure is 20% 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 odour impact index, used to track progress on the odour reduction project, monitors, in addition to the number of minutes of odour episodes at channelled and diffuse sources, the perception of the smell from the industrial activity in the surrounding areas, this having fallen by 43%.

The wastewater discharge readings improved year-on-year, cementing the Pontevedra Operations Centre's position as a sector benchmark in this respect. For example, chemical oxygen demand was 3.55 kg/ADt, which is

over 80% below the threshold recommended in the pulp and paper BREF paper. Suspended solids are similarly improving, with the facility outperforming the BREF recommendations by 67% in this respect.

As for air emissions, all readings are well below the limits stipulated in the integrated environmental permit. These figures mean that the Pontevedra factory is already compliant with the BREF benchmark ranges that will be mandatory from 2018.

An environmental action plan has been articulated around a series of projects designed to improve the Centre's environmental performance. That plan, which involves capex totalling €6.1m, includes, among other things, the installation of a new gas furnace that will render the burning of odorous gases more reliable and a new filter that will reduce the volume of dregs generated. It also includes execution of phase one of the landscape integration project.

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.

Pontevedra Environmental Pact

Ence and the environment department of regional government of Galicia entered into an “Environmental Pact” on 28 June 2016 triggering the rollout of a five-year programme comprising environment-related investments and projects designed to contribute to economic development in Pontevedra and Galicia and boost the sustainability of the activities performed by Ence at its Pontevedra Operations Centre under the scope of its corporate social responsibility strategy.

The Pact is a legal concept provided for in Galician legislation and already used by Ence and the regional government in the past. Under such a pact, a company undertakes to bring its environmental management beyond that stipulated in prevailing environmental legislation by pursuing best available techniques in this arena.

Under the pact, Ence has committed to:

- 🌿 Introducing environmental upgrades at the Pontevedra industrial complex, specifically with the aim of reducing water consumption, improving energy efficiency, better integrating the factory into the landscape, reducing emissions and improving wastewater quality.
- 🌿 Fostering job creation by using regional forest resources.
- 🌿 Creating a research centre focused on the generation of specialist jobs and helping to refurbish a building to house this centre.
- 🌿 Installing a biomass-fuelled co-generation plant and three bioenergy centres.
- 🌿 Negotiating a collaboration agreement, which was signed on 28 July 2016, designed to enhance the living standards of all residents of Galicia, particularly those living in the Pontevedra Bay area, their safety and their development, the environment and the natural, community and economic surroundings and their sustainability. The following measures are envisaged to facilitate execution of the Pact:
 - i. A commitment to contribute up to €15 million to any investments mandated by the regional government's department for the environment and planning and the regional public water body in relation to the expansion and modernisation of the urban waste treatment facility in the city of Pontevedra;

- ii. A commitment to contribute up to €5 million to refurbishment of Pazo de Lourizán, an equivalent building or new build to house the research centre in the process of being set up and up to €1 million to construction of a football pitch in the vicinity of Lourizán;
- iii. Creation of a framework agreement for application in tandem with Ence's corporate social responsibility policy with annual funding of up to €3 million for the following lines of initiative: forest sustainability, energy efficiency, renewable energy, environmental reliability, environmental quality, safety, sustainable development, social progress, equal opportunities, education and training, job training, talent and entrepreneurship, grassroots sports and sports facilities, research and science and community relations.

Effectiveness of these commitments and projects is contingent upon effectiveness and survival of Ence's concession rights in Pontevedra and the grant of the necessary permits and authorisations, which have already been applied for from the competent body of the regional government of Galicia and are accordingly in the midst of being processed.

Against this backdrop, an addendum to the Pact was signed on 16 January 2017 under which, exceptionally and with effect solely in 2017, Ence assumes, in proportion to the budget for the works and installations contemplated in the terms and conditions of the concession term extension that obtain the corresponding permits during the year, the commitments outlined in the "Framework agreement for the specific crystallisation in the area of Lourizán of Ence's corporate policy", which contemplates annual funding of up to €3 million.

Forestry

During the first half of 2017, Ence further developed its work as the leading private forest manager and a key dealer in timber-based products in Spain. All activities related to strategic definition, technical implementation and oversight are performed by the corporate team of experts. The proprietary forest management business involves the properties and tracts of forest operated under consortia and leased by its forest management subsidiaries. Meanwhile, the entire commercial side of the business - supplies and standing timber and biomass purchases - is handled by the corporate supply chain management 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 corporate 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. All these activities are framed from a regulatory standpoint by the European due diligence regulation with respect to the legal origin of timber (EUTR), so that Ence can guarantee that its entire timber management chain complies stringently with applicable prevailing legislation.

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, which have risen from 42% and 6% at Navia and Pontevedra, respectively, in 2011 to levels of 94% and 79%, at 30 June 2017.

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 108,705m³ of timber and 88,200 tonnes of forestry biomass in the first half of 2017, implying an investment of close to €2.01 million in these assets as a whole, €0.75 million of which corresponding to the generation of income and royalties and €1.26 million to forestry care and infrastructure upgrade work and reforestation. All of Ence's proprietary forestry management activity was audited during the first half of last year 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: after the initial demonstrations given in 2016, this process will be completed over the course of 2017.

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

- 🌿 The landscape integration project at Ence's factory in Pontevedra, pursuant to the tender called to this end and with the aim of using a range of solutions (architectural formulae, green walls, among others) to make the factory blend into its surroundings in a manner that is more pleasing on the eye.
- 🌿 Rollout of the RENOVA project, designed to make use of every last bit of the tree, in this instance by using eucalyptus stumps to produce pulp.
- 🌿 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. By the end of the first half of 2017 agreements covering 630 hectares had been closed and a further 1,400 hectares were being analysed.
- 🌿 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. No significant progress was made in 1H17.
- 🌿 Continuation of the cross-border work between the Spanish-Portuguese teams for the exchange of know-how and strategies in the effort to combat the Gonipterus pest, the biological treatment of over 25,000 hectares during the spring against this pest (>50% more than was treated in 1H16) and celebration of the second international workshop addressing the effort to combat the Gonipterus beetle, organised by Ence with over 30 experts from Spain, Portugal and Chile.
- 🌿 Consolidation of the two bio-factories set up in Huelva and Pontevedra in 2016 to research the Anaphes niten egg parasite, specifically to demonstrate to the sector the viability of integrated pest control efforts framed by efficiency criteria. Start of lab work on new biological controllers.
- 🌿 Improvements in the supply of Eucalyptus globulus plants to the sector and increase in sales of cloned plants of 81% compared to 1H16 as part of the strategy of transferring technology to the sector, which includes the provision of technical advice to owners with respect to selecting the best plant materials for planting and recommendations regarding the best forestry care solutions for each situation.

- The project dubbed "Improved ownership accreditation" designed to pinpoint the location of mature eucalyptus plantations in Galicia and Asturias in order to inform their owners of their value and possibly present bids, getting them into the market.
- The project dubbed "Unlocking value in forest tracts" designed to try to verify ownership accreditation in Galicia and Asturias by helping owners meet the related requirements.
- Agricultural biomass supply project at the energy plants in southern Spain designed to foster the recovery of waste, and not only forest waste but above all agricultural waste, preventing it from being burned, thereby helping unlock value from this by-product while helping to generate carbon-neutral power.

On the environmental management front, the biodiversity strategies are worth highlighting. To this end Ence 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, as well as fostering communication and debate in general on relevant forestry matters. During the first half of 2017 Ence participated in a total of 15 forestry-related seminars and events addressing a range of topics.

Standing timber and supplier purchases constituted 100% of the 1,438,966m³ of timber supplied to the Navia and Pontevedra factories in the first half of 2017. Of that total, approximately 412,739m³ corresponded to standing timber bought directly from forest owners or through associations with their own harvests, and the rest to suppliers. It is Company policy to reinforce purchasing of this nature in order to build a closer relationship with forest producers. It is worth highlighting the biomass purchasing activity, having supplied the factories with almost 640,715 tonnes during the period.

During the first half of 2017, 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's overall certification figures remain very impressive, with 1,259,812m³ of certified timber going through its factories in 1H17. Even more noteworthy is the volume of timber with dual certification which accounted for 92% of incoming timber in Navia and 69% in Pontevedra.

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 documented its ongoing 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 fronts, the reorganisation of the logistics effort, coupled with market adjustments, enabled a reduction in the distance the timber consumed in the Pontevedra and Navia factories has to travel from source, declining from an average supply distance of 125km in Pontevedra in 2015 to 114km in 2016 and 109km in 1H17, and from 103km, to 100km and to 93km in Navia over the same timeframe. As for the companies working on forest logistics tasks, the number of trucks was increased further to 263 in the northern region, continuing to making the fleet in use more flexible and diverse. On another front, the Company is analysing the possibility of testing the use of dual-fuel natural gas trucks to transport timber, which would make transportation more efficient and drive emissions lower.

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).

25.2. Pulp Business

Huelva Operations Centre

At the Huelva factory, the volume of energy sent to the grid increased considerably year-on-year in 1H17, rising from 204,171 MW to 240,796 MW at the 41-MW and 50-MW Huelva plants, driven mainly by the shorter annual stoppage at the 41-MW facility and growth in external sales.

All of this facility's wastewater readings in 1H17, both the volume discharged and the main indicators tracking the quality of the effluents discharged, were consistently below the thresholds stipulated in the environmental permit and down year-on-year. Most notably, enhanced management of effluents drove a reduction of over 50% in suspended solids.

The existing septic tanks are being waterproofed and new tanks are being built to separate sewage water from process effluents.

As for air pollution, having modified the electro-filter at the biomass furnace at the 41-MW facility during the annual maintenance stoppage, these readings remained below the limits established in the facility's environmental permit.

In relation to waste generation and management, the sand and ash from the biomass furnaces was used to make technical flooring, consolidating this strategy for recovering this waste.

Lastly, in relation to the dismantling of the pulp production facilities, the work to decommission the timber buildings and facilities (phase 2) finished during the first half. Work is currently focused on dismantling the facilities and equipment in the central area, dismantling the facilities and equipment in the biological treatment and causticising areas of the factory and the paperwork have been presented to the authorities for the dismantling of the timber area and the Babcock-Wilcox equipment and for withdrawing the asbestos from the bleaching area roof.

Merida Operations Centre

During the first half of 2017, operations at the Merida plant were *business as usual*; it delivered its production targets for the period, optimised use of all available resources and made progress on its continuous improvement strategy.

The wastewater and air emissions readings remained at all times within the limits established in the facility's environmental permit.

During the programmed annual maintenance stoppage, the transformer station located close to the Guadiana River was moved, as demanded by the Guadiana Water Confederation, with the authorisation of the regional government of Extremadura.

The work to refurbish the biomass storage facility attached to the plant finished during the first half, increasing biomass storage capacity by around 7,000 tonnes. All the paperwork needed to commission the new capacity has been presented to the authorities and the definitive go-ahead is pending.

The company is tracking particles emanating from diffuse sources in order to formulate an action plan for the areas most exposed to this problem and minimise the possible fallout from operations, especially during the times of the year in which the biomass is at its driest.

The Environmental Monitoring Programme to Control Risks to Fauna remained 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.

On the waste management front, slag volumes increased slightly as a result of higher consumption of agricultural waste.

Lastly, the plant continues to collaborate with other companies in the region on the LIFE ICIRBUS project, researching how to recover ash waste. Phase three of this project was set in motion in 1H17 to field test the fertilisers developed and to lab test new materials.

Sustainability of biomass as a fuel

The generation of power from low-carbon biomass generates one thousand times fewer carbon emissions than a coal-fired plant and 400 times fewer than a CCGT plant. It further prevents the uncontrolled burning of agricultural waste (which has significant environmental ramifications) and helps to keep forests clear, reducing the incidence of forest fires by up to 70%. Moreover, it is an indigenous, renewable and programmable (does not depend on the wind, sun or rain) fuel such that imports of fossil fuels are reduced while creating more - sustainable - jobs than its alternatives: 30 direct, indirect and induced jobs per MW, according to the calculations presented in the Biomass Spain 2015 report issued by APPA, Spain's renewable energy business association.

Ence is Spain's number-one producer of renewable power from forestry and agricultural biomass, Europe's leading producer of eucalyptus pulp and the leading end-to-end and sustainable manager of forest land and crops in Spain.

Against this backdrop, on 12 July 2017, Ence published its 10-Point Declaration on the Sustainability of Biomass as a Fuel. It is a pioneering initiative in the Spanish business landscape and is designed to underpin the Company's commitment to using biomass sustainably and caring for the environment in making use of this renewable source of energy.

With this initiative, Ence is seeking to look into what the future holds in store for biomass and to guarantee all of its stakeholders that it will use biomass sustainably and respect the natural resources involved without fail.

Ence drew from the biomass sustainability criteria established by some of Europe's leading environmentalist organisations in formulating its declaration. Ence's commitments are articulated around respect for its natural surroundings and materialise in the following pledges:

1. Respect for the natural environment: Management of biomass will respect at all times the ability to renew biomass resources and soil quality and will not harm the natural surroundings.
2. Compatibility with sustainability farming and forestry practices: Ence's business activities will be conducted in a manner that is compatible with best agricultural and forestry practice guides, no matter the crop or species used.
3. No burning of round wood: Ence will not use round wood with a diameter of more than 10cm or wood deriving from farmed invasive species as fuel.

4. Respect for the priority uses of biomass: The biomass used by Ence will not compete with other potential sustainable and priority uses of biomass (food, construction, furniture, etc.).
5. No use of biomass that competes with food: Ence will not use biomass that comes from energy crop plantations on land apt for farming and producing food crops.
6. Exclusive use of surplus agricultural biomass: Ence will only use surplus agricultural biomass and biomass that does not imply reducing the amount earmarked to feeding livestock.
7. Respect for the law and human rights: The harvesting of biomass will be performed at all times in keeping with prevailing legislation, human rights and community interests.
8. Use of best available technologies: Ence will use the best available techniques when transporting and storing biomass and generating power from it with a view to minimising its environmental impact and maximising energy efficiency.
9. Minimisation of carbon emissions: Ence will analyse its total carbon footprint, considering the sum of greenhouse gas emissions throughout the product's entire life cycle, and will limit the distances travelled to harvest agricultural and forestry waste.
10. Maximisation of energy efficiency: Ence will champion enhanced energy performance by developing and deploying technology that leverages the residual useful heat generated at its plants for use in other local industries and for other purposes.

26. Events after the reporting date

At a meeting held on 26 July 2017, the Board of Directors of the Company resolved to pay an interim dividend from 2017 profits of €0.061 per share (before withholdings), in cash, implying the payment of up to €15,023 thousand. The dividend is payable on 6 September 2017.

The table below sets out the related liquidity statement, as required under article 277 of the Corporate Enterprises Act, evidencing the existence of sufficient liquidity to justify payment of the above interim dividend:

	Thousands of euros
Available liquidity as of 30 June 2017:	
Cash	140.536
	140.536
Interim dividend payment (maximum amount)	(15.023)
Forecast net cash flows until date of approval of interim dividend	-
Forecast liquidity as of date of approval of interim dividend	125.513
Forecast cash receipts until 30 June 2018	
Cash flows from operating activities (proceeds net of payments)	36.359
Dividends receivable	50.000
Forecast cash outflows until 30 June 2018	
Capital expenditure & income tax	(32.839)
Financing transactions (payments of interest and repayment of principal)	(18.501)
Forecast liquidity as of 30 June 2018	160.532

In addition, the Company had an undrawn credit line at 30 June 2017 of €90 million (this facility matures in 2021).

Appendix

**Condensed statement of
financial position at 30 June
2017 and 31 December 2016 and
consolidated income statement
and consolidated statement of
cash flows for the six month
periods ended 30 June 2017 and
2016 for the PULP and ENERGY
businesses**

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 30 JUNE 2017 AND 2016

Thousands of euros	30 June 2017				31 December 2016			
	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL
NON-CURRENT ASSETS:								
Intangible assets	14.006	2.871	-	16.877	15.204	2.735	-	17.939
Property, plant and equipment	442.970	230.173	-	673.143	451.359	234.940	-	686.299
Biological assets	78.362	4.515	-	82.877	79.038	4.373	-	83.411
Non-current investments in group companies				-				-
Equity instruments	198.599	-	(198.599)	-	198.599	-	(198.599)	-
Loans to group companies	75.177	-	(75.177)	-	71.804	1	(71.805)	-
Other financial assets	9.886	4.903	-	14.789	5.640	5.994	-	11.634
Deferred tax assets	52.298	10.854	-	63.152	57.780	11.283	(1)	69.062
	871.298	253.316	(273.776)	850.838	879.424	259.326	(270.405)	868.345
CURRENT ASSETS:								
Non-current assets held for sale	4.395	13	-	4.408	6.487	396	-	6.883
Inventories	29.009	10.587	-	39.596	35.363	8.244	-	43.607
Trade and other receivables								
Trade receivables, third parties	84.422	688	-	85.110	73.597	4.625	-	78.222
Trade receivables, related parties	1.153	24.417	(25.570)	-	9.721	22.797	(32.518)	-
Other receivables	5.082	227	-	5.309	1.943	56	-	1.999
Government and authorities	11.308	230	-	11.538	8.477	302	32	8.811
Income tax receivable from tax authorities	912	589	-	1.501	912	547	-	1.459
Current financial assets:				-				-
Derivatives	4.002	-	-	4.002	-	-	-	-
Other financial assets	9.764	6	-	9.770	9.575	5	-	9.580
Cash and cash equivalents	141.949	90.087	-	232.036	112.098	97.766	-	209.864
Other current assets	6.534	619	(667)	6.486	3.485	85	-	3.570
	298.530	127.463	(26.237)	399.756	261.658	134.823	(32.486)	363.995
TOTAL ACTIVO	1.169.828	380.779	(300.013)	1.250.594	1.141.082	394.149	(302.891)	1.232.340

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 30 JUNE 2017 AND 2016

Thousands of euros	30 June 2017				31 December 2016			
	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL
EQUITY:								
Share capital	221.645	116.136	(116.136)	221.645	225.245	116.136	(116.136)	225.245
Share premium	170.776	74.463	(74.463)	170.776	170.776	82.463	(82.463)	170.776
Parent company reserves	158.319	-	-	158.319	161.269	(1)	-	161.268
Reserves in fully-consolidated companies	113.103	(5.980)	(45.913)	61.210	121.990	(19.819)	(42.556)	59.615
Valuation adjustments	46.930	(2.369)	-	44.561	30.262	(3.009)	-	27.253
Parent company retained earnings (prior-year losses)	(92.436)	(45.913)	45.913	(92.436)	(109.117)	(42.555)	42.556	(109.116)
Profit/(loss) for the year	34.478	4.987	(8.000)	31.465	27.992	10.483	-	38.475
Interim dividend	-	-	-	-	(7.825)	-	-	(7.825)
Translation differences	59	-	-	59	86	-	-	86
Own shares - parent company shares	(3.663)	-	-	(3.663)	(11.963)	-	-	(11.963)
Other equity instruments - shareholder remuneration plan	1.293	77	-	1.370	488	29	-	517
Equity attributable to owners of the parent	650.504	141.401	(198.599)	593.306	609.203	143.727	(198.597)	554.331
Non-controlling interests		7.905		7.905		7.234		7.234
TOTAL EQUITY	650.504	149.306	(198.599)	601.211	609.203	143.727	(198.597)	561.565
NON-CURRENT LIABILITIES:								
Bonds and other marketable securities	244.114	-	-	244.114	243.631	-	-	243.631
Bank borrowings	23.571	100.068	-	123.639	25.714	107.218	-	132.932
Grants	8.109	1.140	-	9.249	8.454	1.217	-	9.671
Derivative financial instruments	-	5.966	-	5.966	3.992	7.756	-	11.748
Other financial liabilities	39.390	-	-	39.390	39.419	-	-	39.419
Deferred tax liabilities	19.372	2.804	-	22.176	17.914	3.204	-	21.118
Non-current provisions	5.738	404	-	6.142	5.845	322	-	6.167
Non-current borrowings from group companies	-	75.177	(75.177)	-	1	71.800	(71.801)	-
	340.294	185.559	(75.177)	450.676	344.970	191.517	(71.801)	464.686
CURRENT LIABILITIES:								
Bank borrowings	7.135	14.101	-	21.236	6.713	13.763	-	20.476
Derivative financial instruments	199	2.693	-	2.892	11.663	3.078	-	14.741
Other financial liabilities	1.486	-	-	1.486	1.305	-	-	1.305
Trade and other payables								
Trade payables, third parties	130.678	24.574	(664)	154.588	132.552	21.617	-	154.169
Trade payables, related parties	24.417	1.156	(25.573)	-	22.800	9.722	(32.522)	-
Income tax payable	6.195	886	-	7.081	117	(4)	4	117
Other payables to public authorities	5.017	2.504	-	7.521	7.133	3.495	27	10.655
Other current liabilities	-	-	-	-	-	-	-	-
Current provisions	3.903	-	-	3.903	4.626	-	-	4.626
	179.030	45.914	(26.237)	198.707	186.909	51.671	(32.491)	206.089
TOTAL EQUITY AND LIABILITIES	1.169.828	380.779	(300.013)	1.250.594	1.141.082	386.915	(302.889)	1.232.340

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT BY BUSINESS FOR THE FIRST SIX MONTHS OF 2017 AND 2016

Thousands of euros	1H17				1H16			
	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL
Continuing operations:								
Revenue	285.245	58.234	(1.701)	341.778	253.392	38.040	(2.268)	289.164
Gain/(loss) on hedging transactions	(3.191)	14	-	(3.177)	1.011	2.420	-	3.431
Changes in inventory of finished goods and work in progress	(8.945)	-	-	(8.945)	(3.504)	-	-	(3.504)
Cost of sales	(119.539)	(17.153)	1.701	(134.991)	(123.180)	(10.443)	2.268	(131.355)
GROSS PROFIT	153.570	41.095	-	194.665	127.719	30.017	-	157.736
Own work capitalised	2.058	312	-	2.370	4.049	653	-	4.702
Other operating income	8.377	(529)	(3.262)	4.586	12.824	-	(10.762)	2.062
Grants taken to income	870	77	-	947	1.126	26	-	1.152
Employee benefits expense	(30.685)	(3.157)	-	(33.842)	(33.645)	(1.381)	-	(35.026)
Depreciation and amortisation charges	(25.044)	(7.573)	-	(32.617)	(19.754)	(6.116)	-	(25.870)
Depletion of forest reserve	(2.482)	(209)	-	(2.691)	(3.024)	(874)	-	(3.898)
Impairment of and gains/(losses) on disposals of intangible assets and PP&E	4.177	(71)	-	4.106	471	(170)	-	301
Other operating expenses	(64.943)	(19.145)	3.262	(80.826)	(67.310)	(20.874)	10.762	(77.422)
OPERATING PROFIT/(LOSS)	45.898	10.800	-	56.698	22.456	1.281	-	23.737
Finance income:								
From interests in equity instruments in group companies	8.000	-	(8.000)	-	-	-	-	-
From marketable securities & other financial instruments:								
Related parties	1.463	-	(1.463)	-	1.183	202	(1.385)	-
Third parties	228	241	-	469	76	58	-	134
Finance costs								
Related-party borrowings	-	(1.463)	1.463	-	(202)	(1.183)	1.385	-
Third-party borrowings	(8.718)	(1.815)	-	(10.533)	(8.274)	(1.803)	-	(10.077)
Change in fair value of financial instruments	942	(31)	-	911	-	-	-	-
Exchange differences	(4.236)	(4)	-	(4.240)	(1.194)	-	-	(1.194)
Impairment of and gains/(losses) on disposal of financial assets	(124)	-	-	(124)	-	-	-	-
NET FINANCE COST	(2.445)	(3.072)	(8.000)	(13.517)	(8.411)	(2.726)	-	(11.137)
PROFIT/(LOSS) BEFORE TAX	43.453	7.728	(8.000)	43.181	14.045	(1.445)	-	12.600
Income tax	(8.975)	(1.933)	-	(10.908)	(3.742)	344	-	(3.398)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS	34.478	5.795	(8.000)	32.273	10.303	(1.101)	-	9.202
CONSOLIDATED PROFIT FOR THE PERIOD	34.478	5.795	(8.000)	32.273	10.303	(1.101)	-	9.202
Profit/(loss) attributable to non-controlling interests		808	-	808			-	
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	34.478	4.987	(8.000)	31.465	10.303	(1.101)	-	9.202
PROFIT/(LOSS) FOR THE PERIOD	34.478	4.987	(8.000)	31.465	10.303	(1.101)	-	9.202

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN CASH FLOW BY BUSINESS FOR THE FIRST SIX MONTHS OF 2017 AND 2016

Thousands of euros	1H17				1H16			
	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:								
Consolidated profit/(loss) for the period before tax	43.453	7.728	-8.000	43.181	14.045	-1.445	0	12.600
Adjustments for:								
Depreciation and amortisation	28.106	7.202		35.308	24.302	5.466	0	29.768
Changes in provisions and other deferred expense (net)	2.716	1.401		4.117	417	2.782	0	3.199
Impairment of and gains/(losses) on disposals of intangible assets and PP&E	-4.066	197		(3.869)	-471	170	0	(301)
Finance income	-1.691	-241	1.463	(469)	-1.259	-260	1.385	(134)
Finance costs	11.043	3.309	-1.463	12.889	9.606	2.985	-1.385	11.206
Grants taken to income	-596	-77		-673	-759	-26	0	-785
	35.512	11.791		47.303	31.836	11.117	0	42.953
Changes in working capital:								
Inventories	5.602	-2.512		3.090	-1.928	189	0	(1.739)
Trade and other receivables	-18.429	-2.096		(20.525)	-214	-4.835	0	(5.049)
Short-term investments	-129	0		(129)	-2.600	0	0	(2.600)
Trade payables, other payables and other liabilities	1.164	242		1.406	-4.087	333	0	(3.754)
	(11.792)	(4.366)		(16.158)	(8.829)	(4.313)		(13.142)
Other cash flows from operating activities:								
- Interest paid	(7.719)	(4.444)	1.463	(10.700)	(8.113)	(4.696)	1.385	(11.424)
- Interest received	1.691	241	(1.463)	469	1.259	260	(1.385)	134
- Income tax received (paid)	(2.031)	(1.292)	-	(3.323)	(635)	(126)	-	(761)
- Other receipts / (payments)	-	-	-	-	-	-	-	-
	(8.059)	(5.495)		(13.554)	(7.489)	(4.562)		(12.051)
Net cash from operating activities (I)	59.114	9.658	(8.000)	60.772	29.563	797	-	30.360
CASH FLOWS FROM INVESTING ACTIVITIES:								
Investments:								
Property, plant and equipment and biological assets	(19.698)	(1.914)		(21.612)	(27.787)	(1.126)	-	(28.913)
Intangible assets	(430)	(272)		(702)	(3.893)	(38)	-	(3.931)
Other financial assets	774	1.092		1.866	991	129	-	1.120
	-19.354	-1.094	0	-20.448	-30.689	-1.035		-31.724
Proceeds:								
Property, plant and equipment and biological assets	2.654	0		2.654	7.246	0	0	7.246
Other assets	-	-		-	91	-	-	91
	2.654	0	0	2.654	7.337	0		7.337
Net cash used in investing activities (II)	-16.700	-1.094	0	-17.794	-23.352	-1.035		-24.387
CASH FLOWS FROM FINANCING ACTIVITIES:								
Proceeds from and payments for equity instruments								
Buyback of own equity instruments	-19.105	0		(19.105)	-19.582	0	0,00	(19.582)
Disposal of own equity instruments	18.982	0		18.982	18.494	0	0,00	18.494
	-123	0	0	-123	-1.088	0		-1.088
Proceeds from and repayments of financial liabilities:								
Group companies and associates	1.244	-1.244		-	(12.650)	12.650	0,00	-
Proceeds from issuance of bonds and other marketable securities, net of is	-	0		-	(180)	0	0,00	(180)
Increase/(decrease) in bank borrowings, net of issuance costs	-2.083	-6.999		(9.082)	(199)	-14.035	0,00	(14.234)
Repayment of other borrowings and cancellation of derivatives	-	0		-	-	0	0,00	-
Grants received	(23)	-		(23)	(336)	0	0,00	(336)
	-862	-8.243	0	-9.105	-13.365	-1.385		-14.750
Dividends and payments on other equity instruments								
Dividends	(11.578)	(8.000)	8.000	(11.578)	(24.886)	-	-	(24.886)
	(11.578)	(8.000)	8.000	(11.578)	(24.886)	-		(24.886)
Translation differences								
	-	0		-	-	0	-	-
Net cash used in financing activities (III)	(12.563)	(16.243)	8.000	(20.806)	(39.339)	(1.385)		(40.724)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)	29.851	(7.679)	-	22.172	(33.128)	(1.623)		(34.751)
Cash and cash equivalents, opening balance	112.098	97.766		209.864	93.895	65.670		159.565
Cash obtained as a result of a business combination	-	-		-	-	-		-
Cash and cash equivalents, closing balance	141.949	90.087		232.036	60.767	64.047		124.814

Ence Energía y Celulosa, S.A. and subsidiaries

Group management report for the six months ended 30 June 2017

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 maximizing 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 Vice-Chairman and Chief Executive Officer (CEO) 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 Business Officer, the Director of New Power Plants and Forest Assets, the Director of Supply Chain Operations, the Finance and Corporate Development Officer, the Corporate Resources Officer, the Communication and Institutional Relations Officer and the Independent Energy Plants 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 78.7% of Group EBITDA in the first half of 2017, and the generation of energy from renewable sources at standalone power plants, which accounted for the remaining 21.3%.

Ence has two eucalyptus pulp mills in Spain: a 605,000-tonne-capacity facility in the town of Navia, Asturias, and a 465,000-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 CHP plant, integrated within the Pontevedra mill, and a 40.3-MW CHP 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 five such power plants: two in Huelva, with installed capacity of 50 MW and 41 MW, respectively, one in Merida (20 MW), one in Ciudad Real (16 MW) and one in Jaen (16 MW).

These assets position Ence as one of Europe's largest short-fibre pulp (BHKP) producers, with installed capacity of 1,070,000 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 143 MW distributed between five standalone plants located in Andalusia, Extremadura and Castile la Mancha. Moreover, Ence is the leading player in Spain in the end-to-end and responsible management of forest land and crops.

Pulp is the basic raw material used to manufacture 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.

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.

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 power generation capacity fuelled by 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

Attached to this management report is the "Second-quarter 2017 earnings report" which provides a detailed analysis of how the Group's Pulp and Energy business performed during the first half of 2017.

On the Pulp side of the business, the report analyses developments in the global pulp market and the trend in the Group's pulp sales and cash cost, breaks down other items of income and expense and outlines the trend in the business's cash flow generation and net debt.

On the Energy side, it analyses the trend in the electricity market in Spain, the Group's revenue from energy sales, the associated costs, cash flow generation and net debt.

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 2017.

Key risks and sources of uncertainty

The risk factors to which the Ence Group is exposed are identified and described in note 6 of the 2016 consolidated financial statements of Ence Energía y Celulosa, S.A. and its subsidiaries and the accompanying management report.

Events after the reporting date

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

Corporate governance

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

Purchase-sale of own shares

The disclosures concerning own shares and related transactions are provided in note 17.4 of the accompanying condensed consolidated interim financial statements for the six months ended 30 June 2017.

Appendix

Second-quarter 2017 earnings report

The condensed consolidated interim financial statements and management report for the six months ended 30 June 2017, prepared under the IFRS adopted by the European Union, were authorised for issue by the directors of the Parent on 26 July 2017 and span 58 sheets of ordinary paper (the financial statements on pages 1 to 5 and the accompanying explanatory notes on pages 29 to 58), while the management report spans 29 sheets, made up of an initial 4-sheet report plus a 25-page appendix, all of which witnessed by the Board's Secretary with this last sheet signed by all of the Parent's directors.

In addition, for the purposes of article 11.1 of Spanish Royal Decree 1362/2007, of 19 October 2007, in relation to the interim financial report of Ence Energía y Celulosa, S.A. and its subsidiaries in respect of the first six months of 2017, which disclosures include the pertinent condensed consolidated financial information, the undersigning directors make the following statement of responsibility: "to the best of their knowledge, the aforementioned condensed financial statements for the six months ended 30 June 2017, which have been prepared in keeping with applicable accounting standards, provide a fair view of the equity, financial position and performance of the Company and its consolidated entities taken as a whole and the aforementioned interim management report includes a fair analysis of the required disclosures".

Juan Luis Arregui Ciarsolo

Ignacio de Colmenares y Brunet

Javier Echenique Landiribar

José Carlos del Álamo Jiménez

José Guillermo Zubia Guinea

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