Translation of financial statements originally issued in Spanish and prepared in accordance with IFRS.
In the event of a discrepancy, the Spanish-language version prevails

Ence Energía y Celulosa, S.A. and Subsidiaries

Summarised Consolidated Financial Statements for the six-month period ended 30 June 2013 prepared in accordance with International Financial Reporting Standards and Consolidated Directors`Report

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

SUMMARISED CONSOLIDATED BALANCE SHEETS AT 30 JUNE 2013 AND 31 DECEMBER 2012

Thousand euro	Notes	30/06/2013 (*)	31/12/2012
NON-CURRENT ASSETS:			
Intangible assets	3	20,294	21,556
Property, plant and equipment	4	788,129	774,179
Investment property		2,022	2,078
Biological assets	5	169,992	170,958
Other investments		2,927	4,144
Deferred tax assets	13	28,473	30,580
		1,011,837	**1,003,495**
CURRENT ASSETS:			
Non-current assets held for sale	12	669	59,345
Inventories	7	76,829	87,575
Trade and other receivables	8	120,123	138,580
Public authorities	13	20,040	29,657
Short-term investments-			
Derivatives	6	3,783	10,721
Other investments	11	55,796	7,575
Cash and cash equivalents	11	116,912	40,205
Other current assets		8,176	896
		402,328	**374,554**
TOTAL ASSETS		**1,414,165**	**1,378,049**
EQUITY:	9		
Share capital		225,245	225,245
Share premium		210,037	230,221
Parent company reserves		117,680	99,916
Reserves in fully consolidated companies		125,691	112,543
Valuation adjustments to equity		51,961	52,992
Profit for the year attributed to the parent company		30,318	43,031
Translation differences		(1,716)	(2,011)
Parent company treasury shares		(373)	(37,213)
Equity attributable to the parent company's shareholders		**758,843**	**724,724**
TOTAL EQUITY		**758,843**	**724,724**
NON-CURRENT LIABILITIES:			
Debentures and other marketable securities	11	240,631	-
Provisions	10	12,768	13,258
Bank borrowings	11	101,167	309,632
Grants		16,598	20,076
Derivatives	6	9,125	16,627
Other financial liabilities		9,246	9,291
Deferred tax liabilities	13	29,672	31,745
		419,207	**400,629**
CURRENT LIABILITIES:			
Liabilities related to non-current assets held for sale	12	-	-
Bank borrowings	11	11,306	24,108
Derivatives	6	4,329	14,886
Other financial liabilities		1,463	1,562
Trade and other payables	8	199,389	201,902
Corporate income tax	13	7,790	1,313
Other payables to the Public Administrations	13	11,353	8,472
Other current liabilities		485	453
		236,115	**252,696**
TOTAL EQUITY AND LIABILITIES		**1,414,165**	**1,378,049**

Notes 1 to 18 form an integral part of the summarised consolidated balance sheet at 30 June 2013

(*) Unaudited balances

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

SUMMARISED CONSOLIDATED INCOME STATEMENTS FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2013 AND 2012

Thousand euro	Note	30/06/2013 (*)	30/06/2012 (*)
Continuing operations:			
Revenue	14.a	439,160	392,614
Profit/(loss) on hedging operations	6	6,301	(12,551)
Changes in inventories of finished products and work in progress		(3,691)	(2,411)
Raw materials and consumables	14.b	(209,903)	(196,943)
GROSS MARGIN		**231,867**	**180,709**
Own work capitalised	5	5,697	14,047
Other operating income		1,762	810
Capital grants released to income		3,448	2,234
Staff costs	14.c	(41,648)	(38,754)
Depreciation charge	3, 4 and 5	(38,190)	(30,048)
Impairment and results on disposals of property, plant and equipment and intangible assets		442	1,314
Other operating expenses	14.e	(109,305)	(94,651)
OPERATING PROFIT		**54,073**	**35,661**
Financial income		907	407
Changes in fair value of financial instruments:	6	624	892
Other financial expenses	14.f	(14,369)	(12,194)
Exchange differences		1,791	(833)
FINANCIAL LOSS		**(11,047)**	**(11,728)**
Net results on valuation of non-current assets classified as held for sale	10	-	-
PROFIT BEFORE TAXES		**43,026**	**23,933**
Corporate income tax	13	(12,708)	(7,970)
PROFIT FOR YEAR FROM CONTINUING OPERATIONS		**30,318**	**15,963**
PROFIT FOR THE YEAR		**30,318**	**15,963**
Earnings per share:			
Basic	9	**0.12**	**0.06**
Diluted	9	**0.12**	**0.06**

Notes 1 to 18 form an integral part of the summarised consolidated income statement for the six month period ended 30 June 2013 .

(*) Unaudited balances

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2013 AND 2012

Thousand euro	Note	30/06/2013 (*)	30/06/2012 (*)
RESULTS OF THE CONSOLIDATED INCOME STATEMENT (I)	**9**	**30,318**	**15,963**
Income and expense taken directly to consolidated equity-			
Cash flow hedges (**)		5,102	(9,727)
Translation differences (**)		295	2,088
Tax effect		(1,532)	2,919
TOTAL INCOME AND EXPENSES ALLOCATED DIRECTLY TO CONSOLIDATED EQUITY (II)	**9**	**3,865**	**(4,720)**
Transfers to the consolidated income statement			
-On cash-flow hedges (**)		(6,572)	14,009
- Tax effect		1,971	(4,202)
TOTAL TRANSFERS TO THE CONSOLIDATED INCOME STATEMENT (III)	**9**	**(4,601)**	**9,807**
TOTAL CONSOLIDATED COMPREHENSIVE INCOME (I+II+III)		**29,582**	**21,050**

Notes 1 to 18 form an integral part of the summarised consolidated statement of comprehensive income for the six month period ended 30 June 2013 .

(*) Unaudited balances
(**) Items that could be recycled through the income statement

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

TOTAL CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2013 AND 2012

Thousand euro	**Balance at 1-1-2013**	**Recognised income/ (expense)**	**Distribution of prior -year results**	**Dividend payment**	**Trading in treasury shares**	**Balance at 30-06-2013 (*)**
Share capital	225,245	-	-	-	-	225,245
Share premium	230,221	-	-	(20,184)	-	210,037
Legal reserve	42,876	-	2,173	-	-	45,049
Other parent company reserves	57,040	-	27,710	(14,451)	2,332	72,631
Reserves in fully consolidated companies	112,543	-	13,148	-	-	125,691
Translation differences	(2,011)	295	-	-	-	(1,716)
Parent company treasury shares	(37,213)	-	-	18,481	18,359	(373)
Valuation adjustments to equity	52,992	(1,031)	-	-	-	51,961
Profit for the year attributed to the parent company	43,031	30,318	(43,031)	-	-	30,318
	724,724	**29,582**	**-**	**(16,154)**	**20,691**	**758,843**

Thousand euro	**Balance at 1-1-2012**	**Recognised income/ (expense)**	**Distribution of prior -year results**	**Dividend payment**	**Trading in treasury shares**	**Balance at 30-06-2012 (*)**
Share capital	232,212	-	-	-	-	232,212
Share premium	254,328	-	-	(14,484)	-	239,844
Legal reserve	39,766	-	3,110	-	-	42,876
Other parent company reserves	66,864	-	27,993	(23,203)	(329)	71,325
Reserves in fully consolidated companies	102,454	-	10,089	-	-	112,543
Prior-year losses	-	-	-	-	-	-
Translation differences	(591)	2,088	-	-	-	1,497
Parent company treasury shares	(49,217)	-		21,173	(6,607)	(34,651)
Valuation adjustments to equity	33,155	2,999	-	-	-	36,154
Profit for the year attributed to the parent company	41,192	15,963	(41,192)	-	-	15,963
	720,163	**21,050**	**-**	**(16,514)**	**(6,936)**	**717,763**

Notes 1 to 18 form an integral part of the total summarised consolidated statement of changes in equity for the six month period ended 30 June 2013 .

(*) Unaudited balances

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

SUMMARISED CONSOLIDATED CASH-FLOW STATEMENTS FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2013 AND 2012

Thousand euro	30/06/2013 (*)	30/06/2012 (*)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated profit for the year before taxes	43,026	23,933
Adjustments to results for the year -		
Depreciation of property, plant and equipment	29,222	26,470
Exhaustion of forestry assets	8,277	3,086
Amortisation of intangible assets	691	485
Change in provisions and other deferred expenses (net)	6,636	(1,059)
Profit/loss on asset disposals	258	(1,573)
Financial income	(907)	(407)
Financial expenses	12,674	12,042
Accruals		(4,971)
Grants released to income	(664)	(638)
	56,187	**33,435**
Changes in working capital		
Trade and other receivables	25,090	21,721
Investments and other current assets	(2,834)	2,747
Trade and other payables	(5,486)	(24,799)
Inventories	13,174	4,332
	29,944	**4,001**
Other cash flows from operating activities-		
- Payment of interest	(3,958)	(11,133)
- Collection of interest	907	450
- Corporate income tax income/(expense)	(5,741)	(1,054)
	(8,792)	**(11,737)**
Net cash flows from operating activities (I)	**120,365**	**49,632**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments:		
Property, plant and equipment and biological assets	(52,656)	(36,273)
Intangible assets	(2,213)	0
Other financial assets	1,221	(19)
	(53,648)	**(36,292)**
Disinvestments:		
Property, plant and equipment	52,502	161
	52,502	**161**
Net cash flows from investing activities (II)	**(1,146)**	**(36,131)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collections and payments equity instruments		
Acquisition of own equity instruments	(7,120)	(7,710)
Disposal of treasury shares	27,800	768
	20,680	**(6,942)**
Collections and payments financial liability instruments:		
Issue of bonds and other negotiable securities, net of formalisation expenses	241,267	-
Increase (decrease) bank borrowings, net of formalisation expenses	(230,990)	3,699
Return and repayment of debts and cancellation of derivatives	(11,965)	
Grants received	(358)	5
	(2,046)	**3,704**
Dividend payments and return on other equity instruments		
Dividends	(16,154)	(16,513)
	(16,154)	**(16,513)**
Translation differences	**8**	**93**
Other collections and payments from financing activities	**(45,000)**	**-**
Time deposits	(45,000)	**-**
Net cash flows from financing activities (III)	**(42,512)**	**(19,658)**
NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (I+II+III)	**76,707**	**(6,157)**
Cash and cash equivalents at beginning of the year	40,205	71,629
Cash and cash equivalents at end of the year	116,912	65,472

Notes 1 to 18 form an integral part of the summarised consolidated cash flow statement for the six month period ended 30 June 2013 .

(*) Unaudited balances

Ence Energía y Celulosa, S.A. and subsidiaries

Notes to the Summarised Consolidated
Financial Statements for the six-month period
Ended 30 June 2013

1. Introduction, basis of presentation of the summarised consolidated half-yearly financial statements and other information

a) Introduction

Ence Energía y Celulosa, S.A. (hereinafter “ENCE” or “the Parent Company”) was incorporated in 1968 with the same of Empresa Nacional de Celulosas, S.A. and its registered address is located at Paseo de la Castellana, 35 in Madrid. On 26 April 2012 shareholders at a General Meeting of the Parent Company, formerly called Grupo Empresarial Ence, S.A., adopted a resolution to change to the company's current name.

In accordance with its bylaws, its corporate purpose consists in:

a) the manufacture of cellulose pulps and derivatives, obtaining products and elements that are necessary for those pulps and taking advantage of the by-products resulting from each;

b) the production, by any means, sale and use of electricity and other energy sources, and of materials or primary energy necessary for its generation, in accordance with the possibilities established by current legislation; and its sale, purchase and supply, under any of the modalities allowed by law.

c) the cultivation, exploitation and application of forests and forestry masses and development of specialised forestry services. The preparation and transformation of forestry products. The use and exploitation for commercial and sales purposes, of all types of forestry products (including biomass and forestry energy crops), their derivatives and by-products. Forestry studies and projects;

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

The Group's main activity is the production of BEKP cellulose pulp (Bleached Eucalyptus Kraft Pulp) using ECF (Elementary Chlorine Free) and TCF (Totally Chlorine Free) bleaching qualities using eucalyptus timber. To carry out its activity, the Group has three plants located in Spain, in the provinces of Asturias, Pontevedra and Huelva with a joint capacity of approximately 1.3 million tons per year.

Supplementary to the production of cellulose pulp, the Group produces electricity using biomass, the biofuels generated during the pulp production process (mainly lignin), and using gas and fuel oil to a lesser extent. The current production capacity is approximately 280 megawatts per year, divided up over 6 facilities.

In addition, the Group takes advantage of the experience acquired in the forestry sector and from the development of short-cycle energy crops and it is executing its expansion strategy through the biomass electricity generation business based on the use of energy crops and forestry waste. In January 2013 operations commenced at a plant in Huelva that has an installed capacity of 50 megawatts and a facility in Merida that has a capacity of 20 megawatts is currently under construction and is expected to enter into operations during the final quarter of 2014.

In order to ensure the supply of timber for the cellulose pulp manufacturing process and to satisfy the biomass needs for the power plants, the Group has surface areas located on the Iberian Peninsula at which it manages 88,523 hectares, of which 51,703 hectares are owned by the Group.

The Shares in the Parent Company are listed on the Madrid Stock Exchange.

b) Basis of presentation of the summarised consolidated half-yearly financial statements prepared in accordance with IFRS adopted by the European Union

The consolidated annual accounts for 2012 were obtained from the accounting records and the annual accounts prepared by the Parent Company and the companies forming part of the Group, and have been prepared in accordance with the financial reporting legislation that is applicable and, in particular, in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union under Regulation (CE) 1606/2002 of the European Parliament and Law 62/2003 (30 December), on tax, administrative and social order measures, such that they present a true and fair view of the Group's equity and financial situation at 31 December 2012 and the results of its operations, and changes in equity and consolidated cash flows recognized by the Group during the year then ended.

These consolidated 2012 Annual Accounts for the Group were approved by the Company's shareholders at a General Meeting held on 21 March 2013.

These summarized consolidated half-yearly financial statements are presented in accordance with the IAS 34 standards regarding Interim Financial Information and have been prepared by the Group's Directors on 25 July 2013, in accordance with the provisions of Article 12 of Royal Decree 1362/2007 (19 October), which enables Law 24/1988 (28 July), on the Stock Exchange, as they relate to the transparency requirements concerning information regarding companies whose shares are listed on an official secondary market or on another regulated market in the European Union.

In accordance with the IAS 34 standards, interim financial information is prepared only with the intention of providing updates to the content of the latest consolidated annual accounts prepared by the Group, emphasizing any new activities, events and circumstances that have taken place during the six-month period and not duplicating the information previously published in the consolidated annual accounts for 2012. Accordingly, in order to adequately understand the information presented in these summarized consolidated half-yearly financial statements, they must be read together with the Group's consolidated annual accounts for 2012.

c) Contingent liabilities

Note 22 of the notes to the Group's consolidated financial statements for the year ended 31 December 2012 provides information regarding contingent liabilities at that date. During the first six months of 2013 there have been no significant changes in the Group's contingent liabilities.

d) Comparability

The information set out in these summarised consolidated financial statements for the first half of 2012 are presented solely and exclusively for the purposes of comparison with the information relating to the six-month period ended 30 June 2013.

e) Seasonality of the Group's transactions

Given the activities performed by the the Group companies, the Group's transactions do not have any significant cyclical or seasonal nature. For this reason no specific breakdowns are included in these explanatory notes to the summarised consolidated financial statements at 30 June 2013.

However, the cellulose pulp production activity requires production to be stopped for periods ranging between 10 and 15 days to carry out maintenance work. The Group's three plants dedicated to this activity performed their annual maintenance stop during the first half of 2013. In this connection, the heading "Other current assets" in the summarised consolidated balance sheet at 30 June 2013 records 6,952 thousand Euros relating to fixed expenses accrued during the maintenance stop which, in accordance with the principle of correlating revenues and expenses, will be attributed to the income statement during the second half of 2013.

f) Relative importance

When evaluating the information to be broken down in these notes to the summarised consolidated financial statements at 30 June 2013, its relative importance has been taken into account with respect to the financial statements themselves, in accordance with the IAS 34 standards.

g) Changes in the Group´s scope of consolidation

The scope of consolidation for Ence Energía y Celulosa, S.A. has not changed during the first half of 2013.

2. Accounting policies and measurement rules

Application of new standards and interpretations

Consolidated results and the calculation of consolidated equity are sensitive to accounting principles and policies, measurement criteria and estimates made by the Parent Company's Directors when preparing the summarised consolidated financial statements for the first half of the year. In this connection, the main accounting principles and policies and measurement criteria used relate to those applied in the consolidated annual accounts for 2012, except for the following standards and interpretations that entered into force during the first half of 2013:

Legislation:	Contents	Mandatory application in
IAS 12.- "Income taxes"	Amendment that affects the deferred taxes relating to real estate properties based on the fair value model established by IAS 40 "Investment properties"	Years commencing on or after 1 January 2013
IFRS 1 (Revised) “Severe hyperinflation and the elimination of set dates applicable to first-time adopters”	The amendments relating to severe hyperinflation provide guidance regarding how to present for the first time, or summarise in the presentation of the financial statements prepared under IFRS, after a period in which the company could not comply with the IFRS requirements because its functional currency was subject to severe hyperinflation.	Years commencing on or after 1 January 2013
IFRS 13, Measurement of fair value (published in May 2011)	Establishes the framework for the fair value measurement	Years commencing on or after 1 January 2013
Amendment of IAS 1 – Presentation of Other Comprehensive Income (published in June 2011)	Minor amendment to the presentation of Other Comprehensive income.	Years commencing on or after 1 July 2012
Amendment of IFRS 7 Financial Statements: Presentation-Offset of financial assets against financial liabilities (published in December 2011)	Introduction of new breakdowns relating to the offset of financial assets and liabilities under IAS 32.	Years commencing on or after 1 January 2013
IFRIC 20: "Stripping cost on the production phase of a surface mine” (published in October 2011)	The IFRS Interpretations Committee covers the accounting treatment of the cost of eliminating waste from surface mines.	Years commencing on or after 1 January 2013
Improvements to IFRS Cycle 2009-2011 (published in May 2012):	Exception in consolidation for parent companies that meet the definition of investment company.	Years commencing in January 2013
Amendment of IAS 19 Employee compensation (published in June 2011)	The amendments fundamentally affect the defined benefit plans, since one of the essential changes in the elimination of the "fluctuation band"	Years commencing on or after 1 January 2013

Valuation assessment standards

The valuation assessment standards used when preparing the Group's consolidated annual accounts in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union, are the same as those applied to the consolidated annual accounts for 2012, except for the following changes:

a) Estimation of fair value

The Group adopted IFRS 13 on 1 January 2013. This rule changes the current definition of fair value by confirming that the Company's own credit risk must be recognised in the fair value of liabilities, which in the Group's case only relate to those deriving from liabilities maturing in the medium and long-term. The impact of the first application of this standard is prospective in the income statement, together with the rest of the changes affecting the fair value of derivatives.

The measurement techniques that have been used differ based on the type of the instrument concerned. The following measurement techniques have been used: discounted cash flows from interest and exchange rate derivatives, Montecarlo-quanto for stock-based compensation plans and Barone-Adesi and Whaley for US stock option plans.

Specifically, the fair value calculations for each type of financial instrument (Note 6) are as follows:

- Interest-rate swaps are measured by updating future settlements between the fixed and variable rate, in accordance with implicit market rates, obtained based on the short-term and long-term swap rate curves.
- Exchange rate hedges for foreign currency are measured using the listed cash exchange rate and the interest rate curves for the currencies concerned.
- Commodity contracts (fuel) are similarly measured, taking into account future prices for the underlying asset and the implicit volatility of the options.

The impact of this amendment has been a decrease in the value of derivative interest rate hedge liabilities totalling 767 thousand Euros.

In accordance with that legislation, fair value measurements of the various derivative financial instruments are placed in level 2 of the hierarchy of fair values established by IFRS 13, as they are referenced to observable variables other than listed prices. There have been no transfers between level 1 and level 2 during the period that ended 30 June 2013.

b) Long-term incentive plan

Shareholders of the Parent Company approved a new "Long-term incentive plan for the period 2013-2015" in the General Meeting held on 22 March 2013.

The Plan has the goal of reinforcing the orientation of the executive team to attaining the objectives set by the Board of Directors during the term of the plan, and to retain talent. The beneficiaries of the Plan are the CEO, the members of the Directors Committee and other key executives. At 30 June 2013 a total of 51 employees are included in the Plan.

The incentive set out in the Plan consists of a percentage of the average fixed annual salary over the period 2013-2015 (100% CEO, 75% members of the Directors committee and 50% for the rest of the executives) and obtaining the incentive is based on achieving three equally weighted goals: increase in the value of the Parent Company's shares, a relative increase to the Parent Company's shares compared to a group of shares in companies in the cellulose paste production sector and increase in the Company's market share value in respect to its value at 31 December 2012, and the Company`s theoretical value using as reference a multiplier of the average EBITDA in the period 2013-2015.

Each of these objectives includes a critical level below which they are considered not to have been met and a maximum level over which the beneficiary is considered to have reached 120% compliance. To be entitled to the incentive, the beneficiary must effectively be rendering services on 1 October 2016, except under certain situations defined in the Plan.

The fair value of the Special Variable Compensation with respect to the portion relating to the objectives associated with the evolution of the price of the Parent Company's shares, considered on an individual basis and compared with the shares in a group of companies in the same sector, has been determined using the Montecarlo-quanto method for stock-based compensation plans, method that is generally accepted for these types of financial instruments. The liability associated with the objective of improving the theoretical value of the Company has been estimated considering that this objective will be met. In accordance with these measurement methods, the expense accrued in this respect in 2013 was 277 thousand Euros.

Responsibility for the information and estimates made

When preparing the summarised consolidated financial statements for the six-month period ended 30 June 2013, estimates have been used to measure some assets, liabilities, expenses and commitments. These estimates relate basically to the following:

- Evaluation of potential losses due to the impairment of certain assets
- Useful lives of property, plant and equipment and intangible assets
- The fair value of certain assets, mainly financial instruments.
- Assumptions employed in the actuarial calculation of pension liabilities and other commitments with employees
- The calculation of the provisions necessary to cover the risks deriving from litigation in progress and insolvencies.
- The recoverability of deferred tax assets

These estimates were made using the best information available at 30 June 2013. However, future events could force the Group to modify its estimates on a prospective basis, in accordance with IAS 8.

3. Intangible assets

Movements during the first half of 2013 in the various intangible asset accounts and the relevant accumulated amortisation were as follows:

Thousand Euros	Balance at 1/1/2013	Additions or Charge for the Year	Disposals or Reductions	Transfers	Balance at 30/06/2013
Software	14,358	426	-	-	14,784
Emission rights	16,021	15	(3,018)	-	13,018
Other intangible assets (*)	14,204	-	-	-	14,204
Prepayments	-	1,788	-	208	1,996
Cost	**44.583**	**2,229**	**(3,018)**	**208**	**44,002**
Software	(13,964)	(80)	-	-	(14,044)
Other intangible assets:	(9,063)	(601)	-	-	(9,664)
Amortisation and impairment	**(23,027)**	**(681)**	**-**	**-**	**(23,708)**
Total	**21,556**				**20,294**

(*) Mainly includes development expenses

The Group has implemented a transformation plan for its information systems based on the SAP platform, which will be the technology management tool that will support its business processes starting in 2015. The investment incurred to date, 1,564 thousand Euros relate to the first prepayments for the project which, taken as a whole, is estimated to total 9 million Euros.

In accordance with the National Assignment Plan 2008-2012, the Group received greenhouse gas emission rights covering 657,970 tonnes of CO_2 per year free of charge. On 1 January 2013 a new National Assignment Plan 2013-2020 started, under which the estimate is that the Group will receive an assignment of rights approximately equivalent to 150,000 tonnes of CO_2. The final assignment has yet to be approved by the European Commission.

During the first half of 2013, the Group has returned rights relating to 491,690 tonnes of CO_2 consumed in 2012, using the excess tonnes of CO_2 from prior years. The rights relating to the remaining 86,139 tonnes of CO_2 for 2012 are recognised under the heading “Emission rights” totalling 532 thousand Euros. The Group has rights relating to 506,202 tonnes of CO_2 acquired in 2012 for 12,486 thousand Euros.

The heading “Provisions” under non-current liabilities in the consolidated balance sheet records 5,222 thousand Euros, relating to the liability deriving from the consumption of 237,099 tonnes of CO_2 during the first half of 2013 (Note 10).

4. Property, plant and equipment

Movements during the first half of 2013 in the various asset accounts on this balance sheet heading and the relevant accumulated amortisation were as follows:

Thousand Euros	Balance at 1/1/2013	Additions or Charge for the Year	Disposals or Reductions	Transfers	Balance at 30/06/2013
Forested land	125,270	-	-	-	125,270
Other land	6,372	31	-	2,200	8,603
Buildings	138,186	-	(8)	90	138,268
Plant and machinery	1,032,987	1,055	(1,288)	152,932	1,185,686
Other property, plant and equipment	32,607	4,168	(26)	418	37,167
Prepayments and assets under construction	189,817	38,176	(175)	(155,848)	71,970
Cost	**1,525,239**	**43,430**	**(1,497)**	(208)	**1,566,964**
Buildings	(80,986)	(1,934)	-	20	(82,900)
Plant and machinery	(644,201)	(24,838)	1,238	(26)	(667,827)
Other property, plant and equipment	(19,821)	(2,404)	20	6	(22,199)
Depreciation	**(745,008)**	**(29,176)**	**1,258**	-	**(772,926)**
Land and buildings	(2,005)	-	-	-	(2,005)
Plant and machinery	(3,864)	-	143	-	(3,721)
Other property, plant and equipment	(183)	-	-	-	(183)
Impairment	**(6,052)**	-	**143**	-	**(5,909)**
Net total	**774,179**				**788,129**

Additions-

The Group has carried out investments at all its plants to improve the efficiency of the paper pulp production process, to optimise the generation of electricity and to improve the respect of the environment. This item breaks down as follows:

	Thousand Euros	
	First half of 2013	2012
Navia	4,376	6,212
Huelva	9,009	14,262
Huelva – 50 megawatt plant	4,028	38,407
Pontevedra	5,643	4,347
Mérida – 20 megawatt plant	20,112	20,513
Other (*)	262	3,157
	43,430	**86,898**

(*) This mainly includes investments in irrigation equipment for the energy crop plantations, as well as the cost of energy project development.

On 1 February 2013 the Group launched a renewable power plant fuelled by biomass and with an installed capacity of 50 megawatts in Huelva. The total investment in this project, less the revenues deriving from the energy generated on a test basis, totalled 134.6 million Euros, of which 101.3 million Euros were financed through project financing obtained from a bank syndicate (Note 11).

The Group's investment commitment at 30 June 2013 in the “turnkey” construction of a biomass renewable energy plant with an installed capacity of 20 megawatts in Merida (Badajoz) totals 25 million Euros.

The Group capitalised financial expenses incurred during the first half of 2013 totalling 1,453 thousand Euros, mainly deriving from the debt obtained to finance projects.

Concession of the public domain

The granting of the public maritime-land domain over the land on which the Pontevedra plant is located was formally issued by Ministerial Order on 13 June 1958.

The grant document does not establish a term but, subsequently, the Coastline Act of 1988 stipulated that whomever held grants issued prior to the time the Coastline Act entered into force, as is the case of Ence's concession in Pontevedra, would be understood to be granted for a maximum of 30 years as from the date the Coastline Act entered into force. The Law entered into force on 29 July 1988 and, therefore, the concession will expire on 29 July 2018. However, on 30 May 2013 it was published the Law 2/2013 (29 May), on the protection and sustainable use of the coastline and Law 22/1988 (28 July), on Coastlines, was amended. Among other amendments made to the Coastline Act, Law 2/2013 establishes the possibility of renewing public maritime-land domain concessions granted under previous legislation, as is the case of Ence in Pontevedra, up to a term of 75 years after the application for renewal is presented. The carrying value of all the assets associated with this land at 30 June 2013 is 71,222 thousand Euros.

The Administrative bench at the National Court issued a judgement on 19 May 2011 and 19 April 2013 regarding two claims filed by an association in Pontevedra regarding the expiration of the concession. Although both judgments partially admit the claims, neither of them enter into the matter of substance and therefore they do not give rise to any failure to comply with the concession agreement on the part of ENCE, as was the intention of the claiming association. Both judgments are limited to sentencing the Government to create concession expiration case files and to adopt existing legal measures to suspend the activities and the use and exploitation of the facilities. These judgements do not indicate the result of the aforementioned case files and, if any, they would have to be processed as a complete administrative file and the final decision could be appealed against an administrative court. Appeals for reversals have been filed against both judgments by the Government and ENCE, and they cannot be executed while the appeals are in progress.

Restatements

At 1 January 2004, the date of transition to IFRS-EU, the forestry land was restated to fair value. This value was calculated by independent expert appraisers and they are considered at the historic cost of reference, in accordance with International Accounting Standards. The capital gain due to the restatement, less the relevant deferred tax assets totalling 23,490 thousand Euros, is 54,880 thousand Euros and this amount is included under the equity heading "Equity measurement adjustments". This market value is considered to be the historic cost of reference on subsequent dates.

In addition, the Group has decided not to apply the restatement of property, plant and equipment regulated by Law 16/2012 (27 December), under which several tax measures are adopted to consolidate public finances and to drive economic activity.

Insurance policy and others

The Group takes out insurance policies to cover the possible risks to which its tangible fixed asset items are subject. The Directors of the Parent Company believe that the coverage provided for these risks at 3 June 2013 is adequate.

The Group does not have assets located outside of Spain in any relevant amount.

5. Biological assets

The heading “Biological assets” includes the forestry crops as follows at 30 June 2013 and 31 December 2012:

Thousand Euros	30/06/2013	31/12/2012
Standing Timber - for use as cellulose	123,768	125,655
Standing Timber - energy crops	45,704	44,622
Non-forest cover-	520	681
TOTAL	**169,992**	**170,958**

Changes during the first six months of 2013 are as follows:

Thousand Euros	Balance at 1/1/2013	Additions or Charge for the Year	Disposals and Transfers	Balance at 30/06/2013
Cellulose use:				
Standing Timber	221,067	6,125	(2,012)	225,180
Forestry Reserve Depletion	(92,267)	(6,231)	-	(98,498)
Impairment	(2,464)	(500)	570	(2,394)
	126,336	**(606)**	**(1,442)**	**124,288**
Use as energy crops:				
Standing Timber	47,475	1,886	1,812	51,173
Forestry Reserve Depletion	(2,853)	(2,046)	-	(4,899)
Impairment	-	-	(570)	(570)
	44,622	**(160)**	**1,242**	**45,704**

During the first half of 2013 the Group records planting and forestry plantation maintenance expenses relating to services received totalling 7,438 thousand Euros (13,018 thousand Euros during the first half of 2012).

The Group have capitalized financial expenses relating to its forestry crops totalling 1,010 thousand Euros during the first half of 2013 (744 thousand Euros during the first half of 2012), and these expenses are presented as a reduction to the heading "Other financial expenses" in the consolidated income statement.

6. Derivative financial instruments:

In accordance with the risk management policy described in Note 5 of the Group's consolidated annual accounts for 2012, the Group contracts derivatives primarily to hedge against risks relating to interest rates, exchange rates, cellulose pulp prices, gas prices, fuel-oil prices and electric energy prices, all involved in the production process.

Of the interest rate derivatives, the most used are financial interest rate swaps. Exchange rate derivatives and those relating to certain energy products consist mainly of swaps and options.

The Group classifies its derivatives into three categories:

1. Derivatives designated as cash flow hedges: those that allow the cash flows from operating leases to be hedged.

2. Derivatives designated as fair value hedges: those that allow the market value of assets and liabilities to be hedged in the consolidated balance sheet.

3. Other derivatives: those that have not been designated as hedges or do not comply with the requirements established by accounting rules to do so.

All financial instruments that have been contracted have been measured subsequent to initial recognition using observable data, whether directly through prices or indirectly as derivatives of prices.

An analysis of this caption in the consolidated balance sheet at 30 June 2013 and 31 December 2012 is as follows:

	Current assets		Non-current liabilities		Current liabilities	
Liabilities / Assets	30/06/2013	31/12/2012	30/06/2013	31/12/2012	30/06/2013	31/12/2012
IR Swap - Corporate financing	-	-	-	-	-	10,164
IR Swap - Project finance 50 megawatts	-	-	5,036	8,134	2,310	2,365
IR Swap - Project finance 20 megawatts	-	-	137	1,518	469	330
Equity swap	-	-	3,952	6,975	1,550	2,027
Foreign exchange hedges	3,783	10,721	-	-	-	-
Total	**3,783**	**10,721**	**9,125**	**16,627**	**4,329**	**14,886**

Foreign exchange hedges-

To cover the risks to which the Group is exposed as a result of fluctuations in the dollar/Euros exchange rate, which can significantly affect the selling price of cellulose pulp, the Parent Company has sold US dollars in forward transactions as a hedge for its future revenues. The notional amounts of these hedges and 30 June 2013 amounts to 90 million Euros. These contracts meet the requirements established in accounting legislation to be considered to be effective hedges.

The market value of these instruments at 30 June 2013 totals 3,783 thousand Euros and is recorded under the heading "Derivative financial instruments" under current assets in the consolidated balance sheet, and the balancing entry, net of the relevant tax effect, is the heading "Equity - Equity measurement adjustments" in the consolidated balance sheet.

The heading "Results from hedge operations" in the income statement for the six-month period ended 30 June 2013 includes a profit totalling 6,301 thousand Euros from the hedges that were liquidated during that period.

Interest Rate Swap-

The group hedges against the interest rate risk affecting its variable-rate financial liabilities denominated in Euros through interest rate swaps.

The objective of these hedges is to neutralize the fluctuation of the cash flows payable with respect to variable interest rate borrowings (Euribor) obtained through Group financing.

Interest rate derivatives contracted by the Group in force at 30 June 2013, are as follows:

2013

Thousand Euros	Fair value	Notional amount at the end of: 2013	2014	2015	2016	2017	2018	2019
IR Swap - Project finance 50 megawatts	7,346	75,428	74,874	69,933	63,997	57,502	50,584	43,563
IR Swap - Project finance 20 megawatts	606	25,118	34,334	44,908	42,036	38,981	35,928	32,685

2012

Thousand Euros	Fair Value	Notional amount at the end of: 2013	2014	2015	2016	2017	2018	2019
IR Swap - Corporate financing	10,164	194,498	-	-	-	-	-	-
IR Swap - Project finance 50 megawatts	10,499	75,982	74,874	69,933	63,997	57,502	50,584	43,563
IR Swap - Project finance 20 megawatts	1,848	15,628	34,334	44,908	42,036	38,981	35,928	32,685

The IRS associated with the financing of the Huelva- 50 megawatt and Merida-20 megawatt projects meet the requirements established for classification as effective hedges.

On 29 May 2008 the Parent Company formally entered into an interest rate swap agreement (IRS) intended to cover approximately 60% of the bank borrowings that had been drawn down at that time. This debt was substantially modified in 2009 which meant that on 16 October 2009 they ceased to meet the requirements to be classified as effective hedges. The changes in the value of the instrument after that date were recorded in the consolidated income statement for the year concerned.

At 1 February 2013, the Parent Company completed the process of issuing bonds for a total of 250 million Euros (Note 11). As a result of this new financing the syndicated financing that had been drawn down up to that time was cancelled together with the interest rate swap that was associated with this financing, which has given rise to a loss of 96 thousand Euros deriving from the change in the value of the instrument in that period up until its cancellation. The value of the hedge instrument recognized under consolidated equity and associated with the hedged item that had not been cancelled, totalling 1,075 thousand Euros before taking into account the tax effect, has been attributed to the consolidated income statement for the six-month period ended 30 June 2013. The heading “Change in the fair value of financial instruments” in the consolidated Income statement for the six-month period ended 30 June 2013 includes both effects.

Equity swap-

To cover the impact of the Special Variable Compensation Plan Ence Energia y Cellulosa, S.A. 2008-2011 on the consolidated income statement, at the end of 2007 Parent Company obtained an Equity Swap maturing on 30 June 2012.

On 28 June 2012 the Parent Company renegotiated that instrument in order to use it to cover the "Long-term incentive plan for Ence Energía y Celulosa, S.A., for the period 2010-15". This modification, which affected 3,850,000 shares, extends the maturity until 15 March 2013 with respect to 1,025,000 shares, up to 15 March 2014 for 1,025,000 shares and up to 15 March 2015 with respect to 1,800,000 shares, and establishes an interest rate based on the 6-month Euribor rate plus 230 basic points.

7. Inventories

The composition of the Group's inventories at 30 June 2013 and 31 December 2012 is as follows:

Thousand Euros	30/06/2013	31/12/2012
Timber	45,403	48,555
Other raw materials	2,752	3,995
Spare parts	19,620	23,878
Work in progress	989	1,383
Semi-finished products	441	441
Finished products	14,535	17,597
Pre-payments to suppliers	1,603	1,069
Impairment (*)	(8,514)	(9,343)
	76,829	**87,575**

(*) Associated with spare parts and work in progress

There is no limitation on the availability of inventories. The Group's policy is to obtain insurance policies to cover all possible risks to which its inventories are exposed, and the coverage of these risks at 30 June 2013 is believed to be adequate.

8. Trade and other receivables, Trade and other payables

The composition of the heading "Trade and other receivables" on the asset side of the consolidated balance sheet and 30 June 2013 and 31 December 2012 is as follows:

Thousand Euros	30/06/2013	31/12/2012
Trade debtors for sales	124,453	138,339
Sundry accounts receivable	574	4,854
Payables to employees	-	16
Impairment	(4,904)	(4,629)
	120,123	**138,580**

The average credit period for the sale of assets ranges between 65 and 75 days. No new significant delays in receivables have arisen since the end of 2012.

The composition of the heading "Trade and other payables" on the liability side of the consolidated balance sheet and 30 June 2013 and 31 December 2012 is as follows:

Thousand Euros	30/06/2013	31/12/2012
Trade creditors	177,399	177,479
Asset suppliers	11,765	16,088
Accrued wages and salaries:	10,225	8,335
	199,389	**201,902**

The average payment period for the purchase of goods and services ranges between 60 and 75 days.

The Group has obtained several contracts of confirming without recourse, with a limit and an amount drawn down, at 30 June 2013, totalling 115,000 thousand Euros and 71,758 thousand Euros, respectively (is a limit of 83,500 thousand Euros and 62,806 thousand Euros drawn down at 31 December 2012).

9. Equity

Share capital

The share capital of Ence Energía y Celulosa, S.A., at 30 June 2013 is represented by 250,272,500 fully subscribed and paid bearer shares with a par value of 0.90 Euros each.

At 30 June 2013 and 31 December 2012 the shareholder composition is as follows:

	30/06/2013	31/12/2012
Retos Operativos XXI, S.L.	25.6	24.5
Alcor Holding, S.A.	21.8	21.9
Liberbank, S.A.	6.9	6.9
Treasury shares	0.1	7.5
Free Float and others	45.6	39.2
Total	**1000**	**100.0**

The shares of the parent company are listed on the continuous market of the Spanish stock exchange and all carry the same voting and dividend rights.

Dividends

On 21 March 2013 at the Shareholders Ordinary General Meeting, Ence Energía y Celulosa, S.A. adopted a resolution to distribute a dividend against 2012 profits totalling 16,154 thousand Euros, which is a gross amount of 0.07 Euros per share in Ence Energía y Celulosa, S.A. that is entitled to receive the dividend, which are in circulation at the date on which the relevant payment is made. The dividend was settled on 3 April 2013.

In addition, at that General Meeting, a resolution was adopted to make an in-kind distribution of part of the share premium account by distributing treasury shares by the Parent Company in the proportion of one share for every 25 shares outstanding, and thus 9,192,292 of the Parent Company's treasury shares, with a market value at the time of distribution totalling 20,184 thousand Euros and an average acquisition cost of 18,481 thousand Euros were delivered to shareholders.

The calculation of the basic and diluted consolidated earnings/(loss) per share at 31 June 2013 is as follows:

Net earnings per share	30/06/2013
Net consolidated earnings/(loss) attributable to ordinary shares (thousand)	30,318
Ordinary shares outstanding at 31/12/2012	250,272,500
Number of ordinary shares at 30/06/2013	250,272,500
Weighted average number of ordinary shares	250,272,500
Basic earnings per share (Euros)	**0.12**
Diluted earnings/(loss) per share (Euros)	**0.12**

Shares held by parent company

Movements under the heading “Treasury shares” in the accompanying consolidated balance sheet for the first half of 2013 were as follows:

	Number of Equities	Thousand Euros
At beginning of the year	18,743,383	37,213
Acquisitions	3,297,969	7,120
Distribution in-kind of the treasury shares	(9,192,292)	(18,481)
Sales	(12,690,060)	(25,479)
At the end of the year	**159,000**	**373**

On 13 June 2013 the Company sold 12,513,625 treasury shares, representing 5% of its share capital for an overall amount of 27,405 thousand Euros. The profit obtained on the transaction totalled 2,279 thousand Euros and it has been directly attributed to equity under the heading "Parent Company reserves" in the consolidated balance sheet for the six-month period ended 30 June 2013. The shares were acquired in equal amounts by the companies Asúa Inversiones, S.L. and Fuente Salada, S.L. with the intention of remaining as Company steady shareholders.

The shares held by the Parent Company at 30 June 2013 represent 0.06% of share capital (7.5% at 31 December 2012) with an overall par value of 143 thousand Euros (16,869 thousand Euros at 31 December 2012) The average acquisition price for the shares is 2.3466 Euros per share.

The shares held by the Parent Company are intended to be traded on the market.

Equity measurement adjustments

The heading "Equity measurement adjustments" under consolidated equity includes the changes in the fair value of hedge transactions (see Note 6) and the reserve generated by recognizing forestry land at market value on 1 January 2004 (Note 4). This reserve is freely available.

The breakdown of changes in the fair value of hedge instruments at 30 June 2013 is as follows:

	30/06/2013		
Thousand Euros	Fair Value	Tax Effect	Adjustment to equity
IR Swap-corporate financing-			
Beginning balance	(1,075)	(323)	(753)
Taken to profit and loss	1,075	323	753
Ending balance	0	0	0
IR Swap-50 megawatt project -			
Beginning balance	(10,499)	(3,150)	(7,349)
Taken to profit and loss	(1,212)	(364)	(848)
Other changes in value	4,365	1,309	3,055
Ending balance	(7,346)	(2,205)	(5,142)
IR Swap-20 megawatt project -			
Beginning balance	(1,848)	(554)	(1,293)
Taken to profit and loss	(133)	(40)	(93)
Other changes in value	1,374	412	962
Ending balance	(607)	(182)	(424)
Exchange rate-			
Beginning balance	10,721	3,217	7,504
Taken to profit and loss	(6,302)	(1,891)	(4,411)
Other changes in value	(637)	(191)	(446)
Ending balance	3,782	1,135	2,647
	(4,171)	**(1,252)**	**(2,919)**

10. Allowances

An analysis of this caption in the consolidated balance sheet at 30 June 2013 and 31 December 2012 is as follows:

Thousand Euros	30/06/2013	31/12/2012
Liabilities	6,565	9,238
Emission rights	5,222	3,015
Other	981	1,005
	12,768	**13,258**

Thousand Euros	30/06/2013	31/12/2012
Provisions for liabilities		
Galicia write-down agreement	5,357	5,357
Fee for releases into the Pontevedra marshland	-	3,140
VAT inspection Germany 2002-2008	67	67
Other	1,141	674
	6,565	**9,238**

11. Financial debt

The Group's financial liabilities break down as follows at 30 June 2013:

	30/06/2013	
	Short term	Long term
High Yield Bond	-	250,000
Loans and lines of credit	400	900
Project Finance – 50 megawatts	3,393	81,241
Project Finance – 20 megawatts	-	22,500
Origination fee (*)	(499)	(12,843)
Interest and other payables	8,012	-
	11,306	**341,798**

The composition of bank borrowings at 30 June 2013 and 31 December 2012 relating to loans, lines of credit and discounting facilities, classified by maturity, is as follows:

		Balance	Maturity during the year:				
2013 - (Thousand Euros):	Limit	Drawn down	2013	2014	2015	2016	Subsequent years
High Yield Bond	250,000	250,000	-	-	-	-	250,000
Revolving line of credit and other borrowings	91,300	1,300	200	400	400	300	-
Project Finance – 50 megawatts	101,309	84,634	621	5,544	6,660	7,288	64,521
Project Finance – 20 megawatts	60,692	22,500	-	188	1,428	1,518	19,367
Interest and other payables	-	8,012	8,012	-	-	-	-
Opening fees	-	(13,342)	(886)	(1,836)	(1,906)	(1,965)	(6,750)
	503,301	**353,104**	**7,947**	**4,296**	**6,582**	**7,141**	**327,138**

2012 - (Thousand Euros):	Limit	Balance Drawn down	Maturity during the year: 2013	2014	2015	2016	Subsequent years
Loans and lines of credit	302,011	239,167	24,588	212,391	615	524	1,049
Project Finance – 50 megawatts	101,309	85,256	1,477	5,310	6,660	7,288	64,521
Project Finance – 20 megawatts	60,692	15,000	-	125	952	1,012	12,911
Interest and other payables	-	520	520	-	-	-	-
Opening fees	-	(6,203)	(2,477)	(503)	(495)	(471)	(2,257)
	464,012	**333,740**	**24,108**	**217,323**	**7,732**	**8,353**	**76,224**

Bond-

On 1 February 2013, Ence Energía y Celulosa, S.A. completed the process of placing a bond issue totalling 250 million Euros with qualified institutional investors, in accordance with "Rule 144A" and "Regulation S" of the 1933 Securities Act of the United States and subsequent amendments. The issue took place in accordance with the law of the State of New York (United States) and the bonds were listed on the Euros MTF market at the Luxembourg Exchange.

This issue matures on 15 February 2020 and it accrues annual interest at a fixed rate of 7.250% (payable half yearly) and is primarily secured by pledges of the shares in the Group's main operating companies (Celulosas de Asturias, S.A., Celulosa Energía, S.A., Norte Forestal, S.A. and Silvasur Agroforestal, S.A.), as well as by pledges of receivables, bank accounts and loans between group companies. The companies that have structured Project Finance to develop energy generation projects using biomass have not granted any guarantee within the framework of this issue. The transaction expenses total approximately 10 million Euros.

Within the framework of the issue, two rating agencies issued an opinion regarding the Group as a whole and the issue of the debt. Standard&Poors granted a BB credit rating for the issuer and the issue and Moody´s granted a rating of Ba3 and B1, respectively.

In addition, and within the framework of the issue, a revolving credit facility totalling 90 million Euros was obtained from a syndicate of top tier domestic and international banks. This financing accrues an interest rate indexed to the Euribor and it matures in 2018 and is at its full disposition at 30 June 2013. This agreement is under the legislation of England and Wales. The funds that have been obtained have been used to repay the outstanding amount, including accrued interest not yet paid, of the syndicated loan obtained by the Group in 2010 of 229,410 thousand Euros (see following section), loans and lines of credit, including accrued interest not yet paid, totalling 2,913 thousand Euros and the IRS associated with the corporate financing totalling 10,068 thousand Euros (Note 6).

Syndicated loan-

On 14 October 2010 a syndicated loan agreement was concluded for a maximum amount, after the cancellation of bilateral financing, of 176,393 thousand Eurosand. The existing syndicated loan was modified and the amount drawn down was 121,229 thousand Euros.

This financing accrued a variable annual interest rate indexed to the Euribor, plus a spread of 300 basis points. It matured on 15 January 2014 and it was primarily secured by pledges of shares in certain subsidiaries of the Group, as well as mortgage commitments regarding the Group's plant in Navia, which was subject to compliance with certain financial ratios and included, in turn, certain obligations that are normal in these types of financing arrangements.

As a result of the issue of the aforementioned bonds, on 1 February 2013 the amount pending was cancelled, including accrued interest not yet paid, relating to the syndicated loan totalling 229,410 thousand Euros.

The credit facilities and loans, except the syndicated loan) accrued an average interest rate of 2.87% during the first six months of 2013.

Project Finance – Huelva 50 megawatts

On 21 June 2011 the Group concluded a syndicated loan from seven financial institutions through a "Project Finance" loan agreement to finance a biomass power plant (Note 4). The available amount of that financial loan totals 101,309 thousand Euros, repayments started to be made on 22 June 2013 and the loan matures on 22 December 2022. This loan accrues annual variable interest indexed to the Euribor with a spread that ranges between 3.25% and 3.75%, based on the repayment instalments. The amount of the fees paid in 2011 deriving from this financing totalled 3,483 thousand Euros.

This plan includes pledges of the shares in Ence Energía Huelva, S.L.U. and its current and future assets and debt claims as the main guarantees. Ence Energía y Celulosa, S.A. presents guarantees of several types: crop plantations and inventories for the future supply of the plant, the date of entry and the tariff applicable to energy production at the time the plant enters into operation and the operation and the availability of the plant. In turn, these guarantees are partially covered by the guarantees granted by the builder of the plants to Ence Energía y Celulosa, S.A.

In addition, this loan includes certain obligations, fundamentally the supply of certain operational and financial information, compliance with certain economic and financial ratios associated with the annual accounts for Ence Energía Huelva, S.L.U., the maintenance of a certain stock of biomass standing or cut, the early repayment of 50% of remaining cash until 50% of the financing has been repaid, and the early repayment of 25% of remaining cash until 65% of the financing has been repaid. It also establishes certain restrictions, primarily the distribution of dividends and obtaining new financing.

In order to cover the risk deriving from this variable interest rate financing, the Group has obtained interest rate hedge agreements from six of the entities financing the project at a notional amount equivalent to 75% of the estimated drawdowns during the time the financing is in force, at a fixed rate of 3.5% (Note 6)

Project Finance – Merida 20 megawatts

On 1 August 2012 the Group concluded a syndicated loan from three financial institutions through a "Project Finance" loan agreement to finance a biomass power plant (Note 4). The total amount of that financing is 60,692 thousand Euros, repayments will start to be made on 15 December 2014 and the loan matures on 15 June 2027. This loan accrues annual variable interest indexed to the Euribor with a spread that ranges between 3.5% and 4.0%, based on the repayment instalments.

This loan includes pledges of the shares in Ence Energía Extremadura, S.L.U. and its current and future assets and debt claims as the main guarantees, as well as a mortgage commitment regarding the Biomass Plant. Ence Energía y Celulosa, S.A. presents guarantees of several types: the entry in the Administrative Registry of Special System Plants, crop plantations and inventories for the future supply of the plant, the date of entry and the tariff applicable to energy production at the time the plant enters into operation, project cost overruns, and the operation and the availability of the plant. In turn, these guarantees are partially covered by the guarantees granted by the builder of the plant to Ence Energía y Celulosa, S.A.

In addition, this loan includes certain obligations, fundamentally the supply of certain operational and financial information, compliance with certain economic and financial ratios associated with the annual accounts for Ence Energía Extremadura, S.L.U., the maintenance of a certain stock of biomass standing or cut, the early repayment of a variable percentage of remaining cash, which will range between 30% and 50% based on the years of financing that have elapsed. It also establishes certain restrictions, primarily the distribution of dividends and obtaining new financing.

In order to cover the risk deriving from this variable interest rate financing, the Group obtained interest rate hedge agreements from the entities financing the project at a notional amount equivalent to 75% of the estimated drawdowns during the time the financing is in force, at a fixed rate of 2% (Note 6).

Regulatory changes in the energy sector-

The regulatory changes applicable to the energy business may have a negative effect on the financing amounts available (Project finance) for the Huelva 50 megawatt and Merida 20 megawatt projects, due to the fact that they are calculated based on certain ratios that take into consideration the cash flows expected from their operation.

The effect that the financial entities estimated from the joint application of Law 15/2012 (27 December) on tax measures for energy sustainability and Royal Decree Law 2/2013 (1 February) on urgent measures for the electricity sector and the financial system (Note 14), was a proposal to reduce the available financing for the Merida 20 megawatt and Huelva 50 megawatt projects totalling 20 million Euros and 29 million Euros, respectively.

The Group`s Direction has analysed the reasonability of the assumptions used by the financial institutions, mainly the evolution of costs, the underlying inflation rate and the result of the measures currently under development to optimize operations and the efficiency of the facilities. As a result of this analysis negotiations have commenced to adapt the available financing for both projects to the foreseeable impact of those regulatory changes. At the date this financial information was prepared, there are principles of agreement with some of the financing entities for the 50 megawatt project that do not give rise to the relevant changes in the initial financing conditions, although this process has not taken into consideration the potential effects of the regulatory changes included in Royal Decree Law 9/2013 (12 July), which adopts urgent measures to guarantee the stability of the Spanish Electricity System.

Cash and other cash equivalents-

“Cash and Cash Equivalents” includes the Group's cash and current bank deposits with an initial maturity of three months or less. The carrying amount of these assets approximates their fair value.

Other financial investments-

This heading mainly includes term deposits maturing in more than 3 months totalling 45,000 thousand Euros, as well as deposits that have been made to secure the obligations assumed under the contracts for certain derivative financial instruments (Note 6), and in the contracts that have been concluded for the future purchase of CO_2 emission rights (Note 18).

Factoring without recourse-

The Group has obtained several factoring agreements without recourse, given that the rights inherent to the realization of the assets are transferred to the factor, with an available limit and an amount drawn down at 30 June 2013 totalling 70,288 thousand Euros and 36,484 thousand Euros, respectively (85,000 thousand Euros and 33,520 thousand Euros at 31 December 2012). The financial cost associated with the loans that have been assigned has been established at 3-month Euribor plus a spread ranging between 2%-3%.

12. Non-current assets and liabilities available for sale

On 15 December 2012 the Parent Company adopted a resolution to sell its forestry assets in Uruguay. These assets consisted of 27,780 hectares of forest land with eucalyptus plantations in the southeast of Uruguay, as well as facilities for sawing and chipping of the timber. During the first half of 2013 the assets were sold except for land with a market value estimated to be 669 thousand Euros, and the sale of this land is expected to be formally concluded during the second half of the year.

The Group received 59.6 million Euros on the sale of the land and the related assets. The heading "Non-current assets held for sale" included the assets involved with this sale at 31 December 2012.

The assets and liabilities of Sierras Calmas, S.A. and Maserlit, S.A., have been included under the operating segments “ Forestry management” and “Forestry and other services”, respectively (Note 17).

13. Tax matters

The balances receivable and payable to various public entities at 30 June 2013 and 31 December 2012 are as follows:

	30 June 2013		31 December 2012	
Thousand Euros	Receivables	Payables	Receivables	Payables
Non-current items				
Deferred tax assets	28,473	-	30,580	-
Deferred tax liabilities	-	29,672	-	31,745
Total	**28,473**	**29,672**	**30,580**	**31,745**
Current items				
VAT	18,123	1,736	27,262	2,576
Current year maintenance expenses	-	7,790	1,031	1,313
Personal income tax and other	1,917	9,617	1,364	5,896
Total	**20,040**	**19,143**	**29,657**	**9,785**

Regulatory changes-

During 2012 significant amendments were made to tax regulations under the Laws 12/2012, 20/2012, 16/2012 and 17/2012. Among the amendments was the temporary reduction of the capacity to apply tax-loss carry forwards recognized in prior years to 25% of the tax base, the possibility of unrestricted depreciation of new assets has been eliminated and, temporarily, only 70% of the depreciation of property, plant and equipment, the amortization of intangible assets and investment properties may be considered to be tax-deductible, and certain limits to the deduction of financial expenses have been established.

Deferred tax assets-

Set out below is an analysis of movements in "Deferred tax assets" during the period:

	Thousand Euros
Beginning balance	**30,580**
Corporate income tax for the period	(3,181)
Change in the value of derivative financial instruments and other movements	(1,641)
Amortisation - Law 16/2012	2,704
Other	11
Ending balance	**28,473**

During this period, the tax consolidation Group has partially offset the tax credit totalling 3,181 thousand Euros (3,608 thousand Euros during the first half of 2012).

Deferred tax assets have been recognized in the consolidated balance sheet as the Group`s Directors, based on the best estimates of the future results of the companies forming part of the tax consolidation group, consider it highly likely that this asset will be recovered within the deadline established by current legislation.

In accordance with the provisions of Spanish legislation, these tax-loss carry forwards generated from 2009 may be offset against the profits obtained by Tax Consolidation Group Number 149/02 in the tax periods ending in the immediately successive 18 years after the year of generation.

Deferred tax assets originating in equity at 30 June 2013 total 2,387 thousand Euros, 4,028 thousand Euros at 31 December 2012 (Note 9).

Years open to inspection and tax audit action

During the first half of the year the Tax Inspectors has completed several inspection procedures at the Parent Company and several companies pertaining to Ence Group: Corporate Income Tax for 2007 to 2009, Value Added Tax and Withholdings 2008 and 2009, Special Electricity Duty 2008 to 2010, and the Tax on Economic Activities 2009 to 2012.

As a result of these procedures, assessments associated with the inspection of various taxes have been accepted and signed by the company: Corporate income tax, value added tax, withholdings 2008 and 2009, Special Electricity Duty 2008 to 2010 and The Tax on Economic Activities 2009 to 2012, with respect to the plants located in Pontevedra and Navia, which will have an impact on the consolidated income statement for 2012 and 2013 totalling 2,382 thousand Euros and 1,332 thousand Euros, respectively.

In addition, an assessment relating to corporate income tax 2007 to2009, including a proposed adjustment totalling 6,730 thousand Euros for tax payable and late-payment interest (the Inspection Team did not see any indication of any action subject to penalties), of which only 3,616 thousand Euros would give rise to an outflow of cash, has not been accepted and is being challenged. In the opinion of the Directors, which is based, among other things, on the opinion of the Group's tax advisors, no significant liability would arise for the Group as a result of this issue, and therefore the accompanying consolidated balance sheet does not recognize any provision whatsoever in this respect.

In accordance with current tax legislation, tax settlements cannot be considered to be definitive until they have been verified by the tax authorities or the statute of limitations established in each tax jurisdiction has elapsed: four years in Spain and Portugal, and five years in Uruguay. In opinion of the Directors, any contingencies that could arise from the review of the years that are open to inspection would not have a significant impact on the Group's financial statements.

14. Income and expense

a) Sales

The distribution of revenues from the Group's ordinary activities during the first half of 2013 and 2012 is as follows:

Thousand Euros	30/06/2013	30/06/2012
Pulp Sales	309,482	280,453
Electricity Sales	125,413	96,684
Timber and forestry services	4,265	15,477
	439,160	**392,614**

During the first half of 2013 the Groups sold 628,048 tonnes of cellulose pulp and 932,051 MWh of electricity (600,775 tonnes of pulp and 760,618 MWh during the first half of 2012).

Almost all electric energy sales take place in Spain. The distribution of the net revenues relating to the sale of paper pulp, by geographic market, is as follows:

Percentage / Pulp sales	30/06/2013	30/06/2012
Italy	20.1	16.2
Germany	17.4	22.7
Spain	15.1	13.7
France	12.3	10.2
Austria	6.3	7.4
Poland	4.4	2.7
Turkey	3.6	2.0
United Kingdom	2.8	2.7
Greece	2.7	1.4
Slovenia	2.7	2.7
Sweden	2.6	3.5
Netherlands	2.6	2.9
China	1.8	3.8
Switzerland	1.3	2.0
Portugal	1.2	1.0
Israel	0.9	2.3
Other	2.2	2.8
	100	**100**

Regulatory changes in the energy sector

On 27 January 2012 the Council of Ministers approved Royal Decree Law 1/2012, which temporarily suspends the procedures for pre-assigning compensation and suppresses the financial incentives for new cogeneration electricity plants, renewable energy sources and waste. Furthermore, Law 15/2012 (27 December) on tax measures for energy sustainability includes, effective 1 January 2013, tax modifications that have an impact on the Group's activity. A tax is created on the value of the electricity produced that has impacted the entire energy sector, and it is equivalent to 7% of the revenues deriving from energy production and the tax rates established for natural gas have been modified and the exemptions established for the energy products used to produce electricity and cogenerate electricity have been eliminated. Royal Decree Law 2/2013 (1 February) on urgent measures for the electricity sector and the financial system, stipulates that all methods of obtaining compensation that are associated with the general inflation rate will replace this method by the Consumer Price Index at constant tax excluding unprepared food and energy products, and that the supported financial system may only be sustained by the regulated tariff option (the option pool + bonus disappears).

Finally, Royal Decree-Law 9/2013 (12 July), which adopts urgent measures to secure the stability of the Spanish Electricity System, changes the Electricity Sector Act and amends the compensation system for facilities operating under the special system. Among other measures, Royal Decree 661/2007 and Article 4 of Royal Decree Laws 6/2009, which created the pre-assignment registry, have been repealed and a new financial system has been announced but has yet to be fully developed, and its primary characteristic will be to guarantee that renewable energy facilities obtain a profit margin of 7.5% calculated before taxes and with reference to costs and investments of a standard facility, during their entire regulatory useful life. In addition the supplement for efficiency and bonuses for reactive energy have been eliminated.

These regulatory changes, which must be completed in the coming months with new legislative developments, introduced uncertainties into the development of new renewable power plants in Spain due to the indeterminate period of suspension and the impact this will have on future profits. In this connection, the Group is currently analysing the various options to use the investments developed to date, fundamentally investments in energy crops, within the framework of the execution of the biomass expansion plan which at 30 June 2013 totalled approximately 19 million Euros.

b) Supplies

The consumption of raw materials and other consumables during the first half of 2013 and 2012 is as follows:

Thousand Euros	30/06/2013	30/06/2012
Acquisitions	181,434	167,275
Change in inventories of raw materials, auxiliary supplies and other materials	695	(325)
Other external expenses	27,774	29,993
	209,903	**196,943**

This heading mainly includes the cost of timber, chemical products, fuel and other variable costs incurred during the cellulose pulp production process.

c) Personnel

Personnel expenses during the first half of 2013 and 2012 are as follows:

Thousand Euros	30/06/2013	30/06/2012
Wages and salaries	27,371	29,188
Other items	8,446	8,327
	35,817	**37,515**
Severance payments	5,831	1,239
	41,648	**38,754**

The Group has reached an agreement with the representatives of the employees of its three cellulose pulp mills which will reduce the Group's personnel through incentives and agreed dismissals affecting 67 employees. The estimated cost of these measures totals approximately 5 million Euros.

The average number of employees at the Group at 30 June 2013 is as follows:

Professional Category	Male	Female	Total
Executives	7	1	8
Individual contract	220	59	279
Collective labour agreement	574	89	663
Temporary	85	23	108
	886	**172**	**1,058**

At 30 June 2013 the Board of Directors was formed by 13 Directors, 12 men and one woman.

d) Other operating expenses

The breakdown of this heading of the consolidated income statement for the six-month period ended 30 June 2013 and 2012:

Thousand Euros	30/06/2013	30/06/2012
External services	85,682	89,936
Issue rights used (Note 3)	5,224	1,588
Taxes and other administrative expenses	10,119	2,644
Changes in trade and other provisions	8,280	483
	109,305	**94,651**

The breakdown by item of operating expenses at 30 June 2013 and 2012 is as follows:

Thousand Euros	30/06/2013	30/06/2012
Transportation, shipping and cost of sales	28,281	31,983
Utilities	25,032	29,817
Repairs and maintenance	8,109	6,534
Independent professional services	4,225	3,122
Insurance premiums	4,130	4,021
Rents and royalties	3,854	4,330
Bank and similar services	1,168	1,049
Advertising, publicity and public relations	493	350
Research and development expenses	140	31
Other services	10,250	8,699
	85,682	**89,936**

e) Financial expense

The analysis of this consolidated income statement heading at 30 June 2013 and 2012 is as follows:

Thousand Euros	30/06/2013	30/06/2012
Bonds	7,552	-
Syndicated loan	657	4,788
Project Finance	1,947	1,429
Lines of credit, factoring and confirming	1,097	848
Commissions attributable to the income statement	4,081	2,206
Liquidation of the IR Swap - Corporate financing	-	5,378
Liquidation of the IR Swap - Project finance	1,345	437
Liquidation of the equity swap	158	189
Capitalisation of financial expenses	(2,463)	(3,081)
Other	(5)	-
	14,369	**12,194**

15. Related parties

During the first half of 2013 and 2012 the following transactions took place between the Company and related parties:

Related party	Purpose	Thousand Euros 2013	Thousand Euros 2012
Liberbank, S.A.	Interest and bank fees	19	129
Agroluan, S.L.	Services received	128	-
Foresta Group	Biomass	503	-

These transactions took place at market prices.

16. Remuneration and other benefits for the Parent Entity's Directors and Senior Management

The Note 23 of the the Group's consolidated annual accounts for the year ended 31 December 2012 provides details of the existing agreements regarding compensation for Directors and Senior Executives.

A summary of the most significant information regarding the remuneration and benefits for the six-month period ended 30 June 2013 is set out below:

	Thousand Euros
Members of the Board of Directors	
Type of remuneration -	
Fixed compensation	240
Attendance Fees	262
Other expenses	90
	592
Executives	
Total compensation received by Directors	**1,847**
	2,439

The breakdown of persons holding senior management positions at 30 June 2013 is as follows:

Name	Position
Ignacio de Colmenares y Brunet	Managing Director
Jaime Argüelles Alvarez	General Manager of Cellulose and Energy Operations
Alvaro Eza Bernaola	General Manager of Purchasing
María José Zueras Saludas	D.G. Human capital
Diego Maus Lizariturry	D.G. Finance and Corporate Development
Luis Carlos Martínez Martín	D.G. Communications
Javier Arregui Abendivar	General Manager Forestry
Guillermo Medina Ors	Secretary General

The Parent Company has not entered into any obligations with Directors with respect to pensions or alternative insurance systems. However, by virtue of the CEO's service agreement, he receives certain benefits, including contributions to pensions.

17. Operating segments

The cellulose pulp manufacturing activity is irrevocably associated with the generation of electricity and waste generated during the pulp manufacturing process is used as a fuel. In addition, the Group has specific facilities for the generation of electricity using biomass and other fuels and it has forest crops and timber that will subsequently be used as a raw material in the cellulose pulp production process.

In this context, the result of the activities carried out by the cellulose manufacturing area and energy production are analysed together by the Management Committee and there is no separate financial information except with respect to revenues.

In addition, the Committee independently analyses the forestry management activity relating to the plantations it owns or manages for the production of cellulose, the investments currently in progress with respect to electricity generation plants located outside of the cellulose plans, which include the forestry assets that are necessary for their supply, and other minor activities.

Detailed information regarding the results obtained in each segment of activity during the first half of 2013 and 2012 based on the management information used on a regular basis is set out below:

30 June 2013

Profit and Loss Account	Thousand Euros						
	Cellulose and Energy	New Energy Projects	Forestry Management	Forestry and other services	Subtotal	Consolidation adjustments among Segments	Total
Revenues:							
From third parties	407,126	27,769	3,729	536	439,160	-	439,160
From other segments	754	6,274	38,098	975	46,101	(46,101)	-
Total revenue	**407,880**	**34,043**	**41,827**	**1,511**	**485,261**	**(46,101)**	**439,160**
Results:							
Operating results	52,639	1,633	90	(815)	53,547	526	54,073
Finance income	8,454	-	-	37	8,491	(7,584)	907
Finance costs	(12,079)	(4,415)	(4,275)	(560)	(21,329)	7,584	(13,745)
Exchange differences	968	-	807	16	1,791	-	1,791
Taxes	(14,753)	518	1,131	396	(12,708)	-	(12,708)
Profit/(loss) for the year	**35,229**	**(2,264)**	**(2,247)**	**(926)**	**29,792**	**526**	**30,318**

30 June 2012

Profit and Loss Account	Thousand Euros						
	Cellulose and Energy	New Energy Projects	Forestry Management	Forestry and other services	Subtotal	Consolidation adjustments among Segments	Total
Revenues:							
From third parties	377,137	-	5,868	9,609	392,614	-	392,614
From other segments	377	4,186	68,393	4,931	77,887	(77,887)	-
Total revenue	**377,514**	**4,186**	**74,261**	**14,540**	**470,501**	**(77,887)**	**392,614**
Results:							
Operating results	35,003	(345)	(1,139)	2,142	35,661	-	35,661
Finance income	4,712	4	18	28	4,762	(4,355)	407
Finance costs	(11,777)	(1,211)	(2,186)	(483)	(15,657)	4,355	(11,302)
Exchange differences	(523)	-	(329)	19	(833)	-	(833)
Taxes	(8,231)	466	333	(538)	(7,970)	-	(7,970)
Profit/(loss) for the year	**19,184**	**(1,086)**	**(3,303)**	**1,168**	**15,963**	**-**	**15,963**

18. Subsequent events

The Group maintains term emission right purchase contracts for a total of 601,000 tonnes of CO_2 at an average price of 15.37 Euros per tonne. On 5 July 2013, the Group modified the maturity date, establishing a new date of December 2014 for 200,000 tonnes of CO_2 at a price of 15.52 Euros per tonne and December 2015 for 401,000 tonnes of CO_2 at a price of 15.69 Euros per tonne. Its purpose is to offset the future consumption of the Group´s emission rights.

Ence Energía y Celulosa, S.A. and Subsidiaries

Consolidated Interim Directors' Report
30 June 2013

CURRENT SCENARIO AND EXPECTATIONS

Uncertainty continued to dominate the first half of 2013. The continued implementation of expansionary policies by the leading central banks did not bring about a clear recovery of economic activity. Although US business data started to point to a certain improvement, China's growth rate declined while the German economy showed signs of cooling.

In Eurospe, doubts continued concerning the attainment of public deficit objectives by peripheral economies. The adjustment measures started up in an environment marked by macro-economic weakness prolonged the absence of economic recovery, triggering doubts over the effectiveness of government measures and capacity to remedy the situation, which in countries such as Italy and Portugal generated political instability. Similarly, the complex bailout of Cyprus and the approval of adjustment measures which for the first time included a reduction in deposits generated further uncertainty concerning the potential application of similar adjustment measures in other Euroszone economies.

There was a change in direction towards the end of the first half of the year when the FED announced that it could discontinue its expansionary policy in the next few months to the extent that recovery of economic activity and improvement in the labour market were confirmed. At the same time, the ECB committed to keeping interest rates low for as long as necessary in order to favour economic growth, even cutting rates to below current levels. The Chinese government dismissed the possibility of adopting more restrictive measures and committed to favouring growth of consumption in light of the easing of inflationary pressures.

Within this scenario, the Euro / Dollar exchange rate varied in a range of 1.27 to 1.35 USD/EUR in light of the growth expectations of the US and European economies and the uncertainty over the stability of the Euros. The changing discourse of central banks, together with the expectations that the FED will relax its expansionary policy and an ECB more determined to support Euroszone growth, supported a certain appreciation of the US Dollar.

Cellulose pulp prices posted an excellent performance in the first six months of the year, with an upward trend from $775/t at the end of 2012 to $820/t at the June closing. These price levels were achieved thanks to the good balance between supply and demand for cellulose pulp and stocks that remained at normalised levels of 33 days' sale for cellulose pulp producers and minimum levels of 19 days' consumption for paper producers. Demand remained robust with growth in the year of almost 2% not only globally but also in Eurospe, the company's main market. Supply remained flat despite the start-up in November of the eucalyptus cellulose mill in Eldorado, Brazil, with 1.5 million tonnes, offset by the closure, also in Brazil, of the Jari mill (0.4 million tonnes) and the closure and restructuring of mills in the northern hemisphere.

The outlook for the remainder of 2013 continues to be upbeat in the cellulose business. Although new capacity is expected in Uruguay and Brazil in the last quarter of the year (Montes del Plata and Maranhao with 1.3 and 1.5 million tonnes, respectively) the necessary learning curve will postpone the arrival of cellulose pulp awaited by the markets until the first half of 2014. Some adjustment to prices is expected in the third quarter, coinciding with the fall in demand in the summer linked to the increased stoppages for maintenance at paper plants in both Eurospe and USA. This adjustment should, however, reverse in the last quarter of the year thanks to the recovery in paper demand prior to the Christmas campaigns in the northern hemisphere and the proximity of the Chinese new year. For 2013 current rates of growth in demand globally will enable the increased output of the mills in question to be absorbed, taking into account that there are no plans to bring any major new capacity into operation.

Finally, electric energy activity was negatively impacted by the regulatory changes approved by government to eliminate the existing tariff deficit. The main measures included tax changes through the new 7% tax on electricity sales and the increase in the tax on fossil fuel consumption and the elimination of the variable option in the applicable tariff under the special regime.

DESCRIPTION OF RESULTS AND ACTIVITIES

The first half of 2013 was excellent for the Ence Group. From an operational viewpoint, production of cellulose pulp and electricity grew by 4% and 23% respectively. With respect to the cellulose market, prices averaged at approximately $800/t up on the $740/t recorded in the first half of 2012. This performance fuelled a significant jump in operating profits despite the impact of the new taxes on energy activities approved by the government and effective from the start of the year.

Overall the Group's sales amounted to €439M, 12% up on the first six months of 2012. Cellulose sales amounted to 309M€,10% up on last year thanks to the 5% increase in volume and the 5% rise in prices. The 9% improvement in cellulose prices was partly offset by a negative exchange rate and a slight rise in trade discounts.

Electric energy sales also posted strong growth thanks to the entry into operation of the new 50 megawatt biomass power plant. Electric energy sold grew by 23% to 932,051MWh, biomass accounting for 80% of the electricity generated. Prices per MWh rose slightly despite the elimination of the sales option at market price plus a premium thanks to the increased significance of forest waste and energy crops in the generation mix. For accounting purposes, sales of electricity grew by 30% to €125M.

Forestry and consulting activities fell by 72% to 4M€ compared with the previous year due to the restructuring and gradual discontinuance of this activity and the sale of forestry assets in Uruguay.

Operating profit (EBIT) amounted to €54M, up 52% on that recorded in the first half of 2012. The 5% increase in cellulose product costs, deriving from the impact of the new taxes on electricity generation was easily offset by the increase in production, improvement in cellulose prices and the start-up of the biomass plant in Huelva. The robust operational performance of the mills is making it possible to offset the tax impact on costs thanks to the increased dilution of fixed costs and the savings in consumption deriving from the increased stability of production. The company continues to focus on improving operations and generating efficiencies through the development of a Total Quality Management (TQM) programme and similarly commits to increasing the percentage of timber supply through purchases of standing timber thanks to the formalisation of agreements with forestry owner associations. These agreements will make it possible to reduce reliance on timber imports to supply growing consumption by mills and reduce costs of harvesting and transport thanks to greater control and the modernisation of the supply chain.

Profit after tax in the first half of 2013 amounted to €30M, up 90% on the first half of 2012.

The company's financial structure also continued to improve thanks to a bond issue of €250M in January, which enabled debt maturity to be postponed until 2020, replacing existing bank financing which was set to mature in 2014. Also noteworthy was the sale of forestry assets in Uruguay, which was completed in March and resulted in the collection of €59M.

Investments in the first half of 2013 amounted to €54M, of which almost 15% was invested in biological assets for both reforestation and the improvement of forestry assets accompanying the growth of cellulose production and the development of energy crops to supply new power plants. Industrial investments amounted to €46M.

Consolidated equity at 30 June 2013 amounts to €759M (compared with €725M at the 2012 closing), equivalent to 53% of total assets. The growth in shareholders' funds was limited by the payment of dividends amounting to €16.2M in April by charge to 2012 results and the distribution of 15.8 million shares as a dividend in kind in August 2012 and April 2013. This effort forms part of the Company's objective of providing the Group's shareholder with a more attractive return while at the same time maintaining a reduced level of gearing permitting investment needs in new generation plants to be covered within a financial scenario marked by credit restrictions.

Within the framework of research and development activities, the programmes aimed at eucalyptus genetic and forestry improvement continued in relation to both, cellulose pulp production and energy agriculture, the innovation and improvement of cellulose pulp processes and products, the mechanical transformation of timber and engineering of new projects. This is duly reported in the notes to the consolidated accounts under Intangible assets.

ENVIRONMENT

Ence Energía y Celulosa, S.A., has 3 mills located in Huelva, Navia and Pontevedra that have the pertinent Integrated Environmental Authorisations for the performance of industrial activities and generation of renewable biomass energy generation which were renewed in 2011.

Also, and in accordance with current legislation, the plants of the Pulp and Energy Business Unit have Greenhouse Gas (CO2) Emission Authorisation and an overall annual allowance of 657,970 emission rights for the period 2008-2012. Emissions for 2012, verified by AENOR and Lloyd's last January, did not exceed the allowance and generated a surplus which will be used in the period 2013-2020 in trading greenhouse gas emission allowances.

As part of the TQM model, processes are carried out in accordance with management excellence, structured around three basic points:

1) Managing the improvement
2) Managing processes
3) Managing daily activity.

This management model has been implemented through on-going improvement, focusing on a maximum efficiency and competitiveness approach which addresses in an integrated manner the aspects of quality, health and safety, with respect to the environment and prevention of pollution. Within this framework, basic improvement objectives have been set clearly aimed at the environment in order to:

- Reduce the impacts of odours
- Improve the quality of effluents
- Improve energy efficiency
- Reduce raw material consumption
- Reduce waste generation

In addition, at factory level the Company has implemented an integrated management system in accordance with the following rules:

- UNE-EN-ISO 9001:2008, management quality
- UNE-EN-ISO 14001:2004, environmental management
- OHSAS 18001:2007, health and safety at the workplace

This integrated management system is certified by an authorised body which carries out the corresponding audits annually. The aim of this system is to ensure that all Ence's activities are carried out in accordance with the management policy laid down by senior management and the objectives and aims defined. Management is organised by process, identified and assessed in order to facility control and on-going improvement.

Moreover, the three factories have adhered to EMAS requirements (EU Regulation 1221/2009). The validation of the Environmental Declaration enables the three factories to remain on this register, each of which is the first in their respective autonomous regions to have met this demanding voluntary commitment which still has a limited number of members.

Ence's environmental management is based on compliance with current legislation which lays down the requirements that all activities related to cellulose pulp production must meet.

The Integrated Environmental Authorisation (IEA), defined in Law 16/2002 on the Integrated Prevention and Control of Pollution, lays down the necessary environmental conditions to run industrial facilities. Its aim is to avoid, or when this is not possible, to minimise and control atmospheric, water and soil pollution, in order to achieve significant environmental protection as a whole.

Within this context, the IEA establishes for every facility minimum values based on the best available techniques and monitoring plans for all significant environmental aspects.

The Operations Centres carry out regular analytical controls of all parameters of effluents and the atmospheric and noise emissions and waste generated and their management. The results obtained, which reflect the efficiency of this management model, certify compliance with applicable legislation.

These results are obtained thanks to the commitment of all employees working in Ence, in addition to the investment effort made in the last few years through the implementation of best available techniques (BAT) and best environmental practice (BEP) defined in the BREF for the sector (*Best Available Techniques in the Pulp and Paper Industry 2001*).

Huelva Operations Centre

At the Huelva factory, during the first half of 2013, the regime for the operation of the 50 megawatt biomass power plant was consolidated, which provides for a boiler, turbine and plant for the prior processing of biomass.

Thanks to this plant, the project has become the largest biomass project in Spain which aims to leverage biomass energy with the resulting fall in fossil fuel consumption.

With respect to the odours emitted, as part of the commitment to reduce their impact, the Company continued to carry out the actions started up last year. Although during the first quarter this reduction was less significant, in the second quarter it increased to 50% over that achieved in the previous year.

Concerning water consumption, the actions defined to achieve the reduction under consideration were implemented.

The main effluents parameters, total organic carbon (TOC) and suspended solids, continued to improve significantly.

With respect to waste management, following the timeline opened up following the modification of the Integrated Environmental Authorisation through which certain waste was declassified from the process such as sand and ash from the biomass boiler and from the recovery boiler, with their classification now as by-products or secondary raw materials, their management resumed as part of cement production activities. Also through improvement actions, the dryness of sludge from the sewage treatment plant improved.

As part of the development of the TQM model, the development of all operational standards was virtually completed, which undoubtedly favours the control and management of possible environmental impacts.

Of the €13.2M in environmental investment committed for 2013, the most significant investment from the point of view of environmental improvement was the replacement of fuel oil with gas in the lime kilns. The construction work was completed in the first half of this year and a new debarking and chipping machine at the wood park, which is more efficient from an energy perspective and makes it possible to take more advantage of the biomass generated.

Navia Operations Centre

At the Navia factory, during 2013, the good results of the production of pulp and energy were consolidated and process efficiency improved. These positive results were based on an on-going reduction of the environmental impact, which in the first half of 2013 focused on the implementation of environmental improvement projects.

The most significant environmental investment has been on-going since 2011 at the Navia Operations Centre and relates to the extension of the sewage processing plant which following its entry into service in the second half of 2013 with a budget of €12M will entail an improvement in the quality of liquid sewage in accordance with the reference values at European level.

In addition to the on-going sewage processing plant project, in the first half of 2013 effluent quality was improved through the optimisation of the evaporation process, reducing the organic load of condensed matter and furthering projects to improve incident control at the facilities, giving rise to a review of the Interior Emergency Plan.

The first half of 2013 enabled a major milestone to be achieved in reducing the impact of odour emissions at the facilities of the Navia operations centre, with the implementation of the optimisation project of the evaporator phase and the technological change in the processing of odorous gases, which go from oxidation in the lime kiln to the recovery furnace of the facilities, improving the efficiency and effectiveness of the operation. This entails a significant reduction in emissions from the lime kilns and a reduction in the environmental impact of odour emissions.

Finally, with respect to noise, in 2013, the soundproofing plan for noise sources continued and focused on the refrigeration towers of the electricity generation process.

2013 has brought about an environmental improvement of the significant impacts of cellulose pulp production in order to attain European levels of excellence.

Pontevedra Operations Centre

At the Pontevedra Operations Centre, one of the projects for improving environmental behaviour, which has been carried out in collaboration with the University of Santiago de Compostela, was to eliminate the impact of odour emissions since 2009.

During 2012 all the proposals established were implemented together with other new actions, enabling a reduction of the odour impact of more than 75%. However, in order to arrive at "*Zero smell*", new investments were made in the first half of 2013, such as collecting washing and whitening gases for burning in the Recovery Furnace, the burning system of biological sludges in the Recovery Furnace or the elimination of diffused sources through the installation of hydraulic seals on tanks.

The improvement in the management of the visual impact of the Pontevedra Operations Centre became a prime objective for the company and therefore in the first half of 2013 a project was developed to attain this objective through the elimination of plumes of steam from the refrigeration towers, replacing the current towers with anti-plume hybrid towers. Hydraulic locks were also installed to minimise atmospheric steam emissions, the scrubber plume which collected steam from the washing filters has been eliminated and the project for eliminating the dissolving plume from the recovery furnace was completed.

A tender was also organised for ideas for the Landscape Integration of the Operations Centre for the search of architectural solutions enabling the improvement of the integration of the factor and the landscape. 102 projects were submitted of which 6 were shortlisted. The jury's decision will be known in July.

Concerning sewage effluent, this is in line with the results achieved in previous years, enabling the Pontevedra factory to continue to be considered as a European benchmark with respect to effluent quality.

Finally, with respect to atmospheric emissions, a company authorised by ENAC has certified that all monitors that measure atmospheric parameters conform to international standard UNE-EN -14181.

Forestry activity

During the first half of 2013 the two lines of forestry activity were strengthened, the asset management (in the group companies Silvasur Agroforestal and Norte Forestal), and the purchase of timber (both standing timber and supplies).

Concerning asset management, the efficiency of operations was improved through the development of the TQM model. This enabled progress to be made in relation to the efficiency of field activities, particularly, the most resource intensive activities which call for greater investment, such as greenhouse production, plantation, clearing, shoot selection or utilization. In parallel, work continued to achieve the object of zero accidents, making safety a priority over other management aspects.

An important aspect has been the integration of the Sustainable Forestry Management FSC certification of Silvasur and Norfor in a single certificate issued through Ence. The audit was performed in June. Within this framework, Ence gained a more detailed understanding of its forestry assets, identifying in detail the species and habitats managed in addition to eucalyptus. This knowledge, apart from the environmental value that it generates in terms of the design of an adequate protection policy, has repercussions on general management efficiency since it avoids the establishment of plantations in unsuitable locations for production through the identification of environmental management bio-indicators.

All forestry activities have retained the pertinent certifications with respect to ISO 9001 and ISO 14001.

During the first half of the year, a total of 234.38 hectares were planted and the forest area managed directly increased by 1,234.46 hectares. The investment made in asset management activities amounts to 2.01 million Euros.

Activities aimed at obtaining timber were strengthened and the policy of being closer to the owners, particularly, along the Atlantic Coast, was maintained. This approach is accompanied by activities concerning the extension of the forest, thanks to which the company's technicians inform and advise owners and forestry associations in relation to plantation, specie selection and improved plants, management and forestry management among other things.

In this respect, Ence has become the national benchmark for FSC certification, promoting the creation of SFM certification groups for small and large owners, both in the north and south of Spain. Two new groups have currently been certified and a further three are in different stages of the implementation process. In addition, Ence has entered into an agreement with FSC Spain aimed at promoting the certification of third parties and disseminating and improving knowledge of this certification in the north of Spain.

From the point of view of traceability, Ence has implemented its own system of Compliance with European Union Due Diligence Regulation concerning the timber trade, guaranteeing the legal and undisputed origin of all timber consumed. This activity was accompanied by training and informative activities involving suppliers and the environmental challenge, while waiting for the forestry authorities to complete the development of applicable legislation.

RISK FACTORS ASSOCIATED WITH THE GROUP'S ACTIVITIES

The risk factors identified which affect the ENCE group and its activities are described in note 5 to the consolidated annual accounts of Ence Energía y Celulosa, S.A. and subsidiaries for 2012.

TREASURY SHARES TRANSACTIONS

In the first half of 2013 the Parent Company carried out certain sales-purchases transactions of treasury shares. These shares are carried at their average cost amounting to 373 thousand Euros under "Treasury shares" heading, reducing equity accordingly. The effect of these operations on reserves owing to the profits and losses obtained and the related brokering expenses amounted to 2,330 thousand Euros.

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

There are no events after the year end other than those disclosed in Note 18 to the accompanying interim consolidated financial statements.

CORPORATE GOVERNANCE

The ENCE Group posts on its website www.ence.es all the documentation concerning the annual Corporate Governance Report in accordance with the Transparency Law, ORDER ECO/3722/2003 of 26 December on the annual corporate governance report and other reporting instruments of public interest companies and other entities.

The summarised consolidated financial statements and directors' report for the six month period ended 30 June 2013 under IFRS adopted by the European Union were prepared by the Directors of the Parent Company on 25 July 2013 and the annual accounts are identified and set out on 42 pages of ordinary paper (the financial statements are numbered 1 to 5 while the notes to the consolidated accounts are numbered 6 to 35) and the directors' report on 7 pages (numbered 36 to 42) all of which are signed by the Secretary to the Board, while the directors sign this last page.

Similarly and for the purposes of Royal Decree 1362/2007 of 19 October (Article 11.1), and in relation to the six monthly reporting, for the first six months of 2013 of Ence Energía y Celulosa, S.A. and subsidiaries which includes the summarised financial information of its consolidated group, the Company's directors signing below, make the following declaration of liability: "to the best of our knowledge, the aforementioned summarised financial statements for the six month period ended 30 June 2013 have been prepared in accordance with applicable accounting principles, fairly express the financial position and results of the Company and companies included in the consolidation taken as a whole and the aforementioned interim directors' report includes a fair analysis of the required information".

Mr. Juan Luis Arregui Ciarsolo
Chairman

Mr. Ignacio de Colmenares y Brunet
Managing Director

Mr. Javier Echenique Landiribar
Director

Mr. José Carlos de Álamo Jiménez
Director

Mr. José Guillermo Zubia Guinea
Director

Mr. Gustavo Matías Clavero
Director

Mr. Pascual Fernández Martínez
Director

Mr. Pedro Barato Triguero
Director

Mr. José Manuel Serra Peris
Director

Mr. Fernando Abril-Martorell Hernández
Director

RETOS OPERATIVOS XXI, S.A.,
represented by Mr. Oscar Arregui Abendivar Director

NORTEÑA PATRIMONIAL, S.L.,
represented by Mr. Jesús Ruano Mochales
Director

Ms. Isabel Tocino Biscarolasaga
Director