ENCE ENERGÍA Y CELULOSA, S.A.

Independent Auditor´s Report on Consolidated Annual Accounts
at 31 December 2015

INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

This version of our report is a free translation from the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

To the shareholders of ENCE Energía y Celulosa, S.A.:

Report on the Consolidated Annual Accounts

We have audited the accompanying consolidated annual accounts of ENCE Energía y Celulosa, S.A. and its subsidiaries (the "Group" hereinafter), which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes for the year then ended.

Directors' Responsibility for the Consolidated Annual Accounts

The parent company´s directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of ENCE Energía y Celulosa, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company´s directors´ preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of ENCE Energía y Celulosa, S.A. and its subsidiaries as at December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' Report for 2015 contains the explanations which the parent company´s directors consider appropriate regarding ENCE Energía y Celulosa, S.A. and its subsidiaries´ situation, the development of their business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the directors' Report is in agreement with that of the consolidated annual accounts for 2015. Our work as auditors is limited to checking the directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from ENCE Energía y Celulosa, S.A. and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

Mar Gallardo

12 February 2016

ENERGÍA & CELULOSA

ENCE Energía y Celulosa, S.A. and subsidiaries

Consolidated financial statements for 2015 prepared under the International Financial Reporting Standards adopted by the European Union, the Group Management Report and the Audit Report

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

Consolidated financial statements for 2015

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ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2015 AND 2014

Thousands of euros	Note	Year-end 2015	Year-end 2014
NON-CURRENT ASSETS:			
Intangible assets	14	12,613	13,698
Property, plant and equipment	15	641,930	643,996
Biological assets	16	87,893	90,247
Other financial assets	24	3,027	2,956
Deferred tax assets	28	70,831	81,588
		816,294	**832,485**
CURRENT ASSETS:			
Non-current assets held for sale	17	50,338	77,379
Inventories	18	40,215	37,919
Trade and other receivables	19	121,969	100,431
Receivable from public authorities	28	9,035	9,747
Income tax receivable from the tax authorities	28	959	11,934
Current financial assets:			
Derivatives	27	245	999
Other financial assets	24	8,699	8,513
Cash and cash equivalents	24	159,565	73,428
Other current assets		472	1,321
		391,497	**321,671**
TOTAL ASSETS		**1,207,791**	**1,154,156**
EQUITY:			
Share capital	21	225,245	225,245
Share premium	21	170,776	195,665
Parent company reserves	21	135,096	99,965
Reserves in fully-consolidated companies	21	60,510	123,282
Valuation adjustments	21	51,028	46,501
Parent company retained earnings (prior-period losses)		(109,117)	-
Profit for the year		49,855	(140,909)
Interim dividend		(10,951)	-
Translation differences	4.20	(1,116)	(1,077)
Own shares - parent company shares	21	(3,108)	(5,744)
Equity attributable to owners of the parent		**568,218**	**542,928**
TOTAL EQUITY		**568,218**	**542,928**
NON-CURRENT LIABILITIES:			
Bonds and other marketable securities	24	243,108	242,089
Bank borrowings	24	143,527	97,960
Grants	22	11,254	11,032
Derivative financial instruments	27	7,647	8,103
Other financial liabilities	25	6,687	7,486
Deferred tax liabilities	28	20,560	21,948
Non-current provisions	23	9,260	11,147
		442,043	**399,765**
CURRENT LIABILITIES:			
Bank borrowings	24	14,813	16,404
Derivative financial instruments	27	5,923	7,373
Other financial liabilities	25	1,356	2,385
Trade and other payables	20	162,073	156,326
Tax payable	28	57	94
Other payables to public authorities	28	7,002	8,649
Other current liabilities		-	512
Current provisions	23	6,306	19,720
		197,530	**211,463**
TOTAL EQUITY AND LIABILITIES		**1,207,791**	**1,154,156**

The accompanying notes 1 to 32 are an integral part of the consolidated statement of financial position at 31 December 2015

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ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR YEAR-ENDS 2015 AND 2014

Thousands of euros	Note	Year ended 31 Dec 2015	Year ended 31 Dec 2014
Continuing operations:			
Revenue	8	663,912	687,546
Gain (loss) on hedging transactions	27	(1,630)	39
Changes in inventory of finished goods and work in progress		4,800	(10,145)
Cost of sales	9	(272,984)	(379,447)
GROSS PROFIT		**394,098**	**297,993**
Own work capitalised	14 & 16	9,526	6,193
Other operating income		5,995	6,448
Government grants taken to income	22	2,606	5,686
Employee benefits expense	10	(62,526)	(87,035)
Depreciation and amortisation charges	14 & 15	(58,980)	(59,479)
Depletion of forest reserve	16 & 17	(8,182)	(9,656)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	15, 16, 17 & 23	8,612	(101,175)
Other operating expenses	11	(157,914)	(227,599)
OPERATING PROFIT/(LOSS)		**133,235**	**(168,624)**
Finance income		344	1,066
Change in fair value of financial instruments	12 & 27	(13,990)	(1,326)
Other finance costs	12	(53,921)	(28,032)
Net exchange gains		1,370	1,612
NET FINANCE COST		**(66,197)**	**(26,680)**
PROFIT/(LOSS) BEFORE TAX		**67,038**	**(195,304)**
Income tax	28	(17,183)	54,395
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**49,855**	**(140,909)**
Discontinued operations:			
After-tax profit/(loss) for the year from discontinued operations		-	-
PROFIT/(LOSS) FOR THE YEAR		**49,855**	**(140,909)**
Earnings/(loss) per share:			
Basic	21	**0.20**	**(0.56)**
Diluted	21	**0.20**	**(0.56)**

The accompanying notes 1 to 32 are an integral part of the consolidated 2015 income statement

ENCE ENERGÍA & CELULOSA

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR-ENDS 2015 AND 2014

Thousands of euros	Note	Year ended 31 Dec 2015	Year ended 31 Dec 2014
CONSOLIDATED PROFIT/(LOSS) FOR THE PERIOD (I)	21	49,855	(140,909)
Income and expense recognised directly in equity:			
- Cash flow hedges (*)		(5,555)	(5,425)
- Translation differences (*)		(39)	1,141
- Tax effect		1,389	1,118
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY (II)	21	(4,205)	(3,166)
Amounts transferred to the consolidated income statement			
- Cash flow hedges (*)		15,400	2,860
- Tax effect		(3,850)	(859)
TOTAL AMOUNTS TRANSFERRED TO PROFIT OR LOSS (III)	21	11,550	2,001
TOTAL COMPREHENSIVE INCOME/(EXPENSE) (I+II+III)		57,200	(142,074)

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

The accompanying notes 1 to 32 are an integral part of the consolidated 2015 statement of comprehensive income

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ENERGÍA & CELULOSA

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR-ENDS 2015 AND 2014

2015 (thousands of euros)	Balance at 1/1/2015	Total recognised income/ (expense)	Appropriation of prior-year profit/(loss)	Dividends	Trading in own shares	Non-cash contributions	Balance at 31/12/2015
Share capital	225,245	-	-	-	-	-	225,245
Share premium	195,665	-	-	(24,889)	-	-	170,776
Legal reserve	45,050	-	-	-	-	-	45,050
Other reserves/Parent company retained earnings (prior-period losses)	54,915	-	(109,118)	-	1,294	33,838	(19,071)
Reserves in fully-consolidated companies	123,282	6,725	(35,658)	-	-	(33,838)	60,510
Interim dividend	-	-	-	(10,951)	-	-	(10,951)
Translation differences	(1,077)	(39)	-	-	-	-	(1,116)
Own shares	(5,744)	-	-	-	2,636	-	(3,108)
Valuation adjustments	46,501	660	3,867	-	-	-	51,028
Consolidated profit (loss) for the period	(140,909)	49,855	140,909	-	-	-	49,855
	542,928	**57,200**	-	**(35,840)**	**3,930**	-	**568,218**

2014 (thousands of euros)	Balance at 1/1/2014	Total recognised income/ (expense)	Appropriation of prior-year profit/(loss)	Dividends	Trading in own shares	Distribution of own shares	Balance at 31/12/2014
Share capital	225,245	-	-	-	-	-	225,245
Share premium	210,037	-	-	-	-	(14,372)	195,665
Legal reserve	45,050	-	-	-	-	-	45,050
Other parent company reserves	72,408	-	7,451	(19,376)	(48)	(5,521)	54,915
Reserves in fully-consolidated companies	126,422	-	(3,140)	-	-	-	123,282
Translation differences	(2,218)	1,141	-	-	-	-	(1,077)
Own shares	(19,762)	-	-	-	(5,875)	19,893	(5,744)
Valuation adjustments	48,807	(2,306)	-	-	-	-	46,501
Consolidated profit (loss) for the period	4,311	(140,909)	(4,311)	-	-	-	(140,909)
	710,300	**(142,074)**	-	**(19,376)**	**(5,923)**	-	**542,928**

The accompanying notes 1 to 32 are an integral part of the consolidated 2015 statement of changes in equity

ENCE ENERGÍA & CELULOSA

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR-ENDS 2015 AND 2014

Thousands of euros	Year ended 31 Dec 2015	Year ended 31 Dec 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated profit/(loss) for the period before tax	67,038	(195,304)
Adjustments for:		
Depreciation	57,161	58,866
Depletion of forest reserve	8,182	9,656
Amortisation	1,819	613
Changes in provisions and other deferred expense (net)	2,793	32,840
Impairment of and gains/(losses) on disposals intangible assets and PP&E	(8,990)	101,175
Finance income	(344)	(1,066)
Finance costs	66,914	29,502
Government grants taken to income	(1,982)	(1,300)
	125,553	**230,286**
Changes in working capital:		
Inventories	(4,095)	24,451
Trade and other receivables	(22,070)	13,904
Financial and other current assets	(164)	2,363
Trade payables, other payables and other liabilities	(9,212)	(41,929)
	(35,541)	**(1,211)**
Other cash flows from operating activities:		
- Interest paid	(47,517)	(25,207)
- Interest received	344	1,065
- Income tax received (paid)	744	(166)
	(46,429)	**(24,308)**
Net cash from operating activities (I)	**110,621**	**9,463**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments:		
Property, plant and equipment and biological assets	(53,974)	(55,718)
Intangible assets	(5,192)	(4,113)
Other financial assets	(71)	(16)
	(59,237)	**(59,847)**
Disposals:		
Property, plant and equipment and biological assets	32,266	58
	32,266	**58**
Net cash used in investing activities (II)	**(26,971)**	**(59,789)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from and payments for equity instruments		
Buyback of own equity instruments	(1,093)	(6,073)
Disposal of own equity instruments	5,023	156
	3,930	**(5,917)**
Proceeds from and repayments of financial liabilities:		
Proceeds from issuance of bonds and other marketable securities, net of issuance costs	(7,032)	-
Increase (decrease) in bank borrowings, net of issuance costs	44,639	1,127
Repayment of other borrowings and cancellation of derivatives	(5,293)	(1,338)
Grants received	2,011	860
	34,325	**649**
Dividends and payments on other equity instruments		
Dividends	(35,840)	(19,376)
	(35,840)	**(19,376)**
Translation differences	72	7
Other cash received from (used in) financing activities		
Fixed-term deposits	-	45,000
	-	**45,000**
Net cash from financing activities (III)	**2,487**	**20,363**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III)	**86,137**	**(29,963)**
Cash and cash equivalents, opening balance	73,428	103,391
Cash and cash equivalents, closing balance	159,565	73,428

The accompanying notes 1 to 32 are an integral part of the consolidated 2015 statement of cash flows

Notes to the 2015 consolidated financial statements

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Contents

ENCE Energía y Celulosa, S.A. and subsidiaries

Notes to the 2015 consolidated financial statements

1.Group information

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

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

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

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

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

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

The Group has structured its activities around two business lines:

i) The Pulp Business

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

To carry out this activity, the Group had, until the third quarter of 2014, three factories in Spain (located in Asturias, Pontevedra and Huelva) with combined nominal capacity of approximately 1,350,000 tonnes per annum.

During the third quarter of 2014, the Group announced its decision to devote the industrial complex in Huelva to the generation of renewable energy and to discontinue the production of pulp (note 23); in tandem, management announced plans to reorganise the Group's corporate structure to align it with the new productive configuration. Since then, the Group has concentrated its pulp-making activities at its factories in Asturias and Pontevedra, which between them have average annual production capacity of 960,000 tonnes.

The mills in Asturias and Pontevedra use the kraft process to produce pulp. This productive process includes the co-generation of electric power using biomass feedstock sourced from the timber that is not transformed into pulp: lignin. The Group's aggregate nominal installed electric power generation capacity (integrated within the Asturias and Pontevedra factories) is approximately 112 megawatts (MW).

In order to facilitate procurement of the timber supplies needed for the pulp manufacturing process, the Group manages 72,160 hectares of forested land in Spain and Portugal, 45,856 hectares of which it owns.

ii) Energy Business

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

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

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

1.1 Group companies

The following subsidiaries, 100% directly or indirectly owned by the Parent, are fully consolidated in the accompanying 2015 consolidated financial statements:

2015

			Thousands of euros		
			Investee equity		
Investee	Registered	Business activity	Capital and other owner contributions	Share premium & reserves	Profit (loss) for the year
Pulp Business-					
Celulosas de Asturias, S.A.U. (a)	Armental s/n Navia (Asturias)	Generation and sale of pulp and electric energy	37,863	86,049	40,796
Silvasur Agroforestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	3,960	4,204	12,359
Ibersilva, S.A.U. (a)	Ctra A-5000 Km. 7.5 (Huelva)	Forestry services	280	(404)	369
Norte Forestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	2,464	17,758	(5,621)
Ence Investigación y Desarrollo, S.A.U. (a)	Pontecaldelas (Pontevedra)	Research into and development of new materials, products and processes	6,208	(3,788)	(32)
Iberflorestal, S.A.U. (a)	Lisbon (Portugal)	Purchase-sale of wood	4,055	260	(4,248)
Las Pléyades, S.A. (SAFI) (b)	Montevideo (Uruguay)	Dormant	2	78	52
Maderas Aserradas del Litoral, S.A. (b)	Montevideo (Uruguay)	Dormant	6	170	32
Sierras Calmas, S.A. (b)	Montevideo (Uruguay)	Dormant	1,393	(170)	838
Energy Business-					
Celulosa Energía, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	3,756	28,246	6,613
Ence Energía, S.L.U (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	110,524	20,171	(2,709)
Ence Energía Huelva, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	25,757	5,452	1,774
Ence Energía Extremadura, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	20,054	4,565	(2,118)

(a) Financial statements audited by PwC
(b) Equivalent amounts in euros translated at closing exchange rate

2014

Investee	Registered	Business activity	Thousands of euros – Investee equity: Capital and other owner contributions	Share premium & reserves	Profit (loss) for the year
Pulp Business-					
Celulosas de Asturias, S.A.U. (a)	Armental s/n Navia (Asturias)	Generation and sale of pulp and electric energy	37,863	92,440	13,610
Silvasur Agroforestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	39,666	(11,631)	(19,871)
Ibersilva, S.A.U. (a)	Ctra A-5000 Km. 7.5 (Huelva)	Forestry services	280	(5)	(399)
Norte Forestal, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Forest land management	2,464	19,754	(1,996)
Ence Investigación y Desarrollo, S.A.U. (a)	Pontecaldelas (Pontevedra)	Research into and development of new materials, products and processes	1,208	(1,804)	(1,984)
Iberflorestal, S.A.U. (a)	Lisbon (Portugal)	Purchase-sale of wood	55	995	(735)
Las Pléyades, S.A. (SAFI) (b) (c)	Montevideo (Uruguay)	Export of wood	2	2,640	(152)
Maderas Aserradas del Litoral, S.A. (b) (c)	Montevideo (Uruguay)	Dormant	6,419	(7,289)	4
Sierras Calmas, S.A. (b) (c)	Montevideo (Uruguay)	Forest management	1,393	3,560	236
Energy Business-					
Celulosa Energía, S.A.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	3,756	23,111	5,134
Ence Energía, S.L.U (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	7,506	9,150	(19,055)
Ence Energía Huelva, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	25,757	21,353	(15,901)
Ence Energía Extremadura, S.L.U. (a)	Beatriz de Bobadilla, 14 (Madrid)	Generation and sale of electric energy	18,979	11,763	(11,498)

(a) Financial statements audited by PwC
(b) Equivalent amounts in euros translated at closing exchange rate
(c) Dormant companies

In addition, the Group comprises the following dormant companies that are wholly-owned by the Parent: Las Pléyades Argentina, S.A. and Las Pléyades Uruguay, S.A. Elsewhere, Group investees Celulosas de M´Bopicuá, S.A. and Zona Franca M´Bopicuá, S.A. were unwound in 2015 (note 3.5).

The Group also has non-controlling interests in certain companies that have not been consolidated on account of their scant materiality: Imacel, A.E.I.E., a dormant company that is 50%-owned by the Parent, Sociedad Andaluza de Valorización de la Biomasa, S.L., in which the Parent holds a 6% interest, and Electroquímica de Hernani, S.A., in which it owns a 5% shareholding, among others.

2. Proposed appropriation of ENCE Energía y Celulosa, S.A.'s profit

The Company's directors have resolved to submit the following appropriation of the Parent's 2015 profit of €62,202 thousand for shareholder approval at the upcoming Annual General Meeting:

	Thousands of euros
Basis of appropriation:	
Profit for the year	62,202
Appropriation:	
Interim dividend (paid out in October 2015)	10,951
Final dividend charged against profit for the year	25,027
Voluntary reserves	26,224

At a meeting held on 30 September 2015, the Board of Directors of the Parent resolved to pay an interim dividend from 2015 profits of €0.044 per share (before withholdings), in cash. This dividend entailed an outlay of €10,951 thousand and was paid out on 7 October 2015.

The table below sets out the related forecast liquidity position, as required under article 277 of the Consolidated Text of the Corporate Enterprises Act, evidencing the existence of sufficient liquidity to justify payment of the 2015 interim dividend in an amount of up to €0.044 per outstanding share.

	Thousands of euros
Available liquidity as of 31 August 2015-	
Cash	52,403
	52,403
Interim dividend payment (maximum amount)	(11,012)
Forecast net cash flows until date of approval of interim dividend	-
Forecast liquidity as of date of approval of interim dividend	**41,391**
Forecast cash receipts until 31 August 2016	
Operating and investing activities	55,380
Financing activities	20,000
Forecast cash outflows until 31 August 2016	
Operating and investing activities	(28,506)
Financing activities	(22,444)
Forecast liquidity as of 31 August 2016 (*)	**65,821**

(*) In addition, the Parent had an undrawn credit line at 31 August 2015 of €90 million (this facility matures in 2020).

In addition, at a meeting held on 12 February 2016, the Company's Board of Directors resolved to submit a motion for the payment of a final cash dividend (in addition to the interim dividend already paid out) against 2015 profits of €0.10 per share (before withholdings) to its shareholders for approval at its upcoming Annual General Meeting.

3.Basis of preparation and consolidation

3.1Basis of preparation

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

Note 4 summarises the most significant mandatory accounting policies and measurement criteria applied.

The Group's consolidated financial statements for 2015, which have been authorised for issue by the Parent's directors, will be submitted for shareholder approval at the Annual General Meeting at which they are expected to be ratified without modification. The Group's consolidated financial statements for 2014 were approved at the Annual General Meeting held by the Parent on 28 April 2015.

The Group's functional currency is the euro and the consolidated financial statements are accordingly presented in euros.

3.2New and amended standards taking effect during the reporting period

The following new and amended standards took effect in 2015 and were applied in preparing the accompanying consolidated financial statements, albeit without having a material impact thereon:

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ENERGÍA & CELULOSA

- IFRIC 21 - Levies
  This interpretation stipulates that levies be recognised when the obligation arises.
- Annual improvements to IFRSs, 2011-2013 Cycle - Minor modifications to a series of standards. This round of improvements includes a change that affects IFRS 1 and amends the following standards:
  - IFRS 3 - Business combinations: clarification that the scope exception of IFRS 3 relates to formation of a joint arrangement in the financial statements of the joint arrangement itself.
  - IFRS 13 - Fair value: the scope of the portfolio fair value measurement exception has been modified to clarify that it applies to all contracts within the scope of IAS 39.
  - IAS 40 - Investment property: clarification of the fact that IAS 40 and IFRS are interrelated and that both standards may need to be applied under certain circumstances.

3.3Standards and interpretations issued but not yet effective

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

Standard	Content	Effective for annual periods on or after
IFRS 9 - Financial instruments: Classification and measurement	Replaces the financial asset and financial liability classification, measurement, recognition and derecognition requirements and the hedge accounting and impairment prescriptions of IAS 39.	1 January 2018
IFRS 15 - Revenue from contracts with customers	Replaces prevailing IAS 11 and IAS 18 as well as the current interpretation of revenue.	1 January 2018
Amendments to IAS 19 -Employee contribution to defined benefit plans	Subject to compliance with certain requirements, the amended wording will allow for the deduction of these contributions from service cost in same the reporting period as they are paid for.	1 February 2015

Standard	Content	Effective for annual periods on or after
Amendments to IAS 16 / IAS 38 - Acceptable methods of depreciation and amortisation	These amendments clarify which depreciation and amortisation methods are acceptable, stating that revenue-based depreciation methods are not permitted as they do not reflect the expected pattern of consumption of the future economic benefits embodied by an asset.	1 January 2016
Amendments to IFRS 11 - Accounting for acquisitions of interests in joint operations	As amended, IFRS 11 requires the use of the acquisition method prescribed in IFRS 3 - Business combinations when joint operations are businesses.	1 January 2016
Amendments to IAS 16 and IAS 41 - Bearer plants	As amended, bearer plants will have to be carried at cost instead of fair value.	1 January 2016
Amendments to IFRS 10 and IAS 28 - Sales or contributions of assets between an investor and its associate/joint venture	The gain or loss resulting from the sale or contribution of assets that constitute a business is recognised in full; that resulting from the sale or contribution of assets that do not constitute a business is recognised partially.	Pending endorsement by the EU
Amendment to IAS 27 - Equity method in separate financial statements	This amendment will reinstate the use of the equity method to measure investments in an investor's separate financial statements.	Pending endorsement by the EU
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities	Clarifications regarding application of the consolidation exception to investment entities.	Pending endorsement by the EU
Amendments to IAS 1: Disclosure initiative	Multiple clarifications with respect to disclosure requirements (materiality, aggregation, note order, etc.).	Pending endorsement by the EU
IFRS 16 - Leases	This new standard introduces substantial changes to how leases must be accounted for in reporters' financial statements	1 January 2019

The Group is in the process of analysing what impact these new and amended standards could have on its consolidated financial statements, if adopted.

3.4Key IFRS-related decisions

In presenting the consolidated financial statements and accompanying notes, the Group took the following decisions:

a. The presentation of the consolidated statement of financial position distinguishes between current and non-current amounts. The consolidated income statement is presented using the nature-of-expense method.

b. The Group has chosen to present its consolidated statement of cash flows using the indirect method.

3.5Basis of consolidation

Subsidiaries

'Subsidiaries' are investees over which the Parent has the power to exercise effective control; this power is presumed to exist, in general albeit not exclusively, when it owns, either directly or indirectly, at least 50% of the voting rights of the investee or, even if this percentage is lower, there are agreements with other investee shareholders that grant it control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are consolidated with those of the Parent using the full consolidation method. As a result, material inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation.

In the accompanying consolidated financial statements, all the companies comprising the consolidation scope are accounted for using the full consolidation method.

Associates

Associates are all entities over which the Parent has significant influence but not control or joint control. The power to exercise significant influence is usually associated with interests (held directly or indirectly) of 20% or more of an investee's voting rights.

Associates are accounted for using the equity method, i.e., at the carrying amount of the Group's share of the associate's equity, restated for any dividends received and other adjustments to equity.

Adjustments to conform with the Group's accounting policies

The consolidation of the entities comprising the consolidation scope was carried out on the basis of their respective separate financial statements, which are prepared under the Spanish General Accounting Plan for companies resident in Spain and local accounting standards for the foreign subsidiaries. The directors have made all the material adjustments needed to adapt these separate financial statements to IFRS and/or to align them with the Group's accounting policies as part of the consolidation process.

Changes in consolidation scope and in ownership interests

2015

In 2015, the Parent contributed Celulosa Energía, S.A.U. to its subsidiary, Ence Energía, S.L.U. In addition, the dormant Uruguayan companies, Uruguay Celulosas de M´Bopicuá, S.A. and Zona Franca M´Bopicuá, S.A., were unwound in 2015.

2014

In 2014, Celulosa de Asturias, S.A.U. absorbed its dormant subsidiary, Electricidad de Navia, S.L.U.

3.6Comparative information

The information provided in these financial statements in respect of 2014 is presented to enable a reader comparison with the equivalent 2015 disclosures.

3.7Seasonal nature of the Group's transactions

Given the nature of the Group companies' business operations, its transactions are not cyclical or seasonal in nature. Specific seasonality disclosures are accordingly not provided in these financial statements.

Note, however, that the production of pulp and energy requires annual stoppages of between 10 and 15 days for maintenance purposes. The Group carried out these annual stoppages during the first half of 2015.

3.8Changes in accounting estimates and policies and correction of fundamental errors

The impact of any change in accounting estimates is accounted for prospectively in the same income statement heading in which the previously estimated item of expense or income is recognised.

Meanwhile, changes in accounting policies and the correction of fundamental errors are accounted for as follows insofar as material: the accumulated impact at the beginning of the year is adjusted in reserves and the impact in the year of the restatement is recognised in profit or loss for the year. In these instances, the financial information for the comparative year presented alongside that corresponding to the reporting period is restated.

No significant changes in accounting estimates or policies or corrections of errors affect either the 2014 or the 2015 financial statements other than as indicated in note 7.

4.Accounting policies

The main accounting policies used to prepare the Group's consolidated financial statements, as provided in the International Financial Reporting Standards adopted by the European Union, are summarised below:

4.1Intangible assets

Intangible assets are initially recognised at acquisition or production cost. Subsequent to initial recognition, they are measured at cost less accumulated amortisation and any impairment losses.

The Group's intangible assets have finite useful lives and are accordingly amortised on a straight-line basis over the best estimate of such useful life.

Research and development costs-

Research expenditure is recognised as an expense in the year it is incurred.

Development costs are capitalised when their cost is identifiable and the technical feasibility and financial profitability of the project can be demonstrated. Development costs that do not meet these criteria are recognised as an expense in the year in which they are incurred.

These costs are amortised on a straight-line basis over five years.

Computer software-

The Group recognises the costs incurred to acquire software and the associated user rights under this heading. Software maintenance costs are expensed currently.

Costs that are directly associated with the internal development of software are recognised as intangible assets insofar as their cost is clearly identifiable and it is deemed probable that the developments will generate economic benefits beyond one year.

Software is amortised using the straight-line method over a five-year period.

Greenhouse gas emission allowances for own use-

Emission allowances acquired are recognised as an intangible asset and are initially measured at their acquisition cost.

Emission allowances received free of charge under the emission allowance trading scheme in effect for 2013-2020 are recognised within intangible assets at their market value at the start of the year for which they are allocated (deemed cost), recognising deferred income in the form of a grant in the same amount as the balancing entry. As the corresponding tonnes of carbon are consumed, the deferred income is reclassified to profit or loss.

Emission allowances are not amortised as their carrying amount matches their residual value, so that their amortisation base is effectively zero. Emission allowances are, however, tested for impairment (as explained in note 4.2 below). The market value of emission allowances is calculated with reference to the price of the benchmark contract provided by the European Climate Exchange (ECX).

An expenditure is recognised under "Other operating expenses" in the income statement for emissions made during the year by means of a provision whose amount is calculated as a function of the tonnes of carbon emitted, valued at: (i) their carrying amount in respect of allowances held at year-end; and (ii) the year-end trading price in respect of allowances not held at year-end.

When trading allowances are delivered to the authorities for the tonnage of carbon emitted, both the intangible asset and the corresponding provision are derecognised, with no impact on profit or loss.

4.2Property, plant and equipment

These assets are recognised initially at acquisition or production cost and are subsequently carried net of accumulated depreciation and any impairment losses, applying the impairment criteria outlined later on in this note.

Asset extension, upgrade or improvement costs that represent an increase in productivity, capacity or efficiency or an extension of the useful life of assets are capitalised as an increase in the cost of the corresponding assets.

Preservation and maintenance expenses incurred during the year are recognised in the income statement. In addition, certain facilities require periodic inspections. In this respect, the parts requiring replacement at regular intervals that meet the criteria for recognition are recognised specifically and depreciated during the time remaining until the next repair inspection.

Capitalised costs for items of property, plant and equipment which require more than one year to ready for use - qualifying assets - include borrowing costs accrued prior to readying the assets for use when such expenses have been invoiced by the supplier or correspond to specific or generic borrowings or other external financing directly attributable to the acquisition or production of the asset. The interest rate used for this purpose is either that corresponding to the specific borrowings financing the asset or, if there is no such funding, the Group's average borrowing cost (note 24).

Own work performed by the Group on property, plant and equipment is recognised at production cost, which is external costs plus internal costs incurred in their development, mainly labour and other operating costs.

Other than land, which is deemed to have an indefinite useful life and is therefore not depreciated, the Group companies depreciate their property, plant and equipment using the straight-line method, distributing the cost of the assets over the following years of estimated useful life:

	Estimated years of useful life
Buildings	25-60
Plant and machinery	8-25
Other fixtures, tools and furniture	5-12
Other items of PP&E	5-10

Land is recognised separately from the buildings or facilities that may reside on it and is deemed to have an indefinite useful life; accordingly it is not depreciated.

Investment in buildings built on land used under a concession arrangement is recognised under "Buildings". This cost, coupled with that corresponding to the rest of the permanent facilities located on the land held under concession, is depreciated over the shorter of the building's remaining useful life and the term of the concession agreement.

Similarly, investments in plant and equipment located on land owned by third parties may include the initially estimated costs of dismantling such assets and rehabilitating the asset sites, to the extent that the Group has incurred obligations in this respect subject to specific terms and conditions. Any such costs are recognised and measured in keeping with the rules for measuring provisions (note 4.12). Any subsequent changes in estimated dismantling costs as a result of changes in estimated cash flows and/or the discount rate applied increase or decreases the carrying amount of the corresponding asset in the year in which they arise, unless the correction in the liability exceeds such carrying amount, in which case the surplus is recognised as a gain in the income statement.

In light of the terms and conditions under which the concession for the use of the land on which the Pontevedra factory is located was granted and the length of the term for which the concession has been extended, management's estimates point to scantly material costs in this respect.

Items of property, plant and equipment funded by project finance-

The ENCE Group has funded its investments in biomass-fuelled power generation assets using project finance arrangements.

This form of structured finance is used to fund projects that generate enough cash on a standalone basis to provide the lenders with sufficient reassurance as to the repayment of their loans.

These assets are measured at the direct costs incurred, net of any income generated during testing, that can be directly attributed to their construction up until the asset is ready for its intended use. The capitalised amounts also include the borrowing costs of specific financing expressly earmarked for acquisition of the asset and accrued until the asset is ready for use, including payments under cash flow hedges arranged to mitigate interest-rate risk on such borrowings.

Impairment of non-current assets

The Group reviews the carrying amounts of its property and equipment, biological assets, investment properties and intangible assets for indications of impairment every year.

Whenever it identifies indications of impairment, the Group proceeds to test its assets for impairment, restating them to their recoverable amount if this is determined to be below their carrying amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

In testing its assets for potential impairment, management analyses macroeconomic variables and the outlook for the sector, as gleaned from forecasts for supply and demand, regulatory changes, costs and the availability of the key raw materials, etc.

The procedure used by the Company's directors to test for impairment is as follows:

They calculate each cash-generating unit's recoverable amount, the cash-generating units (CGUs) being the Group's various pulp factories and power plants.

Each year, the Group prepares a business plan for each CGU which generally covers a projection period of between three and five years. The business plan materialises in financial projections that are prepared by the Group's management on the basis of prior experience and best available estimates with respect to macroeconomic variables, planned capacity increases associated with new investments, expected changes in sales prices and the cost of the main raw materials, all of which underpinned by consensus market estimates, working capital trends and discount rates.

With the exception of projects financed on a non-recourse basis and biological assets, terminal value is calculated as a function of 'normalised' cash flow in the last year of the projection period, extrapolated at a rate of growth in perpetuity that ranges between 1% and 2% and is in no instance higher than estimated long-term growth for the market in which the Group operates. The cash flows used to calculate the terminal value factor in the maintenance capital expenditure required to ensure the business's continuity.

In the case of assets associated with projects funded on a non-recourse basis, for which cash flows during the construction and operating phases can be estimated with a certain amount of precision, the recoverable amount is calculated using estimated cash flows projected until the end of the asset's life. Accordingly, no terminal value is factored in. And for biological assets, projected cash flows encompass a productive cycle of up to 40 years and, again, no terminal value is factored in. The projections are built on known quantities, based on the project agreements, as well as key assumptions underpinned by specific studies compiled by production experts and estimates. They also reflect forecast macroeconomic variables such as core inflation, benchmark interest rates, etc. Sensitivity analyses are conducted to determine the impact of changes in all the key inputs that could have a significant impact on asset valuations.

To calculate value in use, the cash flows so estimated are discounted using a discount rate that represents the weighted average cost of capital, factoring in the cost of the liabilities and the business risks associated with the business being valued in the market in question. The discount rates applied in the pulp business range between 6% and 8%; in the power generation segment a discount rate equivalent to the yield on 10-year Spanish government bonds plus 300 basis points is used as the after-tax rate.

If the estimated recoverable amount of an asset is lower than its carrying amount, the latter is written down to the former by recognising the corresponding impairment loss in "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the income statement. After an impairment loss has been

recognised, depreciation charges are calculated prospectively on the basis of the reduced carrying amount of the impaired asset.
When an impairment loss subsequently reverts, the carrying amount of the CGU is written up to its recoverable amount, so long as the restated carrying amount does not exceed the carrying amount that would have been recognised had no impairment loss been recognised in prior years. The reversal of an impairment loss is recognised in "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the income statement.

4.3Investment properties

"Investment property" in the accompanying statement of financial position includes the values, net of any accumulated depreciation, of the land and buildings held to earn rentals or for capital appreciation. These assets are not used in the Group's business operations or for administrative purposes.
Investment property is measured following the same criteria as are used to measure fixed assets of the same class, as outlined in "Property, plant and equipment" above.

4.4Biological assets

The Group grows several species of trees, mainly eucalyptus, which are used as the raw material for producing pulp and energy. Against this backdrop, the trees in a forest plantation - or forest cover - are considered a biological asset. Forest land is measured in keeping with IAS 16, Property, plant and equipment and is recognised within "Property, plant and equipment" in the statement of financial position (note 15).
The Group has been valuing its biological assets at their historical cost (cost less accumulated depreciation less any accumulated impairment losses) in light of the difficulty in identifying active markets for these species in Spain. However, it has been able to verify the validity of these values as a reasonably reliable proxy for fair value and has also carried out discounted cash flow analysis; the results of these cross-checks do not differ materially from the amounts recognised in the accompanying consolidated financial statements.
Investment in forest assets is measured by capitalising all the costs incurred directly in acquiring and developing them, including land rents, site cleaning and preparation costs, plantation costs, fertilisers and forest care and preservation expenses. In addition, because these assets take more than one year to ready for use, borrowing costs accrued until the time the trees are felled are capitalised in respect of the portion of the investment funded with debt (currently not very material). The interest rate used is the Group's average borrowing cost (note 24).
When the plantations are harvested, the value of the asset cover is reduced with a charge to "Biological assets – Depletion of forest reserve" along with the recognition of a corresponding expense under "Depletion of forest reserve" in the income statement at incurred production costs. The criteria for allocating costs to trees felled takes into consideration total costs incurred as of the date the wood is cut and the residual value of the plantation.
In addition, when forest cover comes to the end of its productive cycle, the amount of recognised forest cover net of accumulated depreciation/depletion is derecognised.

4.5Leases

The Group holds certain assets under lease. All of the lease arrangements entered into by the Group have been classified as operating leases; based on the substance of the leases, none of the agreements transfers ownership of the leased assets nor the risks and rewards incidental to ownership.
Payments on operating leases are expensed in the income statement in the year in which they accrue.

4.6Financial instruments

Financial assets

The Group's financial assets are classified into the following categories:

- Loans and receivables: trade credit and loans with fixed or determinable payments deriving from non-commercial transactions

- Available-for-sale financial assets: this category mainly includes equity interests in other companies and other financial assets that have not been classified within loans and receivables

No financial assets were reclassified between the above financial asset categories in either 2015 or 2014.

Initial recognition-

Financial assets are initially recognized at the fair value of the consideration delivered plus directly attributable transaction costs.

Subsequent measurement-

Loans and receivables are measured at amortised cost; interest accrued is recognised in the income statement using the corresponding effective interest rate.

The Group recognises impairment losses in the income statement when it believes there is a risk of non-payment on the basis of the age of the debts. This risk is evidenced primarily when the counterparty declares bankruptcy, the Group has taken legal action to seek payment or the counterparty is in arrears by more than six months.

Available-for-sale financial assets are measured at fair value. Gains and losses arising from changes in the fair value of these assets are recognised directly in equity until the asset is derecognised or considered structurally or permanently impaired, a development that triggers the reclassification of the cumulative gains or losses that had been recognised directly in equity to profit or loss.

Derecognition of financial assets -

Financial assets are derecognised when the contractual rights to the related cash flows have expired or when the risks and rewards incidental to ownership of the asset have been substantially transferred. Against this backdrop, the Group derecognises discounted trade and other receivables insofar as all of the risks and rewards associated with these assets have been substantially transferred.

In contrast, the Group does not derecognise financial asset transfers in which it retains substantially all the risks and rewards of ownership, recognising instead a financial liability in the amount of any consideration received.

Financial liabilities

Financial liabilities are trade and other accounts payable by the Group deriving from the purchase of goods and services in its ordinary course of business and other liabilities that are not commercial in origin and that cannot be considered derivatives (bank borrowings, issued bonds, etc.).

Financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs. They are subsequently measured at amortised cost. Bank borrowings, therefore, are recognised at the amount received net of direct issuance costs, which are considered an upfront payment for the provision of liquidity.

Trade and other current accounts payable are financial liabilities that do not explicitly accrue interest. They are carried at their face value insofar as the effect of not discounting them is not material.

Finance costs are recognised on an accrual basis in the income statement using the effective interest rate method. The cost of issuing these liabilities is recognised as finance cost applying the same effective interest rate method and is added to the carrying amount of the financial liability to the extent that they are not settled.

The Group derecognises financial liabilities when the related obligation is discharged or cancelled or expires.

Hedging instruments and derivatives

The Group's activities expose it to financial and market risks deriving from variability in the dollar/euro exchange rate (which affects its revenue as benchmark pulp prices are quoted internationally in dollars), other exchange rate fluctuations insofar as they affect currency-denominated sales and changes in the prices of pulp, fuel-oil, gas and electricity, whether bought or sold. The Group's financial liabilities also expose it to the risk of changes in interest rates. The Group uses derivative financial instruments to hedge these exposures.

They are recognised under "Derivative financial instruments" on the liability side of the consolidated statement of financial position if they present a negative balance and under "Current financial assets – Derivatives" on the asset side if they present a positive balance. The fair value of the various derivative financial instruments is calculating in keeping with the criteria outlined in note 4.7 - Fair value estimation. Gains and losses resulting from fair value changes are recognised as finance income or cost in the income statement, unless the derivative, or a portion thereof, has been designated as a hedging instrument that is deemed highly effective, in which case they are recognised as follows:

1. Fair value hedges: the hedged item is measured at fair value, as is the hedging instrument, and the changes in the fair value of both the hedged item and the hedging instruments are recognised, net, in the same income statement heading.
2. Cash flow hedges: gains and losses arising on changes in the fair value of these derivatives are recognised in "Equity – Valuation adjustments". The cumulative net gain or loss deferred in this heading is recycled to profit or loss in conjunction with recognition in the income statement of the underlying hedged item, so that both effects set each other off.

For these instruments to qualify for hedge accounting they are designated as hedges from the outset and the hedging relationship is documented in detail. In addition, the Group tests the effectiveness of its hedges from inception to derecognition/discontinuation. Hedges are deemed effective if it is expected, prospectively, that the changes in the fair value or in the cash flows from the hedged item (attributable to the hedged risk) will be almost entirely offset by the changes in the fair value/cash flows of the hedging instrument and that, retrospectively, the gains or losses on the hedge have fluctuated within a range of 80% to 125% of gains or losses on the hedged item.

In addition, gains or losses on the portion of the hedging instrument deemed ineffective and/or on the portion of a financial instrument used but not designated as a hedge (e.g., time value) are recognised immediately in "Change in the fair value of financial instruments" in the income statement.

Hedge accounting is discontinued when a hedge ceases to be highly efficient. If hedge accounting is discontinued, the cumulative gain or loss on the hedging instrument that has been recognised directly in equity is retained in equity until the commitment or forecast transaction materialises, at which time it is reclassified to profit or loss. When a hedged commitment or forecast transaction is no longer expected to materialise, any net cumulative gain or loss that was recognised in equity is immediately reclassified to profit or loss.

Equity instruments

An equity instrument is a contract that evidences a residual interest in the Parent's assets after deducting all of its liabilities.

The equity instruments issued by the Parent are recognised in equity at the amount received net of any issuance costs.

Own shares acquired by the Parent are recognised at the amount of consideration given in exchange and are presented as a deduction from equity. The gains and losses resulting from the purchase, sale, issuance or cancellation of own equity instruments are recognised directly in equity and are not reclassified to profit or loss under any circumstances.

Distinction between current and non-current

In the accompanying statement of financial position, assets and liabilities are classified by maturity, i.e. as current if they mature within 12 months of the reporting date and as non-current if they mature in more than 12 months.

4.7 Fair value estimation

The fair value of financial instruments traded on active markets is based on market prices at each reporting date. A market in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis is an active market.

The fair value of financial instruments that are not traded on an active market is determined using a range of valuation techniques and assumptions that are based on the market conditions prevailing at each reporting date.

The valuation techniques used vary by instrument type. Management uses discounted cash flow analysis to value interest and exchange rate derivatives, the Monte Carlo model for the quanto basket stock options contained in certain remuneration schemes and the Barone-Adesi and Whaley model to value American options in stock option plans.

Fair value is determined for the main financial instruments used as follows:

-Interest-rate swaps are valued by discounting future payments in respect of the differences between the fixed and floating legs using implied interest rates gleaned from short-term rate curves and long-term swap rates.

-Forward currency contracts and tunnels are valued using spot exchange rates and forward interest rate curves for the currency being hedged.

-Commodity (electricity futures market - OMIP) derivatives are measured in a similar manner, the inputs being futures prices for the underlying being hedged and the implied volatility of the options written.

As prescribed by IFRS 13, it is necessary to include own credit risk when measuring financial liabilities at fair value; the Group's only financial liabilities at fair value are derivatives. Application of this standard has had the effect of decreasing the value of the liability balance of interest-rate hedges by €663 thousand at 31 December 2015 (by €1,217 thousand at year-end 2014).
The fair value of the various derivative financial instruments is obtained using level 1 inputs in the case of electricity price commodity contracts, as these are referenced to quoted prices, and level 2 inputs according to the fair value hierarchy stipulated in IFRS 13 in all other instances, as they are benchmarked to observable variables other than quoted prices. There were no transfers between level 1 and level 2 valuations in either 2015 or 2014.

4.8Inventories

Inventories of raw materials, finished products and work in progress are measured at acquisition or production cost.
Production cost includes the cost of direct materials, the cost of any direct labour and general manufacturing overhead.
The Group values its inventories using the weighted average cost method.
The Group recognises impairment losses on its inventories in its income statement when their net realisable value falls below their carrying amount. Net realisable value is the estimated selling price less estimated costs of completion and the estimated costs necessary to market, distribute and sell the goods. These estimates also factor in the age of the inventories and turnover ratios. Inventory impairment charges are reversed whenever the originating circumstances dissipate.

4.9Cash and cash equivalents

Cash includes cash on hand and deposits held at call with banks. "Other cash equivalents" include short-term, highly-liquid investments readily convertible into cash within a maximum of three months, the value of which is not subject to significant risks.

4.10 Current and deferred income tax

Income tax expense for the year comprises current and deferred tax.

Current tax is calculated by applying the tax laws enacted at each reporting date in the countries in which the Group companies operate to their profit before tax.

Deferred tax assets and liabilities arise due to differences between the carrying amounts of the assets and liabilities in the financial statements and their tax bases. They are recognised using the tax rates expected to apply when they are recovered or settled.

Income tax and changes in deferred tax assets and deferred tax liabilities that do not arise on business combinations are recognised in the income statement or in equity in the statement of financial position depending on where the gains or losses giving rise to their recognition were initially recognised. Variations in deferred taxes arising on business combinations that are not recognised upon change of control due to the lack of sufficient certainty as to their utilisation are recognised by reducing the carrying amount of any goodwill recognised in accounting for the business combination or following the above criterion if there is no goodwill.

Deferred tax assets are recognised for temporary differences, unused tax losses and unused tax credits only to the extent that it is probable that the consolidated entities will generate sufficient taxable profit in the future against which these assets can be utilised.

The deferred tax assets and liabilities recognised are reassessed at each reporting date in order to check that they still qualify for recognition and the appropriate adjustments are made on the basis of the outcome of the analyses performed.

The Parent and the rest of the Group subsidiaries with tax domicile in Spain in which the Parent holds an equity interest of 75% or more file their income tax returns under the consolidated tax regime provided for in Chapter VII of Title VIII of the Consolidated Text of the Spanish Corporate Income Tax Act.

4.11 Income and expense

Revenue is measured at the fair value of the consideration received or receivable in exchange for the goods delivered and services rendered in the ordinary course of the Group's activities, less discounts and amounts received but due to third parties, such as value added tax.

Revenue from the sale of goods is recognised when the goods have been delivered, the customer has accepted the sale and the risks and rewards of ownership of the goods have been transferred to the buyer.

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the reporting date, whenever the outcome of the transaction can be estimated reliably.

Interest income is recognised using financial criteria with reference to the principal outstanding, the remaining term to maturity and the applicable effective interest rate. Dividend income from equity investments is recognised when the shareholder's right to receive payment is established.

Expenses are recognised in the income statement when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. This means that recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets.

An expense is recognised immediately when an expenditure produces no future economic benefits or when future economic benefits do not qualify for recognition as an asset.

4.12 Provisions and contingencies

Provisions are recognised in the accompanying financial statements for present obligations, whether legal or constructive, arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits.

Provisions, including provisions for employee bonus payments, are measured at the present value of the best estimate of the expenditure required to settle or transfer the obligation using available information regarding the event and its consequences. The increase in the carrying amount of provisions due to the passage of time is recognised as borrowing cost as accrued.

Contingent liabilities are possible obligations with third parties and present obligations that are not recognised either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the financial statements, but are disclosed in the accompanying notes, unless the possibility of an outflow of resources embodying economic benefits is considered remote.

At year-end 2015, the Group was defendant in a series of ongoing court cases and claims. In the opinion of the Parent's directors, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant additional losses beyond the amounts provided at year-end (note 23).

4.13 Termination benefits

Under prevailing labour law, the Group is obliged to pay severance to employees that are discontinued under certain circumstances. Termination benefits that can be reasonably estimated are recognised as an expense in the year in which the redundancy decision is taken.

The Group has recognised a provision in this respect of €334 thousand, which is presented in "Trade and other payables - Employee benefits payable" in the consolidated statement of financial position at 31 December 2015. The related provision recognised at 31 December 2014 amounted to €2,116 thousand. This provision had been recognised to cover the obligations assumed under the worker-approved redundancy programme associated with the discontinuation of pulp production at the Huelva industrial complex, outlined in note 23 below.

4.14 Environmental assets and liabilities

Environmental activities are those undertaken with the aim of preventing, mitigating or repairing damage caused to the environment.

Capital expenditure deriving from environmental activities is measured at cost and capitalised in the year incurred, following the measurement rules described in sections 4.1 and 4.2 above.

Environmental-protection expenses incurred are recognised in the income statement in the year incurred regardless of when the monetary/financial outflow occurs.

Provisions for probable or certain liabilities arising from lawsuits in process and pending settlements or obligations of an unspecified amount of an environmental nature that are not covered by insurance are recognised, if warranted, when the liability or payment/award obligation arises.

4.15 Post-employment obligations

Certain Group companies have committed to provide supplementary retirement or pension benefits in the form of survivor benefits for widows, orphans and surviving ancestors with the aim of topping up social security benefits for employees and their close relatives, as follows:

1. Active employees

   Commitment to employees who remain in employment at year-end consisting of the contribution by the Group company and the employee of a pre-defined percentage of his or her pensionable salary to the "Joint Contribution Pension Plan" offered by the ENCE Group under the provisions of article 40 d) of Spain's Pension Plan and Pension Fund Regulations (defined contribution). This pension plan is part of the SERVIRENTA II F.P. pension plan and provides retirement benefits as well as permanent disability cover and life insurance.

   Certain Group executives are beneficiaries of an executive pension plan that complements the standard plan; the executive plan covers beneficiaries' retirement, permanent disability and death. The Group makes defined contributions based on a percentage of plan holder salaries. The plan takes the form of collective insurance cover for pension obligations. These policies are held with an insurance provider. The executive (or his/her beneficiaries) becomes entitled to receive the plan benefits in the event of retirement, death or total permanent disability, and under certain other circumstances defined in the plan rules.

   The cost of these commitments, recognised under "Employee benefits expense" in the income statement, was €1,632 thousand in 2015 (2014: €1,998 thousand).

2. Retired employees

A group of former employees of Celulosas de Asturias, S.A. is entitled to benefits in the form of life and disability insurance. This commitment was externalised in 2014, entailing the payment of a single premium of €1,182 thousand.

4.16 Employee benefits - Long-term bonus plans

At the Parent's Annual General Meeting of 30 March 2007, the Company's shareholders ratified a Special Bonus Plan for executives for 2007–2011, which was amended at the Annual General Meeting of 22 June 2010, giving rise to the "Long-term Bonus Plan of ENCE Energía y Celulosa S.A." for 2010-2015.

This first plan was designed to encourage delivery of the targets set by the Board of Directors by means of the grant of up to 3,850,000 stock options over the shares of Ence Energía y Celulosa, S.A., representing 1.53% of share capital. It was a cash-settled share-based plan.

Settlement of this first remuneration plan finalised in 2015. The stock options were settled in cash. Their settlement entailed the recognition of an expense of €1,929 thousand in the 2015 income statement and of income in the amount of €572 thousand in the 2014 income statement. These sums are included under the heading called "Long-term remuneration plans" in the disclosures provided in note 10.

The fair value of the stock options was determined using the Barone-Adesi and Whaley method, a generally accepted method for valuing financial instruments of this kind, throughout the term of the Special Bonus Plan.

Meanwhile, at the Parent's Annual General Meeting of 21 March 2013, the Company's shareholders approved a second "Long-term bonus plan for 2013-2015".

This second plan is designed to orient the management team towards delivery of the targets set by the Board of Directors throughout the term of the scheme and to help retain talent.

The bonus payment contemplated in this second plan consists of a percentage of average annual fixed remuneration in 2013-2015 and it will vest depending on delivery of three equally-weighted objectives:

1. An absolute gain in the Parent's share price.
2. A gain in the Parent's share price relative to a basket of pulp sector stocks.
3. An increase, relative to its market value as of 31 December 2012, in the Company's theoretical value determined by applying a multiple to average EBITDA in 2013-2015.

During the term of this second plan, its fair value, in respect of the portion corresponding to targets tied to the Parent's share price performance, was determined using the Monte Carlo method for quanto basket options, a generally accepted method for valuing financial instruments of this kind. Elsewhere, the liability associated with the target of increasing the company's theoretical value was estimated assuming that this objective would be met in full.

This second scheme had finalised by 31 December 2015, entailing the recognition of a total maximum obligation of €2,063 thousand (note 23). The liability accrued at 31 December 2014, estimated using the method described above, totalled €659 thousand. The expense accrued in this respect was €1,404 thousand in 2015 (2014: €70 thousand) (note 10).

4.17 Grants

Non-repayable grants awarded to subsidise investment in productive assets are measured at the fair value of the amount awarded when all the conditions attaching to their grant have been met and are reclassified to profit or loss in the period and proportion in which depreciation expense on the related depreciable assets is recognised or, when appropriate, when the asset is derecognised or written down for impairment (grants related to assets).

Grants related to income are credited to the income statement at the time of grant unless they are granted to finance specific expenses, in which case they are deducted in reporting the related expense.

Government assistance taking the form of interest-free loans or loans at below-market rates, granted primarily to fund research and development work, is recognised at fair value within liabilities. The difference between the loan proceeds received and its fair value is recognised initially in "Grants" in the statement of financial position and is reclassified to the income statement as the assets financed by the loan are depreciated in the income statement.

4.18 Statement of cash flows

The consolidated statement of cash flows was prepared using the indirect method and the following definitions:

1. Cash flows: inflows and outflows of cash and cash equivalents, the latter understood as short-term, highly liquid investments which are subject to an insignificant risk of changes in value.
2. Operating activities: the principal revenue-producing activities of the Group and other activities that are not investing or financing activities.
3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Group.

4.19 Related-party transactions

The Group conducts all related-party transactions on an arm's length basis.

4.20 Foreign currency transactions and balances

The Group's financial statements are presented in euros, which is both its functional and presentation currency.

Translation of transactions and balances -

Credits and debits denominated in a currency other than the euro are translated to euros using the exchange rate prevailing at the transaction date; these amounts are adjusted at every reporting date, until they are cancelled, as function of exchange rate trends.

The exchange differences resulting from the collection and payment of loans and debts in currencies other than the euro and those deriving from the measurement of accounts receivable and payable denominated in foreign currency at closing exchange rates are recognised in profit or loss in the year in which they arise.

Translation of the financial statements of Group entities -

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into euros as follows: assets and liabilities are translated at the closing rate at each reporting date; equity items are translated at historical rates; and income and expenses are translated at average rates for the period in which they accrued. The resulting exchange differences are recognised in equity and are reclassified to profit or loss in the period in which the foreign operation is disposed of.

Long-term loans granted by the Parent to other Group companies and denominated in a currency other than the euro are considered net investments in a foreign operation and any resulting exchange differences are accordingly recognised in equity.

4.21 Non-current assets held for sale and discontinued operations

The Group classifies a non-current asset (or disposal group) as held for sale when its carrying amount is to be recovered principally through a sale transaction insofar as a sale is considered highly probable and the asset is available for immediate sale in its present condition.

These assets (or disposal groups) are measured at the lower of their carrying amount or their estimated sale price less the estimated costs necessary to make the sale. Depreciation of these assets ceases as soon as they are classified as held for sale.

Management tests that their carrying amount does not exceed their fair value less costs to sell every year. If this occurs, any required impairment losses are recognised in "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the income statement.

Non-current assets held for sale are presented in the accompanying statement of financial position as follows: the assets are presented in a single line item called "Non-current assets held for sale", while the related liabilities are similarly presented in a single line item called "Liabilities associated with non-current assets held for sale".

In addition, the Group classifies any component (cash-generating units or groups of cash-generating units) that either represents a separate major line of business or geographical area of operations, has been sold or otherwise disposed of or qualifies for classification as held for sale as discontinued operations.
The after-tax results of discontinued operations are presented in a single line item in the income statement called "After-tax profit/(loss) for the year from discontinued operations".

4.22 Segment reporting

An operating segment is any significant business activity from which the Group may earn revenue and incur expenses, whose operating results are reviewed regularly by the Board of Directors and senior management and for which discrete and reliable financial information is available.
Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee and the Board of Directors.

4.23 Earnings per share

Basic earnings per share is calculated by dividing profit or loss for the reporting period by the weighted average number of ordinary shares outstanding during the period (not including the average number of Parent shares held as treasury stock by the Group companies).
Diluted earnings per share, meanwhile, is calculated by dividing the profit or loss attributable to ordinary equity holders of the Parent, adjusted for the effects of all dilutive potential ordinary shares, by the weighted average number of ordinary Parent shares outstanding during the period, increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. To this end, management assumes that conversion takes place at the beginning of the period or when the dilutive potential ordinary shares are issued in the event of issuance during the year. Because the Parent has no dilutive potential ordinary shares, basic and diluted earnings per share coincide in 2015 and 2014.

5.Energy sector regulation

This section attempts to summarise the most noteworthy developments in prevailing energy sector regulations in Spain, as applicable to the business activities of the ENCE Group:
Law 24/2013 (26 November 2013), the Electricity Sector Act, replacing Law 54/1997 (27 November 2007): this piece of legislation introduces the governing principle of ensuring the economic and financial sustainability of the electricity system, limiting the so-called tariff deficit; it abandons the former distinction between the 'ordinary', or conventional, and 'special', or renewable, regimes, introducing a single set of regulations, without prejudice to unique considerations potentially requiring regulation; and it establishes a remuneration regime applicable to electricity generated using renewable sources, co-generation and waste based on the pool prices fetched by these facilities in the market, topped up by specific regulated remuneration designed to enable these technologies to compete with the other generation technologies on an even footing.
The new remuneration premiums are incremental to the remuneration obtained by selling electricity in the market and are made up of an amount per unit of installed capacity (remuneration on investment) covering, as warranted, investment costs that cannot be recouped in the market and an operations supplement (remuneration on operations) covering the difference between operating costs and market prices, as required.
The principle underpinning this remuneration regime is that of a 'reasonable return on investment', defined as the yield on 10-year Spanish sovereign bonds plus a spread, initially set at 300 basis points; it is calculated on the basis of a standard facility, over the course of its regulated useful life and assuming operation by an efficient and well-managed undertaking, all of which factoring in:

1.Standard revenue from the sale of electricity at market or pool prices.
2.Standard operating costs.
3.Standard upfront investment costs.

The standard investment supplements for new facilities are determined by means of a competitive tender process.

This new remuneration regime applies retroactively from July 2013, the date on which Royal Decree-Law 9/2013 took effect.
Royal Decree 413/2014 (6 June 2014) was published on 10 June, regulating the production of electric power by means of renewable sources, co-generation and waste, establishing the methodology underpinning the specific remuneration regime applicable to facilities that fail to cover their costs by enough of a margin to enable them to compete with the rest of the generation technologies in the market on an even footing, thereby generating a reasonable return based on benchmark facilities for each affected class of technology.
Ministerial Order IET/1045/2014 (16 June 2014) was published on 20 June 2014, enacting the standard facility remuneration parameters applicable to certain electricity-producing facilities that use co-generation, renewable energy sources or waste applicable for the first regulatory stub period which ends on 31 December 2016 and defining the 'standard facility' categories which encompass every single generation facility in existence in Spain.
In addition, the new Spanish regulatory framework implies the application of the same regime to the biomass derived from energy crops as that derived from forestry and agricultural waste for remuneration purposes and establishes a cap on the amount of output eligible for remuneration premiums of 80%-90% of the plants' nominal annual capacity.

6.Risk factors

With the assistance of the senior management team, the Board of Directors defines the Group's risk management policies as a function of the risk factors to which it is exposed, establishing internal control systems designed to keep the probability and impact of occurrence of the risk events so defined within established risk tolerance levels.
The internal audit department verifies that the risk management principles and policies defined by the Board of Directors are properly implemented and oversees due compliance with the internal control systems in place throughout the organisation.
Below is a description of the main financial risk factors to which the Group is exposed and the corresponding mitigating policies and controls in place:

6.1Market risk

Pulp prices

BEKP prices are formed in an active market. The trend in pulp prices is a significant driver of the Group's revenue and profitability. Changes in pulp prices affect the cash flows generated by pulp sales.
In addition, pulp prices tend to be markedly cyclical in nature and have exhibited substantial volatility in recent years. Price trends are primarily dictated by shifts in supply and demand and the financial situation of the various sector players.
To mitigate this risk, in recent years the Group has invested significantly in reducing its production costs, increasing productivity and enhancing the quality of the products it sells. Management also continually monitors the scope for using derivatives to hedge pulp prices on future sales (note 27).
Based on the Group's 2015 revenue, a 5% change in international pulp prices in euros would have an impact on revenue of approximately 3.5%.

Supply of wood

Eucalyptus wood is the main raw material used in making pulp and its price can fluctuate as a result of changes in the balance of supply and demand in the regions in which the factories are located.
The risk of a shortfall in supply in the regions in which the Group's factories are located is mitigated mainly by means of inventory management, by diversifying supply sources and by purchasing from alternative international markets, usually at higher logistics costs.
In parallel, the Group seeks to maximise its products' value-added by increasing the use of certified wood, which is somewhat more expensive, among other measures.
Based on the Group's timber purchases in 2015, a 5% increase in the price per cubic metre of eucalyptus timber for use in the productive process would decrease operating income by approximately €8.9 million.

Energy sector regulations

The generation of energy from renewable sources is a regulated business, which means the revenue it generates is conditioned by the tariffs set by the Spanish government.
As outlined in note 5 above, in recent years the Spanish government has passed a series of laws designed to reduce the so-called tariff deficit in the electricity system; these laws have had the effect of reducing the Group's revenue and profits.
Based on the Group's 2015 revenue, a 5% change in the tariffs that determine the revenue generated by the energy business would have an impact on revenue of approximately 1.2%.

Environmental regulations

Environmental regulations in the European Union have focused in recent years on tightening restrictions on wastewater discharges, greenhouse gas emissions, etc. Future changes in environmental regulations could result in higher investments and expenditure to comply with new requirements.

Exchange rates

Although the Group generates most of its sales in Europe, revenue from pulp sales is affected by the USD/EUR exchange rate as sales prices are linked to benchmark international pulp prices quoted in USD/tonne. Since most of the Group's cost structure is denominated in euros, changes in the rate of exchange with the dollar can affect the Group's earnings significantly.
To mitigate this risk, the Group's risk management policy contemplates the possibility of arranging exchange rate hedges to complement the pulp price hedging strategy, to which end management continually monitors the need and scope for using such instruments (note 27).
Based on the Group's 2015 revenue, dollar appreciation against the euro of 5% would increase revenue before hedges by approximately 3.5%.

6.2Credit risk

Credit risk arises when a counterparty breaches its contractual obligations. Specifically, the Group's exposure to credit risk therefore arises from the balances pending collection from customers and other debtors presented in "Trade and other receivables", the derivatives written and the balances on deposit with financial institutions, shown in "Current financial assets" and "Cash and cash equivalents" in the statement of financial position.

Trade and other receivables

This risk has been largely externalised in the pulp business by means of a credit insurance policy that covers between 80% and 90% of balances receivable. This insurance policy assigns credit limits according to the creditworthiness of the customer and covers virtually all of the Group's pulp sales.
The revenue generated by the energy business stems from the electricity system which is ultimately backed by the Spanish state.
The Group writes its accounts receivable down for impairment whenever there are indications that they may not be recovered; it writes down all balances outstanding by more than 6-12 months to the extent not covered by the credit insurance policy.

Financial assets

To mitigate the credit risk posed by financial investments, the Group stipulates that counterparties must be banks with high credit ratings and establishes maximum investment/underwriting limits that are reviewed periodically.

6.3Liquidity and capital risk

Adverse conditions in the debt and capital markets could make it hard or impossible for the Group to raise the funding needed in the course of its business operations or to execute its business plan.
This is one of the risk factors monitored most closely by the ENCE Group. To mitigate this risk, it has established a series of key financial targets:

1.Guaranteed business continuity in any pulp price scenario.
2.Support for the growth plans in the various business segments by means of a solid capital structure and adequate liquidity level.
3.Leverage targets (based on net debt) tailored for each business unit's revenue volatility profile. Against this backdrop, the leverage cap set for the Pulp Business is 2.5 times recurring EBITDA, the latter derived using mid-cycle pulp prices and average exchange rates. The leverage cap established for the Energy Business is 5 times.
4.Diversified and tailored sources of financing for each business. At present, this means tapping the capital markets opportunely for the Pulp Business and using bank-provided project finance in the Energy Business (note 24).

Each of the Group's two businesses is financed and managed separately and optimally in light of their unique characteristics. The debt of each is non-recourse to that of the other and there are no cross-guarantees.

The Group's Finance Department draws up a financial plan annually that addresses all financing needs and how they are to be met. Funding needs for the most significant cash requirements, such as forecast capital expenditure, debt repayments (which are refinanced ahead of maturity) and working capital requirements, as warranted, are identified sufficiently in advance.

There are also policies establishing the maximum amount of equity that can be committed to projects under development before the associated long-term financing has been arranged.

The contractual maturity analysis in respect of the financial liabilities referred to in IFRS 7 is provided in notes 26 and 27 below.

6.4Interest rate risk

Fluctuations in the interest rates earned and borne by the Group's financial assets and financial liabilities expose it to adverse impacts on its profits and cash flows.

The goal of the Group's interest rate risk management policy is to achieve a balanced capital structure that minimises interest expense over the medium and long term while mitigating related earnings volatility.

The Group actively manages its exposure to the interest rate risk deriving from borrowings taken out at floating rates. As a general rule, it hedges 70%-80% of its floating-rate non-recourse borrowings by arranging options and/or swaps. Moreover, the debt raised in the capital markets carries fixed rates, thereby minimising interest rate risk (note 24).

7.Critical accounting estimates and judgements

The preparation of the 2015 consolidated financial statements in accordance with EU-IFRS requires the use of assumptions and estimates that affect the amounts of related assets, liabilities, revenues, income and expenses recognised and the corresponding disclosures. The accounting policies and transactions that incorporate management assumptions and estimates that are material in respect of the accompanying consolidated financial statements are:

- The asset impairment charges deriving from the discontinuation of pulp production in Huelva and as a result of regulatory developments in the Spanish energy sector (note 23).
- Calculation of income tax and the recoverable amount of deferred tax assets (note 28)
- The assumptions used to calculate certain obligations to employees (note 4.16).
- The fair value of certain assets, principally financial instruments (notes 4.6, 26 and 27)
- The useful lives of fixed and intangible assets (notes 4.1 and 4.2)
- Calculation of the provisions recognised to cover liabilities arising under lawsuits in progress and bad debt

Some of these accounting policies require management to exercise judgement in selecting the best assumptions for arriving at these estimates. These assumptions and estimates are based on historical experience, the advice of expert consultants, forecasts and other circumstances and expectations at year-end.

By their very nature, these judgements are subject to a high degree of intrinsic uncertainty, which is why actual results could differ materially from the estimates and assumptions used. At the date of authorising these consolidated financial statements for issue, these estimates are not expected to change significantly; accordingly, no significant adjustments to the carrying amounts of the assets and liabilities recognised at 31 December 2015 are foreseen.

Although these estimates were made on the basis of the best information available at each year-end regarding the facts analysed, future events could make it necessary to revise these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with IAS 8, recognising the effects of the change in estimates in the related consolidated income statement. The most important accounting policies applied by the Group are described in greater detail in note 4.

8.Revenue

The breakdown of Group revenue by business in 2015 and 2014 is as follows:

	2015			2014		
Thousands of euros	Pulp Business	Energy Business	Total	Pulp Business	Energy Business (**)	Total
Business metrics						
Pulp sales volume (tonnes)	885,280	-	885,280	1,136,038	-	1,136,038
Energy sales volume (MWh)	709,464	615,397	1,324,861	805,093	728,913	1,534,005
Revenue						
Pulp	483,072	-	483,072	501,997	-	501,997
Electric energy	72,249	95,251	167,500	70,999	96,360	165,781
Sales of timber and forestry services	13,340	-	13,340	18,139	51	19,768
Inter-segment	1,110	1,756	-	2,896	6,467	-
	569,771	**97,007**	**663,912**	**594,031**	**102,878**	**687,546**

(*) The difference between the aggregate and individual business totals relates to the elimination of inter-segment transactions and consolidation adjustments that cannot be allocated to a specific business.

(**) Revenue from the energy business includes €13,861 thousand associated with the Cener I facility which ceased activity in the fourth quarter of 2014 in conjunction with the discontinuation of pulp production in Huelva (note 23)

The drop in revenue in the Pulp segment is related to the closure of the Huelva pulp mill during the third quarter of 2014.

8.1Geographic revenue split

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

Percentage of pulp sales	2015	2014
Germany	25.8	23.2
Italy	12.5	16.4
Spain	17.2	15.6
Austria	9.3	6.0
United Kingdom	2.2	3.1
Poland	5.3	3.7
Slovenia	3.9	3.2
Netherlands	3.5	3.2
France	6.5	9.8
Turkey	3.7	4.5
Greece	2.6	3.2
Other	7.5	8.1
	100	**100**

Two customers generated sales volumes which, individually, account for over 10% of Group revenue from pulp sales.

8.2 Foreign currency transactions

In 2015, the Group companies made sales in currencies other than the euro, mainly US dollars, totalling €101.6 million (2014: €126.4 million).

9.Cost of sales

Consumption of raw materials and other consumables breaks down as follows in 2015 and 2014:

Thousands of euros	2015			2014		
	Pulp Business	Energy Business	Total	Pulp Business	Energy Business	Total
Purchases	224,754	16,675	239,472	288,026	39,567	319,559
Change in raw materials and other inventories	1,830	(1,227)	603	12,004	3,765	15,769
Other external expenses	24,986	7,923	32,909	36,329	7,790	44,119
	251,570	**23,371**	**272,984**	**336,359**	**51,122**	**379,447**

(*) The difference between the aggregate and individual business totals relates to the elimination of inter-segment transactions and consolidation adjustments that cannot be allocated to a specific business.

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

10.Employee benefits expense

The breakdown of the employee benefits expense incurred in 2015 and 2014 is provided below:

Thousands of euros	FY15	FY14
Wages and salaries	45,240	51,103
Social security	10,855	13,377
Pension contributions and other benefits	2,709	3,242
	58,804	**67.722**
Termination benefits (note 23)	389	19,815
Long-term remuneration plans (note 4.16)	3,333	(502)
	62,526	**87,035**

The process of restructuring the Huelva industrial complex initiated during the last quarter of 2014 and transforming it into a renewable power generation station entailed collective redundancy measures which had the effect of reducing the headcount by 226 people; the cost incurred in respect of the related termination benefits totalled €20,395 thousand.

10.1Headcount figures

The average headcount in 2015 and 2014:

	Average headcount during the year					
	2015			2014		
Job category	Men	Women	Total	Men	Women	Total
Executives	6	1	7	7	1	8
Individual job contracts	196	56	252	211	63	274
Collective bargaining agreement	400	57	457	541	76	617
Temporary workers	79	37	116	74	28	102
	681	**151**	**832**	**833**	**168**	**1,001**

The number of employees with some form of disability was 12 at both year-ends.
The breakdown of the year-end headcount by job category and gender:

	Year-end headcount					
	2015			2014		
Job category	Men	Women	Total	Men	Women	Total
Executives	6	1	7	6	1	7
Individual job contracts	218	58	276	192	55	247
Collective bargaining agreement	399	57	456	439	63	502
Temporary workers	78	35	113	55	27	82
	701	**151**	**852**	**692**	**146**	**838**

The Board of Directors was made up of 13 directors at both year-ends, 12 of whom men (two in representation of legal person directors).

11. Other operating expenses

The breakdown of this consolidated income statement heading in 2015 and 2014 was as follows:

Thousands of euros	2015			2014		
	Pulp Business	Energy Business	Total	Pulp Business	Energy Business	Total
External services	103,608	40,292	135,178	155,175	5,052	169,885
Use of emission allowances (note 23)	1,002	(619)	1,652	2,642	2,475	5,117
Taxes other than income tax and other management charges	3,328	180	3,507	3,504	315	3,819
Electricity generation levy	5,084	6,692	1,777	5,251	6,840	12,091
Change in trade and other provisions	885	(391)	494	2,926	537	3,463
Impact of regulatory changes on the energy business (note 23)	-	4,658)	4,658)	-	8,921	8,921
Impact of the closure of the Huelva factory (note 23)	2,371	-	2,371	18,246	-	18,246
Other non-recurring charges	7,151	442	7,593	11,248	(5,191)	6,057
	123,429	**41,938**	**157,914**	**198,992**	**38,949**	**227,599**

(*) The difference between the aggregate and individual business totals relates to the elimination of inter-segment transactions and consolidation adjustments that cannot be allocated to a specific business.

11.1 External services

The breakdown of "External services" in 2015 and 2014 is as follows:

Thousands of euros	2015			2014		
	Pulp Business	Energy Business	Total	Pulp Business	Energy Business	Total
Transport, freight and business expenses	33,502	352	33,854	51,783	340	52,123
Utilities	38,141	650	37,919	47,633	2,306	48,672
Repairs and upkeep	15,762	5,233	20,995	20,367	4,546	24,913
Rent and fees	3,042	2,190	4,791	3,921	3,680	6,171
Insurance premiums	3,532	394	3,926	4,743	433	5,176
Independent professional services	4,599	217	4,816	7,516	128	7,644
Banking and similar services	1,363	12	1,375	1,695	20	1,715
Advertising, publicity and public relations	718	-	718	740	-	740
Research and development expenses	1,373	-	1,373	253	-	253
Other services	1,577	1,244	25,411	16,525	13,599	22,478
	103,609	**40,292**	**135,178**	**155,176**	**25,052**	**169,885**

(*) The difference between the aggregate and individual business totals relates to the elimination of inter-segment transactions and consolidation adjustments that cannot be allocated to a specific business.

11.2Audit fees

The fees paid for account auditing and other services to the Group's auditor and entities related to the latter in 2015 and 2014 are shown in the next table:

Thousands of euros	FY15	FY14
Audit services	170	135
Other services (*)	200	77

(*) In 2015, this figure includes €144 thousand of other audit-related services

12.Finance costs

The breakdown of "Other finance costs" in the 2015 and 2014 consolidated income statement was as follows:

Thousands of euros	2015			2014		
	Pulp Business	Energy Business	Total	Pulp Business	Energy Business	Total
High-yield bond	17,348	-	17,348	18,126	-	18,126
Project finance facilities	-	3,686	3,686	-	4,095	4,095
Credit, factoring and reverse factoring lines	1,559	37	1,596	1,625	2	1,627
Fees recognised in profit and loss	3,777	-	3,777	3,273	927	4,200
Capitalised borrowing costs (notes 15 and 16)	(115)	-	(115)	(1,347)	(1,874)	(3,220)
Other	4	-	4	(21)	-	(21)
	22,573	3,723	26,296	21,656	3,150	24,807
Non-recurring costs associated with refinancing work:						
Cancellation of bonds issued in 2013	23,196	-	23,196	-	-	-
Refinancing of project finance facilities	-	2,934	2,934	-	-	-
	23,196	2,934	26,130			
Derivatives:						
Settlement of the project finance interest-rate swap	-	1,510	1,510	-	3,028	3,028
Settlement of the equity swap	(15)	-	(15)	197	-	197
	(15)	**1,510**	1,495	**197**	**3,028**	3,225
	45,754	**8,167**	**53,921**	**21,853**	**6,178**	**28,032**

On 4 June 2015, the Company bought back 10% of its 2013 bond issue. On 30 October 2015, it issued €250 million of new bonds to refinance the 2013 issue (note 24). The cost of the bonds cancellations totalled €23,196 thousand, which includes a charge of €6,201 recognised in profit and loss to write off the 2013 bond arrangement fees.

Elsewhere, on 31 July 2015, the Group refinanced the project finance facilities that fund the biomass power generation plants in Huelva (50 MW) and Mérida (20 MW) (note 24). The costs associated with the financing cancelled - recognised in profit and loss in 2015 - totalled €2,933 thousand.

This transaction also included the restructuring of the interest-rate swaps arranged to hedge the exposure implied these facilities which carried floating rates of interest. The restructuring work triggered the discontinuation of the hedge accounting applied up until that juncture. As a result, the fair value loss on these instruments (€12,190 thousand), which was recognised in equity at the time of the restructuring work, was reclassified to profit and loss (this loss is recognised under "Change in the fair value of financial instruments").

13.Operating segments

The Group has defined the following reporting segments for which it has full and independent financial information that is reviewed regularly by senior management in order to evaluate their performance:

Pulp Business

This business line encompasses the following reportable segments:

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

Energy Business

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

In the wake of discontinuation of pulp production in Huelva and with effect from 1 January 2015, the 41-MW biomass-fuelled power plant operated by the Group in Huelva has been removed from the "Pulp" operating segment and included under the "Energy" segment. With a view to facilitating the year-on-year comparison, the 2014 segment disclosures are presented including the activities of Celulosa Energía, S.A., the company that owns this power plant, within the "Energy" segment. This company contributed €38,727 thousand and €5,134 thousand to 2014 revenue and profits, respectively.

Up until 1 January 2015, the Company's various businesses were presented using the identified reporting segments. As a result of the ongoing transformation and adaptation process in response to the prevailing market environment and business structure, with effect from 1 January 2015, the Group began to aggregate its reporting segments within the businesses it terms "Pulp" and "Energy".

In order to expand the disclosures provided in this note, the appendices include the consolidated statement of financial position at 31 December 2015 and 2014 and the consolidated income statement for the years then ended broken down between the "Pulp" and "Energy" businesses.

13.1Operating segment reporting

The table below details the earnings performance by operating segment in 2015 and 2014, based on the management information reviewed regularly by senior management:

2015

Income statement	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total PULP Business	ENERGY Business & Segment	Adjustments & Eliminations	TOTAL
	Thousands of euros							
Revenue:								
Third-party revenue	564,077	3,985	599	-	568,661	95,251	-	663,912
Inter-segment revenue	841	8,410	-	(8,142)	1,109	1,756	(2,865)	-
Total revenue	**564,918**	**12,395**	**599**	**(8,142)**	**569,770**	**97,007**	**(2,865)**	**663,912**
Earnings:								
EBITDA (*)	**151,887**	**4,718**	**1,387**	-	**157,992**	**35,061**	**(1,268)**	**191,785**
Operating profit	**96,594**	**10,024**	**1,043**	**3**	**107,664**	**25,829**	**(258)**	**133,235**
Finance income	36,361	-	-	(27,959)	**8,392**	4,322	(12,370)	344
Finance costs	(51,795)	(7,550)	(79)	7,727	**(51,697)**	(25,152)	8,938	(67,911)
Exchange differences	325	-	1,053	-	**1,378**	(8)	-	1,370
Tax	(13,724)	(2,646)	85	(76)	(16,361)	(611)	(211)	(17,183)
Profit/(loss) for the year	**67,751**	**(172)**	**2,102**	**(20,305)**	**49,376**	**4,380**	**(3,901)**	**49,855**

Additions to non-current assets (***)	54,864	3,224	2,336	-	60,424	4,679	-	65,103
Accumulated depreciation and depletion of forest reserves	(608,511)	(53,246)	(847)	-	(662,604)	(37,315)	3,407	(696,512)
Provision and impairment charges	(6,178)	(32,115)	(2,853)	-	(41,146)	(12,518)	-	(53,664)

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

(**) For the reader's information, the changes in the names of the business segments with respect to the 2014 consolidated financial statements are hereby noted: the current Pulp segment used be called "Energy & Pulp", while the current Energy segment used to be called "Biomass Energy Products".

(***)Does not include emission allowances.

	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total PULP Business	ENERGY Business & Segment	Adjustments & Eliminations	TOTAL
	Thousands of euros							
Assets								
Non-current	765,650	171,009	2,436	(148,593)	790,502	216,258	(261,293)	745,467
Current	271,472	33,587	13,652	(16,206)	302,505	123,420	(34,432)	391,493
Total assets (a)	**1,037,122**	**204,596**	**16,088**	**(164,799)**	**1,093,007**	**339,678**	**(295,725)**	**1,136,960**
Liabilities								
Non-current	336,300	110,803	1,639	(121,138)	327,604	184,542	(90,662)	421,484
Current	172,099	5,608	4,569	(6,343)	175,933	56,107	(34,511)	197,529
Total liabilities (a)	**508,399**	**116,411**	**6,208**	**(127,481)**	**503,537**	**240,649**	**(125,173)**	**619,013**

(a) Does not include either equity or deferred tax assets/liabilities

2014

Income statement	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total PULP Business	ENERGY Business & Segment	Adjustments & Eliminations	TOTAL
	Thousands of euros							
Revenue:								
Third-party revenue	576,910	13,058	1,167	-	591,135	96,411	-	687,546
Inter-segment revenue	2,055	57,313	103	(56,575)	2,896	6,467	(9,363)	-
Total revenue	**578,965**	**70,371**	**1,270**	**(56,575)**	**594,031**	**102,878**	**(9,363)**	**687,546**
Earnings:								
EBITDA	**(18,339)**	**9,367**	**(903)**	**1,447**	**(8,428)**	**17,857**	**(7,743)**	**1,686**
Operating profit	**(114,024)**	**(30,073)**	**(1,020)**	**1,447**	**(143,670)**	**(27,966)**	**3,012**	**(168,624)**
Finance income	16,586	10	45	(9,985)	**6,656**	2,686	(8,276)	1,066
Finance costs	(32,347)	(9,219)	(164)	32,876	**(8,854)**	(11,780)	(8,724)	(29,358)
Exchange differences	1,953	4	(343)	-	**1,614**	(2)		1,612
Tax	32,325	9,959	(772)	4,677	46,189	8,801	(595)	54,395
Profit/(loss) for the year	**(95,507)**	**(29,319)**	**(2,254)**	**29,015**	**(98,065)**	**(28,261)**	**(14,583)**	**(140,909)**
Additions to non-current assets (***)	37,734	5,086	-	-	42,820	17,170		59,990
Accumulated depreciation and depletion of forest reserves	(545,700)	(45,145)	(182)	-	(591,027)	(20,086)	5,059	(606,054)
Provision and impairment charges	(6,929)	(33,447)	-	-	(40,376)	(53,718)	2,658	(91,436)

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

(**) For the reader's information, the changes in the names of the business segments with respect to the 2014 consolidated financial statements are hereby noted: the current Pulp segment used be called "Energy & Pulp", while the current Energy segment used to be called "Biomass Energy Products".

(***)Does not include emission allowances.

	Pulp	Forest Management	Forest Services & Other	Adjustments & Eliminations	Total PULP Business	ENERGY Business & Segment	Adjustments & Eliminations	TOTAL
	Thousands of euros							
Assets								
Non-current	711,103	173,985	477	(151,410)	734,155	245,076	(228,334)	750,897
Current	254,881	46,617	18,605	(17,676)	302,427	52,489	(33,245)	321,671
Total assets (a)	**965,984**	**220,602**	**19,082**	**(169,086)**	**1,036,582**	**297,565**	**(261,579)**	**1,072,568**
Liabilities								
Non-current	324,600	122,635	5,975	(136,887)	316,323	253,013	(191,519)	377,817
Current	186,020	8,879	6,648	(16,432)	185,115	58,894	(32,546)	211,463
Total liabilities (a)	**510,620**	**131,514**	**12,623**	**(153,319)**	**501,438**	**311,907**	**(224,065)**	**589,280**

(a)Does not include either equity or deferred tax assets/liabilities

13.2 Disclosures by productive plant

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

	Thousands of euros						
2015	Pontevedra factory	Navia factory	Corporate	Other (a)	Subtotal	Eliminations	Total
Business metrics:							
Pulp output (ADt)	429,054	469,112	-	-	898,166	-	898,166
Pulp sales volume (ADt)	424,459	460,821	-	-	885,280	-	885,280
Energy sales volume (MWh)	215,152	494,312	-	615,397	1,324,860	-	1,324,860
Continuing operations:							
Revenue	252,351	410,930	42	121,745	785,068	(121,156)	663,912
Gain (loss) on hedging transactions	-	(586)	(287)	(757)	(1,630)	-	(1,630)
Changes in inventory of finished goods and work in progress	1,939	2,953	-	(92)	4,800	-	4,800
Cost of sales	(110,147)	(227,645)	(16)	(55,368)	(393,176)	120,192	(272,984)
GROSS PROFIT	**144,143**	**185,652**	**(261)**	**65,528**	**395,062**	**(964)**	**394,098**
Employee benefits expense	(20,917)	(21,776)	(13,925)	(5,908)	(62,526)	-	(62,526)
Depreciation/amortisation charge	(17,795)	(26,645)	(1,979)	(12,561)	(58,980)	-	(58,980)
Depletion of forestry reserve	-	-	-	(8,182)	(8,182)	-	(8,182)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	513	317	7	7,775	8,612	-	8,612
Other operating expenses	(30,423)	(53,034)	(9,939)	(47,355)	(140,751)	964	(139,787)
Fixed costs passed on	(12,170)	(10,019)	26,097	(3,908)	-	-	-
OPERATING PROFIT/(LOSS)	**63,351**	**74,495**	**-**	**(4,611)**	**133,235**	**-**	**133,235**

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

The allocation by productive facility of the finance income and expense incurred by the Group and associated with the "Pulp" business in proportion to output per facility in terms of tonnage would have the effect of increasing expenditure at the Pontevedra and Navia plants by €21,857 thousand and €23,897 thousand, respectively.

The allocation to the productive facilities of these finance costs would result in operating profits at the Pontevedra and Navia plants of €41,494 thousand and €50,598 thousand, respectively.

2014	Thousands of euros							
	Pontevedra factory	Huelva factory (a)	Navia factory	Corporate	Other (b)	Subtotal	Eliminations	Total
Business metrics:								
Pulp output (ADt)	405,887	235,216	474,708	-	-	1,115,811	-	1,115,811
Energy output (MWh)	210,514	423,168	524,482	-	461,327	1,619,491	-	1,619,491
Continuing operations:								
Revenue	203,005	157,567	366,989	19	138,252	865,832	(178,286)	687,546
Gain (loss) on hedging transactions	-	6	24	-	9	39	-	39
Changes in inventory of finished goods and work in progress	(3,457)	(4,967)	(1,722)	-	(527)	(10,673)	528	(10,145)
Cost of sales	(119,463)	(116,089)	(238,010)	-	(82,264)	(555,826)	176,379	(379,447)
GROSS PROFIT	**80,085**	**36,517**	**127,281**	**19**	**55,470**	**299,372**	**(1,379)**	**297,993**
Employee benefits expense	(19,164)	(36,590)	(18,880)	(10,046)	(2,355)	(87,035)	-	(87,035)
Depreciation/amortisation charge	(15,527)	(10,990)	(24,052)	(936)	(8,014)	(59,519)	40	(59,479)
Depletion of forestry reserve	-	-	-	-	(10,531)	(10,531)	875	(9,656)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	(238)	(40,741)	(829)	(955)	(60,016)	(102,779)	1,604	(101,175)
Other operating expenses	(47,259)	(65,107)	(60,610)	(4,609)	(26,069)	(203,654)	(5,618)	(209,272)
Fixed costs passed on	(4,550)	(2,944)	(5,707)	13,201	-	-	-	-
OPERATING PROFIT/(LOSS)	**(6,653)**	**(119,855)**	**17,203**	**(3,326)**	**(51,515)**	**(164,146)**	**(4,478)**	**(168,624)**

(a) Includes the energy business activities carried out by Celulosa Energía, S.A. at the Huelva industrial complex.

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

The allocation by productive facility of the finance income and expense incurred by the Group, other than the interest expense associated with the project finance facilities funding the new biomass power generation projects, in proportion to output in terms of tonnage, would have the effect of increasing expenditure at the Pontevedra, Huelva and Navia plants by €7,114 thousand, €4,123 thousand and €8,321 thousand, respectively.

The allocation to the productive facilities of these finance costs would result in operating losses at the Pontevedra and Huelva plants of €13,767 thousand and €123,978 thousand, respectively, and an operating profit at the Navia plant of €8,882 thousand.

14. Intangible assets

The reconciliation of the carrying amounts of the various components of intangible assets and accumulated amortisation in 2015 and 2014 is as follows:

2015 (thousands of euros)	Balance at 01/01/2015	Additions/ charges	Derecognitions/ decreases	Transfers	Balance at 31/12/2015
Computer software	10,300	2,924	(109)	4,395	17,510
Emission allowances	5,784	624	(5,105)	-	1,303
Prepayments	4,422	2,339	-	(4,395)	2,366
Other intangible assets (*)	14,432	-	-	-	14,432
Total cost	**34,938**	**5,887**	**(5,214)**	**-**	**35,611**
Computer software	(7,381)	(1,699)	61	-	(9,019)
Other intangible assets (*)	(10,259)	(120)	-	-	(10,379)
Total amortisation	**(17,640)**	**(1,819)**	**61**	**-**	**(19,398)**
Other intangible assets	(3,600)	-	-	-	(3,600)
Total impairment	**(3,600)**	**-**	**-**	**-**	**(3,600)**
Total	**13,698**				**12,613**

(*)Mainly includes development expenses

2014 (thousands of euros)	Balance at 01/01/2014	Additions/ charges	Derecognitions/ decreases	Transfers (note 8)	Balance at 31/12/2014
Computer software	14,623	1,972	(7,142)	847	10,300
Emission allowances	13,886	649	(8,751)	-	5,784
Prepayments	3,472	2,048	-	(1,098)	4,422
Other intangible assets (*)	13,976	43	-	413	14,432
Total cost	**45,957**	**4,712**	**(15.893)**	**162**	**34,938**
Computer software	(14,010)	(391)	7,142	(122)	(7,381)
Other intangible assets (*)	(10,037)	(222)	-	-	(10,259)
Total amortisation	**(24,047)**	**(613)**	**7,142**	**(122)**	**(17,640)**
Other intangible assets	(2,853)	(747)	-	-	(3,600)
Total impairment	**(2,853)**	**(747)**	**-**	**-**	**(3,600)**
Total	**19,057**				**13,698**

(*)Mainly includes development expenses

14.1Computer software

The Group has executed a plan to migrate its IT systems over to an SAP platform that has been serving as the management information tool supporting business processes since early 2015. The capital expenditure incurred to date in this respect amounts to €8,993 thousand (€6,198 thousand at 31 December 2014).

14.2Emission allowances

The reconciliation of the opening and year-end Group-owned carbon allowance balances for 2015 and 2014 is provided in the next table:

	2015		2014	
	Number of allowances	Thousands of euros	Number of allowances	Thousands of euros
Opening balance	**376,241**	**5,784**	**732,244**	**13,886**
Allocations (note 22)	92,998	624	137,473	649
Delivered (*)	(346,634)	(5,105)	(493,476)	(8,751)
Closing balance	**122,605**	**1,303**	**376,241**	**5,784**

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

In November 2013, the Spanish Parliament approved the New National Allocation Plan under which it will allocate emission allowances free of charge in 2013-2020. The new plan upholds the criteria adopted by Decision 2011/278/EU of the European Commission. Under the Plan, the Group received allowances equivalent to 92,998 tonnes of carbon emissions, valued at €624 thousand, in 2015.

"Non-current provisions" on the liability side of the consolidated statement of financial position includes €1,604 thousand in this respect at 31 December 2015 (€5,081 thousand at year-end 2014) corresponding to the liability derived from the consumption of 159,039 tonnes of carbon in 2015 (343,097 tonnes in 2014) (note 23).

The Group has contractually committed to the forward purchase of allowances covering a total of 601,000 tonnes: 401,000 tonnes at a price of €15.87/tonne exercisable in December 2017 and 200,000 tonnes at €15.79/tonne exercisable in December 2016. The aim is to cover the Group's future consumption of emission allowances.

As a result of the decision to cease pulp production at the Huelva industrial complex (note 23), it is estimated that part of the allowance purchases committed to, approximately 251 thousand allowances, will not be consumed within the term of the current 2013-2020 Plan, to which end these allowances have been valued at market value. This has entailed the recognition at December 31, 2015 of a €1,907 thousand euro provision within "Non-current provisions" on the accompanying consolidated statement of financial position (year-end 2014: €2,423 thousand) (note 23).

14.3Other intangible assets

In 2015, ENCE embarked on what it has dubbed Project FARO, which consists of redesigning the operating processes in the Pulp business with a view to boosting efficiency, increasing mill availability and eking out competitiveness gains. The costs incurred, which include own staff costs and, mainly, the cost of services received from one of the leading engineering and consultancy firms in the sector, in the amount of €2,364 thousand euros, have been capitalised within "Development costs", as there is a reasonable expectation of technical success so that they qualify for the related recognition requirements. This project will materialise in certain intangible assets (mainly know-how related to industrial process) which can be successfully exported and applied to the Group's mills in Pontevedra and Navia.

In 2012, the Group acquired certain companies related to the ENCE Group by common shareholders, a series of intangible assets consisting of techniques, experiences and know-how for use in boosting the productivity of energy crops and in-vitro reproduction of eucalyptus plants and a clone of the Populus Deltoides species. This agreement also granted the buyer a call option over certain power generation projects under development by the sellers in the event the moratorium imposed by Royal Decree-Law 1/2012 is lifted. These assets were written down in full in 2013 by means of the recognition of an impairment charge of €2,853 thousand (note 23).

In addition, the carrying amount of the rights to operate quarries in Huelva, previously carried at €747 thousand, were written down in full in 2014 (note 23).

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14.4Fully-amortised assets

At 31 December 2015, there were fully-amortised intangible assets still in use with an original cost of €20,876 thousand (year-end 2014: €17,646 thousand).

15.Property, plant and equipment

The reconciliation of the carrying amounts of the various components of property, plant and equipment and accumulated depreciation in 2015 and 2014 is as follows:

Thousands of euros - 2015	Balance at 01/01/2015	Additions/ charges	Derecognitions/ decreases	Transfer to held for sale (note 17)	Transfers	Balance at 31/12/2015
Forest land	83,549	655	-	(1,337)	-	82,867
Other land	8,101	28	(21)	-	-	8,108
Buildings	94,982	969	(1,063)	-	1,987	96,875
Plant and machinery	1,014,333	16,455	(6,036)	3,007	7,110	1,034,869
Other items of PP&E	18,709	2,926	(131)	-	2,078	23,582
Prepayments and PP&E in progress	13,667	32,504	(7)	-	(11,175)	34,989
Cost	**1,233,341**	**53,537**	**(7,258)**	**1,670**	**-**	**1,281,290**
Buildings	(56,333)	(2,767)	488	-	(20)	(58,632)
Plant and machinery	(465,416)	(52,361)	642	(582)	(38,425)	(556,142)
Other items of PP&E	(49,222)	(2,033)	122	-	38,445	(12,688)
Depreciation	**(570,971)**	**(57,161)**	**1,252**	**(582)**	**-**	**(627,462)**
Land and buildings	(2,588)	-	603	-	-	(1,985)
Plant and machinery	(14,206)	-	5,872	-	-	(8,334)
Other items of PP&E	(1,580)	-	1	-	-	(1,579)
Impairment	**(18,374)**	**-**	**6,476**	**-**	**-**	**(11,898)**
Total	**643,996**					**641,930**

Thousands of euros - 2014	Balance at 01/01/2014	Additions/ charges	Derecognitions/ decreases	Transfer to held for sale (note 17)	Transfers	Balance at 31/12/2014
Forest land	117,434	70	-	(34,367)	412	83,549
Other land	8,600	126	-	-	(625)	8,101
Buildings	139,012	20	(3,725)	(6,175)	(34,150)	94,982
Plant and machinery	1,208,226	13,693	(59,968)	(288,601)	140,983	1,014,333
Other items of PP&E	37,676	1,105	(7,094)	(14,081)	1,103	18,709
Prepayments and PP&E in progress	90,392	30,363	(5)	-	(107,083)	13,667
Cost	**1,601,340**	**45,377**	**(70,792)**	**(343,224)**	**640**	**1,233,341**
Buildings	(84,950)	(4,673)	3,708	2,228	27,354	(56,333)
Plant and machinery	(694,637)	(51,787)	58,894	212,283	9,831	(465,416)
Other items of PP&E	(22,339)	(2,296)	7,076	6,104	(37,767)	(49,222)
Depreciation	**(801,926)**	**(58,756)**	**69,678**	**220,615**	**(582)**	**(570,971)**
Land and buildings	(2,005)	(603)	-	-	20	(2,588)
Plant and machinery	(18,434)	(49,954)	3,399	51,952	(1,169)	(14,206)
Other items of PP&E	(2,729)	-	-	-	1,149	(1,580)
Impairment	**(23,168)**	**(50,557)**	**3,399**	**51,952**	-	**(18,374)**
Total	**776,246**					**643,996**

15.1Additions

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

	Thousands of euros	
	2015	2014
Navia (Asturias)	38,476	16,193
Huelva Pulp (*)	-	5,464
Huelva Energy - 41 MW	4,526	-
Pontevedra	9,084	11,911
Mérida - 20 MW	17	11,521
Other	1,434	288
	53,537	**45,377**

(*) Capital expenditure in 2014 mainly included the materialisation of investment commitments assumed in 2013 and the investments made in the first half of 2014, which were subsequently reclassified as assets held for sale (note 17).

In 2015, the Group carried out investments at its industrial complex in Navia (Asturias) with a view to increasing the mill's capacity by 40,000 ADt, enhancing efficiency and reducing production costs. At the Pontevedra facility, capital expenditure was earmarked mainly to improving its environmental performance as well to replacement investments.

The Group began to operate a 20-megawatt renewable energy power plant fuelled by biomass in Mérida on 15 September 2014. Total investment in this project, net of the income deriving from power generated during the testing phase, was €76.7 million, which was financed in part by a syndicate of banks under a project finance loan (note 24).

The Group capitalised borrowing costs incurred in 2014 in the amount of €1,504 thousand, derived mainly from the debt taken on to finance construction of the 20-MW Mérida power plant. These capitalised borrowing costs are presented in the consolidated income statement as a reduction in "Other finance costs" (note 12).

At year-end 2015, the Group had contractually committed to capital expenditure at its factories of €27 million, most of which will be incurred in 2016. In addition, as indicated in note 32.1, against the backdrop of the extension of the concession granting it use of the Pontevedra site, ENCE has committed to investing a further €61 million in this complex.

15.2Derecognitions

In 2015, ENCE completed its withdrawal from the energy crop business, a decision forced by the regulatory changes introduced in the energy sector in 2013 and 2014. The assets derecognised in 2015 correspond mainly to irrigation systems (notes 17 and 23).

15.3Fully-depreciated assets

The breakdown at year-end of the original cost of fully-depreciated items of property, plant and equipment still in use is shown in the next table:

Thousands of euros	2015	2014
Buildings	30,197	28,919
Machinery	229,646	227,922
Tools	1,056	945
Furniture & fittings	2,401	1,988
Other	1,756	1,525
	265,056	**261,299**

15.4Asset revaluations

The Group restated all its forest land to fair value as of 1 January 2004, the date of transition to IFRS-EU. This value was determined by independent expert appraisers. As permitted under IFRS, these revalued amounts were considered deemed cost. The gain on the revaluation, net of the corresponding deferred tax liability of €17,076 thousand (€19,317 thousand at 31 December 2014), amounts to €51,290 thousand at year-end (€58,015 thousand at 31 December 2014) and is included in "Valuation adjustments" in equity. That fair value benchmark has been used as deemed cost in subsequent years.

15.5Impairment

The decision to cease pulp production at the Huelva industrial complex has meant that some of its industrial assets are no longer used for productive purposes. Consequently, at year-end 2014, a renowned expert was engaged to help the Group appraise the various affected assets; as a result of this exercise, their recoverable amount was estimated at €34,632 thousand, implying the recognition of an impairment loss of €44,744 thousand. These impaired assets were subsequently reclassified to "Non-current assets held for sale" (notes 17 and 23).

Also in 2014, management recognised impairment losses of €4,049 thousand on investments in irrigation equipment installed in energy crop estates (note 23).

15.6Insurance cover

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

15.7Other developments of note

The concession for the use of the public-domain coastal land on which the Pontevedra operations centre sits was granted to ENCE by Ministerial Order on 13 June 1958 and was due to terminate on 29 July 2018. On 20 January 2016, the Spanish Ministry of Agriculture, Food and the Environment agreed to extend the concession for 60 years, i.e., until 8 November 2073, as detailed in note 32 on events after the reporting date.

ENCE has been depreciating the industrial assets located at its industrial complex in Pontevedra over the shorter of their remaining useful life and the term of the concession agreement. The extension of the concession will accordingly drive a reduction in depreciation charges in respect of the existing industrial assets; the impact in 2016 is estimated at approximately €8.5 million.

Elsewhere, in 2014, the Group re-estimated the useful life of its biomass-fed power generation plants in the wake of regulatory reform in the Spanish energy sector (note 5), increasing it from 14 to 25 years. This change in estimate had the effect of decreasing depreciation charges by approximately €5 million in 2014.

The Group does not have material assets located outside of Spain.

16.Biological assets

"Biological assets" exclusively comprises the Group's forest cover; the forest land owned by the Group is presented under "Property, plant and equipment - Forest land". This balance breaks down as follows:

Thousands of euros	31/12/2015	31/12/2014
Cover earmarked for pulp	86,814	85,234
Cover earmarked for energy crops	663	4,618
Cover earmarked for other uses	416	395
	87,893	**90.247**

The movement in this heading 2015 and 2014:

	Thousands of euros					
2015	Balance at 01/01/2015	Additions/ (charges)	Derecognitions	Transfer to available-for-sale (note 17)	Transfers (note 23)	Balance at 31/12/2015
Earmarked for pulp & other uses:						
Forest cover	150,929	2,385	(1,522)	(61)	12,483	164,214
Depletion of forest reserve	(34,219)	(4,835)	(546)	-	(923)	(40,523)
Provision for impairment	(31,081)	(1,691)	3,246	91	(7,026)	(36,461)
	85,629	**(4,141)**	**1,178**	**30**	**4,534**	**87,230**
Earmarked for energy crops:						
Forest cover	47,463	3,918	(26,826)	-	(13,058)	11,497
Depletion of forest reserve	(864)	(928)	-	-	1,029	(763)
Provision for impairment	(41,981)	-	28,282	-	3,628	(10,071)
	4,618	**2,990**	**1,456**	**-**	**(8,401)**	**663**
	90,247					**87,893**

(*) The column headed "Transfers" in the table above reflects the transfer of biological assets located on land owned by the ENCE Group which were initially intended for use as cover for energy crops; given their characteristics, these assets have been transferred to "Cover earmarked for pulp".

2014	Balance at 01/01/2014	Additions/ (charges)	Derecognitions	Transfers	Transfer to available-for-sale (note 17)	Balance at 31/12/2014
	Thousands of euros					
Earmarked for pulp & other uses:						
Forest cover	151,927	5,086	(2,076)	(2,075)	(1,933)	150,929
Depletion of forest reserve	(32,221)	(7,354)	1,749	3,407	200	(34,219)
Provision for impairment	(2,809)	(28,272)	-	-	-	(31,081)
	116,897	**(30,540)**	**(327)**	**1,332**	**(1,733)**	**85,629**
Earmarked for energy crops:						
Forest cover	55,972	5,464	(12,738)	2,075	(3,310)	47,463
Depletion of forest reserve	(6,505)	(2,302)	11,175	(3,407)	175	(864)
Provision for impairment	(12,219)	(31,055)	1,293	-	-	(41,981)
	37,248	**(27,893)**	**(270)**	**(1,332)**	**(3,135)**	**4,618**
	154,145					**90,247**

In 2015, the Group planted 28 hectares of land (2014: 94 hectares) and carried out forest preservation and protection work encompassing 1,517 hectares (2014: 6,633 hectares).

16.1Breakdown of forest cover

An analysis of the Group's forest cover at year-end 2015 and 2014 is provided below:

2015	Spain & Portugal			
	Pulp		Energy crops	
Age (years)	Productive hectares	Carrying amount in € '000	Productive hectares	Carrying amount in € '000
> 17	558	2,471	-	-
14 - 16	3,981	5,250	-	-
11 - 13	7,323	20,244	-	263
8 - 10	15,410	50,834	2	98
4 - 7	18,935	37,467	1,017	1,044
0 - 3	12,361	7,425	1,171	963
Impairment of biological assets	-	(36,461)	-	(1,705)
	58,568	**87,230**	**2,190**	**663**

2014	Spain & Portugal			
	Pulp		Energy crops	
Age (years)	Productive hectares	Carrying amount in € '000	Productive hectares	Carrying amount in € '000
> 17	1712	1,328	816	-
14 - 16	2,429	5,692	1,084	200
11 - 13	4,660	15,419	32	78
8 - 10	12,174	41,637	1,852	6,941
4 - 7	16,080	40,375	3,233	10,215
0 - 3	13,358	11,864	9,713	29,165
Impairment of biological assets	-	(31,081)	-	(41,981)
Deferred expenses	-	395	-	-
	50,413	**85,629**	**16,730**	**4,618**

(*) A portion of the biological assets earmarked for use as "Energy crops" is the result of a change in the use of plantations originally earmarked for making pulp.

In addition, the land under management includes 2,598 hectares located in Portugal that the Group sold in 2013, having entered into an agreement with the buyer covering the purchase by the ENCE Group, at market prices, of the wood produced from the land sold for a term of 20 years.

16.2Additions to forest cover

In 2015, the Group capitalised forest plantation, conservation and protection services amounting to €6,188 thousand (2014: €9,913 thousand); these costs include the cost of abandoning energy crop plantations in the amount of €3,867 thousand which were fully provisioned in 2014 (under "Current provisions" in the accompanying consolidated statement of financial position).

The Group capitalised €115 thousand of borrowing costs under forest cover in 2015 (€1,716 thousand in 2014); this addition is accounted for in the consolidated income statement as a reduction in "Other finance costs" (note 12).

16.3Derecognitions and impairment

In 2014, the Group recognised impairment losses on its biological assets of €59,327 thousand. Of this sum, €31,055 thousand was caused by the impairment of energy crops due to the change in applicable remuneration under the new regulatory framework.

These energy crops were being developed to cater to the supply needs of biomass-fuelled power generation facilities. By affording energy crops the same status as forestry and agricultural waste for remuneration purposes under the new energy sector regulations, the Group was forced to abandon this activity in an orderly fashion. This process concluded in 2015 (notes 5 and 23).

In parallel, the decision to cease pulp production in Huelva required identifying an alternative use for the Group's forestry assets in southern Spain; this timber will now be sold to third parties, an alternative that could imply additional costs (mainly transportation), or used as biomass for power generation purposes. These assets have been tested for impairment using the methodology and assumptions outlined in note 4.2, assuming for each section of forest the most profitable option for the Group; this exercise yielded a net realisable value that was €27,505 thousand below the carrying amount of these assets; the related impairment charge was recognised in full in 2014. In addition, an impairment loss of €8,956 thousand was recognised against forest assets in northern Spain in 2014.

An increase in market timber prices of 1% would have the effect of reducing the impairment charges recognised by approximately €2.6 million. Conversely, a drop in the market sales price would have the effect of increasing the impairment loss by the same amount.

16.4Leases

At year-end 2015, the Group's future minimum payments under non-cancellable leases, without factoring in costs to be reimbursed by the lessor, inflation-related adjustments or contractually-agreed rent increases, are as follows:

Thousands of euros	31/12/2015	31/12/2014
Within one year	2,405	2,280
Between one and five years	7,159	6,709
More than five years	10,396	11,886
	19,960	**20,875**

In 2014, there were also lease agreements at certain estates on which energy crops had been developed under which committed expenditure amounted to €18,124 thousand. Virtually all of these agreements were terminated in the course of 2015.

At year-end 2015, the Group managed 26,304 hectares of forest assets earmarked for the production of biological assets under leases and via consortia (34,092 hectares at year-end 2014). The average term of these lease agreements is 30 years.

17.Non-current assets held for sale

The Group classifies a non-current asset (or disposal group) as held for sale when its carrying amount is to be recovered principally through a sale transaction insofar as a sale within the next 12 months is considered highly probable. These assets are measured at the lower of their carrying amount and fair value less costs to sell.

The breakdown of "Non-current assets held for sale" at 31 December 2015 and 31 December 2014 is as follows:

Thousands of euros	Balance at 01/01/2015	Additions	Consumption	Derecognitions due to sales	Transfers (notes 15 & 16)	Impairment	Balance at 31/12/2015
NON-CURRENT ASSETS							
Huelva industrial complex	34,632	-	-	-	(2,425)	(6,000)	26,207
Forest land and cover							
Forest land	33,955	1,412	-	(14,428)	1,337	-	22,276
Forest cover	4,867	142	(2,419)	(705)	(30)	-	1,855
Investment and other properties	3,925	-	-	(3,925)	-	-	-
Total	**77,379**	**1,554**	**(2,419)**	**(19,058)**	**(1,118)**	**(6,000)**	**50,338**

Huelva industrial complex

The decision to cease pulp production at the Huelva industrial complex has meant that some of its industrial assets are no longer used for productive purposes and have accordingly been transferred to assets held for sale. As a result, at year-end 2014, their carrying amount was written down to their recoverable amount, estimated at €34,632 thousand, and an impairment charge was recognised in the amount of €44,744 thousand (note 15.5). These impaired assets were subsequently reclassified to "Non-current assets held for sale".

At year-end 2015, the fair value of these assets was reassessed in light of the trend in sales prices in identified potential markets and non-binding bids for a portion of these assets. As a result, the related impairment charge has been revised upwards by an addition €6 million euros.

A plan for selling these assets was designed at the end of 2014 and set in motion in 2015. A number of non-binding bids have been received, some of which are currently under analysis. ENCE remains committed to its plan for selling these assets, even though the market environment and the specific characteristics of these assets, related to the production of pulp and the co-generation of power using gas, impeded a transaction from materialising in 2015.

Forest land and cover

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

In 2015, it sold 1,328 hectares (64% of which, irrigated land), generating a gain of €11,578 thousand, which is recognised in "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the accompanying consolidated income statement.

ENCE remains committed to its plan for selling these assets even though the large amounts of land on offer and the resulting downward pressure on realisation prices has made it advisable to stagger the process in order to maximise the value obtained. The realisable value of the land for sale, estimated on the basis of transactions closed in 2015, stands within a range of €27-33 million at year-end, implying a potential gain of between €8 and €12 million.

Investment properties

In 2015, ENCE sold properties not used in its core business that were classified as 'held for sale' for €3,577 thousand, generating an accounting loss of €348 thousand, which is recognised in "Impairment of and gains/(losses) on disposals of intangible assets and PP&E" in the accompanying consolidated income statement.

18. Inventories

The breakdown of the Group's inventories at 31 December 2015 and 2014 is as follows:

Thousands of euros	31/12/2015	31/12/2014
Timber	19,201	19,965
Other raw materials	1,210	2,389
Spare parts	20,876	21,649
Finished goods	15,440	10,641
Prepayments to suppliers	636	2,186
Provision for impairment	(17,148)	(18,911)
	40,215	**37,919**

There are no restrictions on title to inventories.

The impairment charges relate to slow-moving spare parts at the operating plants and 100% of spare parts at the Huelva industrial complex which, on account of their unique characteristics, cannot be used at other Group facilities.

At 31 December 2015, the Group had entered into agreements with suppliers for the purchase, during the next five years, of 301 million tonnes and 0.8 million tonnes of biomass for use at the Huelva 50-MW and Mérida 20-MW power plants, respectively.

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

19. Trade and other receivables

The breakdown at year-end of "Trade and other receivables" in the consolidated statement of financial position is as follows:

Thousands of euros	31/12/2015	31/12/2014
Trade receivables:		
Pulp	73,401	58,788
Energy	40,515	37,357
Other items	1,466	5,614
Sundry receivables	9,403	893
Receivable from employees	53	44
Provision for impairment	(2,869)	(2,265)
	121,969	**100,431**

The regulatory changes introduced in the Spanish energy sector have included, among other measures, the obligation on the part of all parties receiving remuneration from the system operator to finance the so-called electricity tariff deficit (note 5). The balance pending collection at 31 December 2015 in respect of the Group's share of this financing obligation as well as delays in settlement by the system of remuneration premiums due amounts to €32,790 thousand.

At 31 December 2015, there are no balances past due but not impaired or covered by credit insurance policies (€1,352 thousand at year-end 2014).

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

At year-end, the Group had €22.5 million of US dollar-denominated accounts receivable (year-end 2014: €5.4 million).
The Group has drawn down €44,746 thousand under several factoring agreements deemed non-recourse (as all the risks intrinsic to monetisation of the underlying receivables have been transferred) with an aggregate limit of €70,000 thousand at 31 December 2015 (€38,035 thousand and €58,000 thousand, respectively, at 31 December 2014). The Group pays interest equivalent to 3-month Euribor plus a spread ranging between 1% and 2% on the receivables discounted under these agreements.

20. Trade and other payables

The breakdown at year-end of "Trade and other payables" on the liability side of the consolidated statement of financial position is as follows:

Thousands of euros	31/12/2015	31/12/2014
Trade payables	139,101	139,559
Payable to fixed asset suppliers	16,027	8,916
Employee benefits payable	6,945	7,851
	162,073	**156,326**

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

The Group has drawn down €58,377 thousand under non-recourse reverse factoring agreements with several banks with an aggregate limit of €105,000 thousand at year-end 2015 (€49,621 thousand and €107,000 thousand, respectively, at 31 December 2014).

At 31 December 2015, the Group had €34 thousand of US dollar-denominated accounts payable (year-end 2014: €277 thousand).
Spanish Law 15/2010 (5 July 2010) on addressing non-payment of commercial transactions stipulates certain disclosure requirements in the notes to the annual financial statements on transaction settlement performance. Against this backdrop, the table below details the trade payables settled in 2015 and 2014 and the amounts outstanding at year-end (excluding intra-group transactions and payments to fixed asset suppliers):

	2015		2014	
	Thousands of euros	%	Thousands of euros	%
Within the legally-mandated maximum term	481,560		600,383	88%
Other	51,919		79,825	12%
Total payments during the year	533,479		680,208	100%
Weighted average term of past due payments (days)	95		125	-
Trade payables past due by more than the legally-mandated maximum term at the close	31,488		25,585	-
Days payment outstanding for balances past due by more than legally-mandated term	73		N/A	-

21.Equity

21.1 Share capital

The share capital of ENCE Energía y Celulosa, S.A. at 31 December 2015 was represented by 250,272,500 fully subscribed and paid bearer shares, each with a par value of €0.90.
Based on the notifications received, the shareholder structure at year-end 2015 and 2014 was as follows:

Percentage interest	31/12/2015	31/12/2014
Retos Operativos XXI, S.L.	26.5	26.5
Alcor Holding, S.A.	5.9	6.2
Mendibea 2002, S.L.	5.4	5.4
Asúa Inversiones, S.L.	5.2	5.2
Amber Capital UK LLP	4.0	4.0
LSV Asset Management	3.0	-
Treasury shares	0.6	1.2
Free float	49.4	51.5
Total	**100**	**100**

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

21.2 Legal reserve

In accordance with the Consolidated Text of the Spanish Corporate Enterprises Act, 10% of profits must be transferred to the legal reserve each year until it represents at least 20% of share capital. The Parent's legal reserve of €45,050 thousand covers the stipulated 20% of share capital.

The legal reserve may be used to increase capital in an amount equal to the portion of the balance that exceeds 10% of capital after the increase. Otherwise, until it exceeds 20% of share capital and provided there are no sufficient available reserves, the legal reserve may only be used to offset losses.

21.3 Share premium

The Consolidated Text of the Spanish Corporate Enterprises Act expressly permits the use of the share premium account balance to increase capital and provides no specific limitation with respect to the availability of this reserve.

21.4 Reserves in fully-consolidated companies

The next table breaks down "Equity – Reserves in fully-consolidated companies" by company at 31 December 2015 and 2014:

Thousands of euros	31/12/2015	31/12/2014
PULP business:		
Celulosas de Asturias, S.A.U.	115,165	100,827
Celulosa Energía, S.A.U.	38,196	33,062
Norte Forestal, S.A.U.	6,604	15,317
Silvasur Agroforestal, S.A.U.	(12,351)	5,903
Iberflorestal, S.A.U.	(473)	262
Ibersilva, S.A.U.	(18,484)	(18,085)
Ence Investigación y Desarrollo, S.A.U.	(5,126)	(3,952)
Maderas Aserradas del Litoral, S.A.	(5,394)	(5,400)
Las Pléyades, S.A. (SAFI)	1,893	2,047
Sierras Calmas, S.A.	5,659	5,424
ENERGY business:		
ENCE Energía, S.L.U.	(26,704)	(20,791)
ENCE Energía Huelva, S.L.U.	(21,563)	(5,662)
ENCE Energía Extremadura, S.L.U.	(12,439)	(940)
Consolidation and other adjustments	(4,473)	15,270
	60,510	**123,282**

The balance of reserves in consolidated companies that is restricted at year-end stood at at €12,851 thousand (year-end 2014: €12,992 thousand) and corresponds mainly to the legal reserves endowed by the various Group companies.

21.5 Dividends

At the Annual General Meeting held on 28 April 2015, the shareholders of Ence Energía y Celulosa, S.A. ratified the motion to pay a cash dividend against the share premium account in the amount of €0.10 per Ence Energía y Celulosa, S.A. share. The dividend, which totalled €24,889 thousand, was paid out on 8 May 2015.

At a meeting held on 30 September 2015, the Board of Directors of the Parent resolved to pay an interim dividend from 2015 profits of €0.044 per share (before withholdings), in cash. This dividend entailed the payment of €10,951 thousand and was paid out on 7 October 2015 (note 2).

21.6Earnings per share

The earnings per share calculations (which coincide with diluted earnings per share) are shown below:

Earnings per share	2015	2014
Group profit/(loss) attributable to owners of the parent (€ 000)	49,855	(140,909)
Weighted average number of ordinary shares outstanding during the year	250,272,500	250,272,500
Basic earnings per share (euros)	**0.20**	**(0.56)**
Diluted earnings per share (euros)	**0.20**	**(0.56)**

21.7 Parent Company shares

The reconciliation of "Own shares - parent company shares" at the beginning and end of 2015 and 2015 is as follows:

	2015		2014	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	2,920,663	5,744	7,250,507	19,762
Purchases	363,397	1,093	3,297,886	6,063
In-kind dividend payment	-	-	(7,557,391)	(19,893)
Sales	(1,877,594)	(3,729)	(70,339)	(188)
At year-end	1,406,466	3,108	2,920,663	5,744

The own shares held by the Company at 31 December 2015 represent 0.6% of its share capital (1.2% at year-end 2014) and are carried at €1,266 thousand (€2,629 thousand at 31 December 2014). These shares were acquired at an average price of €2.21 per share. The own shares held by the Parent are held for market trading purposes.

The Company has a liquidity agreement with a securities brokerage which has been mandated to carry out the trades stipulated in the agreement in the Spanish secondary markets.

21.8 Valuation adjustments

"Valuation adjustments" within equity includes the impact of the changes in the fair value of the Group's hedging derivatives (note 27) and the reserve generated by recognising the Group's forest land at market value as of 1 January 2004 (note 15) in the amount of €51,290 thousand. The latter reserve is freely distributable.

The breakdown of the changes in the fair value of the hedging derivatives in 2015 and 2014 is shown below:

Thousands of euros	2015 Fair value	2015 Tax effect	2015 Adjustment in equity	2014 Fair value	2014 Tax effect	2014 Adjustment in equity
Interest rate swap – 50-MW project finance facility:						
Opening balance	(7,957)	(2,785)	(5,968)	(6,981)	(2,094)	(4,887)
Reclassified to profit or loss	10,184	2,546	7,638	2,334	700	1,634
Other changes in value	(2,062)	281	(1,546)	(3,310)	(993)	(2,317)
Tax adjustment	-	-	-	-	(398)	(398)
Closing balance	165	42	124	(7,957)	(2,785)	(5,968)
Interest rate swap – 20-MW project finance facility:						
Opening balance	(3,240)	(1,135)	(2,429)	(651)	(196)	(455)
Reclassified to profit or loss	3,584	896	2,688	564	169	395
Other changes in value	(184)	279	(139)	(3,153)	(946)	(2,207)
Tax adjustment	-	-	-	-	(162)	(162)
Closing balance	160	40	120	(3,240)	(1,135)	(2,429)
Foreign exchange hedges:						
Opening balance	-	-	-	-	-	-
Reclassified to profit or loss	54	13	40	-	-	-
Other changes in value	(976)	(244)	(732)	-	-	-
Closing balance	(922)	(231)	(692)	-	-	-
Energy sale hedges:						
Opening balance	999	349	750			
Reclassified to profit or loss	1,578	394	1,183	(39)	(12)	(27)
Other changes in value	(2,332)	(682)	(1,749)	1,038	311	727
Tax adjustment	-	-	-	-	50	50
Closing balance	245	61	184	999	349	750
	(352)	**(88)**	**(264)**	**(10,198)**	**(3,570)**	**(7,648)**

22. Grants

The reconciliation of the carrying amount of this consolidated statement of financial position heading at the beginning and end of 2015 and 2014 is as follows:

Thousands of euros	Subsidised loans (note 25)	Grants relating to assets	Emission allowances (note 14)	Total
Balance at 01/01/2014	**1,369**	**10,056**	**3,784**	**15,209**
Additions, new grants (*)	-	860	-	860
Emission allowances allocated for 2014	-	-	649	649
Reclassified to profit or loss	(326)	(927)	(4,433)	(5,686)
Balance at 31/12/2014	**1,043**	**9,989**	**-**	**11,032**
Additions, new grants (*)	218	1,986	-	2,204
Emission allowances allocated for 2015	-	-	624	624
Reclassified to profit or loss	(488)	(1,494)	(624)	(2,606)
Balance at 31/12/2015	**773**	**10,481**	**-**	**11,254**

(*) Net of expenses incurred in obtaining them

The Group has been granted non-repayable grants by several public bodies that are intended to finance investments earmarked to enhancing the productive structure with a significant impact on job creation, energy savings and efficiency and recovery of the energy generated.

In addition, the Group has been extended loans carrying no interest or below-market rates of interest with terms of up to 10 years. These loans finance projects undertaken by the Group to expand and upgrade the productive capacity of its pulp plants as well as the Group's research and development work.

The difference between market rates and the subsidised rate as per the loan agreement is considered a grant and is recycled to the consolidated income statement over the life of the loans on a systematic financial basis (note 25).

On 29 July 2015, the Group was awarded a grant by the IDEA (acronym in Spanish for the Energy Diversification and Savings Institute) of approximately €2 million which will finance projects with a substantial energy-savings component.

23.Provisions, guarantees and contingent liabilities

23.1 Non-current provisions

The reconciliation of the movements in "Non-current provisions" and "Current provisions" in accompanying consolidated balance sheet in 2015 and 2014:

2015	Thousands of euros Balance at 01/01/2015	Additions/(charges)	Derecognitions or decreases	Transfers (note 16)	Balance at 31/12/2015
Non-current:					
Costs of unwinding energy crop and other lease agreements	-	-	-	713	713
Employee commitments (notes 4.16)	712	3,333	(1,982)	-	2,063
Emission allowances (note 11)	5,081	1,604	(5,081)	-	1,604
Discontinuation of pulp production in Huelva	3,917	-	(515)	-	3,402
Other	1,437	783	(742)	-	1,478
	11,147	**5,720**	**(8,320)**	**713**	**9,260**
Current:					
Costs of unwinding energy crop and other lease agreements	9,898	-	(5,318)	(4,580)	-
Discontinuation of pulp production in Huelva	9,822	1,500	(5,016)	-	6,306
	19,720	**1,500**	**(10,334)**	**(4,580)**	**6,306**

2014	Thousands of euros Balance at 01/01/2014	Additions/(charges)	Derecognitions or decreases	Transfers	Balance at 31/12/2014
Non-current:					
Costs of unwinding energy crop and other lease agreements	7,125	10,401	(3,002)	(14,524)	-
Employee commitments (notes 4.16)	2,175	-	(1,463)		712
Emission allowances (note 11)	8,715	5,117	(8,751)	-	5,081
Discontinuation of pulp production in Huelva	-	3,917	-	-	3,917
Other	490	1,047	(100)		1,437
	18,505	**20,482**	**(13,316)**	**(14,524)**	**11,147**
Current:					
Costs of unwinding energy crop and other lease agreements	-	-	(4,626)	14,524	9,898
Discontinuation of pulp production in Huelva	-	12,581	(2,759)	-	9,822
Revenue provision under RD 9/2013	7,080	16,879	-	(23,959)	-
	7,080	**29,460**	**(7,385)**	**(9,435)**	**19,720**

Changes in the Spanish energy sector's regulatory framework

As described in note 5, in 2013 and 2014, the Spanish government passed a series of laws and regulations which have had the effect of modifying the remuneration and tax regime applicable to the generation of energy from renewable sources, including generation and co-generation facilities fuelled by biomass. These new regulations, which put energy crops in the same category as forest and agricultural waste for remuneration purposes, obliged ENCE to abandon the management of its energy crop plantations in an orderly fashion. Moreover, the regulatory changes were undertaken without any consideration whatsoever for compensating developers for these heavy investments, triggering the need to write down the investments in energy crops and other assets for impairment and to recognise provisions to cover the costs of unwinding the related lease agreements and other associated costs.

The following table itemises the impact on profit and loss of the corresponding impairment provisions recognised against the Group's various assets and the costs incurred to unwind the estate lease arrangements, as well as the outstanding related obligations as of 31 December 2015:

Thousands of euros	Income statement impact 2013	2014	2015	Total	Outstanding obligations
Impairment:					
Energy crop plantations (note 16)	12,219	22,370	(1,822)	32,767	-
Irrigation facilities (note 15.5)	4,475	4,049	-	8,524	-
Energy crop R&D (note 14.3)	2,853	-	-	2,853	-
Energy project development costs (note 15)	2,110	-	-	2,110	-
Lease termination costs (note 11)	5,228	10,401	(4,658)	10,971	713
	26,885	**36,820**	**(6,480)**	**57,225**	**713**

In 2015, the Group completed its exit from this activity. The initially recognised provision exceeded the ultimate outlay by €6,480 thousand.

In addition, Spain's energy sector reforms were rounded out on 20 June 2014 with the publication of Ministerial Order IET/1045/2014 (16 June 2014), albeit with retroactive effect to 14 July 2013, the date on which Royal Decree-Law 9/2013 took effect.

In 2013 and the first half of 2014, the regulator settled energy remuneration applying the terms of the outgoing regime, namely Royal Decree 661/2007, which meant that the retroactive application of the new regime entailed the reimbursement to the regulator of €10,809 thousand of accrued settlements in 2014.

Elsewhere, the Spanish Ministry of Industry initially classified the Pontevedra (34.57 MW), Navia (37 MW) and Huelva (40.95 MW) power plants incorrectly, including them in the wrong category. The appeals lodged by the Group with the aim of rectifying this classification error were resolved favourably in 2015 in respect of the Navia and Pontevedra power plants, so that a ruling is only pending for the Huelva plant (40.95 MW). Management expects this issue to be resolved in the Company's favour in 2016.

Discontinuation of pulp production in Huelva

The lack of competitiveness of the industrial complex in Huelva caused by the impact of the regulatory reforms undertaken in the Spanish energy sector, drastically reducing premiums for the co-generation of power using the elements of the timber biomass that cannot be transformed into pulp (lignin) to well below the levels received by our European peers, coupled with the structural scarcity of eucalyptus wood in the vicinity of the complex, forced ENCE to announce, on 4 September 2014, its decision to specialise in clean energy generation at the Huelva complex and to cease the production of pulp.

The following table itemises the impact on profit and loss of the corresponding impairment provisions recognised against the Group's various assets, as well as the outstanding related obligations as of 31 December 2015:

Thousands of euros	Income statement impact 2014	2015	Outstanding obligations
Asset impairment:			
Industrial facilities (note 17)	44,744	6,000	-
Forest plantations (note 16)	20,949	-	-
Spare parts (note 18)	6,027	(479)	-
Quarry mining rights (note 15)	746	-	-
Contractually-assumed obligations	16,498	2,371	9,708
Employee benefits expense	20,395	-	-
	109,359	**7,892**	**9,708**

23.2Guarantees extended to third parties

At 31 December 2015, several financial institutions had extended the various Group companies guarantees for an aggregate amount of approximately €52,980 thousand (€45,418 thousand at 31 December 2014). Most of these sureties have been posted with public organisms in order to guarantee performance of ENCE's obligations in its capacity as an operator in the Spanish electricity market (grid access, power plant development, etc.). In addition, the Group has written guarantees to secure tax assessments signed but being contested (note 23.3) in order to avoid their payment and some of the loans received at below-market rates (note 25).

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

23.3 Contingent assets and liabilities

At year-end 2015, the Group is party to legal claims and controversies that arose in the ordinary course of its business. The most significant claims are detailed below. Management estimates that none of these, either individually or on aggregate, will have a material adverse impact on the consolidated financial statements:

<u>Changes in the Spanish energy sector regulatory framework</u>

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

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

By means of the appropriate Supreme Court channel, the Spanish Ministry of Industry has been petitioned to complete the case paperwork so that ENCE can formerly present a lawsuit seeking acknowledgement within the new regulatory regime of the real cost of lignin, the fuel used in the Group's existing co-generation plants integrated within its pulp operations and, by extension, an update of the remuneration parameters in order to reflect these real costs. Management estimates that lignin costs per MWh produced are €40-€60 higher than the cost contemplated in the current regulations, which translates into an impact at the Pontevedra and Navia industrial complexes in the range of €20,000 - €30,000 thousand in annual revenue terms.

Tax contingencies

The Spanish tax authorities concluded several tax inspections encompassing the Parent and several Group companies during the first half of 2013. These inspections affected the income tax filings made between 2007 and 2009, VAT filings and withholdings in 2008 and 2009, the so-called special electricity tax from 2008 until 2010, and trade tax for 2009-2012.

The income tax assessments for 2007-2009, seeking a settlement in respect of unpaid taxes and late-interest payment of €6,730 thousand, have been signed but are being contested; of this balance, just €3,616 thousand would result in an outflow of cash. In the opinion of the inspection team, the Group is not subject to a fine under this assessment.

Pontevedra public-domain concession

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

The case was closed by means of a resolution dated 24 July 2015. The resolution declares the concession partially terminated, specifically in respect of the land affected by the wastewater treatment plant, the underwater discharge pipeline and the football pitch, enabling the continuation of the Company's activities at the Pontevedra operations centre.

As detailed in note 32.1, on 20 January 2016, the Spanish Ministry of Agriculture, Food and the Environment agreed to extend the concession entitling ENCE to occupy the land on which its Pontevedra complex is located. The extension has been awarded for 60 years, i.e., until 8 November 2073.

24.Borrowings and cash and cash equivalents

The breakdown of the Group's borrowings at 31 December 2015 and 2014 is as follows:

	Year-end 2015		Year-end 2014	
Thousands of euros	current	Non-current	current	Non-current
High-yield bond	-	250,000	-	250,000
Loans and credit facilities	300	30,000	400	300
50-MW project finance facility (a)	8,645	83,108	6,660	71,809
20-MW project finance facility (a)	3,395	32,683	1,953	28,580
Arrangement costs (b)	-	(9,156)	(495)	(10,640)
Accrued interest payable and other	2,473	-	7,886	-
	14,813	**386,635**	**16,404**	**340,049**

(a) As a result of the work performed to refinance the project finance facilities funding the Huelva 50-MW and the Mérida 20-MW plants in 2015, these facilities have been bundled into a single loan. The tranches allocated to each project are presented separately for the purpose of facilitating the year-on-year comparison.

(b) High-yield bond: €6,892 thousand at 31 December 2015 (€7,911 thousand at year-end 2014). 50-MW project finance facility: €1,621 thousand at 31 December 2015 (€1,876 thousand at year-end 2014). 20-MW project finance facility: €643 thousand at 31 December 2015 (€1,348 thousand at year-end 2014).

The breakdown of borrowings at 31 December 2015 and 2014 corresponding to loans, credit facilities and discounting facilities, classified by their respective maturities, is as follows:

Year-end 2015 (thousands of euros)	Limit	Drawn down	Due in 2016	2017	2018	2019	Beyond
High-yield bond	250,000	250,000	-	-	-	-	250,000
Revolving credit facility	90,000	-	-	-	-	-	-
50-MW project finance facility	91,753	91,753	8,645	9,140	9,598	9,810	54,560
20-MW project finance facility	36,078	36,078	3,395	3,614	3,826	3,780	21,463
Other loans	30,300	30,300	300	-	-	15,000	15,000
Accrued interest payable and other	-	2,473	2,473	-	-	-	-
Arrangement costs	-	(9,156)	-	(1,277)	(1,288)	(1,301)	(5,290)
	498,131	401,448	14,813	11,477	12,136	27,289	335,733

Year-end 2014 (thousands of euros)	Limit	Drawn down	Due in 2015	2016	2017	2018	Beyond
High-yield bond	250,000	250,000	-	-	-	-	250,000
Revolving credit facility	90,000	-	-	-	-	-	-
50-MW project finance facility	101,309	78,469	6,660	7,288	7,762	7,878	48,881
20-MW project finance facility	60,692	30,533	1,953	2,077	2,075	2,205	22,223
Other loans	700	700	400	300	-	-	-
Accrued interest payable and other	-	7,886	7,886	-	-	-	-
Arrangement costs	-	(11,135)	(495)	(2,090)	(2,132)	(2,181)	(4,237)
	502,701	356,453	16,404	7,575	7,705	7,902	316,867

24.1 Bond issue and revolving credit facility

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

On 1 December 2015, the Company bought back 100% of the bonds it had issued in 2013 (note 12).

The newly-issued bonds are due on 1 November 2022. They carry a fixed annual coupon of 5.375%, payable twice-yearly, and are guaranteed by the main subsidiaries devoted to the PULP business; in comparison, the bonds issued in 2013 carried a fixed annual coupon of 7.25% and were guaranteed by all of the Group's subsidiaries, as well as being secured by certain assets.

As with the 2013 bond issue, and as is customary for these kinds of securities, the new bonds imply certain disclosure requirements and restrictions on the payment of dividends and arrangement of additional borrowings in the event of failure to comply with certain financial ratios. The cost of issuing these long-term bonds was approximately €7 million.

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

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

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

24.2 Huelva 50-MW and Mérida 20-MW project finance facility

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

The arrangement of this loan has had the effect of cancelling and bundling into a single facility with substantially different terms and conditions the loans signed on 21 June 2011 to finance the Huelva 50-MW plant and on 1 August 2012 to finance the Mérida 20-MW plant. The terms of the original facilities were as follows:

- Huelva 50-MW facility. The loan was initially granted for €101,309 thousand, of which €85,256 thousand had been drawn down at 31 December 2014. Loan repayments began on 22 June 2013 and the final loan instalment was scheduled for 22 December 2022. It accrued interest at a floating rate indexed to Euribor plus a spread ranging between 3.25% and 3.75%, depending on how many years had elapsed since it was granted. The fee for structuring this loan was €3,483 thousand.
- Mérida 20-MW facility. The loan was initially granted for €60,692 thousand, of which €29,500 thousand had been drawn down at 31 December 2014. Loan repayments began on 15 December 2014 and the final loan instalment was scheduled for 15 June 2027. It accrued interest at a floating rate indexed to Euribor plus a spread ranging between 3.5% and 4.0%, depending on the loan repayment instalment. The fee for structuring this loan was €1,656 thousand.

Amortisation of the refinanced facility began on 30 December 2015; it is scheduled for full repayment by 30 June 2025. It accrues interest at a floating rate benchmarked to Euribor plus a spread ranging between 2.50% and 3.00%, depending on the loan repayment period. The commissions paid in connection with this facility in 2015 totalled €2,540 thousand.

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

This loan similarly includes certain obligations, which are customary in these types of facilities, mainly related to the disclosure of specific business and financial information, compliance with certain financial ratios determined on the basis of the annual financial statements of ENCE Energía Huelva, S.L.U. and ENCE Energía Extremadura, S.L.U., the requirement to maintain a specific volume of felled biomass stock, and cash sweeps, namely the earmarking of 50% of surplus cash to early repayment of the loan until 50% has been repaid and, subsequently, 25% of surplus cash until facility maturity date. The covenants similarly impose certain restrictions, mainly on the distribution of dividends and the raising of new financing.

In order to hedge the risk deriving from this floating-rate financing facility, the Group restructured its interest-rate hedges with four of the project financiers in order to adapt them to the new loan structure. The restructured hedges have been written over approximately 80% of the estimated drawdowns to be made throughout the term of the loan, locking in a fixed rate of 2.8% (notes 12 and 27).

24.3Other borrowings

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

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

These two loans were taken out to fund some of the investments carried out at the Navia factory (Asturias) and planned capacity additions (quantified in note 15 above).

24.4Cash and cash equivalents

"Cash and cash equivalents" includes the Group's cash on hand and short term bank deposits with original maturities of three months or less. The carrying amount of these assets approximates their fair value. These assets earned an average rate of 0.35% in 2015 (1.07% in 2014).

The Group had €159.6 million of cash and cash equivalents at 31 December 2015 (€73.4 million at year-end 2014). Of this total, some €32,277 thousand are subject to certain restrictions. Specifically:

1. €17,523 thousand can only be used to service debt under the Huelva and Mérida project finance facility in 2016.
2. €10,000 thousand secures the obligation assumed under the refinanced project finance agreement in relation to the covenanted minimum stock of biomass for the power plants, as detailed in note 24.2 above. This deposit will be replaced by a surety.
3. €4,754 thousand secures obligations undertaken under the electricity price hedge agreements entered into with the Nominated Electricity Market Operator, OMIE, and under forward carbon allowance purchase commitments (notes 14.2 and 24.5).

The year-end 2015 statement of financial position includes €5,721 thousand of cash denominated in US dollars (year-end 2014: €2,667 thousand).

24.5 Other financial assets

This heading mainly includes the above-mentioned deposits set up to guarantee obligations assumed in writing certain derivative financial instruments (described in note 27), as well as those deriving under the agreements entered into for the future purchase of emission allowances (described in note 14).

25.Other financial liabilities

The amount recognised in the accompanying consolidated statement of financial position corresponds primarily to the loans extended at below-market or zero interest rates, as detailed in note 22.

The breakdown by maturity at year-end 2015 and 2014 is as follows:

Thousands of euros	2015	2014
2015	-	1,858
2016	1,356	1,280
2017	1,212	1,279
2018	1,254	1,288
2019	1,254	1,288
2020 and beyond	3,740	3,921
Unwinding of discount (note 22)	(773)	(1,043)
	8,043	**9,871**

26.Financial instruments by category – Fair value

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

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

2014 Thousands of euros	Loans and receivables / payables	Trading derivatives	Hedging derivatives	Held-to-maturity investments	Total at 31/12/2014
Derivative financial instruments	-	-	999	-	999
Financial accounts receivable	-	-	-	8,513	8,513
Trade and other receivables	110,178	-	-	-	110,178
Cash and cash equivalents	73,428	-	-	-	73,428
Total financial assets	**183,606**	-	**999**	**8,513**	**193,118**
Non-recourse borrowings	106,446	-	-	-	106,446
Recourse borrowings	250,007	-	-	-	250,007
Derivative financial instruments	-	4,280	11,196	-	15,476
Trade and other payables	165,069	-	-	-	165,069
Other financial liabilities	9,871	-	-	-	9,871
Total financial liabilities	**531,393**	**4,280**	**11,196**	-	**546,869**

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

The fair value of the Group's financial assets and liabilities is not significantly different from their carrying amount. Note that the bonds issued by ENCE in 2015 were trading at 103% of par at 31 December 2015.

27. Derivative financial instruments

In keeping with the risk management policy outlined in note 6, the Group analyses the arrangement of financial instruments to hedge the risks deriving from fluctuations in interest rates, exchange rates, pulp and energy prices, gas prices, fuel-oil prices and the cost of the electricity used in its productive processes.

Among the financial instruments used to hedge interest-rate risk, interest rate swaps are the most common. The Group mainly uses swaps and futures contracts to hedge changes in exchange rates and tunnels, swaps and futures to hedge the prices of pulp and certain energy products.

The breakdown of this consolidated statement of financial position heading at 31 December 2015 and 2014 (showing the fair value of the derivatives at year-end), is provided in the next table:

	Current assets		Non-current liabilities		Current liabilities	
Thousands of euros	2015	2014	2015	2014	2015	2014
Cash flow hedges:						
Energy sale hedges	245	999	-	-	-	-
IRS - 50-MW project finance facility	-	-	5,168	5,677	2,091	2,280
IRS - 20-MW project finance facility	-	-	1,814	2,426	833	813
Currency hedges	-	-	665	-	2,999	-
	245	999	7,647	8,103	5,923	3,093
Trading derivatives:						
Equity swap	-	-	-	-	-	4,280
Total	**245**	**999**	**7,647**	**8,103**	**5,923**	**7,373**

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

A fair value loss of €15,400 thousand on derivatives designated as hedging instruments was reclassified to profit or loss in 2015 (a loss of €2,860 thousand in 2014).

27.1Currency hedges

In order to hedge the risks to which the Group is exposed as a result of fluctuations in the dollar-euro exchange rate, in 2015, ENCE arranged a tunnel option strategy (Asian options) over US dollars (this means using the average exchange rate for a given period instead of the rate on a specific date as the benchmark). The breakdown of these options at 31 December 2015 is as follows:

Underlying	Expiry	Strike price Call	Strike price Put	Notional amount (USD)
EUR/USD	1Q16	1.066	1.155	66.0
EUR/USD	2Q16	1.071	1.155	66.0
EUR/USD	3Q16	1.086	1.156	66.5
EUR/USD	4Q16	1.081	1.153	64.5
EUR/USD	1Q17	1.081	1.153	64.5
EUR/USD	2Q17	1.053	1.139	31.5

(*) The contracts outstanding at 31 December 2015 cover roughly 50% of the pulp sales forecast for the next 18 months.

These instruments presented a negative fair value at year-end of €3,664 thousand which is recognized in "Derivative financial instruments" within current liabilities on the consolidated statement of financial position, the balancing entry being: 1) a loss recognised in "Change in the fair value of financial instruments" in the 2015 consolidated income statement in respect of the time value of these instruments in the amount of €2,742 thousand; and 2) a charge to "Equity - valuation adjustments" in the consolidated statement of financial position in respect of the intrinsic value of the instruments in the amount of €922 thousand (before the related tax effect).

The intrinsic value reclassified to profit and loss in 2015 entailed a charge of €52 thousand.
Considering the hedges arranged at 31 December 2015, dollar depreciation of 5% would imply a cash inflow of €246 thousand in 2016. In contrast, dollar appreciation of 5% would imply a cash outflow of €12,291 thousand in 2016.

27.2Energy sale hedges:

The Group has written commodity swaps covering the price at which it sells its power output to the national electricity system (OMEL). The breakdown of the hedges outstanding at 31 December 2015:

Expiry	Amount (MWh)	Price range in euros
1H16	169,848	47.49/43.50
2H16	43,680	49.1

These instruments presented a positive fair value of €245 thousand at year-end 2015 (€999 thousand at year-end 2014) and is recognised in "Current financial assets – derivatives" in the consolidated statement of financial position with a balancing entry, net of the corresponding tax effect, in "Equity – Valuation adjustments".

A fair value loss of €1,578 thousand on energy sale hedges was reclassified to profit and loss in 2015 (2014: a gain of €39 thousand).
Considering the hedges arranged at 31 December 2015, an increase in electricity sales prices of 10% would imply a cash outflow of €1,005 thousand in 2016. In contrast, a 10% drop in electricity sales prices would result in a cash inflow of the same magnitude in 2015.

27.3 Interest rate swaps:

The Group actively manages its exposure to the interest rate risk deriving from borrowings taken out at floating rates, as detailed in note 6 above. The interest rate derivatives arranged by the Group and outstanding at year-end 2015 and 2014 are shown below:

31 December 2015

Thousands of euros	Fair value	Notional amounts at reporting date: 2016	2017	2018	2019	2020	2021
IRS - 50-MW project finance facility	7,259	66,227	58,923	51,255	43,482	35,711	27,398
IRS - 20-MW project finance facility	2,647	26,405	23,497	20,436	17,337	14,239	10,924

31 December 2014

Thousands of euros	Fair value	Notional amounts at reporting date: 2015	2016	2017	2018	2019	2020	2021
IRS - 50-MW project finance facility	7,957	66,965	60,750	54,043	47,074	40,109	-	-
IRS - 20-MW project finance facility	3,239	43,472	40,508	37,456	34,301	31,023	27,688	24,248

The table below provides the maturity analysis for the Group's interest rate derivatives at 31 December 2015. It is prepared on the basis of undiscounted cash flows.

	Thousands of euros		
	3 months - 1 year	1 - 5 years	Over 5 years
IRS - 50-MW project finance facility	2,090	5,491	205
IRS - 20-MW project finance facility	833	2,123	54

The interest rate swaps associated with the project finance facilities funding the 50-MW project in Huelva and the 20-MW project in Mérida qualified as accounting hedges at 31 December 2014.
This funding was refinanced on 31 July 2015 and the associated interest rate swaps were restructured to hedge interest rate risk under the new facility. The restructuring work triggered the discontinuation of the hedge accounting applied up until that juncture. As a result, the fair value loss on these instruments (€12,190 thousand), which was recognised in equity at the time of the restructuring work, was reclassified to profit and loss (this loss is recognised under "Change in the fair value of financial instruments"). The discontinuation of hedge accounting did not entail any cash outflows in 2015.
The new interest rate swaps have been designated as hedges of the new project finance facility as from that date.
In 2015, the Group reclassified €1,578 thousand of fair value losses (net) on these swaps to profit and loss (2014: fair value loss of €2,898 thousand).
Considering the hedges arranged at 31 December 2015, a 10% increase in the Euribor forward curve would imply a cash inflow of €79 thousand in 2016. In contrast, a 10% decline in the Euribor interest rate curve would result in a loss of the same magnitude in 2016.

27.4Equity swap:

The equity swap arranged by ENCE to service its "Special Bonus Plan for Executives for 2007–2011" expired during the first half of 2015. The Group recognised a gain of €942 thousand under "Change in the fair value of financial instruments" in the consolidated income statement in this respect in 2015 (2014: a loss of €1,326 thousand).

28.Tax matters

The balances receivable from and payable to the tax authorities at year-end 2015 and 2014 are shown below:

	Thousands of euros			
	31 December 2015		31 December 2014	
	Taxes receivable	Taxes payable	Taxes receivable	Taxes payable
Non-current:				
Deferred tax assets	70,831	-	81,588	-
Deferred tax liabilities	-	20,560	-	21,948
Total	**70,831**	**20,560**	**81,588**	**21,948**
Current:				
Income tax receivable and VAT payable	8,532	1,657	8,492	1,942
Current tax on profits for the year	845	-	303	94
Tax in respect of prior years	-	-	11,631	-
Electricity levy	-	3,062	876	3,039
Sundry taxes receivable from and payable to the tax authorities	617	2,340	379	3,668
Total	**9,994**	**7,059**	**21,681**	**8,743**

28.1 Regimes applied and tax groups

Group companies resident in Spain for tax purposes:

For income tax purposes, ENCE Energía y Celulosa, S.A. files its tax returns under the consolidated tax regime provided for in Chapter VII of Title VIII of the Consolidated Text of the Spanish Corporate Income Tax Act, as the parent of Tax Group 149/02, created in 2002. Application of this regime, on a perpetual basis unless expressly waived, means that the various companies included in this tax group (see below) do not file their taxes individually:

- Celulosas de Asturias, S.A.U.
- Silvasur Agroforestal, S.A.U.
- Norte Forestal, S.A.U.
- ENCE Investigación y Desarrollo, S.A.U.
- Ibersilva, S.A.U.
- ENCE Energía, S.L.U. and subsidiaries

The applicable statutory income tax rate is 30% in 2014, 28% in 2015 and 25% from 2016.

Group companies resident in Uruguay and Portugal for tax purposes:

For income tax purposes, the Group companies located in Uruguay pay income tax under the general tax on income from economic activities regime at a statutory rate of 25% of accounting income adjusted for applicable prevailing deductions, with the exception of Las Pléyades, S.A., which pays tax under the special financial investment companies tax regime at a rate of 0.3% of equity.

Group company Iberflorestal, S.A., meanwhile, pays income tax under the general Portuguese corporate income tax regime at a statutory rate of 23%.

Tax consolidation group

Taxable income is not determined on the basis of the Group's consolidated accounting profit but rather the individual taxable incomes of the companies comprising the tax group, determined in accordance with their respective individual tax regimes. To this end, the individual taxable income of the Group companies with tax residence in Spain is aggregated to arrive at the taxable income of Tax Group No. 149/02; tax losses deriving from non-resident companies cannot be offset for this purpose.

Regulatory changes

The tax regime applicable to the entities incorporated in Spain has been overhauled in the last three years.

The new regulations have the effect of improving certain aspects of corporate taxation. Specifically, they introduce a gradual reduction in the general statutory rate to 28% in 2015 (from 30% in 2014) and to 25% in 2016, as well as a new tax break, the capitalisation reserve, which will have the effect of reducing taxable income by up to 10% if certain requirements are met. Other measures have been designed to offset the resulting reduction in tax revenue: a temporary cap on the ability to utilise tax losses accredited in prior years, which has been set at 25% of taxable income in 2013-2015, 60% in 2016 and 70% from 2017, limits on the ability to deduct interest expense and elimination of the ability to deduct impairment losses on non-current assets for tax purposes, among others.

28.2Reconciliation of accounting profit/(loss) to taxable income/(tax loss)

The reconciliation of accounting profit/(loss) to tax income/(tax expense) in 2015 and 2014 is provided below:

Thousands of euros	2015	2014
Accounting profit (profit/loss before tax) (*)	67,038	(195,304)
Permanent differences:		
Arising in profit or loss	(1,906)	(1,397)
Arising in equity	(12)	(71)
Temporary differences:		
Arising during the year	14,851	67,182
Arising in prior years	(26,705)	(8,113)
Arising from reclassifications from equity	8,966	-
Consolidation adjustments	(254)	(817)
Utilization of tax losses	(16,946)	(929)
Taxable income / (tax loss)	**45,032**	**(139,449)**

(*) Profit before tax was generated exclusively by continuing operations

The temporary differences arise from the recognition of income and expense in different periods due to differences between prevailing accounting and tax legislation. A breakdown of these differences by nature is provided in section 28.4.

28.3 Reconciliation of accounting profit and tax expense

The reconciliation of accounting profit/(loss) to tax income/(tax expense) in 2015 and 2014 is provided below:

Thousands of euros	2015	2014
Accounting profit (profit/loss before tax)	67,038	(195,304)
Permanent differences arising in profit or loss	(1,906)	(1,397)
Elimination of the accounting profit of entities not resident in Spain	2,482	-
Consolidation adjustments and eliminations	(12)	-
Taxable income / (tax loss)	**67,602**	**(196,701)**
Tax payable / (receivable) before adjustments	**18,929**	**(59,022)**
Deductions and adjustments in respect of prior years	(2,258)	(5,779)
Impact of the change in tax rate	(847)	10,406
Tax effect of non-resident companies and other items	1,359	-
Tax expense /(income)	**17,183**	**(54,395)**

The breakdown of tax expense / (income) in 2015 and 2014:

Thousands of euros	**2015**	**2014**
Current tax and other movements	13,017	(47,080)
Deferred tax	3,319	(17,721)
Impact of the change in tax rate	847	10,406
Tax expense /(income)	**17,183**	**(54,395)**

28.4 Recognised deferred tax assets and liabilities

The reconciliation of the related consolidated statement of financial position headings at the beginning and end of 2015 and 2014 is as follows:

Deferred tax assets

2015	**Thousands of euros**				
	Balance 01/01/2015	**Increases**	**Decreases**	**Transfers & other**	**Balance 31/12/2015**
Deferred tax assets recognised in profit or loss:					
Non-current asset depreciation	9,088	-	(1,023)	110	8,175
Non-current asset impairment	8,830	1,731	(2,671)	343	8,233
Provisions	3,262	37	(2,657)	203	844
Employee commitments	831	432	(393)	286	1,156
Current-asset impairment	1,766	229	(1,255)	142	882
Interest expense (cap on deductibility)	-	1,733	-	(186)	1,547
Non-resident companies	1,148	19	(1,090)	115	192
Consolidation adjustments	(55)	-	(5)	-	(60)
Unused tax losses	49,957	-	(4,520)	(859)	44,578
Unused tax credits	3,823	-	(3,415)	2,700	3,109
	78,650	**4,181**	**(17,029)**	**2,854**	**68,656**

Deferred tax assets recognised in equity:					
Non-current asset impairment	-	-	-	2,239	2,239
Hedging derivatives (note 21)	2,938	-	(3,020)	18	(64)
	2,938	**-**	**(3,020)**	**2,257**	**2,175**
Total	**81,588**				**70,831**

2014	Thousands of euros					
	Balance 01/01/2014	**Increases**	**Decreases**	**Transfers and Other**	**Change in tax rate**	**Balance 31/12/2014**
Deferred tax assets recognised in profit or loss:						
Non-current asset depreciation	5,729	5,288	(111)	-	(1,818)	9,088
Non-current asset impairment	2,268	9,499	(77)	(1,094)	(1,766)	8,830
Provisions	3,897	2,338	(1,981)	(340)	(652)	3,262
Employee commitments	1,330	102	(445)	10	(166)	831
Current-asset impairment	580	2,118	-	(579)	(353)	1,766
Non-resident companies	347	128	335	338	-	1,148
Consolidation adjustments	(47)	-	(6)	(2)	-	(55)
Unused tax losses	19,161	40,546	(1,137)	585	(9,198)	49,957
Unused tax credits	-	-	-	4,588	(765)	3,823
	33,265	**60,019**	**(3,422)**	**3,506**	**(14,718)**	**78,650**
Deferred tax assets recognised in equity:						
Hedging derivatives (note 21)	2,292	507	-	452	(313)	2,938
Total	**35,557**					**81,588**

Management has recognised deferred tax assets in the statement of financial position as it believes it is probable that they will be realised (within a 10-year period at any rate). In making this judgement, management factored in the outlook for the Group's earnings, based on internal projections, as well as the tax rate expected to apply at the time of their realisation.

As provided in Spanish legislation, accredited unused tax losses can be offset against taxable income generated by the consolidated Tax Group No. 149/02 in successive years, as they do not prescribe. Accredited tax credits, meanwhile, which are mainly associated with environmental investments, must be utilised within 18 years.

Deferred tax liabilities

2015	Balance 01/01/2015	Increases	Decreases	Transfers & other	Balance 31/12/2015
	Thousands of euros				
Deferred tax assets recognised in profit or loss:					
Accelerated depreciation	2,027	-	(211)	22	1,838
Other	205	-	-	1,576	1,781
	2,232	**-**	**(211)**	**1,598**	**3,619**
Deferred tax assets recognised in equity:					
Revaluation of forest land (note 21)	19,319	-	2,244)	1	17,076
Hedging derivatives (note 21)	389	24	(582)	-	(169)
Consolidation and other adjustments	8	79	(248)	195	34
	19,716	**103**	**(3,074)**	**196**	**16,941**
Total	**21,948**				**20,560**

2014	Balance 01/01/2014	Increases	Decreases	Transfers and Other	Change in tax rate	Balance 31/12/2014
Deferred tax assets recognised in profit or loss:						
Accelerated depreciation	2,658	-	(226)	-	(405)	2,027
Other	1,780	797	(2,687)	357	(42)	205
	4,438	**797**	**(2,913)**	**357**	**(447)**	**2,232**
Deferred tax assets recognised in equity:						
Revaluation of forest land (note 21)	23,184	-	-	-	(3,865)	19,319
Hedging derivatives (note 21)	-	467	-	-	(78)	389
Consolidation and other adjustments	11		(6)	5	(2)	8
	23,195	**467**	**(6)**	**5**	**(3,945)**	**19,716**
Total	**27,633**					**21,948**

(*) The adjustment for the change in tax rate is recognised in profit and loss

28.5 Unrecognised deferred tax assets

The Group did not recognise certain deferred tax assets in 2015 and 2014, mainly corresponding to tax losses generated in Uruguay, in the amount of €4 million, as these companies are currently inactive.

28.6 Years open to inspection and tax inspections

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

29. Director and key management personnel pay and other benefits

The table below sets out the amounts recognised by the Parent in 2015 and 2014 in respect of remuneration accrued by its directors for discharging the duties intrinsic to their membership of the Board of Directors:

2015 - Director	Class of director	Thousands of euros Fixed remuneration	Per diems & other	Total
Juan Luis Arregui Ciarsolo	Proprietary	134	77	211
Retos Operativos XXI, S.L.	Proprietary	44	47	91
Pedro Barato Triguero	Independent	104	64	168
Fernando Abril-Martorell Hernández	External	44	37	81
José Guillermo Zubía Guinea	Independent	44	73	117
José Carlos de Álamo Jiménez	Independent	44	45	89
Pascual Fernández Martínez	Proprietary	44	47	91
Isabel Tocino Biscarolasaga	Independent	44	43	87
Javier Echenique Landiribar	Proprietary	44	51	95
Gustavo Matías Clavero	Independent	44	40	84
Víctor de Urrutia Vallejo	Proprietary	44	33	77
Mendibea 2002, S.L.	Proprietary	44	43	87
		678	**600**	**1,278**

2014 - Director	Class of director	Thousands of euros Fixed remuneration	Per diems & other	Total
Juan Luis Arregui Ciarsolo	Proprietary	129	87	216
Retos Operativos XXI, S.L.	Proprietary	39	37	76
José Manuel Serra Peris	Independent	17	45	62
Pedro Barato Triguero	Independent	39	33	72
Fernando Abril-Martorell Hernández	External	39	67	106
José Guillermo Zubía Guinea	Independent	39	67	106
José Carlos de Álamo Jiménez	Independent	39	33	72
Pascual Fernández Martínez	Proprietary	39	45	84
Isabel Tocino Biscarolasaga	Independent	39	29	68
Javier Echenique Landiribar	Proprietary	39	53	92
Gustavo Matías Clavero	Independent	39	41	80
Víctor de Urrutia Vallejo	Proprietary	25	19	44
Mendibea 2002, S.L.	Proprietary	25	18	43
		547	**574**	**1,121**

In 2015, the Parent also recognised €4,100 thousand in respect of all items of remuneration accrued by the members of its Executive Committee, including that paid for the chief executive duties carried out by Ignacio de Colmenares y Brunet under a service provision agreement (2014: €2,396 thousand). The 2015 remuneration figures include the exercise of 767,237 options over shares of ENCE Energía y Celulosa, S.A. that year on the terms established in the "Long-term Bonus Plan of ENCE, Energía y Celulosa, S.A. for 2010-15" (note 4.16).

There were no changes in the composition of ENCE's Board of Directors in 2015. In 2014, the Board's membership changed as follows: Victor Urrutia Vallejo and Mendibea 2002, S.L., the latter represented physically by José Ignacio Comenge Sánchez-Real, joined the board as proprietary directors, while José Manuel Serra Peris stepped down. Meanwhile, Juan Luis Arregui Ciarsolo ceased to perform executive duties in 2014.

The list of key management personnel in 2015 is as follows:

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

The Parent has not extended its directors any advances or loans.

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

Note that, as per the notifications provided in this respect by the members of the Board of Directors, no direct or indirect conflicts of interest arose during the reporting period on the part of the directors or their related parties vis-a-vis the interests of the Company, as defined in article 229 of Spain's Corporate Enterprises Act.

30.Related-party transactions

The Company entered into the following transactions with related parties in 2015 and 2014:

		Thousands of euros	
Related party	Item	2015	2014
Agroluan, S.L.	Services received	50	182
Grupo Foresta	Biomass	713	1,000
Grupo Foresta	Interest receivable	(25)	(22)

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

31.Environmental protection

Ence Energía y Celulosa has four Operations Centres located in Huelva, Navia, Pontevedra and Mérida, each of which holds the corresponding integrated environmental permit for the pursuit of its industrial activity and the generation of electricity from biomass.

As part of the total quality management (TQM) model, processes are carried out in keeping with management excellence, articulated around three cornerstones:

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

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

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

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

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

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

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

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

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

Ence's environmental management strategy seeks to go beyond mere compliance with prevailing legislative: Ence wants to set an example with its environmental management and record.

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

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

By way of example of what can be achieved with these environmental milestones, the pulp produced in Pontevedra and Navia carries the Nordic Swan seal. This is the official Scandinavian ecolabel, which was created in 1989 by the Nordic Council of Ministers representing Sweden, Denmark, Finland, Iceland and

Norway, with the aim of making a positive contribution to sustainable consumption. The goal of this ecolabel is to help consumers take purchasing decisions that respect environmental sustainability; this certificate is currently one of the most important in the world.

31.1PULP BUSINESS

Navia Operations Centre

At the Navia factory, a project was rolled out in 2015 to upgrade and fine-tune the facility's technology which will be completed during the first half of 2016. This initiative is delivering technical improvements in a significant number of productive processes and will result in an aggregate increase in capacity of 40,000 ADt which is expected to come online during the first half of 2016. This is 8% more than productive capacity in 2014.

The technological improvements introduced in 2015 are articulated around:

- Measures for reducing noise emissions in the vicinity of the facility
- Fine-tuning of the recovery furnace and increased capacity at the evaporator lines to improve black liquor combustion, thereby reducing NOx emissions
- New technology in the bleaching line, adding a Dual D sequence and increasing lignin extraction during the EPO sequence, reducing the consumption of chemical products in the process
- Fine-tuning of the pulp cooking and drying process to increase operational and energy efficiency
- Installation of a press filter to reduce dregs from the recovery boiler

As part of this effort to deploy best available techniques, a new project is being designed to reduce odour emissions from the facility's diffuse sources; this initiative will decrease the current impact by 85% and will be executed during the first half of 2016.

This will come on the heels of the improvements achieved in 2015, which resulted in a 93.7% reduction in emissions from channelled sources with respect to 2014, and extends the trend of ambitious and sustained annual improvements since the start of the "Zero odour" programme in 2011, since which time odour emissions have been slashed by 99.8%.

As for other emissions, the technical and operating improvements made to the recovery furnace drove a 13% reduction in NOx emissions and a 70% reduction in SO_2 emissions in 2015.

In addition, the operating improvements derived from the switch in lime kiln fuel from fuel-oil to natural gas were consolidated in 2015. The SO_2 project executed in 2014 had already delivered an initial 84% drop in the concentration of emissions; the operating improvements implemented in 2015, by means of application of the PDCA continuous improvement method, delivered a further 53% year-on-year cut in emissions.

The operating improvements, coupled with preventative facility maintenance, have also resulted in environmental improvements at the biomass furnace stack which have also implied a reduction in SO_2 emissions. The quality of the biomass fed into the process was also enhanced with the installation of a new biomass treatment and shredding facility.

As for liquid effluents, consolidation of the operating improvements and increased stability of the biological treatment plant drove a 16% improvement in wastewater chemical oxygen demand readings.

Significant action was taken on the noise pollution front in 2015 and this work will continue in 2016 under the umbrella of an ambitious and far-reaching project designed to execute the initiatives identified in the noise impact studies carried out by experts in this arena.

Environmental capital expenditure at the Navia factory totalled €859 thousand in 2015 (€858 thousand in 2014).

Pontevedra Operations Centre

The Pontevedra Operations Centre, as with the Navia factory, has set in motion the FARO project targeted at the redesign and reconfiguration of the facility's operations with the overriding goal of achieving excellence in terms of operational control. This work initially prioritised critical processes in the production area, albeit encompassing additional areas over the course of the year.

Work continued to reduce odour in the vicinity of the centre with the aim of delivering the "Zero odour" target. The improvements attained by means of the SDCA and PDCA methods, coupled with facility enhancements carried during the annual stoppage, enabled a year-on-year reduction (measured in minutes) at stationary sources of 50% and a reduction at diffuse sources of 70% in 2015.

The number of odour episodes has been slashed by 99% since the odour elimination project was rolled out in 2010, specifically from 140 minutes per day at the outset to under two minutes in 2015.

The actions contemplated in phase one of the environmental reliability plan were also completed in 2015 and were focused on the prevention of air emissions from the recovery furnace in the event of incidents; a new package of measures is planned for deployment in 2016 as part of phase 2 of this plan, this year focusing on the diluted and concentrated gas circuits.

The 2015 wastewater discharge readings confirm the Pontevedra Operation Centre's position as a sector benchmark in this respect. For example, chemical oxygen demand is 77% below the threshold recommended in the pulp and paper BREF paper. Meanwhile, it outperforms the BREF recommendations on suspended solids by 65%.

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

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

In 2015, the Company ran a tender, inviting the leading international players in wastewater treatment to bid for this project. Four companies have been selected to install the pilot plant which is due to be developed during the first quarter of 2016.

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

Environmental capital expenditure at the Pontevedra factory totalled €2,124 thousand in 2015 (€1,164 thousand in 2014).

Forestry

In 2015, Ence consolidated its position as a benchmark manager and supplier of forestry products through both its forest management companies and its forestry supply department, which is tasked with supplying timber and biomass to the Group's pulp production and power generation facilities. In all instances, its management practices and actions are governed by sustainability criteria, in turn guided by Spain's sustainable forest management and chain of custody standards.

This focus on sustainability and social and environmental responsibility in its forestry practices is enshrined in the Group's mission, vision and values and has materialised in specific policies which are conveyed to the professionals who work with it before work commences. This management approach is focused on ensuring forest asset longevity, minimising impacts, preserving structural and specific diversity, fostering multiple uses for goods and services, stimulating ongoing innovation, extending forestry in rural areas out of principle, actively engaging with stakeholders and promoting forest certification. These principles apply not only to own tracts (productive forest land for timber and biomass supply purposes and areas under conservation and protection), but also the forest land of third parties (purchase of standing timber and traders) by means of the forest certification requirements used by the Group's purchasing area. This commitment is evident in the gradual increase in the percentage of certified incoming timber in recent years, which has jumped from 42% and 6% in Navia and Pontevedra, respectively, in 2011, to 90% and 60%, respectively, by the end of 2015.

Consolidation of these policies has permitted, framed by responsible management and sustainability criteria, the production of close to 164,000 m^3 of debarked wood and 83,000 tonnes of biomass, coupled with total investment of close to €4 million in owned forest assets, including the generation of almost €1.55 million in rents and royalties and €850,000 of forestry care work to guarantee longevity and sustained yields. These figures consolidate ENCE's forestry management effort as a source of rental income, intangible environmental benefits and, on the timber production front, as most of it boasts dual certification, an effective contributor to the Group's strategy of becoming a pulp producer fully in sync with market needs and demands.

From a technical standpoint, the key milestones in 2015 were:

•Implementation of the SAP IT system throughout the entire Forestry Area

•The environmental recovery project carried out at the Rubín marsh in Cantabria

•Classification of the eucalyptus plantations burned down in Galicia in 2006 for recovery analysis purposes

On the purely environmental front, it is worth highlighting investments of as much as €350,000 in fire and pest control efforts, as well as ongoing biodiversity awareness initiatives. To this end, meetings were held with external experts (including the University of Huelva) in order to continue the process of inventorying and classifying forest land with high conservation value. Note in this respect that of the 69,868.77 hectares managed by the Group, a total of 16,340.60 hectares correspond to protected land subject to specific monitoring activities designed to safeguard its natural heritage and prevent unwanted impacts, thereby guaranteeing its sustainability.

A large part of the Group's efforts in this business were focused on forest expansion work. Ence's commitment to the sector translates into the sharing of its know-how in the areas of forest research, plant growing, forest cover management, pest control and forest certification.

As a result, in addition to the substantial economic activity deriving from the purchase of standing timber and engagement with wood suppliers, which represent 95% of the total of just over three million cubic metres of supply in Spain (616,000 million cubic metres of which correspond to self-supply and the rest to suppliers), it is worth highlighting the efforts made to invigorate the sector, which translate into training talks, pest control facilitation agreements, seminars and round table events with interested parties, encouragement of forestry cataloguing efforts and the development of forest certification. On these three fronts it is worth highlighting milestones such as the sessions held by the "Forum for the Sustainability of the Eucalyptus Tree in Andalusia"; the taskforces set up with different governments to promote the cataloguing rules adapted for the reality of the eucalyptus; and extension of the policy of supporting and stimulating forest certification.

The thrust of the external activity in 2015 was largely concentrated on the biomass front, supplying the power plants with over 860,000 tonnes for almost €40 million.

All of these initiatives, beyond the mere purchase of timber, help to strengthen the eucalyptus sector and reinforce its articulating structures and competitiveness.

On the occupational health and safety front, the OHSAS certifications which encompass the entire forestry team were renewed. It is worth highlighting the introduction of remote control wrist devices for manual harvesting equipment in order to increase power saw and other equipment operator safety.

From a technical standpoint, the two key milestones in the harvesting arena in 2015 were:

•Implementation of mobility devices so that subcontractors can report supply data.

•Initiation of the SIX SIGMA project.

Sustainable forest management certification continues to guide the Group's management. The scope of FSC-certified acreage rose again in 2015, to 38,147 hectares. Ence is working to have all of its forest land certified under the two benchmark standards by 2019.

In a bid to fortify its social commitment in the forest management arena, at the end of 2105, Ence signed a collaboration agreement with the COPADE Foundation as part of the *Madera Justa* [Fair Wood] programme, with the aim of becoming the first European company to obtain triple FSC+PEFC+*Madera Justa* certification during the first half of 2016. This program also contemplates progress by Ence at the corporate level on fair trade practices, to which end a series of specific milestones has been established for 2016.

Beyond the management of its own forest land, Ence continued to foster sustainable forest management techniques and practices by the professionals it works with, consolidated existing certification groups and created a new integrated certification model which combines environmental management criteria (dual PEFC+FSC certification) with social criteria (promotion of forest owner associations with adjacent land known as *cotos redondos*). This effort makes money for landowners and entrenches advanced forest management models. The dual certification model, implemented in July 2015, paid off in 2015, with coverage percentages rising from 4% - 11% (the Pontevedra and Navia factories, respectively) at the start of the year, to 61% - 76% by December 2015. The priority for 2016 is to foster the creation of land owner associations (*cotos redondos*) and diminish the incidence of small, standalone plots.

The overall percentage of certified wood coming into the factories increased considerably, from 63% in July to 85% in December.

In terms of new European policies, Ence has continued to implement and develop its due diligence system, taking its legal compliance policy a step further by demanding that all its wood and biomass suppliers subject to the EU Timber Regulation have a due diligence system and that those in Galicia be additionally registered in RESFOR, the regional government's registry of forest companies. To complement this effort, it has been implementing a supplier audit system in parallel which will be rolled out in January 2016. All suppliers must make statements about the origin of their wood and submit themselves to the audit programme with the aim of mitigating source-related risk.

On the forestry logistics front, timber market adjustments in 2015 drove an increase in the average supply distance with respect to the Pontevedra factory from 98km to 125km; at the Navia factory, which was not affected by these market changes, the distance was decreased from 105km to 103km.

It is also worth noting the effort made to increase the number of firms assisting with logistics tasks. For example, in Cantabria, the number of firms increased from 188 to 211, so that the work was spread out better. The most revealing statistic is the growth in the number of items of logistics equipment (which includes trucks, trailers and cranes), which increased by 12.5% in 2015 to 793.

31.2 ENERGY BUSINESS

Huelva Operations Centre

At the Huelva facility, 2015 was marked by consolidation of the biomass-fuelled power generation business at the HU-40 and HU-50 plants.

In terms of this facility's wastewater performance, the volume discharged into the Tinto River fell considerably, while the main readings tracking the quality of the effluents discharged, such as total organic carbon (TOC) and suspended solids, evidenced clear-cut improvement with respect to 2014 levels.

As for air emissions, all readings comply with the limits stipulated in the Integrated Environmental Permit.

Lastly, in relation to waste generation and management, the treatment of sand and ash from the biomass furnaces as sub-products or secondary raw materials for another process has enabled their management mostly for the production of aggregates in the case of the sand and agricultural recovery in the case of the ash. As a result, the volume of sand managed as waste has fallen, with just 17.6% sent to landfills; the remaining 82.4% was used as a sub-product for making aggregates.

As for the ash generated by the electrostatic precipitators in the biomass furnaces, all of this waste was recovered for use in agricultural land.

Mérida Operations Centre

2015 was marked by the start-up of operations at the Mérida facility, having obtained the required environmental permit granted by the Extremadura regional government's Department of Agriculture, Rural Development, Environment and Energy in January.

The wastewater readings were at all times within the limits established in the Integrated Environmental Permit. The biomass furnace's air emissions are also comfortably within the stipulated limits.

As for noise emissions, a plan has been rolled out for the installation of acoustic insulation and the replacement of mechanical parts in the cooling towers. The furnace's side walls are also in the process of being fully sealed. This plan is slated for completion during the first quarter of 2016.

An Environmental Monitoring Programme to Control Risks to Fauna was implemented in 2015 with the goal of ensuring that operation of the plant, and all of the activities that this entails, is being conducted in keeping with the environmental limits imposed in the environmental impact study and declaration with respect to birds and animals.

A plan for the reforestation of the plant's outer enclosure was also set in motion in 2015 with the aim of making the facility more aesthetically pleasing.

Lastly, the Mérida plant is collaborating, along with other companies in the region, with the EC-approved LIFE ICIRBUS project whose aim is recovery of the waste generated at water treatment plants and from burning biomass. This project is highly rated by the European Commission as it encompasses all the players in the circular economy, from waste-generating companies to research centres which add value to this waste and finally the companies that use the recovered waste.

32.Events after the reporting date

32.1Pontevedra concession

On 20 January 2016, the Spanish Ministry of Agriculture, Food and the Environment agreed to extend the concession entitling ENCE to occupy the land on which its Pontevedra complex is located. The extension has been awarded for 60 years, i.e., until 8 November 2073.

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

1. €30.2 million to be put towards unlocking significant efficiency improvements at the factory, in turn driving growth in pulp manufacturing and renewable energy generation capacity;

2. €27 million to be earmarked towards environmental improvements, €15 million of which will be invested in a facility that will recover the bulk of the water generated in the process, thereby minimising discharges, and €12 million of which will be invested to eliminate odour, noise and steam and ensure environmental performance over and above legal requirements.

3. €4 million to be devoted to designing and executing a landscaping project for the factory in Lourizán which will significantly enhance its visual impact on the Pontevedra Bay area.

The extension includes an annual royalty of €1.6 million.

32.2Renewable energy capacity auction

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

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

Appendices

Statement of financial position at 31 December 2015 and 2014 and 2015 and 2014 income statements for the PULP and ENERGY businesses

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY BUSINESS AT 31 DECEMBER 2015 AND 2014

Thousands of euros	Year-end 2015				Year-end 2014			
	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL
NON-CURRENT ASSETS:								
Intangible assets	12,573	40	-	12,613	10,967	1,634	1,097	13,698
Property, plant and equipment	457,719	184,211	-	641,930	452,278	191,716	2	643,996
Investment properties	-	-	-	-				
Biological assets	83,658	4,235	-	87,893	85,792	4,601	(146)	90,247
Non-current investments in group companies				-			-	-
Equity instruments	170,542	-	(170,542)	-	37,770	-	(37,770)	-
Loans to group companies	63,307	27,445	(90,752)	-	144,717	46,801	(191,518)	-
Other financial assets	2,704	323	-	3,027	2,631	324	1	2,956
Deferred tax assets	61,103	9,728	-	70,831	66,946	14,642	-	81,588
	851,606	**225,982**	**(261,294)**	**816,294**	**801,101**	**259,718**	**(228,334)**	**832,485**
CURRENT ASSETS:								
Non-current assets held for sale	48,144	2,194	-	50,338	74,244	3,831	(696)	77,379
Inventories	34,474	5,741	-	40,215	33,552	4,369	(2)	37,919
Trade and other receivables							-	
Trade receivables, third parties	70,161	42,352	-	112,513	64,760	34,735	936	100,431
Trade receivables, related parties	27,092	7,329	(34,421)	-	24,531	8,283	(32,814)	-
Other receivables	9,393	63	-	9,456	937	-	(937)	-
Receivable from public authorities	8,945	90	-	9,035	9,279	468	-	9,747
Income tax receivable from the tax authorities	959	-	-	959	11.934	-	-	11.934
Current financial assets:			-				-	
Derivatives	128	117	-	245	847	152	-	999
Other financial assets	8,696	3	-	8,699	8,509	4	-	8,513
Cash and cash equivalents	93,895	65,670	-	159,565	73,102	325	1	73,428
Other current assets	615	(143)	-	472	732	321	268	1,321
	302,502	**123,416**	**(34,421)**	**391,497**	**302,427**	**52,488**	**(33,244)**	**321,671**
TOTAL ASSETS	**1,154,108**	**349,398**	**(295,715)**	**1,207,791**	**1,103,528**	**312,206**	**(261,578)**	**1,154,156**

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

Thousands of euros	Year-end 2015 Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL	Year-end 2014 Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL
EQUITY:								
Equity attributable to owners of the parent	**630,260**	**108,499**	**(170,539)**	**568,218**	**580,226**	**5**	**(37,303)**	**542,928**
TOTAL EQUITY	**630,260**	**108,499**	**(170,539)**	**568,218**	**580,226**	**5**	**(37,303)**	**542,928**
NON-CURRENT LIABILITIES:								
Bonds and other marketable securities	243,108	-	-	243,108	242,089	-	-	242,089
Bank borrowings	30,000	113,527	-	143,527	300	97,660	-	97,960
Grants	11,207	47	-	11,254	10,985	48	-	11,033
Derivative financial instruments	665	6,982	-	7,647	-	8,103	-	8,103
Other financial liabilities	6,687	-	-	6,687	7,486	-	-	7,486
Deferred tax liabilities	20,304	256	-	20,560	21,864	295	(212)	21,947
Non-current provisions	8,498	762	-	9,260	8,667	2,480	-	11,147
Non-current borrowings from group companies	27,439	63,223	(90,662)	-	46,796	144,722	(191,518)	-
	347,908	**184,797**	**(90,662)**	**442,043**	**338,187**	**253,308**	**(191,730)**	**399,765**
CURRENT LIABILITIES:								
Bank borrowings	2,764	12,049	-	14,813	7,617	8,787	-	16,404
Derivative financial instruments	2,999	2,924	-	5,923	4,280	3,093	-	7,373
Other financial liabilities	1,356	-	-	1,356	2,386	-	(1)	2,385
Trade and other payables								
Trade payables, third parties	149,826	12,647	(383)	162,090	145,409	11,548	(631)	156,326
Trade payables, related parties	7,327	26,765	(34,109)	(17)	8,283	23,825	(32,108)	-
Income tax payable	57	-	-	57	94	-	-	94
Other payables to public authorities	5,283	1,719	-	7,002	6,906	1,742	1	8,649
Other current liabilities	21	8	(29)	-	318	-	194	512
Current provisions	6,306	-	-	6,306	9,822	9,898	-	19,720
	175,939	**56,112**	**(34,521)**	**197,530**	**185,115**	**58,893**	**(32,545)**	**211,463**
TOTAL EQUITY AND LIABILITIES	**1,154,107**	**349,408**	**(295,722)**	**1,207,791**	**1,103,528**	**312,206**	**(261,578)**	**1,154,156**

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ENCE ENERGÍA & CELULOSA

ENCE ENERGÍA Y CELULOSA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT BY BUSINESS FOR 2015 AND 2014

	Year ended 31 December 2015				Year ended 31 December 2014			
Thousands of euros	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL	Pulp Business	Energy Business	Adjustments & Eliminations	CONSOLIDATED TOTAL
Continuing operations:								
Revenue	569,771	97,006	(2,865)	663,912	599,168	103,809	(15,431)	687,546
Gain (loss) on hedging transactions	(874)	(756)	-	(1,630)	38	1	-	39
Changes in inventory of finished goods and work in progress	4,800	-	-	4,800	(10,145)	-	-	(10,145)
Cost of sales	(251,570)	(23,371)	1,957	(272,984)	(336,359)	(51,122)	8,034	(379,447)
GROSS PROFIT	**322,127**	**72,879**	**(908)**	**394,098**	**252,702**	**52,688**	**(7,397)**	**297,993**
Own work capitalised	5,403	4,123	-	9,526	4,708	3,177	(1,692)	6,193
Other operating income	13,814	(3)	(7,816)	5,995	15,446	-	(8,998)	6,448
Government grants taken to income	2,606	-	-	2,606	4,745	941	-	5,686
Employee benefits expense	(62,526)	-	-	(62,526)	(87,035)	-	-	(87,035)
Depreciation and amortisation charges	(50,680)	(8,300)	-	(58,980)	(52,633)	(9,525)	2,679	(59,479)
Depletion of forest reserve	(5,582)	(2,865)	265	(8,182)	(7,851)	-	(1,805)	(9,656)
Impairment of and gains/(losses) on disposals intangible assets and PP&E	5,932	1,933	747	8,612	(74,757)	(36,298)	9,880	(101,175)
Other operating expenses	(123,430)	(41,937)	7,453	(157,914)	(198,995)	(38,949)	10,345	(227,599)
OPERATING PROFIT/(LOSS)	**107,664**	**25,830**	**(258)**	**133,236**	**(143,670)**	**(27,966)**	**3,012**	**(168,624)**
Finance income:								
From interests in equity instruments in group companies	-	-	-	-	-	-		-
From marketable securities & other financial instruments:				-				-
Group companies	4,617	4,320	(8,937)	-	5,470	2,685	(8,155)	-
Third parties	341	3	-	344	1,064	1	1	1,066
Finance costs:				-			-	-
Related-party borrowings	(4,320)	(4,617)	8,937	-	(2,685)	(5,470)	8,155	-
Third-party borrowings	(44,509)	(9,412)	-	(53,921)	(21,721)	(6,310)	(1)	(28,032)
Change in fair value of financial instruments	(2,868)	(11,122)	-	(13,990)	(1,326)	-	-	(1,326)
Exchange differences	1,379	(9)	-	1,370	1,614	(2)	-	1,612
Impairment of and gains/(losses) on disposal of financial assets	3,434	-	(3,434)	-	17,000	-	(17,000)	-
NET FINANCE COST	**(41,926)**	**(20,837)**	**(3,434)**	**(66,197)**	**(584)**	**(9,096)**	**(17,000)**	**(26,680)**
PROFIT/(LOSS) BEFORE TAX	**65,738**	**4,993**	**(3,692)**	**67,039**	**(144,254)**	**(37,062)**	**(13,988)**	**(195,304)**
Income tax	(16,361)	(611)	(211)	(17,183)	46,189	8,801	(595)	54,395
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**49,377**	**4,382**	**(3,904)**	**49,855**	**(98,065)**	**(28,261)**	**(14,583)**	**(140,909)**
PROFIT/(LOSS) FOR THE YEAR	**49,377**	**4,382**	**(3,904)**	**49,855**	**(98,065)**	**(28,261)**	**(14,583)**	**(140,909)**

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ENCE
ENERGÍA & CELULOSA

ENCE Energía y Celulosa, S.A. and subsidiaries

Group Management Report for the year ended 31 December 2015

Organisational structure

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

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

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

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

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

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

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

Business activity

ENCE has articulated its activities around two core businesses: PULP production and the generation of ENERGY from renewable sources at standalone power plants.

The PULP business encompasses the production of eucalyptus pulp (short fibre), the generation of electricity in connection with the production process (co-generation and generation fuelled by lignin and biomass) and the related forestry business.

ENCE is one of Europe's largest producers of BHKP pulp from eucalyptus timber. It currently has annual production capacity of 0.96 million tonnes between its mills in Navia (Asturias) and Pontevedra. Seventy-nine per cent (by sales volume) of its eucalyptus pulp was exported to Europe (the European market accounted for 96% of sales volume factoring in Spain), the world's largest pulp market and a net importer.

Integrated within the pulp business, with installed capacity of 112 MW, ENCE co-generates and generates renewable energy from tree biomass waste that is not used in the pulp manufacturing process, i.e., the lignin and forest waste that cannot be used as inputs.

In the forestry sector, the timber and biomass supply management model is underpinned by continually-improving forest management techniques, the diversification of sources of supply towards small land owners and enhancement of the value chain (from standing timber to collection and transportation) with a view to bringing down overall costs and guaranteeing the sustainability of our wood supplies.

The renewable energy business, for its part, is fuelled by forestry and agricultural biomass and is independent of the pulp-making process. It has aggregate installed capacity of 111 MW in the wake of start-up of the newest generation plant in Mérida, a 20-MW facility, in 2014. This new power plant, along with the other two in Huelva, a 50-MW facility commissioned in 2013 and a 41-MW facility, now independent but initially part of the Huelva pulp production complex, comprise the Group's second core line of business.

The two businesses, the production of PULP and generation of ENERGY, benefit from ENCE's solid positioning in the Spanish forestry market, which guarantees the supply of timber and biomass, primarily from third-party sources, essential to long-term business sustainability.

ENCE's management strategy is focused on the development of a competitive pulp business, tapping the opportunity for cash flow generation and protecting the Company's financial situation from cyclical volatility, coupled with pursuit of growth in biomass-fuelled power generation capacity by means of developing new projects.

In the Pulp Business management is focused on cost cutting to guarantee mill competitiveness via efficiency gains and increased availability. The total quality management programme, which is designed to boost operating efficiency, balance maintenance capital expenditure requirements at the Group's facilities and drive significant improvements in productivity levels and capacity utilisation rates, was introduced in 2011. In 2014-2015, the Group rolled out a capex programme of over €40 million designed to boost cost efficiency at the Pontevedra and Navia plants by making them more competitive. In addition, in 2015, the Company engaged the services of specialist consultants in order to ensure delivery of the production efficiencies embedded in the investments made. Lastly, work is underway to increase capacity at the Navia factory by 40,000 tonnes between 2015 and 2016.

The revenue derived from the generation of power has been increasing in recent years, accounting for 15% of total revenue and 18% of EBITDA in 2015, injecting stability and long-term visibility into the Group's ability to generate cash. This strategy began with the construction of independent biomass power generation stations plants in Huelva and Mérida; the construction and financial risks associated with these projects were reduced by means of turnkey arrangements and project finance facilities with terms of over 10 years. The 41-MW plant was added to this business in 2014 after pulp production in Huelva was discontinued.

The Company presented its 2016-2020 Business Plan in November 2015. The key strategic targets are: to increase generation capacity by 260 MW, add 184,000 tonnes to pulp production capacity and cut pulp production costs by 9%, with the ultimate aim of increasing EBITDA by around €100m in the next five years. The Plan envisages €662 million of capital expenditure during the projection period. Having been awarded the extension of the concession for use of the site on which the Pontevedra complex is located for 60 years, ENCE's management is now fully focused on this facility's development.

Without considering the expansion programmes, maintenance capex was steady at close to €40m per annum between 2007 and 2013. In the wake of the Huelva closure, the ongoing capex requirement will drop to under €30m due to the reduction in industrial and forestry assets.

ENCE's financial policy is conservative, marked by a strategic commitment to keeping leverage low while maintaining sufficient liquidity levels, tailored to the unique characteristics of each of the Group's two core businesses. Against this backdrop, the maximum tolerated leverage ratio for the Pulp Business - measured in terms of net debt to recurring mid-cycle EBITDA - is 2.5x, a level deemed consistent with the cyclical nature of this business; the leverage ceiling set for the Energy Business, meanwhile, is 5x (net debt to recurring EBITDA), as revenue visibility in this business is higher. This financial policy of conservative leverage coupled with ample liquidity will underpin business sustainability in the long term.

Business performance and financial results

Business environment and outlook

The macroeconomic situation was shaped by a slowdown in growth in emerging economies in 2015, particularly in the second half of the year, prompting the IMF to cut its forecasts for global growth.
The most important factor was slower-than-expected growth in China, which is in the midst of recalibrating its economy by fostering internal consumption and services in an attempt to reduce its dependency on investment and manufacturing activity. As a result, the prices of commodities associated with infrastructure, buoyed in the past by sharp growth in Chinese demand and production, corrected sharply last year, dragging down growth in the emerging economies whose exports are largely dependent on these commodities.
Energy prices also tumbled on expectations that growth in global oil production will continue to outpace growth in consumption. Although the impact on oil-importing nations is positive as it lowers their energy bills, the questions raised about the outlook for global growth, the deleveraging effort and current surplus capacity in many sectors have mitigated the expected increase in investment deriving from the attendant energy savings. In contrast, exporting nations found themselves under financial duress as their budgets are fed mainly from oil and gas sales and this spilled over to growth in internal demand. This situation has tied their hands in terms of rebalancing supply and demand which historically has been achieved by cutting production quotas.
Although the developed economies continued to show signs of economic recovery throughout the year, the outlook for growth going forward has been clouded by the prospect of a relatively hard landing in China and the impact of the start of rate tightening in the US.
Higher yields on US bonds and increased financial volatility fuelled dollar appreciation. This, coupled with the correction in commodity prices and the global slowdown, meant that inflation in the developed economies is trending below the levels initially targeted by the central banks, facilitating extension of expansive monetary policy in the form of ultra-low rates and growth in the money supply.
Against this backdrop, the forecasts for global growth in 2016 and 2017 have been shaved from 3.6% and 3.8% to 3.4% and 3.6%, respectively, shaped mainly by the slowdown in emerging economies. In contrast, the forecasts for growth in Spain have been revised upwards from 2.5% and 2.2% to 2.7% and 2.3% in 2016 and 2017, respectively. However, this outlook could be affected by heightened political instability in the wake of the recent general elections, which is slowing investment at home and abroad.
Pulp prices, more closely correlated to global growth in consumption than investment in infrastructure, extended the upward trend initiated in September 2014 until October 2015, when they hit their high for the year of $811/tonne. The price increases were reinforced by euro depreciation against the dollar, driving euro prices to above €650/tonne, a level not seen since 2010 when a tsunami temporarily halted production at Chile's pulp plants.
Demand strength in Asia, low inventory levels and the price gap that had opened up relative to long fibre prices, paved the way for successive price increases to over $810/tonne.
Although the Guaiba mill (Brazil) commissioned its 1.3 million tonne capacity expansion during the second quarter, the impact on supply was mitigated by the new facility's inevitable learning curve, as well as the capacity taken off-stream by ENCE in Huelva. In the latter part of the year, weaker demand in Asia drove a slight correction in prices, which ended the year at $789/tonne.

Business overview and financial results

After a challenging 2014, 2015 proved to be an excellent year, thanks to implementation by ENCE's management of the Competitiveness Recovery Plan, buoyed by the strength of both pulp prices and the dollar.

Group revenue was €663.9m, down just 3% from 2014, a year in which the Huelva complex was producing pulp until the last quarter.
EBIT was €133.2m, compared to a loss at the operating profit level of €168.6m in 2014. The sharp recovery in earnings in 2015 was underpinned by higher prices coupled with lower costs. The year-on-year comparison benefits from the adverse impact in 2014 of the regulatory changes on revenue recognition (changes which triggered the closure of the Huelva mill).
Capital expenditure amounted to €65m, with just 10% earmarked to investment in biological assets for reforestation and improvement to forest assets earmarked for pulp production, having paralysed investment in energy crops and taken the decision to discontinue pulp production in Huelva. Industrial capital expenditure totalled €58.8m, €13.6m of which was earmarked to expanding capacity at the Navia mill, while €9.9m went to unlocking efficiency gains at this same facility.
Group equity stood at €568.2m at 31 December 2015, which is equivalent to 47% of total assets.
In the research and development arena, the Group continued to make progress on its programmes for improving the genetic make-up and performance of the eucalyptus for pulp production purposes, for innovating and enhancing pulp-making processes and products, for the mechanical transformation of timber and new product engineering, these assets being capitalised as intangible assets and duly itemised in the notes to the consolidated annual financial statements.

Pulp Business

Revenue from pulp sales at the Navia and Pontevedra mills rose by 1% year-on-year from €479m to €483m, although total pulp revenue was 3% higher in 2014 than in 2015 in light of production at the Huelva mill for the first three quarters of that year.
Prices in euros were 24% higher; although average prices rose just 5% year-on-year, the dollar appreciated 17% against the euro in 2015. The impact of currency appreciation trickled down to prices and margins, as Ence's costs are incurred in euros. In addition, production costs declined by 11% as a result of investments made to boost efficiency and the general cost-cutting effort undertaken in the past 12 months.
Revenue from co-generation and power generation related to the Pulp business was 2% higher at the Navia and Pontevedra facilities in 2015, a trend related directly to the increase in pulp production at these mills; however, as before, total revenue was lower year-on-year due to the impact of ongoing production in Huelva for most of 2014.
In the forestry business, revenue declined by 33% to €13.3m, shaped by lower sales of timber to third parties.

Energy Business

Revenue in the Energy Business - from the standalone biomass power plants - rose by 66% to €97m. This sharp topline growth is attributable to growth of 39% in sales volumes thanks to a higher year-on-year contribution by the 20-MW Mérida, a facility commissioned in April 2014, and the inclusion of the 41-MW Huelva plant as a standalone facility in the wake of discontinuation of pulp and co-generation activities at that industrial complex. Average unit revenue firmed by 19% to €158/MWh against the backdrop of higher pool prices.

Environmental disclosures

The most important matters of an environmental nature – the environmental protection goals, the policy that defines the Group's environmental management strategy, the resources at its disposition for delivering these objectives, the environmental management systems and how they work and the regulatory framework governing these policies – are detailed in note 31 to the accompanying annual financial statements.

Employees

Recruitment

The hiring process is a priority component of the Group's human resources management and the criteria underpinning its recruiting process are divided into different phases. The first phase is to define the job description and the essential requirements for the position. Later, during the job interview, mutual commitments are established in keeping with the Company's values. During the subsequent hiring phase, specifically through the induction training programme, the new hires learn about the organisation and its

values and principles, as well as receiving initial job training. The final stage of the selection process entails on-the-job monitoring. Job performance and team/company commitment and engagement are assessed by means of follow-up interviews.
The merit-based hiring process is based on objective criteria such as the acquisition of technical and management skills and alignment with ENCE's values.
In 2015, the Group went to lengths to reinforce staff expertise at the Navia and Pontevedra operations centres, hiring highly-qualified professionals with experience in the sector with the overriding goal of aligning employees with the ongoing efforts to boost competitiveness and cost efficiency and prepare to tackle looming challenges. The result was seven new hires in Pontevedra, another seven in Navia and four new hires in the corporate Sales, Continuous Improvement and Pulp R&D Departments.

Also in 2015, an average of 51 young interns participated in ENCE's Talent Programme, a workplace initiative, carrying out work practice in different areas of the firm, including the Madrid offices (the corporate Finance, Sales, Communication, Internal Audit Departments, etc.) and the Operations Centres, where they assisted with the operational side of the pulp, energy and forestry activities as well as these centres' corporate services tasks.

Workplace climate/motivation

Management believes it is important to know what ENCE's employees think and their level of satisfaction at the Company in order to design new initiatives and adapt them to their expectations and needs.
The workplace climate survey is designed to understand the level of employee commitment in each of the Company's markets and departments, to track trends in sentiment and to design action plans on the basis of the feedback received with the aim of boosting employee satisfaction.
This survey was conducted for the last time in 2012. The best-rated attributes included Organisation (degree of engagement and connection with the Company), Commitment with the Company (clarity in respect of the organisational structure and job responsibilities and assessment of the resources available for job performance) and Immediate boss (communication, acknowledgement, accessibility, delegation, etc.).
One of the cornerstones of Ence's management model is its people. This is why it is important to measure their level of engagement by assessing their level of participation in the improvement initiatives underway at the Company. It is similarly important to formally thank them for this extra effort.

The number of people participating in these initiatives increased by 50% in 2015 and they were thanked for their contributions at 10 'appreciation' ceremonies and five breakfast meetings with senior management.

Health and safety

Employee safety and health in the workplace is one of ENCE's strategic human resource management priorities. The goal is to foster cultural change that results in safer operations and processes.
This cultural change is based on the following principles:

- Integration of workplace safety into daily activities and all operations under the slogan, "safety is the top priority"
- Leading by example and the palpable commitment of management
- Systematic evaluation of safety-related risks and behaviours as the first step in preventing accidents
- Registration and analysis of all workplace accidents and incidents, learning lessons and providing resources for preventing recurrence
- Correction of all unsafe actions taking a "zero tolerance" approach
- Investment in ongoing employee safety training programmes
- Selection of safety-certified suppliers and subcontractors combined with monitoring of ongoing compliance with ENCE's safety rules
- Devotion of time to safety, taking the approach that safety is the responsibility of each and every employee and cannot be shirked.
- Incorporation of safety and ergonomics principles at the drawing board phase
- Provision of the resources and means for eliminating sources of risk
- Rollout of safety tools at all levels of the organisation

A preventative culture entails individual and collective attitudes and skills and behaviour patterns that affect and influence workplace health safety and, therefore, drive prevention. The Group has a series of Workplace Safety Observations that help ensure consistent safety attitudes and behaviours by identifying safe and unsafe practices, correcting the latter and communicating them firm-wide. There are also Standard Operating Procedures that establish how to correctly perform tasks and prevent mistakes or unsafe practices. Workplace safety inspections and audits are also carried out regularly.

ENCE has an OHSAS 18001-certified occupational health and safety management system that enables it to reduce accident rates and increase productivity, comply with health and safety legislation and foster a culture of safety by integrating prevention into the Company's overall system and getting all employees engaged in the quest to continually improve the firm's health and safety record.

A notable milestone on the health and safety front in 2015 was completion during the last quarter of definition of the Workplace Health and Safety Training Plans for 2016 and 2017, which will imply a substantial increase in the number of training hours received by staff covered by collective bargaining agreements.

Training

The overriding goal of the professional training programme is to encourage personal and professional development at all levels with a view to improving employee integration in the Company and employee commitment to the organisation's strategic goals.

The main training initiatives undertaken by Ence in 2015 can be classified into the following categories:

- Health and safety: these training initiatives are designed to encourage safe work practices and to integrate safety at all levels of the organisation. Here it is worth highlighting the completion during the last quarter of 2015 of definition of the Workplace Health and Safety Training Plans for 2016 and 2017, which will imply a substantial increase in training hours for staff covered by collective bargaining agreements.

- The TQM model and management tools: here the idea is to orient management around the customer with a view to increasing customer satisfaction and delivering continual improvement in the Company's quest for ever more efficient operations and more refined management tool utilisation capabilities.

- Environmental management: the aim of these initiatives is to raise employee awareness of the need to care for and respect the environment and to use limited resources responsibly.

- Development of leadership skills: here the aim is to nudge the firm towards a more participative management style. Against this backdrop, in 2015 the Company launched a new programme called "Driving your development", which defines Ence's leadership style. Some thirty 30 middle and senior managers participated in the course, receiving 641 training hours in total.

- Language training, primarily Spanish classes targeted at new hires in Navia and Pontevedra originating from South America.

- Technical and management skills training: the purpose of these courses is to equip workers with process and technology related skills specific to their trade or area of expertise and the knowledge they need to develop in their respective professions (hydraulics and pneumatics, mechanical, instrument, process knowledge and skills, etc.). The Group also designed an operations and maintenance Technical Training Plan which will be executed between 2016 and 2019. This Plan defines the career paths for staff covered by collective bargaining agreements.

Last year the organisation also rolled out Green Belt courses for skilled workers and middle managers. This initiative will continue in 2016 when it will be fleshed out with other courses such as Six Sigma and PMP Certification training.

Health and safety, quality management and environmental management training is provided continually at all levels of the Company. Management skills training is targeted at individuals holding key positions and professionals who manage teams as well as people singled out for career development programmes. Technical training is mainly targeted at process operators.

Aggregate training hours totalled 15,922 in 2015, which translates into an average of 19.04 training hours per employee.

Diversity

The Equality Plan promotes effective application of the principle of non-discrimination between men and women, guaranteeing the same job and career development opportunities for both genders at all levels of the organisation. Although ENCE belongs to a sector in which female representation has traditionally been low, at year-end 2015, over 17.67% of the workforce was female (year-end 2014: 17.42%).

As part of its policy for preventing harassment, ENCE has pledged to prevent, avoid, remedy and discipline potential instances of harassment as part of its non-negotiable commitment to guaranteeing the dignity, integrity and non-discriminatory treatment of all employees and equal opportunities for all. In 2015, three workplace harassment cases were investigated.

The Group's remuneration policy is likewise designed to guarantee non-discrimination in pay, compensating employees competitively based on market criteria and a variable component based on objective job performance evaluation informed by equality and efficiency criteria.

Management-employee relations

Management-employee relations are based on dialogue and joint responsibility, the idea being to foster a labour relations climate that is propitious to working towards efficiency and productivity gains. To this end, a number of meetings were organised during the year to brief the various works committees about projects such as the Pöyri and Falconi initiatives, the annual stoppages and also to follow up on HR management indicators.

Elections took place in 2015 to renew the members of the works committees at the Navia and Pontevedra mills and the Pontevedra offices.

The members of the Pension Plan Oversight Committee were also re-elected.

The collective bargaining agreement covering staff at the Pontevedra head office was signed during the first quarter.

Liquidity

Net cash flows from operating activities totalled €111m in 2015, compared to €9m in 2014, thanks to higher pulp prices, higher revenue from electricity sales and the collection in 1Q15 of €12m of refundable corporate tax paid on account in 2014 (refundable as a result of the losses generated by the Huelva closure and offset against tax expense this year). The year-on-year comparison reveals an increase in trade receivables related to the increase in pulp prices.

figures in €M	4Q15	3Q15	Δ%	4Q14	Δ%	2015	2014	Δ%
Consolidated profit/(loss) for the period before tax	**18.8**	**17.3**	**9%**	**11.6**	**63%**	**67.1**	**(195.3)**	**n.s.**
Depreciation and amortisation charge	17.7	17.6	0%	15.7	13%	67.2	69.1	(3%)
Finance income/costs	30.9	20.9	48%	7.7	304%	66.6	28.4	134%
Increase / decrease other deferred income/costs	(13.9)	(0.1)	n.s.	(40.1)	(65%)	(8.2)	132.7	n.s.
Adjustments of profit for the year-	**34.8**	**38.4**	**(10%)**	**(16.8)**	**n.s.**	**125.6**	**230.3**	**(45%)**
Trade and other receivables	4.2	(16.1)	n.s.	5.0	(15%)	(22.1)	13.9	n.s.
Current financial and other assets	(0.9)	0.8	n.s.	(0.6)	49%	(0.2)	2.4	n.s.
Trade and other payables	3.3	(12.9)	n.s.	(18.4)	n.s.	(9.2)	(41.9)	(78%)
Inventories	(3.5)	(2.3)	51%	17.9	n.s.	(4.1)	24.5	n.s.
Changes in working capital-	**3.2**	**(30.5)**	**n.s.**	**3.9**	**(18%)**	**(35.6)**	**(1.2)**	**n.s.**
Interest paid / received	(22.9)	(9.1)	153%	(4.0)	470%	(47.2)	(24.1)	95%
Income tax recovered (paid)	(8.5)	(0.0)	n.s.	(0.2)	n.s.	**0.7**	**(0.2)**	n.s.
Other cash flows from operating activities-	**(31.4)**	**(9.1)**	**246%**	**(4.2)**	**n.s.**	**(46.4)**	**(24.3)**	**91%**
NET CASH FLOWS FROM OPERATING ACTIVITIES	**25.3**	**16.1**	**58%**	**(5.5)**	**n.s.**	**110.6**	**9.5**	**n.s.**

Cash used in investing activities amounted to €27m in 2015 vs. €60m in 2014, a year-on-year drop of 55% driven by proceeds from disposals closed in 2015. In 2015, the Group closed the sale of forest land for €28m (generating a gain of €11m) and collected €0.1m upfront on additional sales agreed (32 hectares) totalling €1m. At the reporting date, €50m of assets at the Huelva plant and nearby eucalyptus plantations have been reclassified as "Non-current assets held for sale".

figures in €M	4Q15	3Q15	Δ%	4Q14	Δ%	2015	2014	Δ%
Property, plant and equipment	(15.8)	(23.7)	(34%)	(15.5)	2%	(54.0)	(55.7)	(3%)
Intangible assets	(2.7)	(0.7)	308%	(1.4)	95%	(5.2)	(4.1)	26%
Other financial assets	0.0	(0.2)	n.s.	(0.0)	n.s.	(0.1)	(0.0)	344%
Investments	**(18.5)**	**(24.6)**	**(25%)**	**(16.9)**	**9%**	**(59.2)**	**(59.8)**	**(1%)**
Disposals	**24.4**	**4.2**	**477%**	**-**	**n.s.**	**32.3**	**0.1**	**n.s.**
NET CASH FLOWS FROM INVESTING ACTIVITIES	**5.9**	**(20.4)**	**n.s.**	**(16.9)**	**n.s.**	**(27.0)**	**(59.8)**	**(55%)**

Net cash inflows from financing activities amounted to €2m in 2015, compared to an inflow of €20m in 2014 (which was due to the maturity of a €45m investment in 12-month deposits made in 2Q13 using the proceeds from the Uruguay disposal).

Gross borrowings increased by €38m from year-end 2014, mainly due to the arrangement of two €15m bank loans, the renegotiation of the biomass project finance facilities (which resulted in an increase in the related drawdowns of €30m) and the refinancing of the company's long-term bond issue (+€7m). Other cash outflows included a €36m dividend payment and a €3m payment upon maturity of the equity swap, which was offset by proceeds from the sale of own shares totalling €4m.

figures in €M	4Q15	3Q15	Δ%	4Q14	Δ%	2015	2014	Δ%
Proceeds from and payments for equity instrument	**(0.1)**	**-**	**n.s.**	**(1.6)**	**(94%)**	**3.9**	**(5.9)**	**n.s.**
Bonds and other marketable securities (net)	18.0	-	n.s.	(0.0)	n.s.	(7.0)	-	n.s.
Increase/(decrease) in bank borrowings (net)	(7.9)	42.0	n.s.	(3.5)	129%	44.6	1.1	n.s.
Other financial liabilities	(0.9)	0.9	n.s.	0.0	n.s.	(3.3)	(0.5)	n.s.
Proceeds from and repayments of financial liabilitie	**9.2**	**42.9**	**(79%)**	**(3.4)**	**n.s.**	**34.3**	**0.6**	**n.s.**
Dividends and payments on other equity instrumer	**(11.0)**	**(0.0)**	**n.s.**	**-**	**n.s.**	**(35.8)**	**(19.4)**	**85%**
Translation differences	**0.1**	**(0.0)**	**n.s.**	**(0.1)**	**n.s.**	0.1	0.0	**n.s.**
Fixed-term deposit	-	-	n.s.	-	n.s.	-	45.0	(100%)
Other cash received from (used in) financing activit	**-**	**-**	**n.s.**	**-**	**n.s.**	**-**	**45.0**	**(100%)**
NET CASH FLOWS FROM FINANCING ACTIVITIES	**(1.8)**	**42.9**	**n.s.**	**(5.1)**	**(65%)**	**2.5**	**20.4**	**(88%)**

In all, the Group's cash balance increased by €86m to €160m in 2015; this figure rises to €168m factoring in short-term financial investments.

figures in €M	4Q15	3Q15	Δ%	4Q14	Δ%	2015	2014	Δ%
INCREASE/DECREASE IN CASH AND CASH EQUIVALEI	**29.5**	**38.6**	**(24%)**	**(27.5)**	**n.s.**	**86.1**	**(30.0)**	**n.s.**

Key risks and sources of uncertainty

To ensure compliance with and the effectiveness of the mitigating actions taken, ENCE monitors and controls the company's compliance-related risks on an ongoing basis by assigning specific roles and responsibilities to ENCE's risk management officers in this respect:

The risk management officers are tasked with executing the related action plans and controls in order to mitigate the risks identified within their respective purviews.

Throughout the year the Internal Audit function closely monitors the level of progress on executing the risk mitigation plans and is responsible for providing the Audit Committee with regular updates on these matters.

The Audit Committee is in charge of proposing the risk mitigation plans (risk controls and action plans) assigned to the various identified risks to the Board of Directors. It also conducts periodic oversight of the level of execution of the various action plans and the effectiveness of the controls put in place with a view to managing the risks to which the organisation is exposed.

Lastly, the Board of Directors is responsible for ensuring the integrity and overseeing the correct working of ENCE's risk management system, monitoring to this end both the risks identified and the controls and action plans agreed to manage the threats to delivery of the Company's strategic objectives.

This general *modus operandi* ensures that all those participating in executing, reporting, monitoring, controlling and supervising the risk management measures taken are duly coordinated.

ENCE's enterprise risk management system, fully implemented within the organisation and operational since 2011, takes into consideration the possible threats to delivery of the strategic objectives of all of the ENCE Group's businesses (pulp, energy and forestry) as well as other activities undertaken by the organisation's various support areas.

This system encompasses the entire ENCE Group, understood as each and every one of the companies in which Energía y Celulosa, S.A. holds, directly or indirectly, a majority shareholding, a majority of the voting rights or in which it has appointed or has the power to appoint the majority of the members of their boards of directors, giving it effective control over the investee.

The risk management system is designed to identify, assess, prioritise, address and monitor situations that pose a threat to the Company's activities and objectives. The system contemplates threats to the various types of objectives established by the organisation. Specifically it refers to objectives classified as:

›Strategic

›Operational

›Financial Information and Reporting

›Compliance

The risks addressed by the risk management model are in turn classified as follows:

›Environmental Risks

›Risks associated with Decision-Making Information

›Financial Risks

›Organisational Risks

›Operational Risks

›Criminal Risks

›Tax Risks

Ence's risk appetite varies depending on the activities performed and its risk tolerance levels are contingent upon ensuring that rewards and potential risks are fully understood before decisions are made, to which end it establishes reasonable risk management measures as required.

Ence analyses each situation based on the risk-reward trade-off. This analysis contemplates multiple factors including strategy, stakeholder expectations, prevailing legislation, the environment and third-party relations.

›Ence takes a zero-tolerance stance on any situation which could compromise the health or safety of its employees.

›Ence's approach is to minimise its exposure to situations related with compliance with the laws and regulations applicable to Company, particularly in respect of the impact of its operations on the environment or its facilities' surroundings, the Group's reputation in the eyes of others and business sustainability.

›The Company has a team of external advisors and expert in-house staff who lay down the guidelines for ensuring compliance with tax requirements so that it assumes no risk whatsoever in this arena.

›Ence's risk appetite for situations related to product research, development and innovation can be described as moderate, the aim being to provide solutions that full satisfy its customers' needs so that the Company remains a benchmark in the pulp market.

›In addition, aware of prevailing economic troubles, Ence is committed to the pursuit of financial discipline such that it can control the organisation's overall debt and maintain enough liquidity to ensure its ability to service its payment obligations and fund its priority investments. Against this backdrop, its risk appetite for speculative financial trades is low.

›Nevertheless, a significant percentage of Ence's transactions are exposed to the exchange rate between the dollar and the euro. Ence, knowledgeable of the prevailing economic situation and trends in the rate of exchange between these two currencies, has defined a low risk tolerance strategy in this arena, managing its currency exposure rigorously in keeping with the guidelines set by the Executive Committee of the Board of Directors and the Finance Department, as warranted.

Elsewhere, following effectiveness of Spanish Law 1/2015 (of 30 March 2015), amending the Penal Code and regulating in greater detail the criminal liability of legal persons, in 2015, Ence implemented a Crime Prevention Risk Management System which includes a plethora of measures and controls designed to prevent or at least mitigate to the extent possible the risk of commission of any form of crime at the organisation and ensure the legality of all actions taken by the Company's staff and executives in the course of discharging their professional duties.

The chief risks to delivery of the organisation's fundamental objectives and the associated response plans for mitigating their potential impact are detailed in this section:

Target: Financial discipline

In complex economic environments, such as that in which ENCE does business and operates, demands in terms of business profitability and development tend to increase. Against this backdrop, ENCE is aware of the need to impose financial discipline so that it is capable of maintaining the ability to finance potential investments within reasonable leverage thresholds. Delivery of this objective is exposed to the following risk factors:

a)PULP PRICE VOLATILITY

Pulp prices are formed in an active market. Trends in pulp prices have a significant influence on ENCE's revenue and profits. Global pulp prices have been volatile in recent years, fluctuating significantly over short periods of time, as a result of continual imbalances between supply and demand in the pulp and paper industries. A significant decline in the price of one or more pulp products could have an adverse impact on the organisation's revenue, cash flows and net profit.

To mitigate this risk factor, first and foremost, ENCE has taken and continues to introduce measures to reduce its production costs. In addition, ENCE has a Global Risk Committee (Derivatives Committee) which is tasked with continually monitoring the pulp market on account of its highly cyclical nature. This Committee is in constant contact with financial entities with the aim of arranging, if necessary and the prices are right, financial hedges and/or futures in order to mitigate potential fallout from pulp price volatility.

b)EXCHANGE RATE VOLATILITY

Revenue from the sale of pulp is exposed to the trend in the dollar/euro exchange rate. Insofar as the Company's cost structure is denominated in euros, potential changes in the rate of exchange between the two currencies can have an adverse effect on revenue.

The Global Risk Committee, also the main body tasked with controlling this risk factor, monitors the currency markets and the trend in the dollar/euro exchange rate periodically with the aim of arranging financial hedges to mitigate currency exposure if necessary.

c)TRADE CREDIT RISK, PULP BUSINESS

In the pulp market is it possible that the odd customer, due to the adverse performance of its own business, could delay or fail to make payments on the terms agreed on orders fulfilled by ENCE.

ENCE has taken out a credit insurance policy, which has been renewed until 31 December 2016, that covers, depending on the country in which the customer is located, between 80% and 90% of balances receivable. This insurance policy assigns credit limits according to the creditworthiness of the customer and covers virtually all of the Group's pulp sales. Under the policy, pulp customer-specific credit limits cannot be overstepped.

Elsewhere, to mitigate the credit risk posed by financial investments, the Group stipulates that counterparties must be banks with high credit ratings and establishes maximum investment/underwriting limits that are reviewed periodically.

d)LIQUIDITY AND CAPITAL RISK

Adverse conditions in the debt and capital markets could make it hard or impossible for the Group to raise the funding needed in the course of its business operations or to execute its 2016-2020 Business Plan.

This is one of the risk factors monitored most closely by the ENCE Group. To mitigate this risk, it has established a series of key financial targets:

1. Guaranteed business continuity in any pulp price scenario.

2. Support for the growth plans in the various business segments by means of a solid capital structure and adequate liquidity level.

3. Leverage targets (based on net debt) tailored for each business unit's revenue volatility profile. Against this backdrop, the leverage cap set for the Pulp Business is 2.5 times recurring EBITDA, the latter derived using mid-cycle pulp prices and average exchange rates. The leverage cap established for the Energy Business is 5 times.

4. Diversified and tailored sources of financing for each business. At present, this means tapping the capital markets opportunely for the Pulp Business and using bank-provided project finance in the Energy Business.

Each of the Group's two businesses is financed and managed separately and optimally in light of their unique characteristics. The debt of each is non-recourse to that of the other and there are no cross-guarantees.

The Group's Finance Department draws up a financial plan annually that addresses all financing needs and how they are to be met. Funding needs for the most significant cash requirements, such as forecast capital expenditure, debt repayments and working capital requirements, as warranted, are identified sufficiently in advance.

There are also policies establishing the maximum amount of equity that can be committed to projects under development before the associated long-term financing has been arranged.

e)REGULATORY CHANGES (INCLUDING TAX REGULATIONS)

In light of the reforms undertaken by the Spanish government in recent years, it is feasible that the authorities will make further changes to current tax regulations that could directly affect ENCE and its earnings, such as corporate and/personal income tax changes or reforms.

To mitigate this risk, ENCE has a team of advisors and experts who, together with the Company's in-house tax experts, have drafted internal rules for tax compliance and guidelines for minimising exposure to risk in this respect. However, because this is an exogenous risk factor over which ENCE has little influence, the teams follow the main tax-related developments closely in order to be ready to react whenever they may materialise.

Target: Enhancing the Company's Productive Capacity

ENCE uses the most environmentally-friendly technology possible in all its production processes and uses total quality management (TQM) methodology to boost its competitive positioning and the quality of its products. However, the Group's maintenance, refurbishment and investment plans could affect the correct operation, performance and/or useful lives of its pulp-making machinery and equipment and its productive facilities.

This target is exposed to factory obsolescence risk. In the absence of a minimum investment plan to address facility obsolescence, the firm cannot guarantee delivery of the factories' targets and the mills' pulp-making installations, machinery and equipment could become impaired.

In order to manage the risks falling under the umbrella of this strategic objective, Ence works to reduce the relative age of its machinery, equipment and facilities by means of three specific lines of initiative: (i) revision of the public works supporting its facilities, disposing of idle equipment; (ii) new investments to address any areas for improvement detected; and (iii) the design of maintenance programmes to guarantee efficient production.

Target: Decommoditisation of the Pulp Produced by ENCE

ENCE attempts to differentiate its products from those of its competitors while building a globally recognised brand in parallel. Here the main risks include the risk of not being able to stock the products its customers are looking for or not being able to meet customers' expectations in terms of quality.

Ence also attempts to maximise its products' added-value by using certified timber. Here the threat is a shortfall of certified timber of the standard generally accepted in the global pulp market, mainly timber certified in accordance with the Forest Stewardship Council (FSC) standard.

The strategy adopted to satisfy customers' needs is to reduce risk by means of a customer complaints/claims management system. As well as reinforcing the Technical Assistance Department, the Company has shored up its salesforce in number and in terms of skills with a view to identifying customers' specific needs in order to factor them into the current product range.

With respect to the availability of FSC-certified wood, ENCE mitigates this risk by means of adequate control over supplier management, increased purchases of standing timber, and articulation within ENCE of a sustainability department focused on helping third parties to get their timber certified.

Target: Minimisation of Cash Cost

In the volatile environment in which ENCE does business, given the intrinsic characteristics of its businesses and the prevailing economic crisis, the Company has set itself the priority of making its operations more efficient by minimising its cash cost.

Several situations could threaten delivery of this objective: inflation in the cost of acquiring chemicals, fuel, gas or industrial supplies, transportation costs, strike action, the economic fallout from sector and environmental regulations and technological developments on the part of its competitors. Meanwhile, the price of timber can also fluctuate as a result of changes in the balance of supply and demand in the regions in which the factories are located.

ENCE attempts to mitigate the risk of price changes by having the Procurements Department periodically monitor the performance of its main suppliers with a view to taking the corresponding action (search for alternative products, identification of more competitive goods and services, enhancement of the firm's bargaining power and additions to the pool of suppliers) in the event of significant incidents. The risk of a shortfall of timber supply in the regions in which the Group's factories are located is managed mainly by means of reliance on alternative markets, usually with higher logistics costs, an increased market presence via standing timber purchases, contingency plans and inventory buffers to guarantee business continuity.

To mitigate the risk of third-party strikes that could affect ENCE, the Group has drawn up supplier communication plans that anticipate these situations so as to enable timely identification of alternatives. A specific joint management-work policy has been defined to address the risk of strike action by carriers. Meanwhile, management and control has been enhanced by means of the provision of mobile computer devices to carriers.

The primary measure taken to reduce the potential cost of specific environmental regulations is to remain in ongoing contact and dialogue with the main stakeholders (mainly the various government offices and sector/environmental associations) with a view to ensuring adequate oversight of the Group's environmental permits and the corresponding paperwork.

Lastly, in order to control the risk of superior technological development by competitors, management closely follows what its rivals are doing on the technology front, learning about emerging technologies and production process improvements with a view to assessing their suitability/feasibility in respect of the Company. ENCE's technical experts likewise work continually on alternatives for incorporation into its productive processes with a view to further differentiating its product from that of its competitors.

Target: Increasing ENCE's Market Share

One of ENCE's priorities is to increase the market share commanded by its pulp products, namely to sell higher volumes of pulp to a greater number of customers. However, certain developments could threaten delivery of this objective, such as a deterioration in contractual sales terms, a shift in customers' production mixes, a contraction in demand for its products and evolving market preferences.

The Strategy Department contributes to development of the Marketing Plan in order to design the plans for increasing the Group's presence and enhancing its positioning in the European market which materialise in initiatives for (i) increasing the customer base in order to reduce concentration risk; (ii) differentiating ENCE's products via plans to enhance the properties and qualities of its pulp; and (iii) improving customer service.

In parallel, management continually monitors market trends in respect of pulp preferences. In addition, the production and sales teams work closely with ENCE's customers to ensure that the pulp it sells meets or surpasses their needs.

Target: Streamlining of Post-Production Logistics

Once the product is ready, it is crucial to deliver it to the end customer as cost-effectively as possible and on the contractual terms established in the related sales agreements. Two specific situations could threaten delivery of this objective: stockouts and shipping costs.

End product stockouts can occur as a result of *ad-hoc* technical incidents in the productive process (breakdowns, bottlenecks, etc.) resulting in lower than initially planned product availability. This situation can lead to the failure to deliver within the agreed-upon deadlines, causing damage to the end customer and to Ence's reputation, as well as generating costs deriving from contract non-performance. Moreover, it can lead to order cancellations, so that Ence is left with higher stock levels.

To minimise this risk, the business unit reviews the production, sales and logistics plans as a whole in order identify potential shortfalls and devote the resources needed to address them. Sales and end product stock levels are also monitored by means of the corresponding scorecards and supervision of trends in key production and logistics variables.

As for shipping costs, ENCE's strategy is to bear the cost of any variation in shipping costs with respect to quotes provided.

Target: Minimisation of the Impact of our Operations on the Environment

Generally speaking, ENCE's pulp business is carried out in industrial facilities in which a number of different raw materials and pieces of machinery and equipment interact in a manner that generates risks that are intrinsic to all industrial activities.

ENCE is firmly committed to minimising all risky activities that could have adverse ramifications for its natural surroundings, the environment or the communities where it does business. The main threats to delivery of this objective include potential accidental emissions of contaminating particles, possible accidental spills and potential noise or aesthetic contamination as a result of its industrial activities.

The Company is strategically committed to reducing the environmental impact of its business operations by means of its enterprise risk management model. In 2015, the Group continued to invest to make its facilities more environmentally-friendly.

Target: Business Continuity

One of ENCE's key objectives is that of maintaining its business operations and availing of all the measures needed to guarantee the continuity of these operations and all supporting activities. Generally speaking, the main threats in this respect include natural catastrophes and disasters, adverse meteorological conditions (drought, frost, etc.), unexpected geological conditions and other factors of a physical nature, fires, floods or any other emergency situation that could affect ENCE's productive and storage facilities.

Because of the diverse range of risks in this arena, ENCE takes individual actions to address each risk factor with a view to preventing them from materialising and/or mitigating their impact in the event they do: fire safety training, insurance policies, preventative inspections, surveillance and control of business operations and a corporate policy for controlling the main pests to which the Group's biological assets are exposed.

ENCE's factory in Pontevedra is built on an area of land used subject to a government concession arrangement granted under article 66 of Spain's 1988 Coastal Act. The concession term ends in 2018. The inability to renew this concession could have a material adverse effect on the Company's operations.

The key measure taken in this respect has been to apply to have the concession extended, as provided for in Law 2/2013 on coastal protection and sustainability, which had the effect of amending the Coastal Act, requesting the maximum extension allowed under this new legislation, namely 60 years from when the extension application is filed. ENCE is in ongoing contact with the authorities involved and is pursuing the corresponding legal actions in parallel.

The assets located on land held under concession are currently depreciated over the shorter of their remaining useful life and the term of the concession agreement. An increase in the concession term would accordingly reduce the depreciation charge forecast for 2016 by approximately €8.5 million.

Target: Guaranteeing Worklife Quality and Workplace Health and Safety

ENCE is aware of the importance of providing a workplace that guarantees the best conditions in terms of occupational health and safety, guided by stringent compliance with prevailing legislation in Spain. Certain situations could pose a threat to delivery of this objective as some jobs come with intrinsic risks, with the attendant health or safety ramifications for the employees performing them.

To minimise this risk the Group has accident prevention plans predicated on safety training, the maintenance of integrated health and safety management systems and certification to benchmark standards such as ISO, OSHAS and FSC. In parallel, it has drawn up contingency plans for specific situations to ensure safety compliance in the field.

Going forward the plan is to continue to implement the accident prevention plans, including an action plan for preventing/reducing accidents, mainly through employee training initiatives and adequate oversight of the plans' effectiveness and any associated new requirements. Lastly, there are plans to roll out overall equipment effectiveness (OEE) initiatives to make harvesting safer and more cost effective.

Target: Regulatory and Reporting Compliance

The new pulp and paper sector Best Available Techniques References (BREF) documents are expected to take effect in 2017. Adopters have one more year for full adaptation to the new regulations. It is expected that the new BREF requirements will be more stringent in terms of production and emissions in light of process types, geographic location and local environmental conditions, triggering the need for new investments and control systems.

The strategy employed to tackle this risk factor is two-fold. Firstly, ENCE staff members have engaged with the government, key sector associations and other stakeholders and participated in establishing the definitive standard requirements so that all the players' views could be taken into account.

In parallel, the most important investments required to adapt to the new regulations are reflected in the organisation's current Industrial Investment Plan.

In addition, following effectiveness of Spanish Law 1/2015 (of 30 March 2015), amending the Penal Code and regulating in greater detail the criminal liability of legal persons, in 2015, Ence implemented a Crime Prevention Risk Management System which includes a plethora of measures and controls designed to prevent or at least mitigate to the extent possible the risk of commission of any form of crime at the organisation and ensure the legality of all actions taken by the Company's staff and executives in the course of discharging their professional duties.

Target: Tax Risk Control

The Audit Committee monitors the Company's tax-related risks with a view to assisting the Board with its task of determining tax risk management and control policy.

Ence has a dedicated tax division and receives specific tax counselling to ensure its in-house guidelines guarantee compliance with prevailing tax regulations, framed by zero risk tolerance in this arena.

Events after the reporting date

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

R&D activities

Sustainability and continuous improvement are two of the cornerstones underpinning the ENCE Group's activities and its R&D effort is of vital importance to delivering these strategic goals. In 2015, the Group carried out research work on the forestry, industrial (production of pulp and energy) and environmental fronts.

In the forestry area it is worth highlighting the completion last year of the project initiated in 2013 called "Study of the productive potential of Eucalyptus hybrids using ferti-irrigation, water rationalisation methods and sap analysis", in which the Group's modern forest nurseries, equipped with the latest technology for species development, cultivation and enhancement, played a crucial role.

On the industrial front, the Group executed projects oriented at continual improvement of the pulp production process such as: "VARKRAFT: Study of the impact of the main continuous kraft cooking variables on the performance and quality of pulp"; projects related to the recovery of the waste and sub-products deriving from the productive process, such as the "Generation of fertilisers from gypsum" and "LIGNO-SPREAD: Recovery of lignin derived from black liquor in the paper sector in new competitive and environmentally-sustainable products" projects; and ongoing execution of the project co-funded by the European Commission under the seventh Framework Programme (FP7), "CASCATBEL: CAScade deoxygenation process using tailored nanoCATalysts for the production of BiofuELs from lignocellullosic biomass". It is worth noting that both the CASCATBEL and LIGNO-SPREAD projects (the latter awarded funding as part of the 2015 edition of the Spanish regional research grant initiative, FEDER-INNTERCONECTA, with ENCE as lead consortium member) fit strategically with the process underway at the ENCE Group to reconvert its production plants into biorefineries.

Elsewhere, in 2015, ENCE embarked on what it has dubbed Project FARO with the mission of carrying out a far-reaching review of operating processes in the pulp business with a view to boosting efficiency, increasing mill availability and achieving operational control excellence. It is being advised on this process by a top-rated pulp sector consultancy firm.

In the environmental arena, the "RECOEMIPAP: Development of a pioneering odour emission control and reduction system for paper plants" and "INVBACTMAN: Research into the bacterial load in natural springs and their effects on pulp manufacture" projects stand out.

Lastly, it is worth noting that the ENCE Group not only has in-house staff and facilities devoted to these activities but also maintains ongoing relationships with various research centres and universities. It is also a member of several public and private institutions and forums which play a decisive role in determining the thrust of the R&D effort in the short and long term, such as the European Bio-based Industries Consortium and the Spanish technology platforms, Bioplat and Biovegen; the ENCE Group works proactively within these platforms to foster cooperation among the major technology players and research bodies.

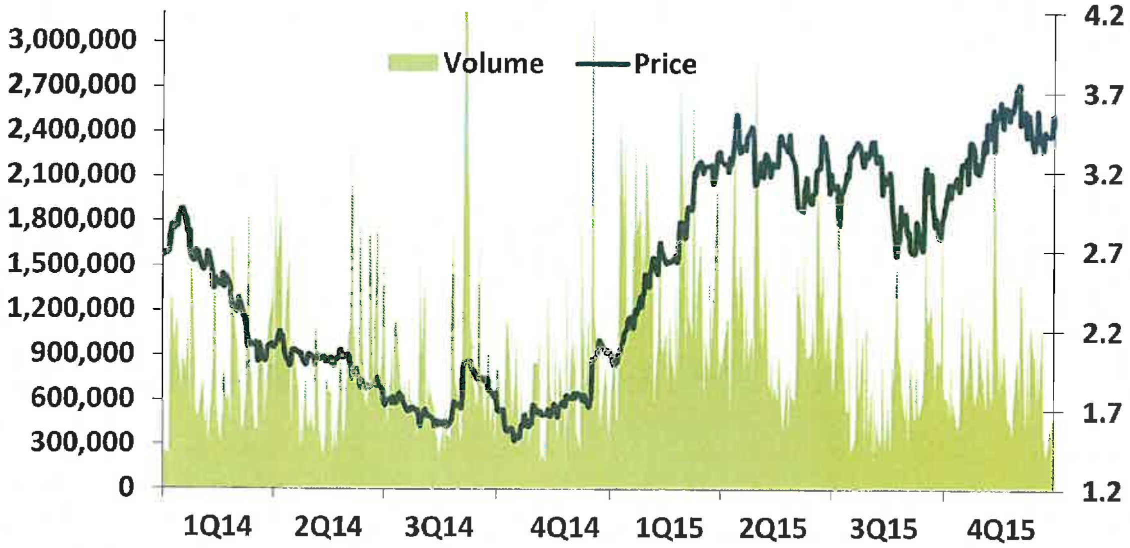
Purchase-sale of own shares

The disclosures regarding the acquisition and sale of own shares in 2014 are provided in note 21.7 to the accompanying consolidated financial statements.

Miscellaneous information

Share price performance

The share price gained a noteworthy 69% in 2015, outperforming the Spanish and European stock markets by 76% and 65%, respectively.



Source: Thomson Reuters

	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15
Average daily volume (shares)	808,674	878,515	829,628	790,434	1,382,498	1,094,473	805,633	780,649
Ence performance	(23%)	(13%)	(3%)	17%	60%	(7%)	(6%)	21%
Ibex 35 performance	4%	6%	(1%)	(5%)	12%	(7%)	(11%)	(0%)
Eurostoxx performance	2%	1%	(0%)	(2%)	18%	(8%)	(9%)	5%

Note: Ence's share price performance has been adjusted for the €0.08 per share dividend paid on 11 July 2014 and the €0.10 per share dividend paid on 8 May 2015; it has not been adjusted for the in-kind dividend paid on 21 July 2014, which had the effect of increasing the total shareholder return by 3%.

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

Dividend payments

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

Credit ratings management

In addition to having its shares publicly traded, the Group has issued €250 million of 5.375% 7-year bonds. Under the scope of this issue, two international credit ratings agencies issued an opinion on the creditworthiness of the Group as a whole and of its bond issue. The current issuer and issue credit ratings assigned by Standard&Poors and Moody's are BB-/BB- and Ba3/B1, respectively.

Corporate governance

The Annual Corporate Governance Report is part of the Group Management Report and can be downloaded from the securities market regulator's website (www.cnmv.es).

The consolidated financial statements and management report of ENCE Energía y Celulosa, S.A. and its subsidiaries for 2015, prepared under the IFRS adopted by the European Union, were authorised for issue by the Board of Directors of the Parent on 12 February 2015. The consolidated financial statements and accompanying notes span 99 sheets of ordinary paper (the financial statements numbered from 1 to 5 and the accompanying explanatory notes numbered from 6 to 99), while the management report spans 21 sheets (numbered from 1 to 21). All of the above-listed sheets have been witnessed by the Board's Secretary and this last sheet has been signed by all the Parent's Directors.

In addition, for the purposes of article 8.1.b of Spanish Royal Decree 1362/2007, of 19 October 2007, in relation to the annual financial disclosures by ENCE Energía y Celulosa, S.A. and its subsidiaries in respect of 2015, which disclosures include the pertinent consolidated financial information, the undersigning Company directors make the following statement of responsibility: "to the best of their knowledge, the 2015 financial statements, which have been prepared in keeping with applicable accounting standards, provide a fair view of the equity, financial position and performance of the Company and its consolidated entities taken as a whole and the management report includes a fair analysis of the required disclosures".

Juan Luis Arregui Ciarsolo	Ignacio de Colmenares y Brunet
Javier Echenique Landiribar	José Carlos del Álamo Jiménez
José Guillermo Zubia Guinea	Gustavo Matías Clavero
Pascual Fernández Martínez	Pedro Barato Triguero
Mendibea 2002, S.L., represented by José Ignacio Comenge Sánchez-Real	Fernando Abril-Martorell Hernández
RETOS OPERATIVOS XXI, S.A., represented by Oscar Arregui Abendivar	Isabel Tocino Biscarolasaga
Víctor Urrutia Vallejo	