



# **Sustainability Report 2018**



## Index

Index	1
Chairman's letter	2
Letter from the Chief Executive Officer	3
Business model	5
Strategy	10
Corporate Governance	14
Risk management	31
Ethics and compliance	36
Excellence in management	40
Sustainability management	42
Business lines	47
Pulp production	47
Power generation	57
Forest management	64
Performance	82
Results 2018	82
Generated and distributed economic value	84
Commitment to stakeholders	85
People	85
Shareholders	106
Customers	108
Partners and suppliers	111
Society	116
Public administrations, regulatory bodies and other institutions	123
Environment	128
About this report	152
Annex 1: GRI Standards content index	155
Annex 2: NFIS Contents Index	170
Annex 3: External assurance	182



#### Chairman's letter

Dear shareholder,

On behalf of the Ence Energía y Celulosa, S.A. Board of Directors, I have the pleasure of presenting the Sustainability Report 2018 that we have produced with the aim of explaining with greater transparency who Ence is and how we are approaching the present and future of the company.

At Ence, we want to be leaders in total and sustainable use of trees and other natural resources for the production of special cellulose and renewable energy. With this vision, and thanks to the work of an excellent team of



professionals and collaborators, Ence has become a company of reference in Europe in the eucalyptus pulp sector, leader in the generation of renewable energy with biomass in Spain, founded on the responsible and sustainable management of agroforestry resources.

We work, therefore, by adding value to the natural resource generated by forestry and agricultural crops in Spain, specifically in Asturias, Andalusia, Castilla-La Mancha, Extremadura and Galicia, where our cellulose and renewable energy production plants are located, creating employment in the rural environment and contributing to the care of the environment.

In addition to generating value in the areas where we operate, with our activity we want to contribute to facing the challenges and taking advantage of the opportunities that global challenges such as climate change and urban population growth bring with them. Our strategy, in which we combine clean energy generation and sustainable wood derived material production activities, positions us as a key player in the promotion of the bioeconomy and the fair transition towards a sustainable energy model.

In the report presented here you will find detailed information on our performance in these areas and on other key aspects for the sustainability of our company, such as our commitments to integrity and good governance, to results, to environmental excellence and to our stakeholders.

With kind regards,

Juan Luis Arregui, Chairman of Ence Energía y Celulosa, S.A.



#### Letter from the Chief Executive Officer

Dear shareholder,

This Sustainability Report includes the evolution of Ence Energía y Celulosa in 2018, an important year in the history of our company in which, having met all the objectives we had set in the previous plan a year in advance, we present our new Strategic Plan 2019-2023, which sets out excellence in sustainability as one of its fundamental pillars.

The new Plan marks a roadmap to make Ence stronger, safer, environmentally excellent and perceived as a responsible and valuable member in the communities in which we work.

To do so, we have started from an exceptional base: a business model fully integrated into the concept of the bioeconomy and which contributes like few others to the development of the circular economy, providing



products for everyday use made with natural, renewable, and recyclable raw materials which are responsible alternatives to materials such as non-renewables.

In addition, we generate renewable energy with agroforestry biomass from nearby our plants, thus making sustainable use of local resources and offering a reliable solution to advance towards the transition to an energy model that helps mitigate climate change.

These are the essential features of our business project that place us in a magnificent position to take advantage of the great opportunities offered by the pulp and energy markets.

In the pulp business, the Strategic Plan is based on the positive evolution of the market up to 2023. Urban population growth and rising living standards in emerging countries are driving demand for hygienic and absorbent cellulose products, as well as viscose for textile applications. Therefore, we will make investments of up to 500 million euros to increase our production capacity and diversify to meet the demand for these products.

Furthermore, Ence's objective is to become a relevant actor so that Spain can achieve its commitment to increase its primary energy from renewable sources to 70%, and thus meet the European Union's objective for 2030. In our energy business, we will invest a total of 615 million euros to grow in biomass generation capacity and advance our diversification towards other technologies such as solar thermal and photovoltaic. In fact, we have already taken the first steps to realise some of these strategic objectives: In 2018, Ence purchased 90% of the 50 MW Puertollano solar thermal plant, introducing this renewable technology into its generation capacity. In addition, the construction of two new 46 and 50 MW low emission biomass generation plants in Huelva and Puertollano, respectively, is progressing at a good pace and they are scheduled to become operational by the end of 2019.

#### Towards excellence in sustainability

For Ence, talking about sustainability means talking about our company's vision and business model. Our activities contribute to driving and expanding the principles of sustainable management in the forest sector and to circulating the productive model of the agricultural sector, offering sustainable solutions for the management of biomass through the generation of renewable energy. In this way, Ence provides an energy alternative that contributes to facing the challenge of climate change, as well as to the development and creation of quality employment in rural areas, helping to avoid depopulation.



Ence also realises its commitment to sustainability with firm commitments to its stakeholders. Our main priorities are our commitment to people, their safety, their development, and their professional and personal satisfaction with the goal of making Ence a great place to work. The company makes regular investments to improve the safety of processes and facilities and is committed to diversity, equal opportunity, eliminating wage gaps, and encouraging the role of women in our workforce.

Regarding the environment, Ence has set the objective of respecting and protecting the environment and therefore demands environmental standards in its operations that go beyond the already strict legal requirements. To this end, we promote sustainable forest management in our woodlands and those held by other forest owners; we invest in ambitious projects to improve the environmental performance of our production plants, increasing energy efficiency and reducing our water and carbon footprint; and we constantly seek to minimise the impact of noise and odour from our facilities.

Ence also has a strong calling to contribute to the communities in which it is present, from environments that host our facilities to the sectors with which we work, such as forest or agricultural owners and other components in our value chain. As such, our commitment to society is reflected in important sponsorship and social patronage programmes, such as the Ence Social Plan in Pontevedra and agreements with town councils in the municipalities in which our facilities are located, aimed at boosting employment, training, and the quality of life for our neighbours.

We also support small suppliers through the transfer of knowledge and good practices, and we emphasise creating value in the areas in which we work, primarily by sourcing local wood and biomass and hiring local suppliers.

With our customers, we seek excellence based on quality, excellence in service, and innovation to meet their needs. With the public administrations and institutions with which we collaborate, Ence seeks to develop mutually beneficial relationships.

As an example of this commitment, I would also like to highlight the efforts that Ence will make in the coming years to continue advancing towards excellence in sustainability. To this end, we will allocate between 125 and 225 million euros to improve safety for people and facilities, the environmental excellence of our operations, contribute to the circular economy, and revitalise the economy and employment in rural areas.

Although sustainability has been an integral part of Ence's way of working for some time, 2018 has also seen an important advance in sustainability management: this year a Sustainability Commission has been created with the Board, the Sustainability Policy has been updated, and a corporate area has been created for its cross-cutting management with the aim of coordinating and placing value on Ence's efforts for all its stakeholders. We have set ambitious corporate sustainability targets for 2019 and we will work on the development and implementation of a Sustainability Master Plan that will allow us to continue moving forward to consolidate Ence Energía y Celulosa as a model company with regard to corporate responsibility.

To conclude, I would like to highlight that Ence became listed on the IBEX 35 this past December 24th. Having a position among the 35 companies with the highest trading volume in the country is an important step for Ence in view of the new strategic phase we are facing, as well as a recognition of the successful execution of our Strategic Plan 2016-2020. It is certainly an important impetus for us to continue creating value for all our stakeholders.

Thank you.

Ignacio Colmenares, Vice President and Chief Executive Officer of Ence.



#### **Business model**

Ence Energía y Celulosa is the European leader in the production of eucalyptus pulp, the first Spanish company to produce renewable energy with agricultural and forest biomass, and the leader in Spain in the integrated and responsible management of forest areas and crops.

**Sustainability and the circular economy** are fully integrated into the company's **vision**, which is to be the leader in the **complete and sustainable use** of trees and other natural resources for the production of special cellulose and renewable energy.

This approach to sustainability and shared value creation is also integrated into Ence's **mission**, which is to provide solutions to meet the needs of its customers, promote a **sustainable forestry sector**, and grow and diversify in renewable energy and cellulose. In defining its mission, Ence also declares its **commitment** to respect for people, their safety, their development and a good working environment, as well as to continuous improvement and to its environment. As such, Ence pursues returns for its shareholders, the growth of the company, and the **generation of employment and wealth** in the areas in which it works.

#### **Principles of action**

The principles that define Ence's culture and mark the ethical pillars of the company's action both in its internal management and in the relationship with its stakeholders are established in its **Code of Conduct**.

This Code establishes the ethical pillars, the principles of care for the environment and community relations, the rules of conduct towards employees, and other aspects such as managing conflicts of interest or mechanisms to fight corruption and prevent fraud. As part of its commitment to transparency for all its stakeholders, Ence has made this Code available on the company's website (<a href="https://ence.es/wpcontent/uploads/2018/10/Codigo de Conducta 2018.pdf">https://ence.es/wpcontent/uploads/2018/10/Codigo de Conducta 2018.pdf</a>).

Ence also has an efficient and robust **corporate governance** system, designed in line with the good governance recommendations published by the CNMV (National Securities Market Commission), which allows it to defend its interests and maximise the generation of long-term value for its shareholders, while also ensuring compliance with the values and principles of action contained in its Code of Conduct.

The internal governance framework is complemented by other **Corporate Policies**, the **risk management and control system**, the **TQM model**, and the **integrated management system**.

#### Relationship with stakeholders

Ence bases its relationship with its stakeholders on seeking mutual benefit and creating shared value based on collaboration, dialogue, and transparency.

In addition, Ence's **Sustainability Policy** sets out the commitments that the company voluntarily establishes with its main stakeholders.

The Sustainability Policy can be found on Ence's corporate website (https://ence.es/sostenibilidad/politica-de-rsc/)





#### A model for creating circular and sustainable value

Ence's value generation model is based on the **bioeconomy** and encompasses sustainable forest management, the production of natural cellulose from local wood, and the generation of renewable energy under sustainable and environmentally friendly management.

This model is an example of the **circular economy** as it is based on the use of renewable resources, such as wood and biomass, minimising waste generation (more than 90% of the waste generated in cellulose and energy production plants is reused or recovered), and contributing to the **circulation of other value chains** in the agricultural and forestry sector, taking advantage of the by-products from their activities to generate renewable energy.



### Strategic Plan 2019-2023

The new Strategic Plan 2019-2023, presented at the end of 2018, is the roadmap for achieving the company's strategic objectives over the next five years. The pillars on which the plan is based are **growth**, **diversification**, and **excellence in sustainability** to leverage the important opportunities offered by the pulp and renewable energy markets.

The Plan sets out the objective of practically doubling Ence's earnings to reach an EBITDA of 550 million euros in 2023, considering a constant price of cellulose and exchange rate and keeping in line with the maximum levels of borrowing established and the dividend policy committed to with shareholders. To achieve this, a productive investment plan of 1.1 billion euros has been designed to be executed in phases to ensure financial discipline.

In the **cellulose** business, Ence aims to take advantage of the positive price scenario expected until 2023. Urban population growth and rising living standards in emerging countries are driving increased demand for hygienic and absorbent cellulose products, as well as viscose for textile applications. Therefore, Ence will carry out investments that will increase its cellulose production capacity to 1.3 million t/year and will encourage diversification into absorbent and viscose hygiene products.

In the **energy** business, Ence will increase its renewable energy generation capacity, helping Spain meet the European Union's 2030 targets. To this end, the company will invest a total of 615 million euros, which



will make it possible to triple this business line's EBITDA, providing stability and resilience to the company regarding the cyclical cellulose business.

Excellence in sustainability is also one of Ence's strategic priorities. Safety, reducing our carbon footprint and water consumption in production processes, and promoting the circular economy are key points for the company. Similarly, Ence is committed to revitalising rural areas, playing an active role in the communities where we work, and applying the best available practices to minimise environmental impacts and avoid occupational risks, always supported by a policy of transparency and integrity. More information on the company's new Strategic Plan can be found in the strategy section in this report.

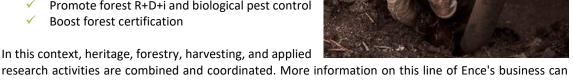
#### **Business lines**

### Sustainable forest management

Ence is a leader in the integrated management of forest areas and products in Spain and applies the most demanding and internationally recognised sustainability criteria in its management, such as the FSC® and PEFC standards. In fact, Ence has been a pioneer in undertaking certification projects in Spain not only for its own forests, but also extending the principles of sustainable forest management to its supply chain and promoting the certification of forest areas held by its partners and collaborators.

Ence's forestry business consists of the creation, maintenance, and development of forests with the following principal objectives:

- Develop wood and biomass production capacity
- ✓ Maintain direct and indirect environmental assets (biodiversity, soil, air and water quality, etc.)
- ✓ Improve our surroundings and support forest owners (job creation and income distribution, forestry sector promotion, etc.)
- Promote forest R+D+i and biological pest control
- Boost forest certification



research activities are combined and coordinated. More information on this line of Ence's business can be found in the sustainable forest management section in this report.

#### Pulp production

Ence is the leading European company in the production of eucalyptus pulp, focused on offering the best solutions for its customers' needs in the paper sector based on the quality of its products, its technical and service capacity, and its proximity to customers.

To this end, it has an advanced, agile, and precise logistics system and the advantages offered by the excellent location of its biofactories.





Ence produces cellulose at its biofactories in Navia (Asturias) and Pontevedra (Galicia), which have a total production capacity of 1,100,000 tonnes/year of high quality eucalyptus pulp. The Navia biofactory has a production capacity of 605,000 tonnes per year and uses the ECF (*Elemental Chlorine Free*) process. At the Pontevedra biofactory, which has a capacity of 495,000 tonnes per year, bleaching is TCF (*Total Chlorine Free*), meaning it does not use any chlorine compounds in the process but, rather, hydrogen peroxide as a bleaching agent.



In both biofactories, Ence applies the most environmentally friendly technologies and continuous improvement processes to reinforce its competitiveness and quality.

The majority of Ence's pulp production is intended for Europe, where the global market's most demanding customers can be found. Ence supplies its customers with products adapted to their special needs and qualities. More information on this line of Ence's business can be found in the pulp production section in this report.

#### Renewable energy generation

Ence is also the first Spanish company to generate renewable energy with forest and agricultural biomass. In addition, since the end of 2018 and as a result of its diversification strategy, it has added a solar thermal power plant to its biomass generation plants.

As such, Ence boasts a total installed capacity of 332 MW, of which 50 MW correspond to solar thermal generation, 13 MW correspond to cogeneration with natural gas and 269 MW correspond to biomass generation.



Ence carries out its energy production business at **10 power plants**, two of which use cogeneration with biomass integrated in the cellulose biofactories, a solar thermal plant in Puertollano (Ciudad Real), and seven independent generation plants that are fed exclusively with biomass from forest and agricultural by-products located in Andalusia (Huelva, Córdoba, and Jaén), Castilla La Mancha (Ciudad Real), and Extremadura (Mérida).

In addition to the plants in operation, Ence is building two new biomass power generation plants in Huelva (46 MW) and Puertollano (50MW), which are expected to come into commercial operation during the last quarter of 2019.



Since biomass power plants feed on biomass from forest and agricultural by-products from nearby surroundings, Ence's activities contribute to the reduction of uncontrolled burns in fields, decreased fire risks, and the reactivation of rural economies with the resulting positive effect on population stability. In addition, to guarantee sustainability in the use of biomass as an energy source, Ence has voluntarily developed guidelines for the Sustainability of Biomass as a Fuel, a pioneering initiative in Spain aimed at protecting natural resources, not competing with other priority uses, and respecting human rights.



In view of the foregoing, Ence is at the forefront of the sustainable use of biomass as an energy source - a renewable, manageable, and safe alternative that has great potential for use in Spain and that makes an important contribution to the appropriate transition towards a low-carbon energy model. More information on this line of Ence's business can be found in the Energy section of this report.



## Strategy

### **Strategic Plan 2019 - 2023**

In November 2018, Ence presented its new Strategic Plan for 2019 - 2023, after having launched the final investments corresponding to the previous strategic plan over the previous year.

The new Plan has been designed taking the national and international context and trends that will shape the coming future of the cellulose and renewable energy sectors into account.

Regarding **cellulose**, rapid urban population growth and rising living standards in emerging countries are the main factors driving the continued growth in global demand for cellulose for hygienic and absorbent products as well as viscose for textile applications.

This continued growth in demand, along with the lack of large projects to increase cellulose production capacity on the market, point to a scenario with structurally strong prices in the coming years.

The prospects for the **renewable energy** business are marked by nationally and internationally established objectives aimed at fighting against the global challenge of climate change. In this context, the European Union has set a target for 32% of the energy consumed in the EU in 2030 to come from renewable energy. To achieve this goal, Spain will need to double its renewable energy generation capacity over the next 10 years.





In view of these considerations, Ence has defined its new Strategic Plan revolving around the following axes:

## Growth

With the implementation of the new Strategic Plan, Ence aims to practically double the Group's EBITDA at constant cellulose prices, reaching €550 million in 2023 and reducing cyclicality, with a minimum baseline of €150 million coming from the Renewable Energy business.



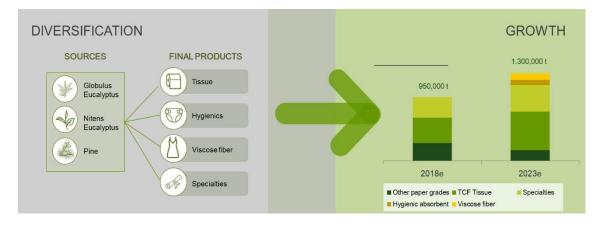
PULP	2018	2019	2020	2021	2022	2023
BHKP price (\$/t)	1,040	1,050	1,050	1,050	1,050	1,050
Exchange rate (\$Æ)	1.19	1.20	1.20	1.20	1.20	1.20
Commercial discount (%)	27%	27%	27%	27%	27%	27%
Pulp sales (*000 t)	950	1,020	1,095	1,125	1,190	1,300
Cash cost (€/t)	380	375	370	365	355	350
EBITDA (€ Mn)	245	275	310	325	365	400
Net Profit (€ Mn)	120	130	160	170	190	210
Energy sales (MWh)	1,000,000	1,135,000	1,830,000	2,045,000	2,060,000	2,330,000
RENEWABLE ENERGY	2018	2019	2020	2021	2022	2023
Pool price (€/MWh)	48	48	48	48	48	48
EBITDA (€ Mn)	45	65	115	125	130	150
Net Profit (€ Mn)	10	20	40	50	50	60
ENCE GROUP	2018	2019	2020	2021	2022	2023
EBITDA (€ Mn)	290	340	425	450	495	550
	130	150	200	220	240	270

#### Diversification

Ence is committed to diversification in order to take advantage of these growth opportunities, while simultaneously increasing its solid and flexible business model. The commitment to diversification focuses not only on products, but also on raw materials and renewable energy generation technologies.

In the pulp business, the Strategic Plan envisages a greater diversification of the **wood species** that Ence uses as raw materials to manufacture its pulp. In addition to harnessing the use of eucalyptus *nitens*, Ence will also incorporate pine into its production process. This diversification of raw materials is intended to increase the availability of wood and offer our customers higher value-added products.

The Strategic Plan also envisages the addition of two new products to our portfolio: **cellulose for absorbent hygiene products and cellulose for viscose**, which is used in the textile industry. Both have even higher growth rates than the different types of pulp for manufacturing paper that Ence currently markets.



In the renewable energy business, Ence also intends to take advantage of diversification. On the one hand, the company will add **new types of agroforestry biomass** to its supply to increase availability and reduce its cost while, on the other hand, Ence will diversify the **technologies** it uses to generate renewable energy.







In December 2018 Ence took its first step towards diversification into other renewable technologies with the acquisition of a 90% stake in a 50 MW solar thermal plant in Puertollano (Ciudad Real) for a net amount of €140 million. With the acquisition of this facility in the immediate vicinity of the new biomass plant that the company is building in the same locality, Ence is realising its commitment to the hybridisation of technologies to enhance the manageability of renewable energy production.

#### **Excellence in sustainability**

The third pillar on which the Strategic Plan 2019 - 2023 is based is excellence in sustainability across all the company's activities. To this end, Ence has a **budget of between €125 and €225 million** to invest over the projected timeframe of the Plan so to strengthen the reliability, flexibility, environmental excellence, and safety of its facilities.



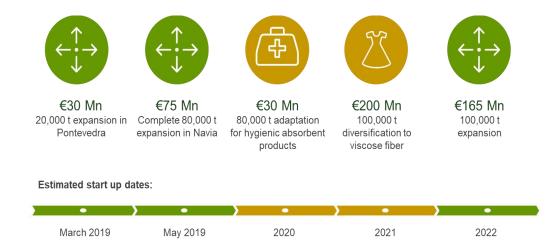
## Phased investment plan to ensure financial discipline

In order to achieve the objectives of the Strategic Plan, Ence has designed an investment plan in different independent projects that will be executed in stages to guarantee financial discipline. Each of them must be reaffirmed by the Board beforehand to:

- 1) Ensure that the **profitability** criteria are met and
- ensure that the **debt limits** established by business line are not exceeded (2.5 times Net Debt/EBITDA in Cellulose and 4.5 times Net Debt/EBITDA in Renewable Energy),
- after the distribution of 50% of net profit in dividends.



In addition to the sustainability section, **Ence will invest €500 million in the cellulose business** across 5 independent projects:



With these 5 projects, Ence is aiming for the following **objectives for 2023**:

- ✓ Increase cellulose production to 1.3 million tonnes
- ✓ Incorporate two new products: cellulose for absorbent hygienic products and cellulose for viscose
- ✓ Reduce the production cost per tonne of our paper pulp (BHKP) to **350 euros per tonne**.

The Strategic Plan for the renewable energy business envisages an investment of €615 million, including the acquisition of the 50 MW solar thermal plant in December 2018 and the completion in 2019 of 99 MW of new biomass generation capacity currently under construction.





## **Corporate Governance**

Ence has an efficient and robust corporate governance system, designed in line with the good governance recommendations published by the CNMV, which allows it to defend its interests and maximise the generation of long-term value for its shareholders, while also ensuring compliance with the values and principles of action contained in the company's Code of Conduct. Ence also has all the necessary mechanisms to communicate information of interest in relation to the company to its shareholders, the market, and its stakeholders, ensuring maximum transparency.

In 2018, Ence continued to strengthen and optimize its corporate governance structure and align it with the company's strategic objectives, with the aim of guaranteeing the confidence of its shareholders, investors, and other stakeholders.

The main milestones in this regard include the creation of the **Sustainability Commission**, responsible for supervising Ence's sustainability strategy and the relationship with its stakeholders, and the approval of a new **Corporate Sustainability Policy** as well as the incorporation of a **new independent Member of the Board** and the Appointments and Remuneration Commission.

This year has also seen progress in the digitalisation of governance tools, with improvements implemented in the IT platform that Ence makes available to Board members to access the necessary information to prepare for meetings.

Ence's ownership structure and the company's governing bodies, including their composition, duties, and operating dynamics, are detailed below. For further information, see the company's website (<a href="www.ence.es">www.ence.es</a>) and Ence's corporate governance report, available at (<a href="https://ence.es/en/investors/corporate-governance/corporate-governance-report-and-board-remuneration-report/">https://ence.es/en/investors/corporate-governance/corporate-governance-report-and-board-remuneration-report/</a>) and on the CNMV website (<a href="www.cnmv.es">www.cnmv.es</a>).

## **Ownership structure**

Ence Energía y Celulosa, S.A., with Tax Identification Number (NIF) A-28212264, is incorporated as a public limited company, with registered offices at calle Beatriz de Bobadilla 14, 4ª, 28040, Madrid. Ence's share capital and number of shares are:

Share capital (€)	Nº of shares	Nº of voting rights
221,645,250.00	246,272,500	246,272,500

Ence's shareholders at 31 December 2018 is constituted as follows:

Shareholder	31/12/2018
Mr. Juan Luis Arregui / Retos Operativos XXI, S.L.	29.28%
Mr. Víctor Urrutia / Asúa Inversiones, S.L.	6.34%
D. José Ignacio Comenge / La Fuente Salada S.L.	6.01%
Systematica Investments Limited	1.02%
Treasury stock	0.64%
Board members with participation < 3%	0.43%
Free Float	56.28%
Total	100%



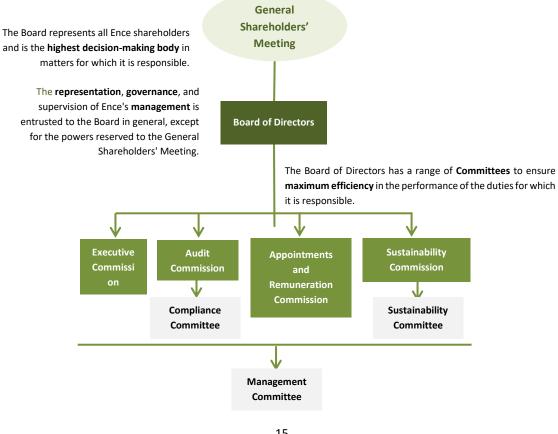
As a milestone for the year, it should be highlighted that the Technical Advisory Committee (CAT) of the IBEX 35 selected Ence Energía y Celulosa, S.A. to become part of the select stock market, and its listing on the index became effective on 24 December 2018. The CAT's decision, based on liquidity, capitalisation, and stability criteria, allowed Ence to be listed among the select group of companies with the highest liquidity on the Spanish stock exchange.

#### Governance structure

In order to guarantee an adequate decision-making process in line with its values and objectives, Ence regulates the functioning of its governing bodies in accordance with applicable regulations and in accordance with the principles of good governance, ethics, and transparency. The highest governing and decision-making bodies of Ence Energía y Celulosa are the General Shareholders' Meeting and the Board of Directors.

The Board of Directors delegates its powers, except those that cannot be delegated, to the Executive Commission. In addition, the Board has several consultative Committees, such as the Audit Commission, the Appointments and Remuneration Commission, and the Sustainability Commission, their composition and competencies being detailed throughout this report. There is also a Chief Executive Officer, appointed by agreement of the Board of Directors.

Furthermore, at the executive level, there is the Compliance Committee under the Audit Committee, the Sustainability Committee reporting to the Sustainability Commission, and the Management Committee, which complement the corporate bodies responsible for making decisions in the Company, which discuss, deliberate, and propose the actions to be carried out by the Company in all areas to the competent bodies, including economic, social, and environmental matters, in accordance with the scope and reach of their powers, which are detailed in this report.





#### Process for delegating authority

The Executive Commission and the Chief Executive Officer have all the powers of the Board of Directors, except those that cannot be delegated by law or by the Articles of Association. The Company also has a structure of managers and employees empowered to implement its strategy and basic management guidelines, whose powers are granted under two operating principles: (i) the principle of association, which governs the exercise of faculties of a dispositive or organisational nature; and (ii) the principle of solidarity, which governs the exercise of faculties of mere representation before Public Administrations.

The Board of Directors or the Chief Executive Officer grant the general and special powers of attorney that may be required, in accordance with the Company's Internal Powers of Attorney Regulations, to carry out certain economic or management actions, subject to the limits and conditions established in said powers of attorney.

#### **General Shareholders' Meeting**

Ence's General Shareholders' Meeting is the competent body to agree on the matters reserved for its decision by Law and the Articles of Association, and in general, to adopt all the resolutions inherent to its status as the company's sovereign body. It has, among others, the following competences in particular:

- Approve the annual accounts and decide how to apply earnings
- Appoint and dismiss Board Members and review and approve their management
- Appoint and dismiss Auditors
- Decide on matters submitted for consideration by the Board of Directors
- Approve any amendment to the Articles of Association
- Approve and modify the Regulations of the General Shareholders' Meeting

All Ence shareholders whose shares are registered in their name in the corresponding accounting records five days before the date of the General Shareholders' Meeting have the **right to attend and vote** at meetings.

#### Ordinary General Meeting and Extraordinary General Meetings

The **Ordinary General Meeting**, convened for this purpose beforehand, necessarily meets within the first six months of each financial year to review the management of the company, approve, where appropriate, the accounts of the previous financial year, and decide how to apply earnings. Likewise, the Ordinary General Meeting shall deliberate and adopt agreements on any other matter that, being within the competence of the General Meeting, is included in its agenda.

In 2018 the General Meeting took place on 22 March, and the main topics discussed were:



- Review and approval of the annual accounts and the annual report.
- The proposed distribution of a cash dividend.
- Review and approve the management of the Board of Directors and re-elect and appoint its members.
- Re-elect the audit firm.
- Approve the remuneration policy for Board Members for the years 2018 to 2020.
- Advisory vote on the annual report on the remuneration of Board Members.



Full details on Ence's Ordinary General Meetings can be found on the Corporate Governance section of the company's website (<a href="https://ence.es/en/investors/corporate-governance/shareholders-meetings/">https://ence.es/en/investors/corporate-governance/shareholders-meetings/</a>).

Any Meeting other than set forth in the preceding paragraph shall be considered an **Extraordinary General Meeting**. The Board may convene an Extraordinary General Meeting whenever it deems it appropriate for the company's interests, as well as when requested by at least 3% of the share capital (shareholders owning at least 3% of the share capital may request a call for an Extraordinary General Meeting, expressing the matters to be dealt with at the meeting in the request). No Extraordinary General Meeting was held in 2018.

To encourage attendance, participation, and the adoption of agreements during the General Shareholders' Meetings, shareholders with the right to attend the General Shareholders' Meeting may cast their **vote remotely** on the proposals relating to the items on the agenda by postal correspondence, sending the attendance and voting card duly completed and signed by the shareholder to the registered office, before midnight on the day prior to the day scheduled for the General Shareholders' Meeting.

In addition, to improve the information made available to shareholders, Ence has the **Electronic Shareholders' Forum** (<a href="https://www.ence.es/es/foro-electrónico-de-accionistas.html">https://www.ence.es/es/foro-electrónico-de-accionistas.html</a>), an online initiative available on the company's website, which can be accessed by both shareholders and voluntary associations set up and registered in the special register enabled for this purpose at the National Securities Market Commission. The Forum allows the publication of possible proposals to be added to the announced agenda for the General Meeting, petitions in support of such proposals, initiatives to gain the percentage of shareholding required to exercise minority rights as stated in law, and offers or requests to act as a voluntary proxy.

#### **Board of Directors**

The Board of Directors is the body that oversees and manages the Company's activities to ensure the creation of value for shareholders. In addition to holding the powers of **representation and management** of Ence conferred on it by the Articles of Association and Law, its **core competences** include the following:

- Convening General Shareholders' Meetings, setting their agenda, and drafting proposed resolutions.
- Drawing up annual accounts and reports to be submitted to the General Shareholders' Meeting, and presenting and proposing them to the General Shareholders' Meeting.
- Approving **financial information** that is published recurrently.
- Approving the remuneration **system for Board Members** within the limits established by the General Shareholders' Meeting.
- **Reviewing** the operation of Delegated and Advisory Committees, the management of the Chairman and Board Member, the Chief Executive Officer, and the Board itself.



- Deliberating and approving the Company and Group strategic plan, including the definition and, where appropriate, review of its mission and values, as well as the economic, social, and environmental objectives for the next five years. The strategic plan, once approved by the Board, is communicated to the organisation and investors.
- Approving the sustainability policy, the risk control and management policy and the dividend policy.
- Establishing the **corporate governance** policy of the Company and the Group.
- Approving the Crime Prevention and Detection Model, and the compliance policy.

#### Operation of the Board

The Board of Directors meets, at the proposal of the Chairman, as many times as he deems appropriate, for the proper operation of the company, with a minimum of eight annual meetings, at least once quarterly. The Board shall draw up an **annual plan for ordinary meetings** before the beginning of each financial year, establishing a frequency of meetings that will enable the Board to carry out its functions with the necessary efficiency. Calling for ordinary meetings shall be done by letter, fax, telegram, or email and shall be authorised by the signature of the Chairman or the Secretary or Vice-Secretary by order of the Chairman. The call will be sent at least two days in advance.

In 2018, Ence's Board of Directors held a total of 13 meetings.

Board Members shall make every effort to attend meetings called by the Board, but in cases in which they are unable to do so personally, they shall ensure that the **representation** they confer on another member of the Board corresponds to someone from the same group. In the case of a non-Executive Member, only a non-Executive Member may be granted representation. Voting in writing and without a meeting is only admitted when no member opposes this procedure, whereby members can send their votes and the considerations they wish to be recorded in the minutes by email.

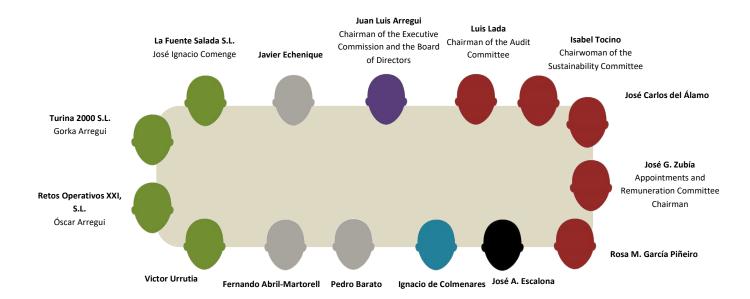
**Agreements** are adopted by an absolute majority of the Members, present or represented, attending the meeting, unless the Law or the Articles of Association require a higher majority. In the event of a tie, the Chairman of the Board has the deciding vote. Voting in writing and without a meeting will only be admitted when no Member opposes this procedure.

## Composition of the Board

An efficiently constituted Board of Directors in terms of size, proportion of independent members, gender diversity, professional profiles, and knowledge is one of the keys to effective corporate governance.

Ence's Board of Directors at 31 December 2018 is formed of 14 members and a non-member secretary and its Chairman is non-executive. **36% of the Board Members are independent**, 36% proprietary, 21% external others, and 7% executive.







	BOARD OF DIRECTORS					
Name	Position	Category	Proposed by	1 <sup>st</sup> appointment		
Mr. Juan Luis Arregui Ciarsolo	Chairman	Proprietar y	Retos Operativos XXI, S.L.	07/02/2006		
Mr. Ignacio de Colmenares Brunet	Vice President and Chief Executive Officer	Executive		22/12/2010		
Mr. Javier Echenique Landiribar	Board Member	Other external members		29/12/2005		
Mr. Fernando Abril-Martorell Hernández	Board Member	Other external members		30/03/2007		
Mr. Pedro Barato Triguero	Board Member	Other external members		25/06/2008		



La Fuente Salada, S.L. (represented by Mr. José Ignacio Comenge Sánchez- Real)	Board Member	Proprietar y	La Fuente Salada, S.L.	22/03/2018
Turina 2000, S.L. (represented by Mr. Gorka Arregui Abendivar)	Board Member	Proprietar y	Retos Operativos XXI, S.L.	20/12/2017
Retos Operativos XXI, S.L. (represented by Mr. Óscar Arregui Abendivar)	Board Member	Proprietar y	Retos Operativos XXI, S.L.	07/02/2006
Mr. Víctor Urrutia Vallejo	Board Member	Proprietar y	Asúa Inversiones, S.L.	30/06/2014
Mr. José Carlos del Álamo Jiménez	Board Member	Independe nt		29/06/2009
Ms. Isabel Tocino Biscarolasaga	Board Member	Independe nt		21/03/2013
Mr. José Guillermo Zubía Guinea	Board Member	Independe nt		30/03/2007
Mr. Luis Lada Díaz	Board Member	Independe nt		16/03/2016
Ms. Rosa María García Piñeiro	Board Member	Independe nt		22/03/2018
Mr. José Antonio Escalona de Molina	Secretary	Non- member		

#### **Experience and knowledge of Board Members**

Ence's Board of Directors has the experience, diversity, and qualifications necessary to fulfil its oversight and management tasks and to support the achievement of Ence's vision (*"to be the leader in the complete and sustainable use of trees and other natural resources for the production of special cellulose and renewable energy"*). The trajectory and experience of each Ence Board member is detailed in the "Curriculum vitae of the Board of Directors Members" section on Ence's website (<a href="https://ence.es/wp-content/uploads/2018/12/Curriculum de los miembros del Consejo nov 2018 EN.pdf">https://ence.es/wp-content/uploads/2018/12/Curriculum de los miembros del Consejo nov 2018 EN.pdf</a>).

## Commissions of the Board

Ence's Board of Directors has four committees in charge of overseeing matters of special relevance, on which they report and submits proposals to the Board.

As an example of Ence's concern for the creation of long-term value for its shareholders and other stakeholders and for the protection of the environment, in 2018 a specific Sustainability Commission was



created which, in addition to establishing and monitoring the sustainability policy and strategy, is responsible for overseeing Ence's non-financial information reporting to its stakeholders through tools such as this report.

The duties, composition, and activities of the four committees of the Ence Board in 2018 are detailed below:

#### **Executive Commission**

This is the Board's delegated body for certain matters and operations considered by the Board. The delegation of powers by the Board includes all powers except those that cannot be delegated in accordance with the Articles of Association and the Board Regulations.

The Executive Commission is composed of the following members:

Name	Category
Juan Luis Arregui Ciarsolo (Chairman)	Proprietary
Ignacio de Colmenares Brunet (Member)	Executive
Javier Echenique Landiribar (Member)	Other external members
José Guillermo Zubía Guinea (Member)	Independent
Pedro Barato Triguero (Member)	Other external members
La Fuente Salada, S.L. (Member)	Proprietary
José Antonio Escalona de Molina (Secretary)	Non-member

In 2018, the Executive Commission held a total of 10 meetings.

#### **Audit Committee**

This is the body responsible for ensuring regulatory compliance, financial transparency, and assessing risks that may affect the company. The following duties, among others, are assigned to it:

- To propose to the Board of Directors the appointment or re-election of the auditors, their hiring conditions, and, where appropriate, their dismissal or non-renewal.
- Regularly gather information from the Board on the audit plan, oversee the company's internal audit services, and ensure the independence and effectiveness of its duties.
- To establish the appropriate relations with the accounts auditors to receive information on those matters that could place their independence at risk.
- To review the company's accounts and monitor compliance with legal requirements and the correct application of accounting principles and to discuss the significant weaknesses detected in the internal control system with the auditors.
- Annually issue, prior to the issuance of the accounts audit report, a report expressing an opinion on the independence of the accounts auditors.
- Supervise the development and preparation process of regulated financial information.
- Supervise the effectiveness of the company's internal control and internal control systems and financial and non-financial risk management systems, including internal control systems for



- financial information, environmental aspects, safety, and occupational hazard prevention auditing.
- Establish and supervise a mechanism that enables employees to report financial and accounting irregularities confidentially.
- Report transactions with significant shareholders and those that may involve a conflict of interest.
- Evaluate their performance and the quality of their work.
- Supervise the communication strategy and the relationship with shareholders and investors.

The Audit Committee is composed of the following members:

Name	Category
Luis Lada Díaz (Chairman)	Independent
Javier Echenique Landiribar (Member)	Other external members
Turina 2000, S.L. (Member)	Proprietary
Isabel Tocino Biscarolasaga (Member)	Independent
José Guillermo Zubía Guinea (Secretary)	Independent

In 2018, the Audit Committee held a total of 7 meetings.

#### Appointments and Remuneration Commission

This is the body responsible for appointing, evaluating and remunerating board members. The following duties, among others, are assigned to it:

- Assess the skills, knowledge and experience needed in the Board of Directors.
- Examine the Company's compliance with corporate governance rules and its code of conduct and make the necessary proposals for improvement.
- Submit proposals to the Board for the re-election, removal or appointment of independent board members, and report on proposals for the re-election, removal or appointment of the remaining board members.
- Establish a representation objective for the under-represented gender on the Board, prepare
  guidelines on how to achieve it and ensure that, when new vacancies are filled or new Board
  Members are appointed, the selection procedures do not suffer from implicit biases that may
  imply discrimination on the grounds of gender.
- Propose the members who should form part of each of the Committees to the Board.
- To propose to the Board of Directors the system for determining the amount of annual remuneration received by board members and general managers, as well as the other basic conditions of the contracts of the board members and their individual remuneration, ensuring compliance with the remuneration policy established by the company.
- To report on the evaluation process of the company's Chairman of the Board and chief executive
  officer.
- Evaluate, at least once per year, their performance and the quality of their work.

The Appointments and Remuneration Commission is made up of the following members:



Name	Category
José Guillermo Zubía Guinea (Chairman)	Independent
José Carlos del Álamo Jiménez (Member)	Independent
Rosa María García Piñeiro (Member)	Independent
Fernando Abril-Martorell Hernández (Member)	Other external members
Retos Operativos XXI, S.L. (Secretary)	Proprietary

In 2018, the Appointments and Remuneration Commission held a total of six meetings.

#### Sustainability Commission

This is the body responsible for matters related to the Company's corporate social responsibility and non-financial information. Its competences include:

- Periodically reviewing the corporate social responsibility policy and proposing its updating to the Board of Directors.
- Monitoring the company's corporate social responsibility strategy and practices and evaluate their degree of compliance, reporting to the Board of Directors.
- Reporting, prior to approval by the Board of Directors, on the annual corporate social responsibility report.
- Coordinating non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.
- Being aware of significant legal changes in the area of social responsibility and responsible innovation, as well as trends in this area, such as those related to the circular economy, in order to analyse them and, where appropriate, to promote action plans.
- To supervise and evaluate the communication strategy and relationship with the different stakeholders.
- To know and guide the company's environmental and safety policies, checking that they are effective and that they are managed to promote and ensure compliance.
- To know and promote company's social action strategy and its sponsorship and patronage plans.
- Knowing, reviewing and monitoring the company's initiatives and actions directly related to sustainability of the cellulose market and the production of renewable energy with biomass and, especially, with the availability of forestry and agricultural wood and fuel.
- Knowing, reviewing and monitoring the company's actions in relation to its forest assets and, in
  particular, for promoting sustainable management of forest areas, their cultivation, care and
  maintenance for the extraction of wood and biomass, integrating the rational use of all assets.

The Sustainability Commission includes the following members:



Name	Category
Isabel Tocino Biscarolasaga (Chairperson)	Independent
Juan Luis Arregui Ciarsolo (Member)	Proprietary
José Carlos del Álamo Jiménez (Member)	Independent
Víctor Urrutia Vallejo (Member)	Proprietary
Pedro Barato Triguero (Member)	Other external members
Turina 2000, S.L. (Member)	Proprietary

In 2018, the Sustainability Commission held a total of three meetings.

#### Mechanisms for the selection, evaluation and remuneration of Board members

Ence has developed the necessary mechanisms in accordance with international regulations and best practices to ensure that the members of its Board of Directors are selected, evaluated and remunerated efficiently, fairly and proportionately, guaranteeing diversity and equality of opportunities.



All Ence board members must be persons with a recognised professional career, possessing the necessary skills and solvency to perform the functions entrusted to a position of maximum responsibility. The guidelines for selection of board members are set forth in the **Corporate Board Member Selection Policy**, which was revised by Ence's

Board of Directors in 2018. This Policy is available on Ence's website (<a href="https://ence.es/wp-content/uploads/2019/01/20160204-Pol%C3%ADtica-de-selecci%C3%B3n-de-consejeros.pdf">https://ence.es/wp-content/uploads/2019/01/20160204-Pol%C3%ADtica-de-selecci%C3%B3n-de-consejeros.pdf</a>).

The Appointments and Remuneration Commission and the Board of Directors have the power to propose and report on the **appointment**, **re-election and removal of Board Members**, so that once the proposal has been approved by the Board, it is submitted to the decision of the General Shareholders' Meeting. Board Members shall hold office for a maximum period of three years and may be re-elected once or several times for periods of the same duration. In order to carry out the appointment proposal, the Appointments and Remuneration Commission assesses the profile of the most suitable persons to form part of the Board, submits the corresponding proposals to the Board and transfers the proposals of independent Board Members to the General Shareholders' Meeting.

This Commission **promotes diversity** and ensures that both men and women have **equal opportunities** by setting a representation target for the under-represented gender, developing guidance on how to achieve it and ensuring that selection procedures are free from implicit biases that may lead to gender discrimination. In particular, the Board of Directors shall ensure that in 2020 the number of female Board Members is at least **30% of the total** number of Board members. The Board Members Selection Policy also establishes that the Appointments and Remuneration Commission and the Board of Directors shall ensure that the procedures for selecting board members and its committees favour diversity not only with respect to gender but also with respect to issues such as age, disability and professional training and experience, and are not subject to implicit biases that may imply any discrimination and, in particular, that facilitate the selection of female Board Members in a number that enables a balanced presence of women and men to be achieved.





The mechanisms for **evaluating the performance of the Board** are set out in the Board Regulations. By virtue of article 19 bis of the Board of Directors Regulations, the Board of Directors must evaluate once per year, and will adopt, where appropriate, an action plan that corrects the deficiencies detected with respect to:

- The quality and efficiency of the operation of the Board of Directors.
- The performance and membership of its committees.
- The diversity of Board of Directors membership and competences.
- The performance of the Chairman of the Board of Directors and of the Managing Director taking into account, as the case may be, the evaluation made by the Coordinating Board Member or by the Appointments and Remuneration Commission;
- The performance and contribution of individual Board Members, with particular attention to the Chairmen of the Board of Directors committees.

The evaluation of board committees should start from the reports they send the Board of Directors, while that of the Board itself should start from the report of the Appointments and Remuneration Commission.

Every three years, the Board of Directors should engage an external facilitator to assist the evaluation process. This facilitator's independence should be verified by the appointments committee. This was the case for fiscal year 2018, and on 20 February of this year, the Board of Directors, with the help of international consulting firm KPMG, evaluated its activity for 2017.

As a result of its self-evaluation, it was decided to start an internal regulatory review process in order to redistribute part of the functions of the Audit Committee, not legally reserved to it, between the Appointments and Remuneration Commission, as regards general corporate governance, and the Advisory Commission on Forestry and Regulatory Policy, which changes its name and assumes new functions in the area of sustainability and corporate social responsibility, creating the Sustainability Commission. The review process culminated in the proposed amendment of the Board of Directors' Regulations, with regard to the redistribution of the functions of the aforementioned Commissions and the creation of the Sustainability Commission, replacing the Advisory Commission on Forestry and Regulatory Policy, with the competencies in sustainability and corporate social responsibility detailed in this report, which was reported favourably at the Audit Committee meeting on 23 April 2018.



The **remuneration** of each Board Member is determined by the Board of Directors, following a report from the Appointments and Remuneration Commission. In drawing up this report, the Committee takes into account the functions and responsibilities attributed to each Board Member, their membership of Board Committees and any other objective

circumstances it considers relevant, in addition to the principles and criteria of the **Board Members' Remuneration Policy**. This Policy was approved by the General Shareholders' Meeting held on 22 March 2018 under the terms set forth in the Capital Companies Act and is available for consultation on Ence's website (https://ence.es/wp-content/uploads/2019/01/Pol%C3%ADtica-de-Remuneraciones-del-Consejo.pdf). The item on the agenda corresponding to the approval of the Board Members' Remuneration Policy was approved with 99.51% of the votes validly cast. KPMG, an independent international consulting firm specialising in this field, advised on the preparation of the Remuneration Policy.

The remuneration system provided for in this Policy for **Board Members in their capacity as such** is as follows:

 Fixed remuneration, consisting of both a periodic assignment (fees) and allowances for attending meetings of the Board of Directors and its Committees.



- Other possible remunerations consisting of different types of insurance; the premiums paid shall be computed for the purposes of the maximum limit established by the General Shareholders' Meeting.
- Optionally, in addition to and independent of the Fixed Remuneration, shares or of option rights over them, provided that it is agreed by the General Shareholders' Meeting.

The remuneration system provided for in the Policy for **board members** is as follows:

- Fixed Renumeration: The Articles of Association establish that the Fixed Remuneration envisioned for Directors, in their capacity as such, is compatible with and independent from any remuneration Board of Directors members may receive for a common working relationship with the Company or a special working relationship as a top executive or service provider. The Managing Director, for performing the assigned functions and being the Company's Chief Executive, receives the fixed salary indicated in the service provision contract which, as legally required, has been approved by the Board of Directors, subject to a favourable report from the Appointments and Remuneration Commission.
- Short-term variable remuneration is determined by the Board of Directors, at the proposal of the Appointments and Remuneration Commission, based on the degree of achievement of the Company's annual objectives and/or level of personal performance.
- Long-term Variable Remuneration Plans linked to achieving the Company's objectives.
- Possible savings and social welfare plans in the manner determined by the Board of Directors and other remuneration items.
- Severance pay and non-competition clauses.
- Inclusion of clauses allowing the variable remuneration bonus to be claimed in certain cases (malus/clawback).

The maximum annual amount of the Remuneration for all the Board Members in their capacity as such, approved by the General Shareholders' Meeting, is 1,900,000 euros. The Shareholders' Meeting not only participates in setting the remuneration items and maximum amounts indicated above through the approval of the Remuneration Policy. Ence also submits the **Annual Board Members' Remuneration Report** to a consultative vote by the General Shareholders' Meeting each year. The annual remuneration reports are available on Ence's website (<a href="https://www.ence.es/es/gobierno-corporativo-ence/informes-de-gobierno-corporativo-y-remuneraciones.html">https://www.ence.es/es/gobierno-corporativo-ence/informes-de-gobierno-corporativo-y-remuneraciones.html</a>). At the last General Shareholders' Meeting held on 22 March 2018, the item on the agenda corresponding to the consultative vote on the Annual Remuneration Report for 2017 was approved with 94.46% of the votes validly cast.

### Mechanisms to enhance the collective knowledge of the Board

Ence considers that updating board members' knowledge is one of the essential tools for guaranteeing good corporate governance. For this reason, Ence designs the necessary mechanisms for reinforcing and updating the general knowledge of board members, providing the most relevant training and periodic information regarding the main economic, social and environmental issues that affect the company's activity and its sector. Ence also keeps board members informed of the regulatory requirements applicable to the Company.

The main actions carried out by Ence with regard to Board Member training in 2018 include:

- The implementation of a **welcome programme** for new members of the Board of Directors, through which the most relevant information on the Company and its sector, as well as the main corporate policies, is presented to new Board Members. Furthermore, visits are planned for new Board Members to Ence operation centres.
- Providing Board members are provided with all presentations and relevant technical and legal information prior to and during the various meetings.



- The continuous and periodic participation of **executives**, **external auditors and advisors and experts** on the matters that the Board must debate, deliberate and approve in the different sessions, and the permanent interaction with them.
- The periodic sending of technical and sector reports to all the Board Members.
- The incorporation of a specific section of relevant information and training so as keep Board Members' knowledge up to date on the digital platform that Ence provides them for the preparation of Board Meetings and their committees.

#### Procedures to avoid and manage conflicts of interest

Ence's internal regulations, and in particular its **Board of Directors Regulations**, establish the regulations applicable to possible conflict of interest situations of the Board Members, specifying the actions to be carried out and the mechanisms to be applied to avoid and, where appropriate, manage such situations. The full Regulations of the Board of Directors are available to all Ence stakeholders on the company's website (<a href="https://www.ence.es/es/gobierno-corporativo-ence/estatutos-y-reglamentos.html">https://www.ence.es/es/gobierno-corporativo-ence/estatutos-y-reglamentos.html</a>).

The following are the articles of the Regulation establishing procedures for managing conflicts of interest:

- In any case, article 32.3 of the regulation establishes that Board Members must inform the Board
  of Directors of any direct or indirect conflict of interest which they or persons related to them may
  have with the Company.
- Article 33.2 states that Board Members may not directly or indirectly make professional or commercial transactions with the company, unless they are ordinary transactions made under standard conditions for customers and of little relevance, or if the company has authorised them. This authorisation must be approved by the General Shareholders' Meeting when it affects a transaction whose value exceeds ten per cent of the Company's assets.
- Article 40.1 also establishes that the Board of Directors must directly approve the transactions
  that the Company or its group companies carry out with Board Members, or with shareholders,
  individually or in concert with others, of a significant shareholding. Board Members affected by or
  representing or related to the affected shareholders must abstain from participating in the
  deliberation and voting on the resolution in question.
- In any case, section 2 from Article 40 establishes that the approval by the Board of Directors of
  the transactions described in the previous paragraph is subject to a report issued previously by
  the Audit Committee, in which the transaction shall be assessed especially from the point of view
  of market conditions and, where appropriate, equal treatment of shareholders.

In order to facilitate compliance with internal regulations in relation to the duties of Board Members, Ence provides a form that all members of the Board of Directors send to the Company, for the purpose of complying with their duties to provide information and, in particular, the provisions of article 229 of the Capital Companies Act regarding the duty to avoid situations of conflict of interest. Through this form, the Board Members communicate the following information:

- Main professional data: contact data and curriculum vitae update
- Ownership of and transactions in any fixed-income or equity securities issued by the Company
  that are listed on the Stock Exchange or other organised trading markets. In any case, this includes
  financial instruments or contracts of any type that grant the right to acquire or transfer these
  securities or that are referenced to these securities.
- Transactions carried out by companies in which managerial positions are held and those held by Related Persons.
- Statements in relation to not making transactions that may lead to a conflict of interest between the Company and the Board Member or Related Persons.
- Communication of those of their professional obligations that could interfere with the dedication required of Board Members for effectively performing their duties and, in any case, on the other



boards of directors of listed or unlisted companies to which they belong, as well as on other remunerated activities of any nature.

- Any event or situation that may be relevant to their performance as Board Members of the Company, especially those circumstances that affect them and that may damage the credit and reputation of the company and, in particular, criminal cases in which they appear as accused.
- Existence of contracts with entities to which Board Members are entrusted on a stable basis managing their securities portfolio and the identity of the manager. They must also send to the Regulatory Compliance Officer any information requested by him/her in relation to the transactions carried out on Affected Securities under these contracts. A copy of the information sent to him/her by the manager in relation to the Affected Securities must also be sent to the Regulatory Compliance Officer every six months, stating the date, number, price and type of transactions carried out on the Affected Securities.
- Any situation outside of the Company that may imply a change in the current category of Board Member

This form is sent as often as there are changes in this information and, in any case, at least once a year. Any conflicts of interest involving Board Members shall be **reported in the notes**.

#### Board's relationship with stakeholders

Chapter X of the Regulations of the Board of Directors regulates the Board's relations with **shareholders** and the markets. With regard to shareholders, the Board of Directors is expected to provide the appropriate channels for learning about the proposals that shareholders may make in relation to managing the company. One of the channels established for this purpose is the electronic shareholders' forum, through which shareholders can make their proposals to items on the agenda of the Meeting. The Board of Directors also promotes the informed participation of shareholders, providing them with the legally required information and information that may be of interest sufficiently in advance of the Meeting and attending with due diligence to the questions posed by the shareholders in relation to the Meeting.

In relation to the market, the Board of Directors immediately informs the public of relevant events that may significantly influence stock market prices, pursuant to the regulations governing the Securities Market, changes in the ownership structure of the company, such as variations in significant shareholdings, substantial modifications to the company's governance rules, treasury stock policies that the company proposes to carry out, under the auspices of the authorisations obtained at the General Shareholders' Meeting.

With regard to **other stakeholders**, the Board of Directors is ultimately responsible for supervising and controlling compliance with Ence's Sustainability Policy, which sets out the commitments that the company voluntarily establishes with each of its stakeholders. In particular, through its Sustainability Commission, the Board supervises and evaluates the communication and relationship strategy with the different stakeholders to ensure that the expectations and material aspects thereof are taken into account when defining the company's sustainability strategy.

Once the characteristics of the Board of Directors have been reviewed, Ence's **executive governing bodies** are briefly described below.

## **Management Committee**

As the main executive body, Ence has a Management Committee made up of the Chief Executive Officer, the General Managers of the business areas and the General Managers of the related corporate areas. This committee is responsible for the day-to-day management of the company and collectively adopts the main economic, social and environmental decisions which, where appropriate, may be submitted to the Board of Directors within its sphere of competence.



The members of the Management Committee report directly to the Committees and to the Board of Directors on the relevant matters that these governing bodies debate and, where appropriate, deliberate on. The Management Committee includes the following members:

- Chief Executive Officer (Ignacio de Colmenares Brunet)
- General Manager of Celulose (Jordi Aguiló Jubierre)
- General Manager of Operations of Independent Power Plants (Felipe Torroba Maestroni)
- General Manager of Supply Chain (Álvaro Eza Bernaola)
- General Manager of Human Capital (María José Zueras Saludas)
- General Manager of Finance and Corporate Development (Alfredo Avello de la Peña)
- Secretary General (Reyes Cerezo Rodríguez-Sedano)
- General Manager of Communication and Institutional Relations (Luis Carlos Martínez Martín)
- Sales and Logistics Manager Cellulose (Modesto Saiz Suárez)

In addition to the permanent members, there are members invited to the Management Committee who report on their respective management areas.

#### **Compliance Committee**

The competencies of the Compliance Committee encompass three large areas: (i) Code of Conduct, (ii) Crime Prevention and Detection Model, and (iii) Personal Date protection.

The functions of the Compliance Committee related to the Code of Conduct include promoting its knowledge, application, dissemination and compliance in Ence; ensuring its application in all Group companies; interpreting the Ence Code of Conduct in a binding manner; approving and implementing standards and procedures for their development and compliance; and receiving information from the communications sent through the Ence complaints channel, also issuing the conclusions and actions to be carried out in each case.

In the matter of the Crime Prevention and Detection Model, the Committee controls, supervises, evaluates and permanently updates compliance with the rules and procedures described in the Crime Prevention Protocol to ensure that all the controls and surveillance measures established by the Company are identified and described in order to avoid or mitigate the risk of criminal acts occurring in the organisation. This Committee also promotes the development of action plans to correct, update, generate or modify the measures and controls that form part of the Ence Crime Prevention and Detection Model.

The Committee also supervises compliance with all regulations related to the General Data Protection Regulation.

The Compliance Committee reports promptly to the Audit Committee, to which it reports, and is made up of the directors of the Human Capital General Directorate, the Cellulose General Directorate, the Energy Operations General Directorate, the Finance and Corporate Development General Directorate, the General Secretariat and the Internal Audit General Directorate.

## **Sustainability Committee**

Following the creation of the Board of Directors' Sustainability Commission in 2018, Ence has also set up a Sustainability Committee as the executive body responsible for facilitating planning, prioritisation of tasks and consensual decision-making on sustainability issues.

The main functions of the new Committee include implementing the corporate sustainability strategy in accordance with the policy and guidelines approved by the Committee, including setting objectives and monitoring their compliance. The Committee also approves Ence's adhesion to sectorial or intersectorial initiatives for promoting sustainability, establishes the relationship channels with stakeholders and

## **Sustainability Report 2018**



coordinates the preparation of non-financial information reports for presentation to the Sustainability Commission.

Thus, while the Commission is responsible for setting the guidelines and approving the Group's sustainability strategy, the Committee acts by promoting and implementing these guidelines at the operational level, while coordinating interaction between the areas on sustainability issues and also submitting proposals to the Commission for assessment.

The Sustainability Committee is formed of the Chief Executive Officer, who acts as Chairman, the General Secretary and the heads of the Human Capital General Directorate, the General Directorate of Cellulose, the General Directorate of Operations of Independent Energy Plants, the General Directorate of Finance and Corporate Development, the General Directorate of the Supply Chain and the General Directorate of Communication and Institutional Relations. The Corporate Sustainability Officer and the designated Sustainability Officers in each business area also participate as permanent members of the Committee.



## Risk management

Ence's **Risk Management System** ("RMS") is a process that is integrated into the organisation and focused on identifying, assessing, prioritising, responding to and following up on situations that pose a threat to the company's activities and objectives. This process involves the participation of different areas of the company with specific responsibilities that cover all of its phases.

Ence's Board of Directors, with the help of Senior Management, defines the principles of risk management to which the company is exposed and establishes the internal control systems that enable the impact and probability of occurrence of such events to be maintained within the accepted levels of risk appetite. The Internal Audit Department also verifies adequate implementation of the risk control and management principles and policies defined by the Board of Directors and monitors compliance with the internal control systems implemented in the organisation.

The specific roles and responsibilities of the different stakeholders involved in the risk management process are detailed below:

- The **Board of Directors** is ultimately responsible for identifying risks and implementing the appropriate internal control systems that enable the achievement of the established objectives
- The Audit Committee assists the Board of Directors in supervising the effectiveness of the company's internal control and internal control and risk management systems, including the internal control systems for financial reporting (ICFR), environmental, safety and occupational hazard prevention aspects.
- The Compliance Committee, which reports to the Board of Directors Audit Committee, is
  responsible for defining and updating Ence's criminal risk map, which identifies the company's
  activities within the scope of which the criminal offences that must be prevented may be
  committed.
- Ence's **Internal Audit Department** is responsible for the company's day-to-day risk management, drawing up the Group's procedures and criteria for risk management, and its periodic presentation to the Board of Directors through the Audit Committee.
- The general managers, directors and managers of the different departments of Ence are responsible for risks and continuously manage the different risks at their most operational level, within their respective areas.

Ence's Risk Management System covers Ence and all of the Group's companies, all of its businesses -cellulose, energy and forest- and the activities of its corporate areas and is defined and regulated in the **Risk Management and Control Policy** and Risk Management Procedure approved by the Board of Directors.

Ence's RMS has been defined following the guidelines of international reference frameworks, in particular the Enterprise Risk Management Integrated Framework of COSO (the Treadway Commission's Committee of Sponsoring Organisations) and is periodically reviewed to incorporate the best practices in this area.

The RMS contemplates risks for the different objectives established by Ence, distinguishing between strategic, operational, financial reporting and regulatory compliance objectives. In addition, the RMS establishes eight categories of risks to be analysed according to their nature:





#### Risk identification and analysis process

Every year, Ence evaluates and identifies new risks and monitors the evolution of risks that have been identified in previous periods and the risks that have ceased to be applicable in the year. It also updates the information relating to the controls and action plans associated with identified risks.

The **Risk Record** and the **Risk Map** are the formats used for the periodic report on the main risks identified and assessed in the different business, corporate and ancillary units, in accordance with the requirements established in the Risk Management and Control Policy and Procedure.

The risks identified are valued on the basis of two variables: impact and probability of occurrence. When assessing the impact, those responsible evaluate the potential seriousness of the risk in terms of health and safety, legal consequences, impact on the environment, economic impact and impact on the organisation's objectives. The impact on each of these stakeholders is assessed on a five-level scale from 'negligible' to 'very significant'. In the case of the probability of occurrence, the risks are evaluated on a percentage scale of probability also of five levels from the "rare" to the "almost certain"

In addition to assessing the impact and likelihood of occurrence of each assigned risk, those responsible in the different business areas or "risk owners" establish the appropriate actions to mitigate, reduce or transfer the risk in question. Once evaluated by the heads of the different business units, the Risk Map is reviewed by the Chief Executive Officer and the Management Committee, where the final prioritisation of critical risks is carried out and presented to the Audit Committee.

With this information, the Internal Audit Department prepares the **Internal Audit Plan** for the following year, which establishes the measures to check that the risks are well dimensioned and that the actions envisaged in the mitigation strategy are being carried out.

In the risk identification exercise carried out in 2018, which will serve as the basis for management in 2019, a total of 104 risks were identified. The following are the main risks that could have an impact on Ence's activity, together with the corresponding strategies and actions adopted by the company to mitigate these risks:

	Main risks associated with:	Risk mitigation strategies:
Risks in decision- making	Business continuity in relation to natural disasters and catastrophes, unexpected meteorological and geological conditions and other physical factors, fires, floods or other catastrophes that may affect production and storage facilities.	The prevention and minimisation of potential impacts consists of different management measures, for example:  - the fight against pests that threaten biological assets.  - training on fire prevention, insurance policy contracts, periodic audits and preventive measures for inspection, surveillance and control of activities.
	<b>Regulatory</b> compliance, especially in relation to the BREF regulation.	Ence actively participates in decision-making forums on the new BREF regulations.
	Market share, with respect to contracting demand for products and possible changes in market preferences.	Ence has strengthened its presence and positioning in the European market and continuously monitors trends in the paste market.
	Main risks associated with:	Risk mitigation strategies:



Financial risks	Financial discipline, in relation to the volatility of the price of paste, the exchange rate and the interest rate.  Fiscal risk, derived from the	Ence maintains permanent contact with financial institutions in order to contract, if necessary, the pertinent financial and/or future hedges to mitigate the impacts derived from the volatility of the price of paste. Ence also monitors the foreign exchange market and the evolution of the dollar and euro and links the most important financing transactions to fixed interest rates, with respect to exchange rate and interest rate volatilities, respectively.  The Audit Committee periodically monitors
	Public Administrations' fiscal policy.	the fiscal risks that the company faces in order to help the Board establish the fiscal risk management and control policy.  Ence also has a team of advisors and experts, combined with the availability of the company's dedicated resources, that have established internal fiscal compliance guidelines and lowered the risk assumed in this area.
	The <b>commercial credit risk</b> of customers in the pulp business as a result of the unfavourable evolution of their business.	Ence has contracted an insurance programme that assigns credit limits based on the customer's credit quality and provides coverage for almost all of the Group's pulp sales. There is also an internal Commercial Credit Risk Committee in which the evolution of customers is analysed in detail on a weekly basis.
	Main risks associated with:	Risk mitigation strategies:
	Improved production capacity, in relation to obsolete facilities and equipment	Ence works on civil works reviews, investments and maintenance programs to avoid obsolescence of facilities and equipment and to guarantee efficient productivity.
Operational risks	New product development, in relation to customers' needs	Ence has strengthened its presence and positioning in the European market and continuously monitors trends in the paste market.
	Optimisation of operating costs in relation to the most competitive goods and services	Ence periodically monitors the evolution of the main suppliers. The risk arising from an insufficient timber supply is managed mainly through increased market presence through standing purchase, small suppliers, contingency plans and minimum stocks to guarantee operations.



	Post-production logistics, with respect to end-product stock ruptures and shipping costs	Ence continuously reviews the stock plans to identify deviations and correct them. It has also adopted a management strategy of internally assuming the possible variation in the supply and price of maritime transport in order to minimise costs.
	Main risks associated with:	Risk mitigation strategies:
Organisational risks	Changes in <b>energy market</b> regulation	Ence maintains production levels in order to achieve the initially estimated profitability levels despite the change in energy market regulation.
	<b>Quality</b> Assurance and Occupational <b>Health and Safety</b>	Plans for occupational hazard prevention are in place, based on training and maintaining integrated management systems and obtaining ISO, OSHAS and FSC certificates.
		External audits are also carried out to verify compliance with the applicable occupational health and safety legislation.
Environmental risks	Main risks associated with:	Risk mitigation strategies:
	Environmental risks refer to the main risks associated with the impact of operating activities on the <b>environment</b>	Ence's mitigation strategies refer to continuous improvement actions and investments in facilities to reduce the risk of impact on the environment.
		Specifically, the continuous improvement actions focus on the vectors considered to be priorities in Ence's environmental sustainability strategy: reducing odorous impact, reducing noise, improving air quality, improving effluent quality and reducing the carbon footprint and water footprint.
		Ence actively participates in decision-making forums on the new BREF regulations.

Further information on the main risks identified during the respective years can be found in the Corporate Governance reports published annually by Ence (<a href="https://ence.es/conoce-ence/gobierno-corporativo/informe-de-gobierno-corporativo-y-remuneraciones-consejeros/">https://ence.es/conoce-ence/gobierno-corporativo-y-remuneraciones-consejeros/</a>).

## Risks arising from climate change

Ence, like any social and/or economic agent, is affected by the risks derived from climate change, as it is a global phenomenon that requires the development of adaptation initiatives to mitigate its effects.



Following FSB Task Force recommendations on Climate-related Financial Disclosures (TCFD), the climate risks faced by Ence can be classified into:

Risks related to the physical impacts of climate change: in addition to the acute physical risks from extreme weather events that are difficult to predict, Ence may be affected by chronic physical risks from changes in precipitation and temperature patterns that may lead to decreased water availability. Water is a necessary input for the production of cellulose and for the production of energy from biomass and photovoltaic solar energy.

Changes in ambient temperature may also give rise to the need to adapt some of the critical processes from an environmental point of view, such as those related to the treatment of effluents in sewage treatment plants, which are also closely associated with the generation of odorous impacts.

Changes in weather patterns may also affect the development of eucalyptus plantations, one of Ence's main sources of wood for cellulose production.

Although Ence does not recognise any of these risks as critical, the company has already implemented measures to reduce its vulnerability to them and, therefore, the potential impact they could have on its ability to generate value. Specifically, Ence's biofactories are carrying out projects to reduce consumption and reuse effluents to minimise the need for water for cellulose and energy production. At the forest management level, Ence develops improved eucalyptus plants to better resist occasional drought conditions, in addition to working actively to diversify wood sources for cellulose production.

<u>Risks arising from the transition to a low-carbon economy</u>: the main transition risks to which Ence
is exposed are the regulatory risks arising from potential tightening of GHG emission regulations
and the technological risks arising from the need to adopt lower-emission technology.

In this sense, although Ence does not recognise these risks as critical, measures are already being defined to mitigate the possible impacts they could have on the company. Thus, Ence has developed guidelines for the sustainability of biomass, which includes the minimisation of carbon emissions among its objectives, considering the balance of greenhouse gas emissions throughout its life cycle, minimising the distance of collection of agricultural and forestry waste. The biofactories are also carrying out measures to reduce the carbon footprint and improve energy efficiency, and in 2019 work will be carried out to define a protocol for calculating the organisation's carbon footprint, which will enable actions in these areas to be better directed.



# **Ethics and compliance**

Ence is a socially responsible company committed to a corporate culture based on the ethical behaviour of its employees, managers, and board members and upholds transparency as one of its main lines of action, both internally and in its relationships with all its stakeholders.

#### **Code of Conduct**

Ence's commitment to ethical behaviour, transparency, and the generation of trusting relationships with its stakeholders revolves around the **Code of Conduct**, which is binding on all employees, managers, board members and third parties acting on behalf of the company or falling under its scope of application.

With the formulation of this Code of Conduct, Ence aims for the definition of the ethical bases of trust in line with Ence's vision, the creation of a solid corporate culture, and a stronger corporate reputation. Ence's Code of Conduct is available to all the company's stakeholders and can be found on the company's website: https://ence.es/sostenibilidad/codigo-de-conducta/.

This Code establishes the **ethical pillars** of Ence's culture and sets out the principles that the company voluntarily undertakes to follow, establishing a commitment to ethical behaviour both within the company and beyond it with other stakeholders. The ethical pillars established in the Code are:



In addition to the general ethical pillars of Ence's culture, the Code of Conduct sets out the **guidelines for action in different areas**, specifying the objectives, commitments, and obligations for the company's personnel in terms of:

- Legal rules for employees.
- Conduct towards employees, including guidelines for safe working conditions, combating discrimination and harassment, and political and religious contributions and conduct.
- Proper use of corporate resources.
- Conflicts of interest, including guidelines on conflicts of interest in purchasing and the principles
  of action in purchasing. Derived from these principles and from the IFPSM (International
  Federation of Purchasing and Supply Management) Standards of Best Practices for the
  Purchasing Profession, the Code contains the Buyer's Guide that guides the behaviour of Ence's
  purchasing managers.
- Fighting against corruption and improper payments.
- Payments to facilitate procedures.
- Gift Policy.



- Transparency and integrity in financial information, including requirements for transparency and
  integrity in the recording of transactions, guidelines for financial and accounting reporting, for
  reporting information to the market, and to prevent insider trading.
- Fraud prevention.
- Confidentiality.
- Handling confidential documents.
- Competition.
- Government and media requests for information.
- Applying the Code of Ethics to personnel acting on behalf of Ence.
- Responsibility for implementing the Code and complying with the law.
- Obligation to declare compliance with the Code of Ethics.

The **monitoring and control** of the application of the Code of Conduct is the responsibility of the **Audit Committee**, which is the body that ensures its proper dissemination and strict compliance at the corporate level.

In addition, Ence has a **Complaints Channel**, through which all persons subject to the Code of Conduct can report possible breaches, issues, or conduct contrary to the Law and Ence's internal regulations. This channel can be accessed through the company's intranet, by email (<a href="mailto:canaldenuncias@ence.es">canaldenuncias@ence.es</a>), and post (Ence Energía y Celulosa Attn: Chairman of the Audit Committee Calle Beatriz de Bobadilla, 14 28040 Madrid).

In 2018, a total of 6 complaints were received through the aforementioned complaints channel and the corresponding proceedings were initiated.

## Fighting against corruption and bribery.

The Code of Conduct establishes the policy of **zero tolerance for corruption** and sets the guidelines for action regarding improper payments which must be followed by all Ence employees.

To monitor compliance, the Annual Internal Audit Plan includes the renewal of acceptance of the Code by all employees. In addition, each year a series of activities are planned based on a risk analysis that is updated annually. As such, the money laundering prevention system was assessed and an audit of industrial purchases was carried out in 2016, and employee and executive travel expenses were audited in 2018.

Regardless of the specific activities planned for the year, at least one audit of the standing timber and/or supply procurement area is carried out each year to verify the absence of corruption and bribery offences by individuals, covering 100% of the procurement areas. In 2018, no cases of breach in the regulations or precepts of the Code of Conduct regarding corruption and improper payments were detected.

Furthermore, the risk of fraud is analysed in all internal audits. In 2018, a total of 24 audit reports were carried out, with no breaches being detected in this regard.

## Prevention of money laundering.

Ence's business model is based on a direct B2B (Business to Business) relationship with industrial clients. For this reason, the risk analysis does not show the company being exposed to a money laundering risk. However, an audit focused on this aspect was carried out in 2016 and no breaches were detected in this regard.

Furthermore, in line with its commitment to ethics and corporate integrity, Ence has a series of **internal controls** to prevent money laundering and, by way of example, sales operations are analysed and blocked if it is detected that these involve customers located in sanctioned countries or tax havens.



## Criminal Compliance and the Crime Prevention and Detection Model

With a firm commitment to ensuring compliance with ethical principles and good corporate governance, Ence has among its priorities the development of a solid corporate culture of regulatory compliance, in which the company's ethical values are central elements in its activities and decision-making.

As such, and in line with the provisions in criminal legislation, Ence has internal regulatory instruments that meet the need to have adequate control and management systems in the area of criminal detection and prevention, included in the company's **Criminal Compliance Policy**, which has been drawn up in line with the main regulatory references and best practices in the area of compliance. This Policy is available to all Ence stakeholders on: <a href="https://ence.es/wp-content/uploads/2019/01/Pol%C3%ADtica-de-Cumplimiento-Penal.pdf">https://ence.es/wp-content/uploads/2019/01/Pol%C3%ADtica-de-Cumplimiento-Penal.pdf</a>.

In 2018, Ence continued its activities aimed at promoting its policies for fighting crime, through the **Crime Prevention and Detection Model** established by the company, in compliance with the requirements set forth in Organic Law 1/2015, which entered into force on 1 July 2015, amending the Criminal Code.

Said model includes, in addition to the Code of Conduct, a set of procedures whose objective is to ensure that Ence exercises the due prevention oversight that is legally required of any company with respect to stakeholders and before judicial and administrative bodies. The Crime Prevention and Detection Model incorporates a series of specific measures and controls for each applicable crime identified in any area (environment, business corruption, workers' rights, etc.) and also establishes the creation and operation of the **Compliance Committee** to control, supervise, evaluate, and update this model.

## Certification of the Criminal Compliance Management System

In 2018, Ence obtained the The Spanish Association for Standardisation and Certification (AENOR) certificate for the Criminal Compliance Management System in accordance with the UNE - 19601:2017 standard, making it the first company in its sector to receive this recognition, which certifies an efficient management system to prevent the commission of crimes and reduce the company's criminal risk.

This certification, which is voluntary and reviewed annually, confirms that Ence has implemented a criminal compliance management system through the prevention, detection, and management of conduct that does not comply with the company's standards. The certificate takes into account the provisions in Organic Law 1/2015 on Criminal Code Reform with respect to the requirements for crime prevention models and complements them with the best international practices established in the area of social responsibility, compliance, and risk management.



This certification confirms Ence's commitment to corporate governance best practices, responsibility, transparency and commitment to its stakeholders, and to the highest standards of business ethics and the reduction of criminal risk in carrying out its activities.

# **Training and outreach**

Another of Ence's lines of action in terms of ethics and compliance involves transmitting the company's commitment to integrity in all its activities to all its employees. Therefore, the company carries out numerous training and outreach activities in this regard, among which the following are most noteworthy:

- Implementing training activities to raise awareness of the Code of Conduct at all Ence sites. In 2018, 82% of employees underwent training in this area.
- Downstream internal communication and presentation to management and individual contract staff.

# **Sustainability Report 2018**



- Formal acceptance through the annual declaration of compliance with the Code of Conduct and the Conflict of Interests Declaration.
- Meetings with the Workers' Committees at the Navia and Pontevedra operations sites to explain
  and strengthen knowledge and dissemination of Ence's Code of Ethics. In 2018, a meeting was
  also held with the Navia Workers' Committees to present and explain the Criminal Compliance
  Policy.



# **Excellence in management**

Ence is committed to excellence in management based on quality, efficiency, and continuous improvement. In order to make this commitment a reality, Ence has implemented the **TQM Model** (*Total Quality Management*) since 2011 as a model for cultural transformation and management practices.

Within this framework, and thanks to the involvement of Senior Management, its own excellence in management model has been developed, the implementation of which is carried out with a focus on continuous improvement aimed at efficiency and competitiveness. This model addresses aspects of quality, people's health and safety, environmental protection, and pollution prevention in an integrated manner.

The TQM management model is structured around three axes ("Guiding Improvement", "Process Management", and "Daily Activity Management") that facilitate understanding and implementing it. Within the model's framework, 16 policies have been defined which establish the principles and approaches to be followed in decision-making, as well as the guidelines and criteria to be followed in the use of resources. These policies include those relating to quality, operations, procurement, investment, the environment, and health and safety.



The model also establishes a series of **Fundamental Improvement Objectives** with a clear environmental focus. Noteworthy among these are objectives focused on minimising the business-related impacts, such as:

- · Reducing the impact of odours
- Reducing waste generation
- Reducing water consumption
- Reducing noise and dust

In 2018, within the TQM management model framework, **improvement** actions aligned with the **PDCA** cycle (*Plan, Do, Check, Act*) were developed, focused on reducing impacts from odour, particle emissions and waste generation and taking action on operational improvements, process controls and maintenance.

**Control** actions have also been developed for the management of daily activity and process controls within the **SDCA** cycle (*Standardize, Do, Check, Act*), with the aim of reducing variability and achieving operational improvements in key process indicators (KPIs). The results achieved attest to the effectiveness of this management model and the involvement of the entire organisation, from operational to managerial levels.

In addition to the commitment by the entire organisation, Ence's commitment to excellence also translates into an important **investment effort** for the implementation of the best available techniques (BAT), as well as the best environmental practices defined in the sector's BREF (*Best Available Techniques in the Pulp and Paper Industry 2014*) approved by the European Parliament's Committee on the Environment.

# **Integrated Management System**

Ence has developed an Integrated Management System with the purpose of ensuring that all the company's activities are done in accordance with the Management Policy established by Senior Management and with the defined objectives and goals. This integrated management system is **certified** 



**by an accredited body** that carries out the corresponding audits annually. Management is organised by identified and evaluated processes to facilitate monitoring and continuous improvement.

The integrated management system is in place at the **Huelva**, **Navia**, and **Pontevedra** operations sites, in accordance with the following international standards:

- UNE-EN-ISO 9001:2008, for quality management
- UNE-EN-ISO 14001:2004, for environmental management
- OHSAS 18001:2007, for occupational health and safety management

In addition, the three operations sites participate in **EC Regulation 1221/2009** on an Eco-Management and Audit Scheme (**EMAS**). Validation of the Environmental Declaration allows the sites to remain registered under this scheme, each site having been the first to reach this demanding voluntary commitment in their respective autonomous communities, which only a small number of companies have reached to this day.





# Sustainability management

Sustainability has always been inherent in Ence's activities as a business leader in bioeconomy and renewable energy production and constitutes an indispensable part of its vision and mission in addition to being a strategic priority for Ence.

Ence's vision is to be the leader in the complete and **sustainable** use of trees and other natural resources for the production of special cellulose and **renewable** energy and its mission is to provide, efficiently and competitively, solutions to meet the needs of its customers, promote a **sustainable** forestry sector, and grow and diversify in **renewable** energy and cellulose.



For this reason, Ence makes sustainability the core of its business and carries out its activities following the principles of economic, environmental, labour, and social sustainability, with a calling for involvement and proximity with its environment and its issues, its development, and the improvement of the quality of life of the people who live there.

## **Sustainability Policy**

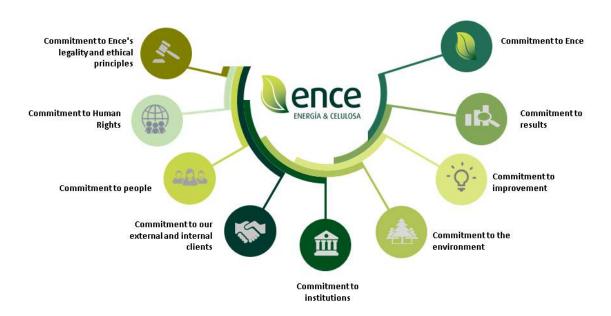
In order to affirm this commitment to sustainability, in accordance with the regulatory requirements and recommendations regarding good corporate governance, Ence's Board of Directors agreed to approve the company's first Corporate Social Responsibility policy in 2015 and to ensure it is implemented and complied with. In 2018, the Board of Directors approved the Sustainability Policy, which includes and updates the contents of this CSR policy in order to strengthen Ence's commitment to the creation of shared and sustainable value. The new Sustainability Policy reflects the company's intention to take sustainability management a step further and become a key player in the generation of value based on the sustainable use of renewable natural resources and the contribution to the circular economy.

This Policy's main objective is to establish Ence's guidelines for action to:

- Contribute to improving people's well-being.
- Ensure the environmental sustainability of its activities.
- Stimulate economic and social development in the communities in which Ence is present.
- Create sustainable value over time for its shareholders and investors, employees, forest owners, customers and suppliers, influence groups, communities, and surroundings.



The Sustainability Policy establishes the principles that serve as a frame of reference to inspire and govern the organisation's operations and are structured around nine general commitments:



The Sustainability Policy also identifies Ence's main stakeholders (shareholders and investors, individuals, customers, partners and suppliers, forest owners, administrations and regulators, the environment, and influence groups) and determines the specific commitments that the company establishes with each one. The Sustainability Policy also details the ways of connecting to each stakeholder group. This Policy is available on Ence's website (<a href="https://ence.es/sostenibilidad/politica-de-rsc/">https://ence.es/sostenibilidad/politica-de-rsc/</a>).



This Sustainability Policy should not be viewed in isolation from the rest of the rules that regulate Ence's system of governance and whose maximum example is the Code of Conduct, which establishes the



principles and values that necessarily guide the behaviour of the people who form part of the company, both in their daily work and in their relationships with their stakeholders, and in which a true corporate ethical culture is promoted. For more information on the Code of Conduct, see the Corporate Governance section.

#### **Governing Bodies**

At its meeting on 24 April 2018, Ence's Board of Directors agreed to create a **Sustainability Commission** with the aim of promoting the company's sustainability strategy and initiatives. This commission meets at least four times yearly and has, among other, the following duties:

- Regularly review and update the Sustainability Policy.
- Monitor sustainability strategy and practices and assess the degree of compliance with them.
- Report, prior to approval by the Board of Directors, on the company's non-financial information status.
- Coordinating non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.
- Understand significant legal changes in terms of sustainability and responsible innovation, as well as trends in this area such as those related to the circular economy.
- Supervise and evaluate the communication strategy and relationship with different stakeholders, except for shareholders and investors.
- Understand and guide the company's environmental and safety policies, checking that they are effective and that they are managed to promote and ensure compliance.
- Know and promote the company's social action strategy.
- Know, review, and monitor the company's initiatives and actions directly related to the sustainability of the cellulose market and the production of renewable energy.
- Know, review, and monitor the company's actions in relation to its forest assets and, in particular, to promote the sustainable management of forest areas.

At the executive level, a **corporate Sustainability Committee** was created in 2018, chaired by Ence's CEO and joined in participation by the heads of the business areas (Pulp, Energy, and Supply Chain) and the Directors of Human Resources, Communications, and the General Secretariat.

The Corporate Sustainability Officer and the designated Sustainability Officers in each business area also participate as permanent members of the Committee.

The Sustainability Committee is the body tasked with approving the Sustainability Master Plan, including its lines of action, objectives, and performance indicators, in addition to oversight duties of it.

The Committee is also responsible for establishing Ence's relationship mechanisms with its stakeholders, encouraging active and dynamic dialogue with them, and deciding Ence's participation in sectoral or intersectoral initiatives to promote sustainability.

At the operational level, the Committee also establishes coordination mechanisms between the various departments to promote sustainability initiatives and oversees compliance with the company's commitments in this area. In addition, this body is responsible for overseeing the safeguarding and improvement of Ence's corporate reputation.



The daily management of aspects related to sustainability is carried out within the business areas and coordinated from the corporate sustainability area. This area is also responsible for reporting non-



financial information and providing a centralised response to sustainability information requests from analysts, customers, and other Ence stakeholders.

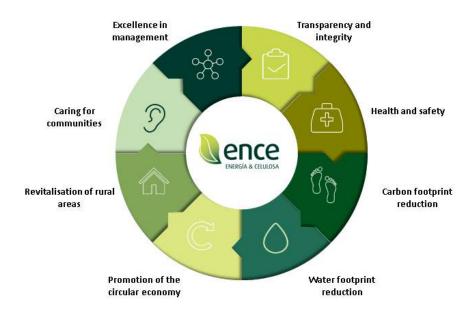
#### **Priorities for action**

Ence's sustainability priorities were announced in November 2018 as part of the presentation of the company's Strategic Plan 2019-2023. These lines will be developed and applied in specific lines of action through the definition of a **Sustainability Master Plan** in early 2019.

The process of defining the Plan will be based on an analysis of the context and expectations of the company's stakeholders and on an internal analysis that will detect the main risks and opportunities in terms of sustainability for Ence. This information will be used to update the company's materiality analysis, aligning it with the strategic priorities defined in the SP 2019-2023.

The Master Plan will also serve to define performance indicators and set objectives for each line of action and is set to be presented and approved by Ence's Sustainability Committee and Commission. These same bodies will be responsible for monitoring compliance with the objectives established.

Ence's priority lines of action in terms of sustainability are:



Ence's Strategic Plan 2019-2023 envisages an investment range of between €125 and €225 million over the period to advance in these areas, and specifically to strengthen the reliability, environmental excellence, and safety of the company's operations sites.

Although they share common themes, the Strategic Plan has also defined specific priority lines of action regarding sustainability for the pulp and energy business areas to manage the impacts and maximise the opportunities inherent to each and to adapt to stakeholder expectations.

The priority areas in the cellulose production business line include aspects such as the promotion of sustainable wood certification both in Ence's forest assets and in the holdings of other forest owners and the minimisation of impacts such as odour and noise near biofactories. Regarding stakeholder relations,

# **Sustainability Report 2018**



special emphasis is placed on support and commitment to timber owners and involvement with the communities in which Ence is present.

The priority areas in the line of renewable energy include aspects such as promoting the circular economy and revitalising rural areas, as Ence contributes to distributing the business model of agricultural holdings taking advantage of their surplus biomass to generate clean electricity and avoid depopulation in these areas.



## **Business lines**

## **Pulp production**

Ence is the leading European company in the production of eucalyptus pulp, focused on offering the best solutions for its customers' needs in the paper sector based on the quality of its products, its technical and service capacity, and its proximity to customers. As such, it has an advanced, agile, and precise logistics system.

Ence's production capacity amounts to 1,100,000 tonnes of pulp per year, placing the company at the forefront of the eucalyptus pulp production sector in Europe and second in market share.

The company produces eucalyptus pulp at its biofactories in **Navia** (Asturias) and **Pontevedra** (Galicia), which use the most environmentally-friendly technology and continuous improvement processes to strengthen their competitiveness and quality. The Navia biofactory has a production capacity of 605,000 tonnes per year and uses the ECF (*Elemental Chlorine Free*) bleaching process. At the Pontevedra biofactory, which has a capacity of 495,000 tonnes per year, bleaching is TCF (*Total Chlorine Free*), meaning that no chlorine compounds are used in the process but, rather, hydrogen peroxide is used as a bleaching agent.



#### **Pulp production process**

The production process in Ence's biofactories is based on using natural raw materials in a way that is respectful to the environment and in compliance with the **strictest European environmental standards**. In fact, Ence has incorporated the Best Available Techniques (MTD-BAT) defined for the pulp and paper sector in the international BREF regulation, as well as the Best Environmental Practices (BEP) into its processes.

The pulp production process is an example of a **circular economy**, since pulp is produced from renewable raw materials such as wood, which is used to manufacture recyclable products and which can replace non-renewable products such as plastic. The process also generates energy from biomass that is not used for pulp production, thereby helping to reduce energy intensity and the company's carbon footprint.

The process takes place in the following phases:

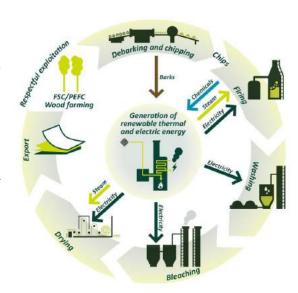
Debarking and chipping



Ence's biofactories work with eucalyptus timber that is grown in certified plantations mainly in Galicia and Asturias and managed in a sustainable and responsible manner. When the trunks arrive at the biofactory, their bark is extracted and chipped and then cooked to obtain the pulp.

## Cooking

The bark and other plant matter are used as biofuel to generate electricity and thermal energy in the form of steam, which is used to cook the chips in large containers called digesters along with a liquid made up of several elements that help to separate pulp fibres from lignin, another major component of wood.



## Renewable energy generation

The cooking liquid is recovered and reused in the process. Lignin, which is an excellent renewable and natural biofuel, is also used to generate more electricity and thermal energy in the form of steam, to feed the pulp manufacturing process.

# Washing and bleaching

The resulting pulp fibres are washed with water to remove impurities and lignin residues. The paste is bleached using an environmentally friendly process (ECF in the Navia plant and TCF in the Pontevedra plant).

# Drying

The pulp is dried, cut and packed utilising the steam and electricity produced in the biofactory process.

#### **Export**

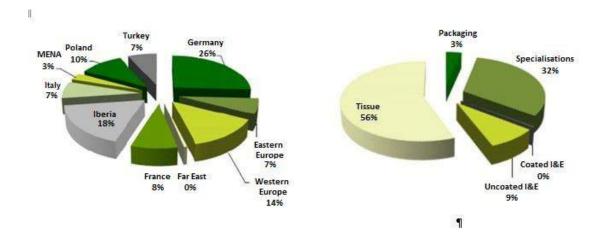
The pulp is prepared for marketing with the prestigious Nordic Swan environmental quality seal from the Scandinavian countries, and the excess electricity from the process is exported to the electricity grid.

# **Production sales and destination**

Total sales in 2018 were 947,488 tAD. Ence exports most of its pulp production to Europe, which has the most demanding customers in the world market, supplying products that meet their needs and with special qualities using an advanced logistics system.

The main markets served by Ence are Germany, with 26% of sales, Spain and Portugal, with 18%, other Western European countries (14%), France (8%) and Italy (7%).





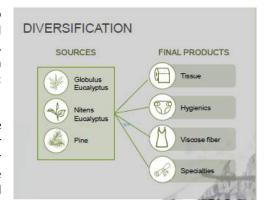
In terms of final product, the qualities of the pulp produced by Ence and the advantages of its service have enabled the company to achieve high penetration in the tissue paper segment, where more than 50% of sales are concentrated, as well as in the specialty segment, which accounts for 32% of sales.

# Strategy

In 2018, the new **2019-2023 Strategic Plan** was launched, in which Ence demonstrates its commitment to pulp production **growth** based on **diversification** in terms of raw materials and at the level of final products.

Ence's objective with regard to the raw material is to take advantage of the availability of the different wood species in the biofactories' areas of influence. Thus, production processes are adapted to obtain maximum performance and the highest quality from the wood; mainly eucalyptus *globulus* and *nitens* and pine.

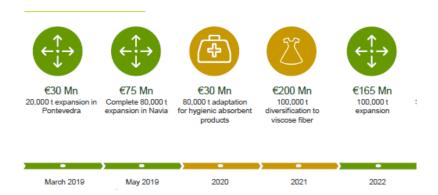
In terms of products, the necessary adaptations are made to produce dissolving pulp (raw material for manufacturing viscose fabrics) and fluff (for manufacturing absorbent products, nappies, feminine hygiene), in addition to producing pulp for paper and specialty applications.



The premise of this new Strategic Plan is the global context of continued growth in the demand for pulp, derived from, among other factors, improved living standards in emerging countries and greater demand for renewable materials to replace synthetic fibres derived from oil, such as viscose used in textile production. The higher demand for these products, together with the lack of significant increases in production capacity forecast for the next few years, mark Ence's roadmap, with the objective of increasing pulp production volume to 1.3 M t in 2023.

In order to achieve its objectives, Ence plans to **invest** €500 M over the Plan's time horizon (2019-2023) into various projects to expand capacity in the Navia and Pontevedra biofactories and adapt their processes for producing pulp for absorbent and viscose hygiene products.





In order to meet these objectives, Ence also has a number of **advantages** that place it in a privileged position to compete in the sector, including:

- ✓ Access to eucalyptus plantations near their pulp biofactories and access to pine wood.
- Competitive advantage of short-fibre pulp production (price and substitutability of long-fibre products).
- High-quality pulp and differentiated offer (TCF, non-generic product offer).
- Privileged access to the European market: just-in-time service, with reduced delivery times and logistics costs.
- ✓ Highly diverse customer base: more than 100 customers in a heterogeneous commercial network with excellent customer service.

The Strategic Plan also focuses on Ence's commitment to **excellence in sustainability**, which goes beyond regulatory compliance and focuses on, among others, reducing the carbon footprint and water footprint in the pulp production process, minimising noise and odorous impact, and promoting sustainable wood certification.





## **Ence Biofactory in Pontevedra**

Ence's biofactory in Pontevedra produces chlorine-free paper pulp and energy from forest biomass. It is one of only two mills in Europe producing TCF pulp from eucalyptus wood.

More than 96% of Ence's pulp production in Pontevedra is exported, mainly to Northern European countries. The biofactory works with wood produced mostly in forest crops in Galicia. A large part of the biofactory's production is ultimately converted by Ence's customers into tissue paper, although the pulp is also used for other paper applications.



Ence has made its Galician biofactory one of the leading plants in the world in terms of environmental performance in its sector. Its environmental management results improve the BREF indicators by up to 80%, which define the best practices in the European Union for pulp production. Biomass energy production makes the Ence biofactory in Pontevedra practically self-sufficient in energy: it generates almost all the renewable energy it consumes in its industrial process from the part of the wood that is not used to produce pulp and local biomass.

Ence provides its stakeholders with information on the environmental performance of its Pontevedra biofactory in real time on its website <a href="www.encepontevedra.com">www.encepontevedra.com</a>, as well as in the environmental statement it publishes annually (<a href="https://ence.es/sostenibilidad/declaraciones-ambientales/">https://ence.es/sostenibilidad/declaraciones-ambientales/</a>)

## Backbone effect and contribution to employment

Ence generates more than 5,000 jobs in Galicia, 800 of which are in Pontevedra and in neighbouring municipalities. Almost 2,100 of these jobs are also in forestry, and the remaining 3,000 belong to the industrial area, logistics, and other activities derived from timber harvesting, transport and processing.

The company is therefore key to the **development of the forestry sector** throughout Galicia. It is the main customer of wood producers, generates stable and close high demand and transfers knowledge about the needs of the global industrial sector. The company directly manages around 10,500 hectares of forest crops in Galicia and has a direct relationship with forest owners, suppliers, associations and suppliers, from whom it buys wood worth around 100 million in revenue per year.

## Excellence in sustainability

Ence Pontevedra has ISO 9001 Quality and ISO 14001 Environment certifications. It is present on the EMAS Register and, like all Ence production centres, has an Occupational Hazard Prevention Management System that is OHSAS 18001 certified.

Ence dedicates a significant part of its investment to researching and implementing projects to continuously improve its environmental performance and minimise inconvenience to its neighbours. More information on these aspects can be found in the Environment section of this report, although the main lines of action regarding environmental performance at the Pontevedra biofactory are detailed below:



#### Odour reduction

Since 2010, and in collaboration with the University of Santiago de Compostela, work has also been underway on a project aimed at minimising factory odours, which has made significant progress, resulting in 99.3% less odour emissions from the biofactory in 2018 compared to the 2010 levels.

## Vapour and noise reduction

Ence's engineers are working to find the best solution to reduce vapour emissions and minimise biofactory noise. Most of the air emissions from the factory are from steam; however, the reduction of these emissions significantly improves the visual impact of Ence's installations in Pontevedra.

## • Integration into the environment

With the aim of improving the integration of the Pontevedra biofactory into its surroundings, Ence launched an Architectural Landscape Integration Competition at the end of 2012. The projects received were studied and evaluated in detail by a panel made up of professionals from the sector, representatives of the local administration and company executives. The winning project continued to be implemented in 2018.

#### New water cycle

The **new water cycle** project is Ence's commitment to water reuse and minimum consumption. This technological project will make it possible to reduce the volume of effluent to the Pontevedra estuary by 40% and to take only 60% of the flow currently consumed from the River Lérez. More information on this project and on the environmental performance of both biofactories can be found in the Commitment to the Environment section of this report.

Environmental investments in the Pontevedra Biofactory totaled six million euros in 2018.

## Commitment to the environment and the community

In addition to generating value and respecting the environment, Ence maintains a commitment to the community in which its production centers are located. In the case of Pontevedra, the main exponent of Ence's commitment to the community is the **Pontevedra Social Plan**, which annually allocates assistance to funding social, cultural, environmental, sporting, economic promotion and employment projects, among others.

Further information on the Pontevedra Social Plan can be found on the specific website (<a href="http://plansocialence.es">http://plansocialence.es</a>) and in the commitment to Society section of this report.



## **Ence Biofactory in Navia**



The biofactory in Navia (Asturias) is Ence's largest production capacity centre, and with the recent expansion and improvement of its facilities, the largest and most efficient eucalyptus pulp mill on the market in Europe. The biofactory's current production capacity is 605,000 tonnes/year of high quality ECF (*Elementary Chlorine Free*) eucalyptus pulp. This capacity will be increased with the execution of the "**Navia 80**" project, which will increase the factory's capacity by 80,000 tons and will be operational in 2019.

The plant, located on the right bank of the River Navia, occupies a total area of 505,130 square meters. At its heart is a production process that has succeeded in being self-sufficient and producing surplus energy, and at the same time a model in terms of sustainability and environmental excellence.

Navia's cellulose is especially valued by the **specialty** paper market, thanks to the quality of the wood used and a process focused on obtaining the quality parameters required for decorative and multi-layer papers, filters and other special papers, while maintaining the parameters required for printing and writing papers and tissue. Navia's production is mainly destined for the European Union.

## Backbone effect and contribution to employment

The Ence biofactory in Navia is a leading industry benchmark in the western Asturias region. Ence's activity in Asturias generates approximately 3,000 stable jobs directly, of which 400 are workers in the Navia biofactory itself. Of these, more than 70% come from Navia and neighbouring municipalities.

The positive impact of Ence's biofactory in Navia is also very important to the forestry sector, where 1,500 jobs have been created, and in industries related to Ence's activity, such as the use, transport and transformation of wood. Similarly, Ence's activity in Asturias represents an economic engine that generates wealth indirectly in other sectors such as hotels, the food sector and small and medium businesses.

# **Excellence in sustainability**

Ence's policy of commitment to the environment is to anticipate legislative requirements. The commitment to continuous improvement assumed by Ence in Navia, and endorsed by holding its environmental certification since 1999 and the entry, in 2002, into the premium European register of companies voluntarily adhering to the Eco-Management and Audit Scheme (EMAS), is one of the main signs of the company's concern to reconcile its activity with respect for the environment.



Similarly, like the Pontevedra biofactory, Ence Navia has the ISO 9001 Quality and ISO 14001 Environmental certifications, is present in the EMAS Register and has an Occupational Risk Prevention Management System certified according to OHSAS 18001.

As with its other centres, Ence provides interested parties full information on the environmental performance of its Navia biofactory in the Environmental Declaration 2017 (https://ence.es/sostenibilidad/declaraciones-ambientales/)

Ence has focused its efforts on improving the environmental aspects of Navia's biofactory through significant investments, which have reached 5.2 million euros in 2018 and which demonstrate Ence's clear commitment to the continuous improvement of the process and the environmental performance of its activity, permitting compliance with strict European environmental standards. The main lines of action in terms of environmental performance at the Navia biofactory are summarized below:

- Air quality
  - The company has made significant efforts to minimize environmental impacts on air quality.
- Reducing the impact of odours
   The reduction of odours is another of the key points on which Ence bases its commitment to the environment and the surroundings of its biofactories. Almost 20 million euros have been invested in Navia over the last decade to completely reduce the impact of the biofactory. Data indicate that the odour impact has been reduced by 99.4 percent since 2011.
- Noise reduction
   In recent years, numerous projects have been carried out to reduce the acoustic impact around the perimeter of the Navia plant, focusing on eliminating specific nuisance and soundproofing all facilities with the highest sound emission.
- Minimisation and recovery of waste
   Ence's efforts in Navia are also aimed at reducing waste generation, with the implementation of the basic principles of the circular economy in all its products, internal by-products and waste, through internal use projects and promoting the reuse and valorization of waste materials.

# Commitment to the environment and the community

Ence also maintains a commitment to its immediate surroundings and to the community in which it is located, the council of Navia, and neighbouring municipalities. As part of this commitment, in July 2007 the company signed a collaboration agreement with Navia Town Council to boost social, sporting and cultural initiatives and activities, to promote training and local employment, and encourage the contracting of services in the area. This agreement is endowed with 100,000 euros per year, and is complemented by a series of collaborations with other environmental agents. For more information about the actions carried out by Ence within the framework of this agreement, please consult the Society section of this report.



## R+D+i

Ence's efforts in terms of innovation in the pulp production business line are focused, among other areas, on improving process efficiency, diversifying the range of final products derived from the pulp and valorizing the process by-products, especially lignin.

For the **diversification of products**, a specific work team has been created with the aim of developing new, special products addressing the requirements of each customer, where characteristics are offered appropriate to the most important parameters depending on each type of paper.



By-product valorization projects focused on the use of **lignin** are especially relevant since they contribute to providing options to **reduce dependence on non-renewable fossil raw materials**, such as plastics derived from petroleum. Lignin can play an important role in this context given its abundance and versatility to be processed and used in various applications and transformed into high value-added products for various industries.

With these projects, Ence reinforces its commitment to continuous improvement and operational and environmental excellence, as well as demonstrating its commitment to promoting the circular economy through the sustainable use of all resources obtained from wood.

## **Outstanding projects**

In 2018, work began on the **NOVACELL** project, led by Ence for the development of **nanocellulosic materials** from cellulose pulp and its suitability for applications of interest in the chemical sectors, the production of plastic-composites, paper, packaging, cosmetics and water treatment. This project is supported by the Spanish Centre for the Development of Industrial Technology through a CIEN grant.

2018 has also seen the culmination of the **LIGNOSPREAD** project for the valorization of **lignin** from black liquor and its transformation into innovative and sustainable products. Five other Galician companies participated in this project, which saw Ence as its leader, and is part of the Action Challenge on **climate change and efficiency** in the use of resources and raw materials of the FEDER INNTERCONECTA 2015 call (co-financed by the European Regional Development Fund). The project, subsidized by the CDTI, was supported by the Ministry of Economy. The project aims to develop techniques for the extraction, purification and derivatization of lignin to be used in the development of new products, such as flocculants for water treatment, detergents, insulating panels for the construction sector, stabilizers for forest soils and foam for fillers in the automotive sector.

In the **industrial area**, Ence continues to work on projects aimed at improving the properties of the cellulose produced, such as dimensional stability, smoothness, opacity and whiteness stability, as well as on the development of new non-paper products.

Focusing on **continuous process improvement**, the use of sodium carbonate and magnesium oxide as substitutes for soda and magnesium sulfate has been tested in some phases of the process. The use of forestry by-products for pulp production has also been evaluated at a pilot scale.

In **wood measurement**, the vibroacoustic testing project has been completed. In 2019, a prototype will be evaluated for wood measurement using 3D laser cubing coupled to a microwave absorption arc.







# **Power generation**

Another of Ence's lines of activity consists of the generation of renewable electrical energy from biomass and, since 2018 and as part of its diversification strategy, also from solar thermal energy. Ence has a total installed power of 332 MW, of which 50 MW correspond to solar thermal generation, 13 MW to cogeneration with natural gas and 269 MW correspond to biomass generation, making Ence the leading company in Spain in electricity production from this renewable source.

Ence develops its energy production activity across **10** generation plants. They can be differentiated by their typology:

- Two biomass cogeneration plants integrated in the cellulose biofactories of Pontevedra (Galicia) and Navia (Asturias), where both heat and electricity are used for the industrial activity developed by Ence in its biofactories, and the surplus electricity is sold to the National Electricity System.
- A solar thermal plant in Puertollano (Ciudad Real), acquired at the end of 2018.
- Seven independent generation plants that are fed exclusively with biomass from forest and agricultural by-products and a natural gas cogeneration plant acquired in June 2017 and located in Lucena (Córdoba) together with the existing biomass plant on the same site.

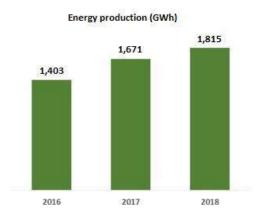
In addition to the plants in operation, Ence is building two new biomass power generation plants in Huelva (46 MW) and Puertollano (50MW), which are expected to come into commercial operation during the last quarter of 2019.





All Ence's generation and cogeneration groups are inscribed in the register of electricity producers under the special regime, regulated by RD 413/2014, which governs the production of electricity from renewable energy sources

Across all its plants, the production of electricity in 2018 was 1,815.4 GWh.



## Strategic Plan 2019-2023

2018 is marked by the presentation of the **new Strategic Plan 2019-2023**, where Ence declares its intention to grow in the renewable energy sector through diversification in generation technologies (biomass, solar thermal, solar photovoltaic) and in biomass sources (expanding the variety of agricultural by-products and forest biomass).

The growth strategy in renewable energy is based on the global context, marked by the need to address the challenge of **climate change** and accelerate the **just transition** to a decarbonized energy model, and specifically in the Spanish and European context, as in order to meet the European Union's 2030 target of renewable energy consumption, set at 32%, Spain must double its current renewable energy generation.



To boost this growth, Ence will allocate at least

615 million euros towards **investment** during the period 2019-2023. This investment is intended for the acquisition of the new solar thermal plant in Puertollano, completing the generation plants with biomass currently under construction, acquiring new brownfield and/or greenfield biomass plants and diversification projects into other renewable energies, where Ence can add value.

This same Plan includes a clear objective of **excellence in sustainability**. In this regard, the main objectives pursued by Ence are, among others, the reduction of its carbon footprint and water footprint, the creation of employment in rural areas and the reduction and valorization of by-products.





## The generation of electricity from biomass, an example of a circular economy

For the production of energy from biomass, Ence uses as raw material biomass from two main sources:

 Bark and other wood residues used for the production of pulp, forest residues from the clearing and sustainable management of Spanish forests and agricultural residues as diverse as they are abundant (cotton bush, cereal straw, pruning waste from olive and fruit trees, pomace, etc.). As mentioned above, Ence's strategy in this respect is to further diversify biomass sources.



• Lignin, which is obtained as a result of the pulp production process and which is used both to recover chemical products that are reused again in the cooking process and to generate thermal and electrical energy.

Taking into account the commitment made by the Spanish Government to reach the year 2030 with 35% of energy generated from renewable sources, biomass generation has enormous **potential for development** in Spain, which is one of the countries with the largest forest and agricultural area in the European Union. It is estimated that more than 60 Mn t of biomass are produced annually in Spain, of which 25 Mn t are not used and could serve to supply up to 4,000 MW of renewable energy.

In addition, surplus biomass that is not used for energy production carries several risks because:

- In many cases, agricultural residues are burned uncontrollably, generating pollution problems and the risk of fires.
- Without regular clearing, the biomass accumulated on the forest floor acts as fuel in the event of a fire.
- The decomposition process of unmanaged biomass directly releases CO<sub>2</sub> and methane into the atmosphere.

Therefore, the generation of energy from local biomass is an example of **circular economy** and environmental protection through the capture of CO<sub>2</sub>, the care and cleaning of forest areas (reducing up to 70% the risk of fire) and the valorization and management of agricultural by-products, avoiding the uncontrolled burning of stubble or pruning waste and taking advantage of by-products such as pomace from an industry as important as olive oil in Spain.



In addition, unlike other renewable technologies, the generation of energy from biomass is **fully manageable**: it can operate 24 hours a day, 365 days a year, exceeding 8,000 hours of annual operation and provides a **high socio-economic value** as it contributes to the generation of employment and industrialisation and also development of the rural environment, thus preventing the depopulation of these areas.

## Sustainable management of biomass

As a basic principle of sustainability and care in the responsible management of resources, Ence, in collaboration with ecological associations, drafted and adopted the **Guide on the Sustainability of Biomass as Fuel**, in which as the main lines principles are established for the reduction of the impact of CO<sub>2</sub> emissions, for the non-use of wood with alternative uses and not competing with the uses of biomass for animal feed and people. The Code is a public and voluntary commitment of the company and can be consulted on: <a href="https://ence.es/energia-renovable/gestion-sostenible-de-la-biomasa/">https://ence.es/energia-renovable/gestion-sostenible-de-la-biomasa/</a>

#### Code for the sustainability of biomass as fuel

Ence's Sustainability Decalogue for Biomass as a Fuel:



#### 1. It shall respect the natural environment:

Biomass management shall respect -at all times- biomass resource's renovation capacity, soil quality, and shall not produce damage to the natural environment.



#### 2. It shall be compatible with sustainable agricultural and forestry practices:

Ence's activity shall be compatible with the good agricultural and forestry practices manuals for all crop and species.



#### 3. It shall not burn roundwood:

Ence shall not use roundwood of more than 10 cm in diameter as a fuel, and wood will not come from invasive species.



## $4\cdot$ It shall respect biomass priority uses:

Biomass used by Ence shall not compete with other possible biomass sustainable and priority uses (food, construction, furniture,...)



#### 5. It shall not use biomass that is in competition with food crops:

Ence shall not use biomass that comes from energy crops plantations on land suitable for food agriculture and production.



#### 6. It shall only take advantage of surplus agricultural biomass:

It shall only use residual agricultural waste and that do not involve lowering amounts intended for livestock feeding.



#### 7- It shall respect laws and human rights:

Biomass collection shall always be undertaken respecting current legislations, human rights and the community.



## 8- It shall apply the best available technology:

Ence shall permanently apply the best available techniques to transport, store and produce biomass energy in order to minimize environmental impacts and maximize energy efficiency.



#### 9- It shall minimize carbon emissions:

It shall envisage the overall carbon footprint, considering the balance of greenhouse gas emissions throughout its life cycle, and will limit the collection distance of agricultural and forestry waste.



#### 10- It shall always pursue the highest energy efficiency:

Ence shall promote maximum energy efficiency through the development and application of technology to use waste useful heat from its plants for other industries and local uses.

Since it was presented to the public in July 2017, Ence has been working to ensure compliance with the points set out in the Code, in its total conviction of the advantages it brings to the generation of renewable energy from sustainable biomass.

In order to comply with the guidelines of the Code, Ence has worked on the organisation of the administrative and management and monitoring system to guarantee the traceability of the biomass at



raw material supply level. In this sense, among the lines of work developed during 2018, the following should be highlighted:

- Formulation of a set of verification and follow-up indicators that would develop the principles of the Code. These indicators were presented to the Steering Committee in its initial review and have served as a working document for gaining deeper insight into the most complex technical aspects of compliance with the standard. Prepared by technical personnel from the GDs involved (Supply Chain and Energy), they have been shared in different meetings with NGOs (such as WWF), with which they are collaborating to further the development of the most significant aspects of management, such as the use of water and maintenance of soil fertility.
- Development of management tools in the field for the identification of qualitative aspects to verify compliance with the Code. A checklist has been drawn up by consensus with the purchasing team which will enable the key elements to be assessed from the perspective of the Code in each biomass purchase made. This checklist, in pilot phase, will go into production in 2019 and will be integrated into the mobility tools.
- Adaptation of Ence's existing supplier homologation system (initially developed for certified wood) to characterise compliance with the Biomass Code, which will be implemented in the management tools (SAP) in the first quarter of 2019.
- Beginning of the installation of GPS in trucks that will allow the routes to be traced in detail as a
  preliminary step for the quantification of emissions in the transport of biomass and the
  associated carbon footprint, to be developed in 2019. The logistics department is developing the
  "Control Tower" project that will permit the analysis of the information generated on these
  devices.

During 2019, all these initiatives will be intensified and other complementary initiatives will be developed, such as external and internal training and information, the development of a system of internal audits or the establishment of a scorecard with specific KPIS, among others.

## Diversification and hybridisation of renewable sources for a just transition to decarbonisation

In 2018, Ence took a step forward in the consolidation of its activity of electricity generation from renewable sources with the acquisition of a solar thermal power plant in Puertollano, with the aim of diversifying its types of generation technology but without losing its focus on sustainability and the environment.



Ence is also committed to the hybridisation of renewable technologies in order to optimise their **manageability**. The construction of the new biomass plant next to the newly acquired solar thermal plant would allow an unmanageable renewable asset - which only generates energy during sunshine hours - to be converted into a manageable asset, thanks to the capacity of biomass to produce energy in a programmable, steady and stable manner, and at times of high demand.

The construction of the new plant in Puertollano is also a clear example of a just transition



towards the decarbonisation of the Spanish energy system, as Ence has taken advantage of the old site of a coal gasification plant to build a new biomass electricity generation plant. In this way, it contributes to maintaining economic activity in the area, retaining quality industrial employment and encouraging the generation of employment in the rural environment of the zone.

#### **Environmental excellence**

During 2018, Ence has promoted environmental investments in its renewable energy generation plants aimed at reducing emissions, improving reliability and automating online measuring equipment and valorizing process by-products (for example, analysing the potential of ashes for use as fertilizer or sludge for uses as floors or ground work in civil engineering projects). Environmental investments in the Huelva, Mérida, Enemansa, La Loma and Lucena plants amounted to 3.2 million euros in 2018.

It was also the year in which construction work began on two new biomass power plants. These two new plants have been designed to have the most innovative systems on the market in terms of emissions control and thus comply with the strictest environmental regulations.

#### R+D+i

Thanks to efforts in R&D and the experience gained in the use of biomass, it has been possible to develop **100% Spanish technology** that gives Ence the opportunity to lead a global project in the field of the use of different types of agricultural biomass in an efficient and sustainable way for the production of energy.

In 2018, the main innovation projects in this field have been:



- Cornrower Project, for the use of corn cane, with specific corn heads for machinery developed during 2017 in collaboration with Spanish manufacturers in the sector.
- Herbáceas Project, with operations to supply our plants with rapeseed and rice straw, tomato bushes and cotton husks. All of these materials are baled or shredded.



- Olivo Project, focused on the improvement of machinery for the crushing of olive tree pruning waste, in collaboration with Spanish manufacturers in the sector.
- Sarmiento Project, launched at the end of 2018 and under development during 2019, for the use and energy recovery of the pruning remains of vineyards in La Mancha and Extremadura.



In addition, two other projects have been started, one for the recovery of scrub after clearing for the prevention of fires and another for the mowing and baling of rice straw in the Andalusian marshes.

The total investment for the development of these projects was more than €225,000 during 2018.

## **Energy management**

In addition to electricity generation activities, this business unit is also responsible for managing all tasks related to the sector:

- Purchase and sale of electricity (front-office, middle-office and back-office)
- Planning and control of the energy business
- Plant operation and management
- Monitoring of national and international energy regulations
- Study and implementation of new projects

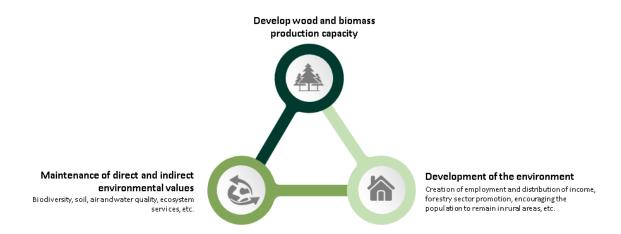
Ence participates in the electricity market through its own energy control centre. The company does not pass on to third parties the performance of tasks related to the sector, but rather manages them through a multidisciplinary team within its staff. This team is responsible for the daily and intraday bids for the sale and purchase of electricity from the Operator of the Iberian Energy Market (OMIE), as well as helping the Electrical Network of Spain (REE) to effectively balance the System by operating in the different adjustment markets of the latter (Tertiary Regulation, Deviation Management, etc.), in addition to the procedures coming from the National Commission of Markets and Competition (CNMC), the Ministry of Industry and other bodies in the sector.



# Forest management

The management of forests, their cultivation and maintenance for the production of wood and biomass and applied research are the main activities of Ence in forestry. In this sense, Ence has become the **national benchmark for forest sustainability** as it not only develops its forest management activities under the most demanding standards of environmental sustainability, but also promotes the development of local communities, generating employment and creating value.

The main objectives of forest management for Ence are structured around three axes:



Ence develops transparent, efficient and responsible forest management not only in its asset areas, but **extending this policy to its value chain**, promoting responsible management of the areas of its partners and collaborators. To this end, Ence puts all the means at its disposal to facilitate and enhance management by the forest owner through knowledge transfer, the contribution of improved plants at competitive prices, as well as through training and information and the development of environmental awareness programs.

Thus, Ence offers free training days to owners on the best silvicultural practices to ensure the care and good health of the plantations. During 2018, meetings have been held with forest landowners from the rural areas of Asturias and Galicia to present and report on the models of sustainable forest management of their properties.

Ence also works to promote its management principles and *know-how* acquired through its activity in the rural environment in which it operates, **collaborating actively with administrations**, **forestry associations and other organisations** in matters of planning, pest management, plant matter and forest certification, among other aspects.

#### Main figures

Ence manages more than **67,000 hectares of gross** forest area in the Iberian Peninsula. Most of this area corresponds to wood-producing areas (48,365 ha). More than **22%** of the total (14,940.6 ha) correspond to areas considered for the **protection and conservation of ecosystems**.



Company	Biomass	Pulp	Protection	Other	Total
Ence Energy	40.01	0.00	0.00	0.00	40.01
Energy - Huelva	924.35	0.00	26.16	0.00	950.51
Iberflorestal	0.00	1,684.88	227.21	0.00	1,912.09
Norfor	0.00	11,627.51	1,832.12	403.54	13,863.17
Silvasur	2,470.62	35,052.64	12,855.14	107.46	50,485.86
TOTAL	3,434.98	48,365.03	14,940.63	511.00	67,251.64

In relation to the type of ownership, the area managed by Ence is structured as follows:

Company	Lease	Consortium	Mixed	Own	Ext/Agreem	TOTAL
Ence Energy	40.01	0.00	0.00	0.00	0.00	40.01
Energy - Huelva	950.51	0.00	0.00	0.00	0.00	950.51
Iberflorestal	1,685.59	145.46	81.04	0.00	0.00	1,912.09
Norfor	3,161.03	5,562.63	1,648.07	2,817.90	673.54	13,863.17
Silvasur	6,163.44	1,289.92	0.00	43,032.50	0.00	50,485.86
TOTAL	12,000.58	6,998.01	1,729.11	45,850.40	673.54	67,251.64

Ence's commitment to professionalised and sustainable forest management is realised in the **investments** that the company makes each year in tasks such as reforestation, the creation and maintenance of tracks and firebreaks, forestry work, preparation of inventories and payment of rents and fees. In 2018, investments made in Ence's forest assets amounted to more than 3.1 million euros, distributed as detailed below:

Investment	Investment in € in Ence Forest Assets 2018		
Repopulation	€ 666,275.61		
Forestry	€ 599,041.89		
Tracks and firebreaks	€ 711,073.80		
Inventory	€ 148,166.00		
Rents and fees	€ 982,025.51		
TOTAL	€ 3,106,582.81		

#### Forest management tools

Ence has a **Management Plan** that integrates the rational use of all the assets and services of the forests, productive and ecological and social.

Within the framework of its **Forest Management System**, Ence elaborates Forest Management Technical Plans, Dasocratic Plans and the Continuous Forest Inventory. In addition, each management unit has a **Management Project** in which management criteria, objectives and priorities are defined, alternatives are evaluated and decisions are taken. All these tools allow the correct monitoring and control of activities, including the controlled use of phytocides, verification of the sanitary status of the forests, verification of the protective functions and consideration and inventorying of the peculiarities of each forest area. Based on these activities, corrective and preventive measures are identified and implemented.

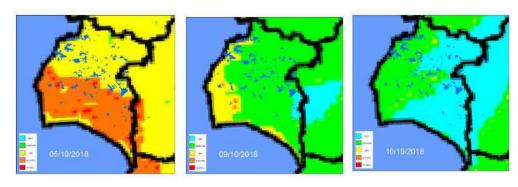


Among the main activities that form part of the management plans and allow for the correct control and monitoring of the activities, it is worth highlighting:

- Forest management based on the Continuous Forest Inventory supported by LiDAR technology.
- Implementation of a system of excellence in management (TQM). Ence aims to continuously improve its efficiency in the consumption of natural resources and the performance of its forest management.
- Establishment of fire prevention plans:



- Among the fire protection measures carried out in 2018 is the decision to equip all Ence forestry machinery with reversing vision cameras. This measure not only contributes to enhancing people's safety, but also helps to prevent fires as thanks to the cameras, checks can be made as to whether fires have broken out behind the machine.
- In Southern Forest Assets, in order to adapt the management to the new regulations of the Junta de Andalucía referring to the prevention of forest fires, Ence has developed a system of fire risk alerts with the AEMET official index by which the fire risk forecast index for each forest area is geolocated daily, allowing work to be planned in a safer way.



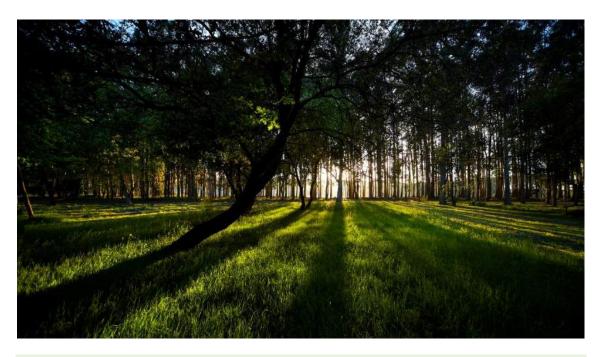
- o In 2018, 151 ha of vegetation was eliminated in order to minimise the risk of forest fires and various regeneration works were carried out through the sanitation felling of 433 ha of forest areas that suffered fires in October 2017.
- A Training Plan has also been implemented to minimise risks to persons in forest fires for personnel in Northern Forest Assets.
- Integrated Pest Management Plan: pest management is one of Ence's main lines of research, development and innovation. The company collaborates with various research centres to offer sustainable solutions against pests that affect farms, especially eucalyptus Gonipterus. (For more information on the research projects carried out by Ence in this regard, see the R&D&i section below.)
- Identification and monitoring of High Conservation Value Forests (HCVF): Ence developed a
  methodology for the identification of HCVF in the north of the Spanish mainland in collaboration with
  Arcea, a company of expert biologists and naturalists. Subsequently, in order to extend and adapt
  this methodology to the southern forest areas, Ence has established agreements with the University



of Huelva to study the biodiversity of the HCVFs in Silvasur Forest Assets and has begun to apply a methodology to prioritise and define the type of monitoring to be carried out in each HCVF according to its characteristics.

In 2018, monitoring of the evolution of existing habitats in the protection zones was initiated and monitoring forms were created for them to be used for records by Ence's specialist personnel.

- Establishment of ecological corridors: In order to avoid the isolation of areas of natural vegetation,
  Ence takes the necessary measures to connect, whenever feasible, these areas with each other and
  with others outside the forest areas, in order to preserve their function as a refuge and corridor for
  fauna.
- Fragmentation of felling areas: Applying FSC® criteria, Ence has established maximum felling sizes to limit continuous felling areas.
- Recovery of and care for the environment: in 2018 management agreements have been reached with landowners for the environmental recovery of some 730 ha of eucalyptus trees that are degraded or in a state of abandonment. Additionally, 32 forestry works from the Ence Social Plan 2018 have been executed, within program no. 2 Recovery and care of the environment for more than €200,000 which the inhabitants and the environment of the Galician rural environment benefited from (for more information on the Ence Social Plan 2018, consult the Community Outreach section))
- In addition, an exhaustive mapping of non-productive areas is carried out and management plans are drawn up for them.



## Sustainable forest management

Ence, for yet another year, has remained a benchmark manager in the field of sustainable forest management, both in the area of assets and in the area of forest supplies, due to the application of internationally recognised criteria of excellence and sustainability in management. Ence works not only to implement these criteria in its own forests, but also to extend them to its surrounding environment. Specifically, Ence's forestry activity is based on solid voluntarily defined forest sustainability principles that



reflect the company's commitment to environmental, social and economic sustainability. Ence's 10 principles of forest sustainability are:

## Principle 1: Durability over time

Managed forest resources are an important environmental, social and economic asset that must be passed on to future generations. Its management focuses on maintaining and growing production capacity in the short, medium and long term, through conservation, development and, where appropriate, renewal of managed forest ecosystems.

# **Principle 2: Minimising impacts**

Managed ecosystems have production and management constraints that need to be known. All activities are planned with the aim of minimising the environmental impact, compensating for possible negative effects and identifying and implementing environmentally friendly alternatives that contribute to preserving the environment.

# Principle 3: Maintaining diversity

The forests managed by Ence contain a great diversity of natural, social and cultural elements. The objectives of the actions carried out include the preservation of this diversity, enabling it to evolve naturally and for the Company to harness this knowledge and enhance it.

# **Principle 4: Multifunctionality**

The forests managed by Ence contain diverse goods and services that can be used for many purposes. The actions therefore consider active policies for managing the different goods and services of the forests, maximising and preserving the environmental, social and cultural benefits of the forests, as well as the economic ones.

# Principle 5: Continuous innovation

Forestry R&D+i policies are necessary to promote the Company's continuous adaptation to technical, environmental and social management requirements. Ence constantly searches for innovation in its forest management processes, as a guarantee for continuously improving to achieve social, environmental and economic objectives.

#### Principle 6: Forest area

Ence's forestry activity takes place in the rural environment, in which the Company participates and is involved beyond its activity as owner and manager. Ence applies active forest extension policies aimed at transmitting accumulated knowledge, fostering management agreements, informing its stakeholders and supporting sustainability principles, in the conviction that a technologically managed and trained forest sector is the best way to achieve effective sustainability in environmental, social and economic values.

# Principle 7: Active participation with stakeholders



The stakeholders and the community are a necessary and desirable reference for identifying best practices for action. Ence will maintain its efforts to promote, channel and make the most of this relationship, which will result in Society having better knowledge of forestry activity and precisely defining its expectations.

## Principle 8: Public commitment

Ence considers that these Sustainability Principles are only possible with collaboration and effective support from all customers and suppliers. These principles will be disseminated to all stakeholders, and especially to those who have direct responsibility for forest management actions, fostering environmental, social and economic improvements in their actions. Ence particularly values relations with those who incorporate sustainability criteria in their daily activity, aligning with the Company's objectives in this area.

### **Principle 9: Forest certification**

Forest certification is an effective tool for promoting sustainability in managing forest areas. Ence works to maintain and extend the certification of its forests and promotes certification of among its suppliers. It also collaborates on initiatives aimed at promoting and developing forest certification, from regulatory and practical perspectives.

In line with these principles, Ence promotes the **certification of forest areas** according to the voluntary certification schemes of Sustainable Forest Management and FSC® Chain of Custody (*Forest Stewardship Council®*) with license code FSC-C099970, and FSC-C081854 respectively and PEFC (*Program for the Endorsement of Forest Certification schemes*). Ence considers sustainable forest certification in forest areas as a key issue, as responsible forest management is crucial to securing the future of the forestry sector



FSC® forest management certification guarantees that the forest management unit is being managed according to the **10 Principles** and 56 Criteria of the standard. This certification is valid for 5 years, but in-depth reviews of management systems and their results in the field are carried out annually. The certifying entity evaluates the social, economic and environmental conditions in this forest area, demonstrating the sustainability of its management.



PEFC certification aims to ensure that forests are managed responsibly, and that their multitude of functions are protected for present and future generations. PEFC certified forest products guarantee consumers that they are buying products from sustainably managed forests, combating **illegal felling** and promoting the **main functions** played by forest resources such as contributing to the maintenance of ecosystems and biological diversity or being the economic livelihood of many rural populations, among others.

In order to achieve the maximum effectiveness of the sustainable forest management it develops, Ence has an **Integrated Forest Management System** (IFMS), that serves as a framework for compliance with the guidelines established by the standards on Sustainable Forest Management and the PEFC and FSC® Chain of Custody.



Ence also promotes the **certification of third party forests** through a wide-ranging forestry extension program that offers the means to provide private owners with the tools to improve sustainability in their management. In addition, it promotes the creation of certification groups for owners and suppliers to facilitate their access to FSC® and PEFC certification schemes. Ence's objective is to promote the double certification (PEFC+FSC®) for forests in order to allow owners to have better access to certified wood markets. The promotion of double certification allows both a higher certification premium for the owner and greater flexibility to Ence in terms of meeting the requirements of its customers (selecting the certification required based on needs), and ensures the highest standard of sustainability in the forest management of third parties. Ence's commitment to forest certification has led to an increase in the area managed under sustainability criteria and an improvement in the management of third-party areas.

The evolution of Ence's certified asset area is as follows:

Year	% FSC®	% PEFC
2010	28	77
2011	28	89
2012	30	72
2013	31	68
2014	40	75
2015	55	82
2016	69	85
2017	78	82
2018	77	86

In 2018, these percentages correspond to the following areas:

Certified area (ha)			
FSC	50,082.70		
PEFC	56,337.54		

Thanks to Ence's efforts to increase its certified area and promote third-party forest certification, in 2018 the total amount of wood obtained with a guarantee of sustainability through double forest certification and management traceability has reached **85% in 2018**.

The evolution of certified wood entries in Ence's biofactories has been as follows:

Year	%FSC	%PEFC	%FSC +PEFC	% Total Certified
2011	2	22	-	24
2012	2	24	-	26
2013	11	27	-	38
2014	28	21	-	49
2015	33	15	32	80
2016	3	7	77	87
2017	1	6	80	86
2018	1	6	77	85



This means that, apart from Ence's asset certification, the purchase of PEFC and FSC® certified and traceable wood has led to the promotion of sustainable forest management in nearly 6,000 ha of forest.

#### Protection of areas of high natural value within the framework of certification systems

Within the scope of forest certification, 9,991 hectares of the entire managed area are considered **High Conservation Value Forests (HCVF)** according to FSC® classification, with Habitats of Interest to the Community (HIC) in them. In addition, 11,736 hectares correspond to forest areas with a protected status (LIC, ZEPA, Red Natura, etc.), officially declared so by the different competent national administrations.

In areas with some form of protection, preventive measures and actions have been designed to improve their conservation status to ensure the protection of these areas and their habitats. Generally speaking, no operation is carried out in these areas unless it is necessary, in order to allow their natural evolution, to maintain their ecological functions and preserve the forest structure and diversity. These areas are monitored on an annual basis and every 5 years their characterisation, their ecological function and the evolution of their conservation status is also monitored.

To avoid the isolation of these areas of natural vegetation, whenever feasible, Ence also takes the necessary measures to connect them to each other and to others outside the forest areas. In this way it is possible to improve the function of these areas for refuge and the passage of fauna, making them work as **ecological corridors**.

## Fair Trade Wood Certification

Another milestone in Ence's sustainable forest management has been obtaining the Madera Justa (Fair Trade Wood) seal from COPADE, an organisation dedicated to Fair Trade. This seal is the first global Fair Trade certification for the forestry sector.

Madera Justa certification has as its initial reference the FSC-certified wood used in the pulp production process, and takes it further in complementary indicators, with social aspects of the company's personnel and about the commercial relationship between Ence and its suppliers. Some of these indicators are the generation of wealth in rural areas, labour policy, and even some environmental commitments such as, for example, energy efficiency plans in the Group's forestry offices.



In order to obtain certification, Ence had to go through an initial phase accrediting compliance with the Fair Trade indicators defined by COPADE, and then implement the standard into its wood procurement and pulp production process. At present, the production of forest asset wood and part of the wood from the company's standing purchases has been certified. In addition, Ence has made a commitment to progressively add a large number of its wood suppliers, either from standing purchases or from suppliers. To this end, the company is working on the transmission and promotion of Fair Trade values with its collaborators.

# Traceability of the purchased wood

Because Ence not only obtains wood from the forest areas it manages, but also buys wood from third parties to supply the biofactories, the **traceability of the wood purchased** is another fundamental aspect of Ence's management.

To ensure that the supply of wood (both from forest assets and standing purchases or forestry supplies) is carried out with the utmost respect for legality, Ence has a **wood legality policy**, which sets out the company's operational principles with regard to the purchase of this material and complies with Spanish



legislation (RD 1088/2015 on the legality of wood) and international regulations (EUTR Due Diligence regulation). This policy includes, among other principles, the company's resolve to buy wood from forests where all the requirements of the regulations in force are met, in addition to those voluntarily adopted by Ence. The policy also establishes that all the wood with which Ence is supplied must comply with the legal requirements established by Community, state and regional regulations regarding **due diligence**, including obtaining all the use permits established by the applicable legislation. In addition, the policy includes Ence's commitment to reject any timber that is proven to have been illegally harvested or to have affected protected elements of natural, archaeological, cultural or social assets incompatible with its use.

In order to ensure compliance with these principles, Ence has established a wood **supplier evaluation system**, through which the different aspects of their activity (origin, regulatory permits, etc.) are analysed. Suppliers are subject to a **periodic program of monitoring and audits**, both technical and on sustainability, to guarantee compliance with the established criteria.

The aforementioned timber legality policy also establishes Ence's commitment to acquire only raw materials from traceable sources that comply with established legal requirements, including those of an environmental nature. For this reason, Ence also has a **traceability system**, which covers the evaluated suppliers, based on an identification system from its origin through the use of delivery notes, QR and geolocation that guarantees that all the wood purchased by Ence is identified and accompanied by information regarding the origin, volume and forest management certificate, if the latter is available.

In addition, Ence has implemented a system of accreditation of the wood of its standing purchase from forests certified in forest management. By means of this system, Ence communicates all its wood entries to the different Forest Management Groups so that they can accredit it as certified wood. This ensures coordination with the entity holding the forest management certificate and, therefore, the origin of the wood.

# **Protection of biodiversity**

The protection of biodiversity is one of the premises of sustainable forest management that Ence promotes, both in its own operations and in those that participate in its supply chain, with special emphasis on the management of protected species and Habitats of Interest to the Community.

Ence's Integrated Forest Management System has specific instructions and management recommendations for **protected species** through the application of a systematic identification and monitoring system, taking into account the particularities in terms of diet, reproductive cycle and habitats of the inventoried species catalogued.

The protected species included in Ence's inventory are those included in the following regulations:

- Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora (Annexes II, IV and V)
- Spanish Catalogue of Threatened Species (CEEA)
- List of Wild Species in Special Protection Regime (LESRPE)
- Regional or autonomous catalogues of Threatened Species
- Lista Roja de la Flora Vascular española (Spanish Vascular Flora Red List)
- Directive 2009/147/EC on the conservation of wild birds





In addition to identifying protected species, for the identification of **Habitats of Community Interest (HCI)**, Ence has been collaborating with the University of Huelva and ARCEA Xestión de Recursos Naturais S.L since 2012 on a study called *Identification and Classification of Habitats of Community Interest in the Forests managed by Ence, Energía and Celulosa in the north and south.* 

The purpose of this study is to determine the natural plant communities present in the Company's forests and whether they can be classified as HCI pursuant to the Habitats Directive (92/43/CEE, 97/62/CE, 2006/105/CE).



The habitats included in the High Conservation Value forests managed by Ence are:



HABITAT TYPE:	EU-COBEo	COMMUNITY ASSOCIATION TRAINING	COMMON NAME:	
Atlantic wet heaths 40	4020a	Erico ciliaris-Ulicetum minoris	Heatho	
Burapean dry heathso	4030a	Ulici eriocladi - Cistetum ladaniferi subas, ericetosum australis	Rock-rose heaths	
Burapean dry heaths	4030a	Erico australis - Cistetum populifolii	Rock-rose heaths	
Buropean dry heathso	40300	Genisto hirsutae - Cistetum ladaniferi subas, ericetosum austalis	Rock-rose heaths	
Burapean dry heaths o	40300	Halimio ocymoidis - Ericetum umbellatae	Brica umbellatar	
Stable verathermaphilaus formations with Busis semperairensp	5110a	Lonicero hispanicae - Rubetum ulmifolii	Sibiacalaus junipero	
Thermo-Mediterranean and pre-desert scrubo	53304		Wild oliven	
Thermo-Mediterranean and pre-desert scrubs	53304	Asparago albi - Rhamnetum aleoidis	Buckthorns	
Thermo-Mediterranean and pre-desert scrubs	5330a	Genistetum polyanthi	Kermes oakp	
Thermo-Mediterranean and pre-desert scrubs	53300	Asparago albi - Rhamnetum oleoidis	Mastic shrubs with hawthomso	
Thermo-Mediterranean and pre-desert scrubs	53300	Asparago albi - Rhamnetum oleoidis	Strawberry treeso	
Thermo-Mediterranean and pre-desert scrubs	5330a	Phillyreo angustifoliae - Arbutetum unedonis	Dwarf palmo	
Pseudo-steppe with grasses and annuals of the Thera-	6220a	Asparago albi - Rhamnetum oleaidis	Herbaceous verophytesa	
Brachmadietean		Paronychio cymosoe - Pterocephaletum diandri		
Dehesos with evergreen Quercus spp. a	6310a	Dehesa de Quercus suber	Corkoakfielda	
Dehesos with ever green Overcus spp. a	6310a	Dehesa de Quercus ilex	Holm oakfields	
Malinia meadows on calcareous, peaty or clayey-silt-laden soils=	6410a	Juncetum rugoso - effusi	Hygrophilous meadown	
Siliceous rocky slopes with chasmaphytic vegetations	8220a	Selaginella denticulatae - Anogrammetum leptophyllae	Chasmophytic vegetations	
Siliceous rocky slopes with chasmophytic vegetations	8220a	Cheilantho maderensis - Cosentinietum vellege	Chasmophytic vegetations	
Siliceous rocky slopes with chasmophytic vegetations	8220a	Asplenia billatii - Cheilanthetum hispanicae	Chasmophytic vegetations	
Frazinus angustifolia and Frazinus ornus woods of the Berian	9180a	Ficario ranunculaidis - Fraxinetum angustifaliae	Ash groven	
perinsula:				
Alluvial forests with Abrus glutinos a and Frazinus excelsior 🛰	9180a	Scrophulario scorodoniae - Alnetum glutinosae	Alder grove	
Salix alba and Populus alba galleries¤	92.40a	Aro italici-Ulmetum minoris	Blm groven	
Salix alba and Populus alba galleries¤	92A0a	Viti viniferae-Salicetum atrocinereae	Willow groven	
Southern riparian galleries and thicketso	92D00	Pyro bourgaeanae - Flueggeetum tinctoriae	Bushweedo	
Southern riparian galleries and thicketso	92D0a	Rubo ulmifolii - Nerietum oleandri	Oleander brambles	
Quercus suber forests	9330a	Myrto communis - Quercetum suberis	Corkoako	
Quercus suber forests¤	9330a	Sanguisorbo agrimonioidis - Quercetum suberis	Conkoale	
Quercus ilexand Quercus rotundifolia forestsa 9340a		Pyro bourgueanae - Quercetum rotundifoliae	Holm oaks	
Quercus ilexand Quercus raturalifalia farestso	9340a	Myrto communis - Quercetum rotundifoliae	Holm oaks	

These studies contribute to **enhancing the natural forest assets managed by Ence**, with specific analyses to assess the state of conservation of the natural habitats existing in them. These analyses are based on the documents associated with the interpretation of Article 17 of Directive 92/43/EEC on the conservation of natural habitats and of wild flora and fauna and those generated in this respect by the Ministry of the Environment.

The following factors have been taken into account in order to assess the state of conservation of existing Habitats of Community Interest:

- Current surface area and potential surface area.
- Minimum surface area and degree of insulation.
- Number of characteristic species recorded.
- Invasion of exotic flora.
- Presence of protected or threatened taxa.
- Signs of fire.

The information provided by these studies over the last six years has enabled Ence to actively manage these areas in order to improve their conservation status and therefore work on conserving biodiversity.

Once all the factors and parameters defining the state of conservation of each habitat identified in the reports for each forest have been analysed, a **specific management plan is defined** for them. The plans include specific objectives and measures to maintain or re-establish a favourable conservation status of natural habitats and of wild fauna and flora species of ecological interest.

The ultimate objective of these plans is to **preserve and improve the ecological function** of the network of conservation areas included in Ence's forest management units in the regions in which they are located, increasing the surface area and connectivity of habitats, improving floristic richness, reducing the presence of invasive and non-native species and promoting protecting protected species.

## Environmental uniqueness of the forests managed

As a result of these studies, during 2018 Ence identified all the unique features of the asset with a specific management orientation, validated in audit processes.



- There are 15 protected species of flora identified in the forests managed by Ence, and their presence is confirmed by visual identification in specific reports. An accurate number for protected fauna species is not available due to the lack of specific presence inventories.
- There are 87 points with the presence of protected flora species in the forests managed by Ence.
- The number of floristic studies in forests certified as District B is:
  - South: 157 FSC® forests (all analysed), 164 PEFC forests (163 analysed)
  - North: 128 FSC® forests (all analysed), 180 PEFC forests (all analysed)
- There are 279 Habitats of Community Interest (HCI) identified among Ence's heritage forests, according to EU classification. This means that there are HCIs in 46.5% of Ence's forests.

In addition to the unique environmental features, there are various different kinds of unique cultural and archaeological features in Ence's forest assets, ranging from a Celtiberian village in the "Los Barrancos" forest (Huelva) and a dolmen in "Coto Miño" to remains of works and infrastructures from different periods and various elements of immovable art such as mine openings and stone engravings, as well as animal shelters, old threshing floors, farmhouses and various buildings. All of them are taken into account in the management.



# Certification of forest ecosystem services

As a result of the work of identifying and classifying habitats of community interest in the forests, Ence has participated in the first pilot project in Spain to obtain FSC® certification in forestry ecosystem services.

It has therefore developed the "Ecosystem Service Certification, biodiversity conservation for the Aracena FMU document". This project was carried out between January and April 2018, in a pilot test in which a



representative of FSC® International provided technical support to interpret the requirements, and a representative from FSC® Spain provided information on the approach of the national standard in relation to ecosystem services.

The ecosystem service to be verified in Aracena's forest management unit, which has an area of 6,362.67 ha, is **biodiversity conservation**, according to the *Ecosystem Services Procedure* guidelines: *Impact demonstration and market tools*. FSC-PRO-30-006. The documentation for preparing the verification has been produced from the identification and classification reports of habitats of community interest that Ence produces and from the studies carried out by the University of Huelva that have provided information and inventory of the plant communities in the conservation areas.



Source: FSC

## Other actions for biodiversity protection

The framework of the actions carried out by Ence for protecting natural spaces includes the work carried out on **restoring the Rubín Marsh in Cantabria.** This action was included as a case study in the Guía Práctica de Restauración Ecológica (Practical Guide to Ecological Restoration) published in November 2018 by the Fundación Biodiversidad del Ministerio para la Transición Ecológica (Biodiversity Foundation of the Ministry for Ecological Transition), which Ence experts collaborated on.

The objective of the action was to restore an intertidal environment, increasing the surface area and ecological value of the San Vicente de la Barquera marshes. Recovery of the osprey (*Pandion haliaetus*), a species extinct as a breeder on the Cantabrian coast, was also pursued, and it is once again reproducing in this environment.

To this end, among other actions, up to 420 holm oaks were planted using a new plant protection system that replaces the traditional PVC protectors.

These new protectors, which are especially designed to prevent direct damage to the plant by domestic livestock or wild animals, also have less visual impact, greater durability and resistance and are reusable, once the plant has developed, as they are made from high-strength galvanised iron.

In areas unsuitable for the planting holm oaks, all the natural willow and oak vegetation has been left, which grows spontaneously, making the density of protected and cared for plants much higher.



This process is expected to recover an ecosystem characteristic of the osprey's habitat, making it an ideal place to recover this species as a breeder. In this sense, Ence collaborates with FAPAS (Fondo Protección Animales Salvajes - Wild Animal Protection Fund) to carry out actions that promote the recovery of this species, such as installing artificial nests and feeders and the monitoring of the sedentary and wintering populations of the species.





# R&D+i Forestry

Ence's Forestry R&D activities are part of an **Improvement Plan** that has been implemented for more than 35 years and has materialised through **three specific programmes**:



In 2018, the company undertook different projects and carried out different specific actions within the framework of this Improvement Plan.

# **Genetic Improvement Programme**

The Plant Breeding Programme projects include progress in developing and evaluating new genetic materials and transferring new genetic materials to the operational area.



In 2018, the commercial clones of the second generation of improvement in the first experimental trials installed in the NW of the Iberian Peninsula were comprehensively evaluated. The results obtained in these experiments enable better classification of the growth traits and industrial characteristics of wood from a large part of the *Eucalyptus globulus* clone collection that are currently reproduced on a commercial



scale. This experimental network is being systematically expanded, increasing the number of tests and genetic materials that are installed and tested annually.

During 2018, the network was extended with seven new experimental plots, installed in Ence's heritage forests and in private forests.

A new clone of *Eucalyptus globulus* was also transferred to the operational area for commercial-scale reproduction, thus increasing the supply of genetic materials from the company's nurseries.



Clone trial in Pazo de Rosende (Carballo, Coruña)

## Forest improvement programme

Within the forest improvement programme, Ence's developments have focused on improving the stability of plantations and on transferring forestry procedures to the forest sector through associations and groups of owners.

In this sense, seven new trials on soil preparation techniques and mass planting have been installed and Ence has participated in different conferences and technology transfer initiatives together with associations and companies with the aim of improving the sector's knowledge on best forestry practices to apply to eucalyptus forests in order to improve their sustainability. Among them are the II Forestry Days organised by the North Coast Forestry Association in May 2018; the Technical Workshop with Forestry Promotion and the Technical Workshop with Promacer held in April 2018 and the Technical Workshop with APOM held in December.

	2016	2017	2018
Number of test plots in the Experimental Network	20	24	38
Genetic testing	8	12	19
Forestry trials	12	12	19



## Pest and disease control programme

Pests and diseases threaten the conservation of forest resources and undermine productive yields. Depending on the condition in question, the annual growth of trees can be reduced by up to 30%, and in extreme cases this can lead to the loss of the tree. For this reason, pest and disease control for improving phytosanitary status is a key management aspect.

Ence improves techniques and treatments against pests and diseases from R&D+i, developing plants that are more vigorous and resistant to different affections, through agreements and studies with Spanish and international laboratories in the search for the best possible health treatments, and develops important biological control treatments against the main health problem of eucalyptus, the eucalyptus weevil (Gonipterus platensis), a pest that causes serious damage to plantations of this forest species. In the case of the latter, the treatments are carried out twice per year in coordination with those carried out by the Galicia and Asturias regional governments, as well as with associations of forest owners and community-owned forests on common hand.

To this end, since 2016, Ence has been developing the **GONIPTERO project**, which encompasses the company's biological pest control initiatives. The first initiative set in motion consisted of the creation of two biofactories, in which it produces the means for the biosanitary defence that avoids the use of pesticides, specifically the treatment with natural parasites of the weevil such as the wasps of the genus *Anaphes*.

Thanks to this, Ence has become the leading private entity in biological control, multiplying the availability of treatment in Spain and reducing the treatment cost per hectare by 80%. Ence has also shared all of the knowledge developed with the rest of the sector, to guarantee the good state of the forest plantations.

The milestones of the GONIPTERO project achieved in 2018 were:

- More than 41,000 ha of biological treatment in areas affected by the pest
- Improved process efficiency with significantly increased rates of parasitism (one of the project's performance indicators is the rate of parasitism achieved in weevil populations)
- Increased productive capacity of biofactories, exceeding 600,000 parasitised oothecae

These results are added to those obtained in previous years, with 37,400 and 48,692 ha treated in 2016 and 2017 respectively. To date the project has evaluated increased parasitism levels in the treated area of 57% over untreated areas and quantified harm reduction in 14 percentage points in the degree of mass defoliation.

	2016	2017	2018
Production of biofactories (number of oothecae)	48,420	208,885	600,000
Treated area (ha)	37,400	48,692	41,406
% parasitism (№ anaphes/ootheca)	2.06	2.31	2.7

Within this same project, significant advances have been made in studying new parasitoids for pest control. Laboratory tests have demonstrated the compatibility and complementarity of the parasitoid *Anaphes inexpectatus with A. nitens* for the biological control of *G. platensis*, with significantly better adaptation of the former to extreme temperatures and greater biological potential and persistence capacity in the absence of the host.





Morphology of Anaphes nitens (left), Anaphes inexpectatus (centre) and Anaphes tasmaniae (right.)

In 2018, Ence signed an agreement with the Centre for Agricultural Chemical Ecology of the Mediterranean Agroforestry Institute, dependent on the Polytechnic University of Valencia, for the isolation and structural elucidation of the aggregation pheromone of *Gonipterus platensis*. This project aims to advance knowledge of pest ethology with the aim of improving monitoring and efficiency in control methods.

It should also be noted that collaboration has begun this year with ASFONOR (Asociación Forestal del Norte) on implementing a biofactory by this association to which Ence is providing technology transfer of the production process by training the association's staff in Ence facilities in Figueirido-Pontevedra. Within the same project, Ence organised the III International Workshop on Goniptero Control in February 2018 in Pontevedra in which 23 international organisations participated.

#### Other actions

In addition to the actions framed within the three programmes mentioned above, Ence has collaborated and participated as a speaker in the 2nd Conference of Silviculturists organised by the North Coast Silviculturists Association held in Ortigueira (A Coruña) on 25 May 2018.

The company also collaborated with MaderaPlus in the framework of the European project **TOPWOOD**: "Techniques for the phenotyping of adaptive traits in water stress of trees". Specifically, Ence has provided plants from the company's clone collection with information on its physiological traits and has provided company test plots as the experimental field for the project.

Ence also participated in publishing the Andalusian Bioeconomy Strategy (EAB2030) invited by the Ministry of Agriculture, Fisheries and Rural Development of the Andalusia Regional Government, within the Working Groups on Transformation and Logistics, as well as in the 19th edition of the summer courses organised by the University of Almeria through a presentation in the course "Bioeconomy as a new paradigm of Sustainable Development" held between 16 and 18 July in the city of Almeria.



Ence was also present at the transfer conference "Technology at the Service of the Forest/Industry Chain: From Knowledge to Application" organised by MaderaPlus and held on 10 October at the Galicia Technological Park (Orense).



This year, the company collaborated with the Huelva Department of the Environment on restoring the Villar Arboretum, reproducing and supplying more than 3,000 plants of 22 different species of the *Eucalyptus* genus.

Since 2013, Ence has also been collaborating with the Mosquito Control Service of the Provincial Council of Huelva in the annual mosquito population monitoring campaigns in this province.

Ence participated as a speaker in different conferences and seminars. Among them is the 9th International IUFRO Eucalyptus 2018 Conference "Managing Eucalyptus plantations under global changes" held in Montpellier (France) 17 to 21 September and the 14th National Environment Congress (CONAMA 2018) held in Madrid 26 to 29 November.



Ence has collaborated since 2001 with the Madrid Zoo Acuarium (Parques Reunidos SA) to ensure the feeding of koala specimens with more than 40 species of eucalyptus that are cultivated and identified by Ence's technical staff in the company's nurseries and arboretums.

#### Other activities on the sustainable use of resources

In the forests managed by Ence, in addition to wood and biomass production and conservation activities, there are other smaller activities that also provide examples of sustainable use of the natural resources offered by the forest.

## They include:

 Hunting exploitation: Ence jointly manages an insurance policy for all Southern Forest Assets hunting reserves in order to ensure full civil liability in organising hunts and other hunting



activities; this enables a significant reduction in costs and greater safety for all owners and tenants of the reserves.

- Cork production: Ence's Southern Forest Assets have different cork oak patches, which enable cork
  production. Throughout 2019, a significant campaign is planned for extracting this raw material, the
  management of which is in the process of being reorganised.
- Other secondary uses of the Southern Forest Assets that ensure the multifunctional management of forests are beekeeping and livestock.



## **Performance**

#### Results 2018



Ence's results in 2018 were very positive and confirm the Group's good performance. The **pulp business** was the main driving force behind Ence's results in 2018, with EBITDA increasing by 41% to €246 million, favoured by a 20% improvement in the average sale price during the year. While the EBITDA of the Renewable Energy business remained stable at €45 M.

The strong cash generation in the period enabled the payment of dividends amounting to €67 M and the partial financing of growth investments amounting to €280 M, together with investments in sustainability amounting to another €12 M. These investments are the starting point for the growth, diversification and excellence in sustainability that will set the course for the new Strategic Plan up until 2023.

In the pulp business, capacity was increased by 30,000 tonnes at the Pontevedra biofactory, followed by increases of 20,000 tonnes in Pontevedra and 80,000 tonnes in Navia during the first half of 2019.

In the **Renewable Energy business**, Ence acquired a 50 MW solar thermal plant in Puertollano (Ciudad Real) in December that will increase the annual EBITDA of this business by 18 million euros. Construction also continued on two new 46 and 50 MW biomass plants during the year, which will start operating at the end of 2019, increasing the annual EBITDA of this business by another €30 M per year.

This significant investment effort and Ence's attractive shareholder remuneration policy did not prevent the **Group's Net Debt to EBITDA ratio** from standing at just one time at year-end, with leverage of 0.6 times in the Pulp Mill business and 3.5 times in the Renewable Energy business.

In 2018 the pulp mill business was also **refinanced** by issuing a €160 M convertible bond with an annual bond of 1.25% and early redemption of the €250 M bond with an annual bond of 5.38%. Through this operation, Ence will save the annual payment of €11 M in interest from 2019.

Both Moody's and Standard & Poors improved the company's **credit rating** in 2018, expressly recognising the structural improvement in Ence's business model thanks to the growth in Renewable Energy.



The outlook for the short-fibre pulp market continues to be very favourable due to continued demand growth and the absence of large capacity increases in the coming years. The first confirmed project, Arauco in Chile, will not be operational until the second half of 2021.

In this context, Ence presented its Strategic Plan in November for the period 2019 - 2023 with the objective of practically doubling the Group's EBITDA at constant pulp prices, to €550 M in 2023, with a minimum base of €150 M coming from the Renewable Energy business.

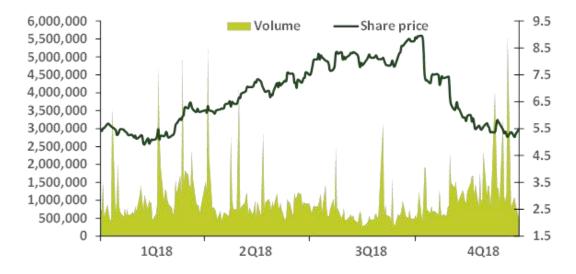
# **Share price**

Ence's shares became part of the selective **IBEX 35** as of 24 December 2018. This group is made up of the companies with the highest liquidity on the Spanish stock exchange.

Ence's shares have once again become part of the **IBEX Top Dividend** in 2019. This index consists of the 25 IBEX 35, Ibex Medium Cap and Ibex Small Cap securities with the highest dividend yield for their shareholders.

The  $\mbox{dividend yield}$  on Ence shares in 2018 was 5.01% of the year-end share price.

Ence's share price closed 2018 at €5.49/share, in line with the closing price of the previous year and after revaluing more than 59% during the first nine months of the year. The fear of a change in the economic cycle and the fall in the price of pulp at the end of the year hampered the price of companies in the sector in the last quarter.



Source: Bloomberg

SHARE	4Q17	1Q18	2Q18	3Q18	4Q18
Share price at the end of the period	5.50	6.12	7.60	8.75	5.49
Market capitalization at the end of the period	1354.5	1507.2	1871.7	2154.9	1350.8
Ence quarterly evolution	25.0%	11.3%	24.2%	15.1%	(37.3%)
Daily average volume (shares)	723,124	1,200,152	1,073,179	749,581	1,261,459
Peers quarterly evolution *	6.8%	33.0%	28.1%	(2.7%)	(18.9%)

<sup>(\*)</sup> Altri, Navigator, Fibria and Suzano.



## Generated and distributed economic value

Ence's activity proves to be an important axis of value generation for society in general and for its areas of influence in particular. In fact, the economic value distributed by Ence has increased more than 27% in the last three years, surpassing 723 million euros in 2018.

Most of the direct economic value generated by the company is distributed among its **stakeholders**, including **suppliers** and other components of Ence's supply chain. The company has also continued to increase the value distributed to its **employees**, increasing the resources allocated to salaries and welfare plans by almost 13% since 2016, and to **public administrations**, practically doubling the amount paid in 2018 with respect to 2016.

Ence's commitment to the **communities** that host its operations centres is also noteworthy, being demonstrated by significant investments within the framework of the Pontevedra Social Plan and the agreements that the company has signed with the town councils of Navia and San Juan del Puerto. In 2018, the amount dedicated to investments in the community exceeded 3.2 million euros.

The figures below show the economic value generated, distributed and retained by the company in the last three years:

Thousands	2018	2017	2016
Direct economic value generated	834.7250	746,210	610,660
Economic value distributed	723,769	649,483	566,776
Operating / supplier costs	482,839	434,383	412,839
Salaries and welfare plans for employees	63,882	61,623	56,679
Payments to capital providers and shareholder dividends	102,830	92,568	58,321
Corporation taxes, contributions and social security)	71,004	57,695	38,823
Investments in the community	3,214	3,214	114
Retained economic value	110,956	96,727	43,884



## Commitment to stakeholders

## **People**

Commitment to people is one of Ence's main priorities. The Company understands that responsible management of human capital is a strategic lever for creating sustainable value for the company and the environment. Ence encourages safe working behaviours, promotes equal opportunities and diversity and offers opportunities for work/life balance and professional and personal development within the company, with the purpose of attracting and retaining the best talent and achieving the satisfaction of the people who work in the company.

Ence has a clear commitment to generating **quality employment** with a high level of **stability**. Among Ence's employees, 86.1% have a permanent contract and 97.6% work full time. Ence is also committed to **diversity and equality** and in fact in 2018 there was a 13.9% increase in the number of women and the presence of women in management positions tripled.

During 2018, the average workforce during the year was 997.6 people, ending at the close of 2018 with 1048 people in the workforce, 1045 in Spain and three in Portugal. Of these, 51.3% are covered by a collective bargaining agreement.

Breakdown of workforce by category													
	S	pain 2	2017	Sp	oain 2	018		ı		ugal 17	F	orti 20:	ugal 18
CATEGORIES	М	F	TOTA L	M	F	TOTA L	CATEGORIES	М	F	TOTA L	М	F	TOTA L
Individual contract	23 9	83	322	259	10 2	361	Individual contract	2	1	3	2	1	3
from 31 to 50 years old	16 9	56	225	182	64	246	from 31 to 50 years old	1	1	2	1	1	2
Up to 30 years	21	16	37	25	27	52	Up to 30 years						
Over 50 years	49	11	60	52	11	63	Over 50 years	1		1	1		1
Temporary	63	40	103	11 2	34	146	Temporary	0	0	0	0	0	0
from 31 to 50 years old	32	19	51	60	17	77	from 31 to 50 years old						
Up to 30 years	27	16	43	48	15	63	Up to 30 years						
Over 50 years	4	5	9	4	2	6	Over 50 years						
Collective bargaining agreement	44 5	64	509	46 1	77	538	Collective bargaining agreement	0	0	0	0	0	0
from 31 to 50 years old	30 8	46	354	33 9	59	398	from 31 to 50 years old						
Up to 30 years	34	4	38	38	3	41	Up to 30 years						
Over 50 years	10 3	14	117	84	15	99	Over 50 years						
General total	74 7	18 7	934	832	21 3	1045	General total	2	1	3	2	1	3

Breakdown of workforce by contract type													
Spain 2017 Spain 2018									Port 20	ugal 17	ſ	ort 20	ugal 18
CONTRACT	М		TOTA L	М		TOTA L	CONTRACT	M		TOTA L	М		TOTA L
Indefinite	68 4	14 7	831	720	17 9	899	Indefinite	2	1	3	2	1	3
From 31 to 50 years old	47 7	10 2	579	521	12 3	644	From 31 to 50 years old	1	1	2	1	1	2



Up to 30 years	55	20	75	63	30	93	Up to 30 years						
Over 50 years	15 2	25	177	136	26	162	Over 50 years	1		1	1		1
Temporary	63	40	103	112	34	146	Temporary	0	0	0	0	0	0
From 31 to 50 years old	32	19	51	60	17	77	From 31 to 50 years old						
Up to 30 years	27	16	43	48	15	63	Up to 30 years						
Over 50 years	4	5	9	4	2	6	Over 50 years						
General total	74 7	18 7	934	832	21 3	1045	General total	2	1	3	2	1	3

Breakdown of workforce by type of workday													
	S	pain 2	2017	Sp	ain 2	018		ı		ugal 117	F	Porti 20:	ugal 18
WORKDAY	М		TOTA L	М		TOTA L	WORKDAY	М		TOTA L	М		TOTA L
Full time	74 1	17 2	913	825	19 5	1020	Full time	2	1	3	2	1	3
From 31 to 50 years old	50 5	10 6	611	577	12 2	699	From 31 to 50 years old	1	1	2	1	1	2
Up to 30 years	82	36	118	110	45	155	Up to 30 years						
Over 50 years	15 4	30	184	138	28	166	Over 50 years	1		1	1		1
Part time	6	15	21	7	18	25	Part time	0	0	0	0	0	0
From 31 to 50 years old	4	15	19	4	18	22	From 31 to 50 years old						
Up to 30 years				1		1	Up to 30 years						
Over 50 years	2		2	2		2	Over 50 years						
General total	74 7	18 7	934	832	21 3	1045	General total	2	1	3	2	1	3

Ence's commitment to generating stable quality employment translates into low staff turnover:

Average Tur	nover	2	017	2018				
		Men	Women	Men	Women			
Employees years	< 30	0.07	0.07	1.00	0.50			
Employees years	30-50	0.26	0.09	1.60	0.80			
Employees years	> 50	-0.03	0.02	1.00	-			
Total		2.99	1.81	1.60	1.30			

The average rotation has been calculated using the following formula: (new hires - terminations /total number of employees \* 100)

# **Human capital management**

For Ence, human capital management is the basis for achieving its strategic objectives, since it is its employees who, with their shared values and efforts, work day by day to make the company's mission a reality.

Human capital management at Ence is focused on facilitating and promoting cultural change, fostering autonomy, participation and teamwork and developing people and the Ence leader (who inspires, cares for and shares), as well as encouraging safe working behaviours to achieve everyone's satisfaction in a good working environment.



All of this is aimed at developing relationships of trust, attracting and retaining the talent of all the people who work at Ence and living the values of the company so that the company and people can grow together.

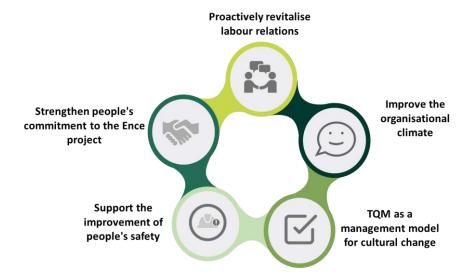
The **2016/2020 People Strategic Plan**, drafted in 2016, sets out the roadmap for human capital management and aims to promote training and the commitment of all employees to the company, to the customer, to results, to continuous improvement, to safety and to the environment.

The priority action areas set out in the Plan are:

- Develop "support and guidance" leadership and a participatory leadership style
- Increase skills, techniques, management and safety at work
- Strengthen people's commitment to Ence's values
- Attract and retain talent for the success of the company's Strategic Plan
- Design mechanisms for competitive evaluation and remuneration
- Establish working relationships based on dialogue, trust, co-responsibility
- Recognise achievements and results

In addition to the initiatives included in the People Strategic Plan, the human capital team meets annually to reflect on the guidelines established by the Management Committee, which will set the priorities for each year.

The guidelines set for 2018 were:



Human capital management objectives are defined based on these guidelines. In 2018, some of the most outstanding priority areas were the project to improve workplace climate, the people development programme, improving labour relations and the three-year technical training and occupational safety programme and implementing the new Human Capital model/role as a business partner. Numerous initiatives designed to promote work-life balance have also been developed, which are detailed in the work/life balance section.



## ENCE 10

One of the main milestones in human capital management in 2018 was the launch of the ENCE10 project to develop teams of excellence in the company.

This programme was created for the purpose of advancing towards an organisation formed by people with a global vision, aware of the importance of their contribution to Ence, with common objectives and generating maximum synergies.



The specific objectives of the programme are twofold:

- 1) To improve collaboration between areas through Customer/Supplier partnerships
- 2) To increase empowerment and develop greater management autonomy

The programme was based on surveys, interviews and workshops from which, with active participation from employees, proposals for improvement emerged, which were consolidated in four action areas: communication, organisation and processes, culture, leadership and people, and establishing alliances (customer/supplier letters). The project was launched in September 2018 throughout the organisation.

# Making Ence a great place to work

Improving the workplace climate to make Ence a great place to work and that employees are proud of is one of the company's priorities and one of the main objectives of the human capital team.

In this context, it is important for Ence to know the opinion and degree of satisfaction of the people who work in the company, in order to define and implement measures that respond to their expectations and needs. To this end, since 2017 and based on the results of the workplace climate survey, work has been done on defining improvement plans.

In the definition of improvement plans, Ence has designed a participative methodology. Specifically, eight transversal working groups were created in 2017, made up of employees from all of the company's areas and businesses, who deepened the diagnosis of the situation in order to identify the main needs and areas for improvement. As a result of this joint work, a series of actions were defined and developed during 2018, including:

 A programme of one-on-one meetings between employees and their direct superiors to learn the concerns of all people and improve their performance day by day. This programme was supported with internal communication campaigns and a contest of *selfies* taken during these meetings. A training programme was also designed to promote and implement a methodology for holding these meetings and thus guarantee their productivity. A total of 4,697 one-to-one meetings were held.



- Employee development interviews at all levels within the collective bargaining agreement with their superiors, aimed at professional development within the company, with a total of 317 interviews conducted.
- Definition of **career plans**, with special focus on non-employee personnel. During 2018, more than 140 personalised career plans were drawn up.
- Manager/worker meetings based on the job description to define what is expected of each person in his or her job - 382 meetings.



- Creation of Objective Setting Code
- Participation in preparing the industrial plans for all the employees in each of the pulp biofactories, with participation from 284 people.
- Implementation of a **suggestions channel** for compiling ideas for improving the pulp biofactories and the Supply Chain area with the participation of 247 people.
- About Ence programme: Ence employee cross visits to different work centres, to promote
  communication between teams. These visits enhance the personal knowledge of employees who
  do not work together on a daily basis and also enable the sharing of best practices and ideas
  exchanged to promote continuous improvement. A total of 223 people participated in the visits.





Visits by Ence employees to different operations centres within the framework of the Conoce Ence programme

In addition to these actions, in 2018 the perception of Ence employees continued to be analysed by means of monthly studies to ascertain their opinion on issues such as the relationship with superiors, the dialogue climate and the work environment.

At the end of the year, a new edition of the Workplace Climate Study was also launched, which was communicated to staff with a letter from the CEO urging all employees to contribute their opinions and stressing the importance of helping to make Ence a great place to work. As a result of all the actions described above, this Climate Study recorded a 39% improvement in the aggregate Climate indicator with respect to the previous year's result.

# **Training and development**

As mentioned above, training and promoting the personal and professional development of all the people who work at Ence is one of the pillars of the People Strategic Plan and a strategic priority for the company. Ence believes that training is key to achieving human capital management objectives and for contributing to achieving other objectives, such as the goal of zero accidents or the objectives of continuous improvement in production processes.

The training also contributes to raising awareness about relevant aspects for Ence, such as sustainability in general and environmental protection in particular, as well as sharing a common vision among all employees with the company's mission, vision and values.

Ence's commitment to training was reinforced in 2018, increasing the total training hours to 21,490 in the Group, i.e. 21.6 hours of training per employee.



		2017		
	Men	Women	TOTAL	
Training Hours	14,787.0	2,576.0	17,363.0	
Management	430.0	482.0		
Individual Contract	3,928.0	1,671.5	5,599.5	
Collective Bargaining	9,191.5	629.5	9,821.0	
Agreement				
Temporary	1,237.5	223.0	1,460.5	

2018										
Men	Women	TOTAL								
16,831.6	4,658.6	21,490.1								
808.5	381.5	1,190.0								
6,252.5	2,769.1	9,021.6								
8,288.1	1,082.5	9,370.6								
1,482.5	425.5	1,908.0								

	Men	Women	TOTAL
Average number of hours of	20.4	14.4	19.2
training per category			
Management	13.2	21.1	13.8
Individual Contract	20.2	22.7	20.9
Collective Bargaining	22.0	10.4	20.6
Agreement			
Temporary	15.0	5.3	11.7

Men	Women	TOTAL
21.1	23.7	21.6
18.6	52.2	23.3
30.5	31.9	30.5
18.5	16.0	18.0
14.6	12.1	13.6

The main training initiatives at corporate level carried out in 2018 fall into the following areas:



The following table details the hours of training and the number of participants in the training actions carried out in these areas:

2018 CORPORATE TRAINING PLAN	h/person	Number of participants
Discover the leader Ence technicians	16	59
Conversations quality in performance management.	8	79
Follow-up on 'Let's Talk' project. One-to-one meetings	8	95
Follow-up on supervisor 'Let's Talk' project.	8	46
Technical training plan for Operation/Introduction to the 'Let's Talk' project	16	197
Maintenance technical training plan	32	108
Pulp occupational health management training plan	16	485
Energy occupational health management training plan	16	35
Forestry occupational health management training plan	16	118
Green Belt Training	40	52
Yellow Belt Training	8	147



Green Belt Training Focus on Process Control Quality Measurement Systems	16	7
Zero odour environmental awareness	3	89
Project management	44	15

In addition to these actions included in the corporate training plan, each operations centre defines specific training plans adapted to its own unique aspects.

As a complement and in order to increase the technical skills and knowledge of the company's pulp production process, all Ence employees have been provided with training blocks in the ABOUT ENCE elearning course, structured in modules on the training platform, intended for professional retraining and the training plan for new hires.

It is an interactive process in which all the tools and resources are used, from a didactic point of view through multimedia environments that facilitate and promote learning and interactivity, using resources such as audio, animations and interactive exercises: Learning by Doing.



#### Welcome to Ence

In order to facilitate integration into the company and to accompany newly hired employees in their first days of work, Ence has designed a Welcome Plan in *e-learning* mode, which can be found in the same online training platform and which includes the description of the company, its mission, vision and values and a description of the main management tools and procedures.

In addition, as an example of Ence's commitment to integrity and corporate ethics, on the day they start, new employees receive copies of the code of conduct, harassment prevention protocol, criminal compliance policy and working time policy for reading and signing. Ence thus ensures that new recruits are familiar with the company's rules of conduct and values from day one.

## Performance management, talent attraction and retention

One of the key areas in human capital management for Ence is to ensure that the company attracts, develops and retains the talent necessary to successfully develop and meet the objectives set out in the 2016-2020 People Strategic Plan. To this end, Ence develops the annual talent and organisation review process based on:

- Establishing a clear vision of the organisation and the key positions of the company
- Identifying key managers, potential successors and talent
- Anticipating and preparing for upcoming movements and replacements
- Identifying possible "gaps" and adopting the necessary corrective measures

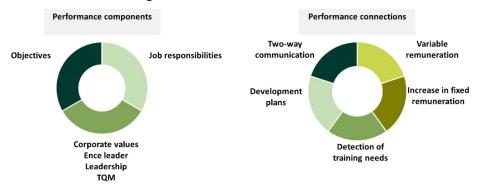
The performance management process is also carried out annually to:

- Clarify what is expected of the position
- Reinforce and recognise behaviours
- Orient the person towards development and progress
- Orient efforts towards Ence's objectives and challenges



 Obtain people's commitment to Ence's values and the Ence leader model: "support and guidance" from your collaborators

These evaluations are based on a continuous dialogue on goals, achievements, reinforcements and acknowledgements, where not only "what is achieved" through participatory management by objectives is analysed, but also "how it is achieved", "by what means" and "in what situations". The process is carried out through the annual performance interview and continuously throughout the year to all of the organisation's technicians and managers.



In 2018, the Performance Management model for Directors and Managers was enriched with *feedback* from their peers. (180 Evaluation)



The company wants to involve the entire line of command in managing people and in Human Capital policies, making collaborators feel the trust and recognition of their superiors. For this reason, among other actions, the number of annual performance interviews carried out and the number of people participating in the participative management system by objectives are analysed, the latter with the annual variable remuneration.

In 2018, a total of 325 people took part in these performance evaluations, which represents 33.54% of the total workforce (2017) and 97.31% of the executive and individual contract staff, demonstrating the company's commitment to this talent management system.

Number of people who received variable remuneration 2017	314
% of the total workforce	32.4%
% of staff managers and individual contracts	94.0%
Nº Performance evaluations carried out 2017	326
% of the total workforce	33.6%
% of staff managers and individual contracts	97.6%



Nº of people with fixed objectives 2018	341
% of the total workforce	33.8%
% of staff managers and individual contracts	98.3%

#### Internal promotion

As a basis for professional development and generating pride in belonging for the people who work in the company, Ence is committed to development and internal promotion. In 2018, special focus was placed not only on promoting internal personnel, but also on internally communicating the promotions that have been carried out, making them known to all company employees through channels such as the intranet, the up to date Ence corporate newsletter and the internal communication systems in offices and biofactories.

As a result of this commitment, there were 56 internal promotions in 2018.

#### **Talent Programme**

In 2015, Ence launched the Talent scholarship programme for recent university graduates. With this, Ence offers these young people the opportunity to begin their professional career by actively participating in their business processes and projects in the different areas of the company such as Engineering, Production, Maintenance, Finance, Purchasing, Forestry, Legal Advice, Communication and Human Capital. This programme was created with the aim of promoting professional development and employment among young people, as yet another example of Ence's commitment to the environment.

With this programme Ence can also strengthen the link between the company and other stakeholders, such as the universities and other academic institutions from which the students come and thus promote the company's employer brand.

The Talent Scholarship programme is carried out at the corporate offices in Madrid as well as at the operations centre in Huelva, and the biofactories in Navia and Pontevedra, with an average of 50 scholarship holders participating during 2018. Of these, 13 joined Ence to cover permanent positions and collaborate in different projects.



# Remuneration and welfare plans

As part of its talent management and retention system, for non-agreement employees, Ence defines competitive remuneration policies that take into account the responsibilities of each position and the individual contribution within a structure of salary levels and bands.

In cases where variable remuneration is added to the fixed remuneration, this is determined on the basis of achieving individual, organisational and business results. The annual salary review is linked to a merit matrix defined by Ence, which depends on the employee's situation in the salary band and performance in the position.

Collective bargaining pay ensures a guaranteed minimum for individual contract staff as a whole and on an annual basis.



Average remuneration per group	2017	2018
Ence Energía y Celulosa	€ 50,631	€ 53,206
Individual and Executive Contracts	€ 68,302	€ 72,932
Collective Bargaining Agreement	€ 43,654	€ 44,631
Temporary	€ 28,391	€ 30,872
Norte Forestal	€ 13,402	€ 14,615
Collective Bargaining Agreement	€ 20,143	€ 14,179
Temporary	€ 12,617	€ 15,192

Average remuneration by age	2017	2018
Ence Energía y Celulosa	€ 50,631	€ 53,206
Up to 30 years	€ 32,067	€ 35,758
31-50 years	€ 50,846	€ 53,040
+50 years	€ 63,509	€ 67,108
Norte Forestal	€ 13,402	€ 14,615
31-50 years	€ 13,632	€ 14,484
+50 years	€ 12.823	€ 14.956

Average pay by gender	2017	2018
Ence Energía y Celulosa	€ 50,631	€ 53,206
Men	€ 51,912	€ 54,012
Women	€ 44,847	€ 49,529
Norte Forestal	€ 13,402	€ 14,615
Men	€ 15,059	€ 15,138
Women	€ 13,093	€ 14,521

The average effective remuneration 2018, excluding the Management Committee, was €53,206 per annum, including fixed and variable remuneration and long-term savings pension systems. Senior management remuneration can be consulted in the company's Corporate Governance Report.

The average pay gap between men and women, excluding the Management Committee, stands at 8%, although the necessary actions have been taken throughout 2018 to ensure that once these measures are consolidated into a full year, **the pay gap will not exceed 5%**. In addition to the above data and belonging to the entity Norte Forestal, there is a group made up of mostly permanent-discontinuous staff in which the average pay gap between men and women stands at 4%. In the case of the Management Committee, the average pay gap between men and women in comparable positions is 10.8%. The following section on Diversity and Equality of opportunities details the actions that Ence has undertaken in this area.

Taking into account the initial salary of the lower category applied in Ence and the minimum interprofessional salary in Spain, Ence's initial salary is 21% higher than the SMI.

Proportionality between SMI and lower- level salary Ence					
2017 2018					
Men	1.15	1.21			
Women 1.15 1.21					

# Welfare plans



As an example of its commitment to human capital, in addition to monetary remuneration, Ence has an employee welfare plan to reward individual contract employees and thus encourage talent retention and the satisfaction among the people who work at the company. The welfare benefits offered by Ence include:

- Health insurance (payment of 50% of the insurance premium), to protect the health of employees and their families
- Supplementary benefit of up to 100% of the real salary in ordinary working hours, for situations of temporary incapacity that are due to a common illness or accident
- Life and accident insurance (payment of 50% of the insurance premium), to protect the employee and his/her family in all circumstances
- Pension Plan, so that employees have a source of income in addition to retirement
- Restaurant/factory dining room card (subsidised by the company through a restaurant card)
- Loans for home purchase, home or vehicle repair and for unforeseen situations
- Birth and marriage gratuities and death grants
- Flexible Remuneration Plan, to contract products or services with tax advantages such as medical insurance, child care, transport card, training, etc.

#### Diversity and equality of opportunities

Ence promotes diversity and equality of opportunities and rejects any type of race, gender, creed or nationality discrimination, a commitment recognised in its **Code of Ethics** and its **Sustainability Policy** and articulated in its **Equality Plan.** 

This Plan promotes the effective application of the principle of equality between men and women, guaranteeing equal opportunities for income and professional development at all levels of the organisation. In the same vein, the **remuneration policy** guarantees non-discrimination and remunerates competitively pursuant to market criteria.

In 2018, Ence reinforced its commitment to equality and diversity by launching an ambitious project to analyse the salary and diversity gap in the company, in which the salary and representation situation of men and women in the workforce was analysed.

This analysis was carried out at the overall Group level and in detail for each operation centre (biofactories in Navia and Pontevedra, independent power plants and offices) and the situation was also examined according to contract type (collective bargaining agreement and individual contract), the area within the organisation and the professional category.

The results of this analysis show that the **presence of women** in Ence's workforce has gradually increased over the last four years, reaching 20% in 2018. This percentage exceeds 28.8% in the case of employees under 30 years of age. In the case of the youngest, since the creation of the Talent programme, 75% of the trainees identified as Talent in the biofactories were women.

The analysis shows that the average **pay gap** at Ence stands at 5% (although in some cases this difference is 7%; 10% and 11%, in certain levels by areas), 16 points below the manufacturing industry average (21%) and 17 points below the Spanish average (22%) according to NIS data from the 2016 Annual Salary Structure Survey published in May 2018.



Although Ence is better positioned than the industry and the national average, company management considers it a priority to **reduce this difference and increase the representation of women in** the workforce at all levels.



In November 2018, the Steering Committee thus approved the **Equality Objectives 2019/2020** organised in five focus areas: professional

development, selection process, pay gap, work/life balance measures and visibility and monitoring.

Professional development Balance unequal gender representation at all levels of the organisation	Objective 1 Introduce measures to avoid bias in advocacy processes  Objective 2 Ensure equal representation of women in management development programmes, career plans and mentoring programmes
<b>Selection process</b> Promote the attraction of female talent	Objective 3 One woman in the final shortlist of all selection processes Objective 4 20% women in new hires in Biofactories Objective 5 40% women in the new hiring of managers and individual contract personnel Objective 6 Achieve 50% representation of women under 30 with a university degree by the end of 2019
Pay gap Analyse the pay gap assumptions on a case- by-case basis and define an action plan to achieve parity	Objective 7 Implement the necessary measures to increase internal equity. Ence shall ensure that there is no pay gap for any woman at any of the employment levels that represents a range at its minimum point greater than 5% with respect to the average of her male peers.
Work/life balance measures Promote rational balance between professional and personal life	Objective 8 Work flexibility through the current system of working hours at Ence and extended time flexibility for parents of children under 12. Creation of additional specific programmes for the work/life balance of professional and family life
Visibility and monitoring of equality objectives	Objective 9 Increase the visibility of the Equality Plan Objective 10 Creation of an Equality Technical Commission at Ence Group level whose main purpose is to ensure compliance with equality objectives

Inclusion of people with different abilities in the labour market



Ence has 1.3 % disabled employees on its staff and the company provides them with all the means and conditions necessary to guarantee their access and allow the correct development of their duties. Ence also works with special employment centres and subcontractors.

During 2018, and in collaboration with the Adecco Foundation, the Family Plan was launched, focused on improving the autonomy and promoting the present and future employability of Ence employees' children with different abilities.

In addition to promoting diversity and equal opportunities, through the Harassment Prevention Policy, Ence is committed to preventing, avoiding, resolving and penalising any cases of harassment that may occur, as an essential requirement to guarantee the dignity, integrity and equal treatment and opportunities of all the people who work for the company.

In 2018, no harassment complaints were received through the channels established for this purpose.



# Work/life balance

Ence understands that work/life balance is a right for people who work in the company and at the same time a lever to generate satisfaction and pride in belonging.

In this sense, the Ence Equality Plan establishes measures to facilitate work/life balance that go beyond what is established in current legislation, such as:

- Breastfeeding leave with the possibility of accumulation in full days
- Maternity leave coverage
- Part-time maternity leave
- Promotion of face-to-face meetings (videoconferencing, etc.) to reduce the need for business travel
- Responsible meeting schedule (care is taken to ensure that working meetings do not extend beyond the mandatory working day).

In 2018, as part of the value proposition that Ence has defined for non-agreement personnel, the working time policy has been updated with the aim of increasing the flexibility of working hours and the employee's ability to organise their own working time, establish **digital disconnection** and implement the intensive working day during the summer months.

#### Labour relations and workers' rights

At Ence, labour relations are based on dialogue, trust and co-responsibility, thus maintaining the labour relations framework necessary to be able to work on improving efficiency and productivity.

With regard to workers' rights, Ence operates in countries of the European Union where the risk of violation of workers' rights is low, since the administrations implement robust regulatory frameworks and control systems.

However, Ence's Sustainability Policy includes the company's express commitment to respect for human rights and specifically the rights of workers as set out in the ILO Declaration on Fundamental Principles and Rights at Work and its conventions.

Thus, Ence's collective agreements contain specific that set out workers' rights to collective and union representation.



In terms of labour relations, the most noteworthy events in 2018 were:

- Madrid Offices: signed the agreement on flexible working hours for 2019 and updated the retirement age for access to pension plan benefits.
- Huelva Biomass plant: constituted the negotiating table for the 2019-2022 Collective Bargaining Agreement
- Biomass plant in Lucena: negotiations opened for signing a Company Pact that includes improvements on the collective bargaining agreement for Cordoba metal.
- Offices in Huelva: the negotiating table for the 2019-2022 Collective Bargaining Agreement was established
- Navia Biofactory: the CEASA 2018-2021 Convention was signed
- Navia offices, Pontevedra biofactory and Pontevedra offices: Flexible working day agreements signed for 2019

## Occupational health and safety

Ence's first value is its commitment to people, stated in the following way:

"Ence respects and listens to people, it recognises and values their work and contributions, it **takes their safety** and their professional and personal development into account, it communicates, it generates relationships of trust and it actively promotes a good working environment".

This is why protecting the health and safety of all people who work at Ence, and the scrupulous respect of safety regulations and procedures is a basic tenet in all of the organisation's operations. Considering this, Ence works on fundamental aspects: consolidating the important cultural change of all those who form part of the company, in the sense of assimilating safety as a key aspect in all of its activities, and continuously improving its operations in order to achieve safer processes and facilities, using the necessary resources and the most developed methodologies that exist in the sector.



# Principles of Ence's cultural change in terms of health and safety

In its commitment to health and safety, Ence establishes generating safe behaviours for everyone who works in its centres as a priority, setting the bases for cultural change in the following principles:

- Integration of safety in daily activity, in all operations, and at all hierarchical levels of the organisation, complying with the motto "Safety is the first priority"
- Visible commitment from the top management, being the main driver of this cultural change, providing resources for implementing the most effective and robust preventive management tools on the market, encouraging evaluation and continuous improvement of the safety of facilities and processes, getting involved and setting an active example by periodically carrying out Preventive Safety Observations in all of the Group's centres, and establishing ambitious training plans for safety training at all hierarchical levels of the organisation (from Management Committee staff to operational levels).
- Systematic assessment of safety-related risks at all operational levels and facilities, and implementing appropriate preventive measures to avoid them.



In Ence's operations centres, there are risks that are common to most industrial facilities (such as falls at the same and different levels, risks associated with work in confined spaces, lifting loads, entrapment by machines, strikes against objects, electrical risk and risks associated with handling heavy machinery), and others more typical of our industry, such as contact with chemical substances, or risks derived from the transport and unloading of wood and biomass.

- Strengthening the preventive system through: analysis, developing improvement plans and promoting lessons learned from all accidents and incidents that occur in the group.
- Periodic audit of the preventive system, through the most prestigious external auditing
  companies in the sector. Every year, Ence's preventive system is subjected to different external
  audits, within the framework of: Audits associated with OSHAS 18001:2007, audits for regulatory
  compliance, audits for the Board of Directors, capturing all of the opportunities for improvement
  derived from them and developing appropriate improvement plans that are followed periodically
  by management until their effective closure.
- Correction of unsafe behaviour under the "zero tolerance" principle.
- Selection of **approved safety contractors**, continuously evaluating their compliance with Ence's safety regulations, and accustoming them to the use of the company's safety improvement tools.
- Integrating safety, hygiene and ergonomic concepts in the design of the facilities.
- **Training and development** Ence employees' leadership in terms of safety, by implementing a robust Safety Competence Plan specific to each position.

## Objectives and tools for continuous improvement in Health and Safety

With regard to health and safety, Ence's objective is to have **zero accidents** in all activities, for its own personnel and those of contractor companies.

The keys to achieving this objective are:

- The visible and permanent commitment from management.
- Promoting prevention by establishing the safest and healthiest working conditions for the company's own staff, contractors and anyone who visits its facilities.
- Lead by example and prioritise safety in management, in a process of continuous improvement.
- Ongoing training in health and safety and emergency response at all levels of the organisation
- Ensuring that contractors integrate Ence's safety principles and tools into their management systems.
- Identifying, evaluating and safely carrying out **special risk tasks (SRT)** in all of its centres. This practice makes Ence a leader in the sector and in the industry, as the company has established a pioneering standard of TER management based on
  - Identifying all situations that may occur in their centres and have a high risk potential if not planned properly from the point of view of safety
  - Developing specific plans for these works, developing a step-by-step safety plan for each
    of the stages that identifies risks and preventive measures
  - Involve all parties in the analysis: the planner, the area where the work is to be carried out and the executor
  - Prior to execution, have the plan validated by one of the largest safety experts on the market (Sacyr-Fluor)
  - All SRTs are informed and reviewed by the Management Committee, which may intervene in any of the planning and/or execution phases if it considers it necessary to strengthen any preventive aspect.
  - During execution, all TERs are continuously supervised by a Senior Technician in Occupational Risk Prevention to ensure that they are executed safely pursuant to the plan.

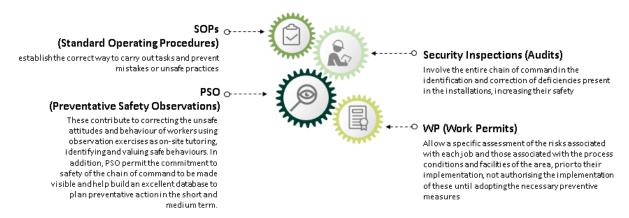


Ence organises prevention through a **Joint Prevention Service (JPS)**, which assumes the preventive specialisation areas of safety at work, ergonomics and applied psycho-sociology, and health surveillance. The management model of the Joint Prevention Service is structured pursuant to the **OHSAS 18001:2007** international standard, which is based on exercising continuous improvement in order to: reduce accidents at work, ensure compliance with prevention legislation and encourage a preventive culture integrated into the general system of the company with the commitment of all the people who work in it.

This management model is based on **Ence's Safety Policy**, the application of which is developed in the Corporate Occupational Health and Safety Management Manual, which constitutes the company's Occupational Risk Prevention Plan. This Corporate Manual is complemented by 10 Corporate Health and Safety Procedures, as well as detailed technical procedures prepared by the SPM, the business units and the starting centres.

The Corporate Safety Procedures encompass different aspects of prevention management, such as: identification, evaluation and control of occupational risks; information, training and competence; and investigation, recording and notification of incidents.

The management tools used by Ence to improve health and safety at work include:



The **main activities** carried out by Ence in 2018 within the framework of this Joint Prevention Service include:

- The development and proposal of the organisation's Safety Framework Plan, subsequently validated by the Steering Committee, as the basis for the developing the safety FIO (Fundamental Improvement Objectives) of the operations centres.
- The annual technical shutdowns of the Navia and Pontevedra biofactories and the Independent Energy Plants with no significant incidents in terms of health and safety.
- The development of a harmonisation and improvement plan for the control of access to and movement within workplaces.
- The development of a new Safety Training Plan for the 2019-2022 period.
- Revision and improvement of the Corporate Occupational Health and Safety Manual and corporate safety procedures
- Successful completion of the physical safety audits carried out by Applus for the Board of
  Directors, the strong points being the involvement of the teams, the robustness of the system
  and the audits on regulatory compliance and certification of the systems pursuant to the OSHAS
  18001:2007 standard carried out by AENOR.
- Strategic meetings of the directors and safety managers of the Joint Prevention Service to share best practices and define common initiatives to improve safety in the organisation.



Ence also actively participates in **sector forums and initiatives** to promote improved health and safety management. The most relevant in 2018 include Ence's participation in the technical conference organised by the ISSGA in Lugo, in which the first consensual documents on **prevention in the forestry sector** were presented, drawn up by a multidisciplinary working group of which Ence's Prevention Service is the driving force.

## **Employee representation and communication**

As regards worker representation in Health and Safety matters, at the Pontevedra and Navia biofactories and at the Forestal Norte operation, Health and Safety Committees have been set up as a result of the number of employees (over 50) and the request made by the workers' representatives.

In the rest of the centres, worker representation for issues related to Health and Safety is exercised by the prevention delegates. Thus, 100% of ENCE staff have a valid mediator to pass on their concerns or suggestions related to Health and Safety to management.

The organisation also has other **communication channels** in the area of Health and Safety, such as the electronic communication channel "Health and Safety, we listen to you", available on the company's website, through which all staff concerns are studied and attended to, or through the chain of command as established in the "Procedure for communication, consultation and participation".

#### Health and safety performance

Ence's main health and safety indicators are summarised below:

## Number of accidents:

	Own accidents		External accidents	
2018	With leave	No leave	With leave	No leave
Pulp	3	8	3	2
Energy	1	5	4	16
Forestry	0	0	11	6

	Own acc	cidents	External accidents			
2017	With leave	No leave	With leave	No leave		
Pulp	1	12	3	4		
Energy	0	3	1	6		
Forestry	0	3	9	7		

	Own acc	idents	External accidents			
2016	With leave	No leave	With leave	No leave		
Pulp	8	9	2	9		
Energy	0	0	2	3		
Forestry	0	3	10	10		

Of the accidents recorded in 2018, one of the accidents with leave was sustained by a woman.



## Frequency and severity indices:

	2016			2017			2018					
	0	wn	Exte	rnal	0	wn	Ext	ernal	0	wn	Exte	rnal
	FI	SI	FI	SI	FI	SI	FI	SI	FI	SI	FI	SI
Forestr	0	0	10.4	0.51	0	0	9.0	0.20	0	0	11.8	6.77
у			4	8			5	1			1	
Pulp	4.3	0.16	2.21	0.19	1.0	0.01	3.7	0.17	2.8	0.13	2.74	0.14
	9	1		2	1	7	9	5	6	4		2
Energy	0	0	4.91	0.02	0	0	3.1	0.12	3.6	0.08	3.31	5.04
				7			2	5	5	9		

These indices are calculated according to INSHT formulas. (The hours considered for external personnel are calculated on the basis of weighted working hours).

An analysis of the root cause is carried out for each accident registered, following the procedure of investigation, registration and notification of accidents and incidents. With the aim of clarifying the reasons for the accident, an action plan is drawn up to prevent its repetition, and the lessons are shared with all the centres that make up the Joint Prevention Service.

## **Health surveillance**

In the area of health surveillance, in addition to carrying out annual medical check-ups following specific protocols required according to the risk assessment of each post, the company prepares informative documents that delve into general health aspects, thus promoting healthy living guidelines ("Ence por tu salud" (Ence for your health) bulletins).



Plans to promote healthy living focus on promoting a balanced diet, smoking cessation, promoting physical exercise and health testing (hypertension, obesity, uric acid, cholesterol, etc.).

With regard to the **specific protocols**, it should be noted that in 2018 a separate Medical Protocol was drawn up to control potential exposure to eucalyptus wood dust and control tests were started in power plants and in the departments of the Biofactory Wood Park, with optimum results in all cases.

The health surveillance service is also responsible for preparing the corresponding **epidemiological studies** and annual reports in the operations centres. In this regard, it should be noted that no case of occupational disease was recorded in 2018.

This service also organises training courses in **first aid**, and a specific manual has been drawn up for this purpose.

#### <u>Absenteeism</u>

There was an increase in maternity and paternity leave in 2018 and by legal imperative the increase in paternity leave hours

		2017	2018
Total	Absenteeism	4.19	4.74
Ence G	roup		
Illness		2.39	2.84



Accident at Work	0.13	0.11	
Maternity/Paternity	0.46	0.79	
Paid leave	0.63	0.64	
Union Permits	0.59	0.37	
Total hours lost	64,384.6	77,027.9	

# Internal communication and participation

Internal communication and active participation from employees is fundamental to achieving strategic objectives and advancing cultural change, and its effectiveness depends directly on the involvement of everyone, especially the management committee and the entire management team. Ence is aware that the success of its new 2019-2023 Strategic Plan largely depends on motivating the people working in the company, the workplace climate and the contributions made by all employees through the different channels of dialogue and participation.



For this reason, Ence's internal Communication Strategy aims to **transmit the company's strategic vision** so that all employees are informed and aware of the contribution they can make from each position towards achieving it. Internal communication also seeks to transmit Ence's **values and principles** of action in order to build a solid corporate culture with which all stakeholders can identify and contribute towards improving the company's corporate reputation.

With this in mind, a **2016/2020 Internal Communication Plan** was drawn up in 2016 with the following objectives:

- Ensure understanding of the Strategic Plan, its objectives and the TQM management model
- Contribute to Ence's people assuming the cultural and organisational changes necessary to fulfil the Strategic Plan
- Promote internal motivation by recognising the achievements of the human team
- Contribute to generating a participative and transparent business model
- Integrate internal communication into Ence's overall management
- Improve Ence's image and internal reputation

In order to respond to the objectives set out in the plan, during 2018 numerous communication, participation and dialogue actions were carried out with employees, including:



- Cascade presentation of the Strategic Plan to the entire organisation
- Annual meeting of the Management Team, in which the main challenges of the following year were analysed with more than 100 managers from all areas of the company
- TQM knowledge improvement programme, through informative pieces in work centres and a section in the "Team Ence Today" newsletter
- Quarterly Conference call/Webex to communicate quarterly results and business performance
- Publication of results information on the corporate intranet
- Meetings to define responsibilities and agree on annual objectives (with managers and individual contract staff)
- Biannual follow-up meetings of objectives
- Annual performance interviews
- "One-on-one" meetings with the direct superior
- Publication of information about the "Customer's Voice" satisfaction survey in the "Team Ence Today" newsletter
- New edition of the Christmas greeting contest for the children of Ence employees
- Participation in preparing the industrial plan for the biofactories through questionnaires to employees of the work centres
- Development of leisure and sports activities to promote the knowledge and personal relationships of employees (padel tennis tournament, indoor football, cycling routes) in a spirit of solidarity.
- Open days for family members of employees in the Pontevedra, Huelva and Lucena operation centres.
- Working breakfasts with the CEO and the directors of each operations centre.
- 'Have your say' programme: visits by the Chief Executive Officer and the General Manager of Human Capital to hear employees opinions and points of view at each operations centre, in which 118 people participated. At these meetings, attendees have the opportunity to speak in person with the company's executives and convey their concerns and perceptions about the measures Ence is implementing to improve the workplace climate, as well as other issues related to the running of the business and









relations with local stakeholders. These talks also provide an excellent opportunity for the CEO to directly communicate aspects such as the Plan and the company's strategic objectives and to convey the Management Committee's commitment to working on the issues that arise during the meeting.



These actions have been implemented through different media and channels, including the monthly "Ence Today" newsletter, the corporate intranet, email, announcements on panels and employee meeting points and monitors installed in Ence's biofactories and offices.

To encourage more digital and accessible communication, Ence has also launched the 'Mi Ence' application, which enables employees to access the company's communications and work-related information.

This application also serves as a platform for dialogue and participation, since the people who work at Ence can use it to participate in perception studies and give their opinion on different issues.



Another priority of Ence is providing **recognition and gratitude to the people** who play a relevant role in some of the improvement activities that the company sets in motion. In 2018, various recognition events were held:

- Recognition of those evaluated as Leaders in the performance evaluation process
- Annual recognition in the Huelva operations centre, Navia and Pontevedra biofactories and Supply Chain
- "Excellent Team" recognition in the annual executives meeting
- Periodic recognition through the company's internal communication channels (intranet, screens, etc.)



## **Shareholders**

Ence is committed to creating value for shareholders and investors and provides them with the resources and procedures needed to guarantee **maximum transparency of and accessibility** to company information.

The Investor Relations department is responsible for Ence's **regular and permanent communication** with the different capital market agents: shareholders and equity investors, bondholders and fixed income investors, financial brokers and analysts, credit rating agencies, etc.

Its main objective is to keep the different market agents adequately informed about the financial situation, management development, business strategy and any other relevant fact related to the Company, ensuring the integrity, accuracy, immediacy, equality and symmetry of the information. Relationship channels with shareholders and investors

Ence's main communication channel with shareholders, investors and other capital market agents consists of the investors section of the **corporate website** (www.ence.es), where the Investor Relations department maintains all the information that could be of interest to them, such as the share price, dividends, relevant facts, financial information, information on corporate governance and sustainability, debt issues and ratings, corporate presentations and results, etc. continuously updated and easily and immediately accessible. During 2018 the investors section of Ence's website received 14,626 visits.

Another communication channel is for the **presentation of results**. Presentations of quarterly financial results are broadcast live and those interested in doing so are given the opportunity to ask management questions about them. Access to the recordings of each presentation of results is also permanently available through Ence's corporate website.

All the public information required by the **National Securities Market Commission** is also available through its website (<u>www.cnmv.es</u>), including the publication of relevant facts. During 2018, Ence communicated 47 relevant facts.

Ence is also present on **social networks** (Linkedin, Twitter, Facebook, YouTube), aware of the repercussions that these platforms have today. Through them, Ence seeks information on the company's activities and establishes fluid and transparent dialogue with its stakeholders.

The Investor Relations Department also deals with queries from shareholders, bondholders, institutional and private investors, financial analysts and other market agents on a permanent and individual basis by **e-mail**, <u>ir@ence.es</u>, and on the **shareholder's telephone line** (+34 91 337 8553). In 2018, the Investor Relations department handled 154 queries through these channels.

Ence also participates in **conferences** and regularly organises **informative meetings** with these interest groups in order to provide them with the most adequate and updated public information about the company for the exercise of their rights and interests.

During 2018, the Investor Relations department maintained 371 direct contacts with investors through its participation in:

- Fifteen roadshows with equity investors (two in London, two in Paris, two in Frankfurt, Geneva, Zurich, Milan, Oslo, Helsinki, Stockholm, Lisbon, Bilbao and Barcelona).
- Two Fixed Income Roadshows in London and Paris.
- Six equity seminars (two in Madrid, two in London, one in Madrid, one in Lisbon).
- One fixed income seminar in London.
- Four results publication conferences.



- Three post-results breakfasts with investors in Madrid.
- Presentation of the 2019-2023 Strategic Plan
- Meetings and conference calls in Ence offices.

# **Shareholders' Meeting**

The General Shareholders' Meeting is the main event for shareholders to meet and participate in the Company's most relevant decision-making, thus contributing to forming the corporate objectives.

The Board of Directors convenes the meeting as appropriate, communicating the items on the agenda, as well as the shareholders' rights to attend, in order to facilitate the exercise of the rights to attend and participate in the General Meeting with transparency and under equal conditions.

In particular, the Board provides shareholders with the necessary **means** to enable and facilitate their participation, in person or remotely, as well as adequate **information** in relation to the items on the agenda, so that they can cast an informed vote. Shareholders also have the right to ask any questions and make any interventions they deem appropriate during the meeting, all pursuant to the law, the articles of association and good corporate governance practices.

Through its website, **Ence provides shareholders with an electronic forum** to facilitate communication between them prior to the meeting. The forum enables publication of possible proposals to be added to the agenda, petitions in support of such proposals, initiatives to gain the percentage of shareholding required to exercise minority rights as stated in the law, and offers or requests to act as a voluntary proxy. Further details on the operation of the General Shareholders' Meeting can be found in the Corporate Governance section of this report.



#### Customers

Customers are one of the most relevant stakeholders for Ence and for this reason the company manifests a firm commitment to them in its Sustainability Policy. Specifically, Ence is committed to plan and execute with quality and efficiency the necessary actions to meet customers' demands and to fulfill the commitments made to facilitate their work and generate trust.

With this commitment as a guide, Ence works to maximise customer satisfaction in all activity lines, ensuring long-term relationships and seeking to become the supplier of reference in the market.

Ence works with two different types of customers depending on their line of activity: renewable electricity customers and pulp customers.

# Customers in the energy market

In the energy market, Ence must comply with all the obligations imposed on electricity vendors within the Spanish regulatory framework.

In this sense, Ence works to ensure that the main players in the electricity sector are aware of the company's reality, through generating cooperation ties and strategies of common interest and mutual benefit.



#### Customers in the pulp market

Ence is present in the most demanding European pulp markets. In fact, this region is the main destination of the company's pulp production, accounting for 90% of its sales in 2018 (for more details, see the section on pulp production)

In this sense, Ence is progressively adapting to the reality of the market, increasing its presence in the expanding paper segments (tissue and specialties) and reducing segments that are contracting due to a decline in demand.



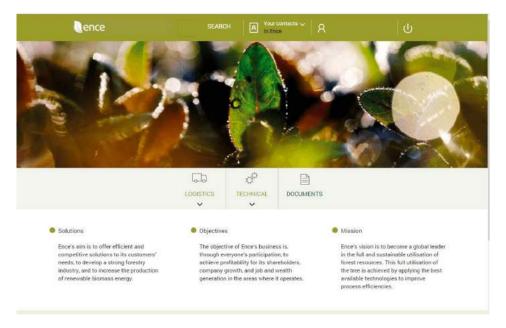
## Customer Relationship Management

Ence's customer relationship management aims to create bonds of trust and long-term mutual benefit. In order to generate this trust, Ence maintains a proactive relationship with them based on attention and continuous communication that enables it to know the opinion and expectations of its customers and respond to their needs.

This relationship system is based on different channels of proactive dialogue with customers. Sales managers **periodically visit customers** and invite them to **visit the company's facilities** to learn about the evolution of their expectations regarding the products and services provided by Ence. With this premise in mind, **more than 300 visits** were made to pulp customers in 2018.



As a measure to facilitate contact with the company, Ence also set up a **specific online portal** for customers in 2018 through which they can directly access the information of interest to them.



Another means of dialogue is a **system for formally obtaining customers' opinions** on the most relevant aspects of their business relationship, such as service, delivery time, product quality, sales department service or technical service. An annual questionnaire has therefore been launched for the main customers, whose responses are analysed within the framework of the Quality System and are used to set Improvement Objectives to improve customer satisfaction individually and globally. Among the results of the questionnaire carried out in March 2018 in relation to 2017, the good score given by Ence's customers to the service provided by the sales department and to the accessibility of its personnel stands out.

At the same time, Ence develops the **VOC** (*Voice of Customer*) model in order to discover the perceptions and expectations of customers in order to implement improvement initiatives that contribute to the development of special and differentiated products that meet their needs and help Ence to increase its market share and capillarity in Europe. The VOC involves the Management Committee as well as factory personnel in order to convey the importance of customers and their realities in their respective segments.

In 2018, two VOC model visits were made, attended by people responsible for the different plants, always incorporating a person from the industrial, logistics, commercial and quality areas. In this type of visit, interviews are conducted with questions on six topics: Ence's image, products, commercial service, logistic service, technical assistance service and future perspective on aspects related to the market.

Ence also uses other types of communication channels with customers, such as **computer applications** designed to share specific information, **e-mails** and **conference calls**. At the same time, Ence is a member of the main sectorial associations and is present in the most important events that they organise in order to put customers in contact with the producing companies.

With regard managing complaints and claims, Ence has had a system in place since 2012 that enables it to articulate its relationship with customers and record any incidents that may occur. As stated in the internal procedure "Customer non-conformities due to quality", all complaints and comments related to any customer dissatisfaction with any requirement of the service provided or of the product delivered, without affecting the breach of warranties, or other more severe aspects such as accidents caused by the product or service provided, extra costs, returns, etc., are classified.

# **Sustainability Report 2018**



Through this system, a total of seven claims were registered in 2018 on a total of more than 2,000 pulp sales transactions.

In order to manage each complaint received, Ence draws up an **8D Report**, detailing the description of the problem, the containment actions implemented, a root cause analysis, the corrective actions activated, the actions defined so that the problem does not recur and the verification actions. This report is the basis for the final communication of the resolution of the complaint with the customer and also serves to promote continuous improvement in the production process.



#### Partners and suppliers

Ence's commitment to its partners and suppliers, as set out in the company's Sustainability Policy, consists of establishing relationships of mutual trust based on transparency and establishing lasting links with them in order to improve the reputation and sustainability of both parties.

To materialise this commitment, Ence **contributes to the development and growth of its suppliers**, especially local suppliers operating in the company's geographical environment and with a special focus on forest owners and other suppliers of wood as well as biomass.

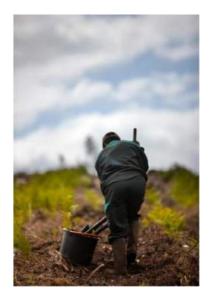
Ence also rejects any type of human rights violation and illegal use of natural resources, which is why it implements supplier accreditation and evaluation systems that include compliance and sustainability criteria to ensure that the company's principles of action are respected.

#### Value generation for suppliers and forest owners

Ence is not only the first private forest owner and manager in Spain, but also one of the main buyers of wood, contributing to generating value for suppliers, owners and forest associations. Through its purchases, Ence helps to boost the forestry sector and helps to prevent the abandonment of forests and the depopulation of rural areas.

As for purchases from suppliers, the company tries to encourage purchases from **small suppliers**, who make up 95% of Ence's suppliers (owners with purchases of less than 3,000 m³ of wood per year are considered small suppliers). In 2018, the volume of purchases from small suppliers was 69%.

Ence also seeks to promote the local development of the environments in which it operates. Therefore, the company promotes the **purchase of local wood** and in fact all purchases in 2018 were made in Galicia and Asturias.



On the other hand, Ence promotes sustainable forest management certification, encouraging the purchase of wood from suppliers with PEFC and FSC® certificates. In fact, of the 248 wood suppliers Ence works with, 145 have dual PEFC+FSC® certification, 149 have FSC® chain of custody certification and 162 have PEFC chain of custody certification.

Ence also encourages **direct purchases from forest owners**, in order to benefit them and create alliances between them and the company. In this case, by eliminating the intermediation costs, the margin that is destined to third parties in this modality has repercussions on improving the operations of Ence and producers.

Specifically, Ence bought wood from more than 1,800 forest owners during 2018, with an average of 338 tonnes per owner. Purchases made through a forestry association accounted for nearly 24% of Ence's wood purchases in 2018.

With all of the above, Ence's activity as a buyer of wood, both in the standing purchase modality and in supplies, has mobilised more than 2.7 million cubic meters of wood for an amount of almost 182 million euros in 2018.



	Wood (m³) Standing purchase + Suppliers	Amount (€) Standing purchases + Suppliers
2015	2,513,054	161,971,323
2016	2,724,148	175,540,897
2017	2,851,637	183,838,618
2018	2,704,314	181,932,277

	2015	2016	2017	2018
Standing purchases	611,232.01	743,661.51	768,807.46	629,280.76
Small suppliers	1,310,820.99	1,203,320.94	1,375,800.36	1,350,725.22
Total supply year	2,671,114.29	2,825,023.57	2,857,482.80	2,872,574.31
Purchases from small suppliers	72%	69%	75%	69%

#### Support for the development of wood suppliers

Aware of its leading role in the sector, Ence develops measures to promote sustainable forest management and the development of forest owners and other wood suppliers. In addition to encouraging direct purchasing, Ence bases its relationship with forest owners on proximity and mutual benefit and puts all the means at its disposal to **encourage and enhance the management of the forest owner**.

With this premise, Ence extends its forestry activity beyond its own operations, promoting the exchange of ideas, knowledge and techniques aimed at improving the management of forest stands. Ence's **best management practices** in its forestry operations are extended to forest owners and other suppliers. For many years, this has been one of the activities that most concerns the company, from the conviction that a structured, professional and technologically proficient sector will generate an environment of mutual benefit for owners and companies.

To this end, Ence supports forest owners in aspects such as:

- The transfer of know-how
- Working together in the fight against pests
- The promotion of planting with quality genetic material
- Forest certification
- Associationism
- The search for complementary financing tools (Fair Wood or Payment for Environmental Services)
- The promotion of rounded forests to promote lower use costs and boost the sector's competitiveness.
- Promotion of quality employment, entrepreneurship and training
- Protection of the environment

The wide range of actions mentioned is part of a transversal objective of promoting **cooperation between owners**, which enables for improved efficiency and productivity of plantations, their health management, the effectiveness of fire prevention, the design and maintenance of infrastructures and, of course, environmental management.



That is why Ence works hand-in-hand with various forestry associations in different models of long-term cooperation that provide a solid but simple and flexible legal structure to these joint management arrangements, key to forest sustainability and the fight against abandonment. The contracts signed with the woodworkers' collectives go beyond the mere acquisition of wood, establishing guidelines for collaboration on structural issues for the future of the forestry sector such as managing forest crops, phytosanitary improvement,



sustainable management of forest stands and greater transparency in the wood market.

Proof of this are the efforts made by Ence to promote good cultivation practices and to obtain sustainable forest management certification. Along these lines, Ence carries out **training initiatives** aimed at forest owners where eucalyptus cultivation is particularly suitable.

These initiatives address issues such as the location of plants, the price of wood or certification, as well as showing the keys to developing an exemplary plantation.

Ence also shares with forest owners the advantages of **improved Eucalyptus globulus plants**, the result of decades of work and selection of the best specimens by Ence's forest research experts, which show growth rates greater than 30% than those of the eucalyptus seed plant, thanks to appropriate silviculture and treatments.



In 2018, Ence also collaborated with the COPADE Foundation and the Madera Justa platform on organising courses for workers in the Galician forestry sector with the aim of promoting and improving employment, entrepreneurship and the environment in order to achieve training and quality employment.

#### **Biomass suppliers**

The activity of renewable energy generation from biomass makes Ence an important player in terms of mobilising agricultural and forest biomass in Spain. Ence therefore contributes to minimising the environmental impacts derived from inadequate management of agricultural and forest residues, creates value for biomass suppliers and helps to energise supply areas.

Specifically, the total movement of biomass supplies to all Ence plants in 2018 was more than 1.3 million tonnes, for an amount of more than 40.6 million euros.

	Biomass (tn) all plants	Amount (€) of biomass
2015	1,026,222	44,100,174
2016	1,094,228	45,485,723
2017	1,220,962	45,092,814
2018	1,316,293	40,665,643



In addition to generating value for its biomass suppliers, Ence contributes to boosting sustainability on farms. Thus, in 2018, Ence has continued to advance in the application of its **Ten-point code for biomass sustainability**, which entails a significant increase in the consumption of agricultural by-product biomass:

	Agricultural biomass (tn)	Industrial biomass (tn)	Forest biomass (tn)
2016	202,383	7,500	884,345
2017	324,995	239,090	656,877
2018	491,565	260,914	563,814

Ence's work in capturing residual agricultural biomass involves sharing the company's sustainability strategy with farm owners and **promoting sustainable practices in rural areas**. Thanks to these actions, the number of owners who have authorised the rapid, orderly and recurrent removal of their residual biomass in many cases has multiplied.

In addition to the awareness-raising work that Ence has carried out in individual conversations with a multitude of owners, the company has also presented its strategy in various forums, such as the "Zaragoza International Agricultural Machinery Trade Show" (February 2018), and the "Huelva Industry Forum for Innovation and Cooperation" (June 2018) and has participated as a promoter in forums that pursue similar global strategies,



such as the Circular Economy Summit organised in Madrid in July 2018.

Ence has also focused its efforts on broadening the base of new suppliers of agricultural biomass, encouraging its uptake. With all this, the volume of agricultural biomass has been increased by more than 166,000 tonnes in one year (from 324,995 tonnes in 2017 to 491,565 tonnes in 2018), which shows Ence's success in promoting a sustainable alternative for biomass recovery.

Rapid and orderly growth has been achieved through the necessary **collaboration with local companies**, which has resulted in contracting work on the use and transport of agricultural biomass for an amount of nearly 4 million euros, doubling the amount in 2017. These measures have an impact on job creation and establishing wealth and income mainly in rural areas, as most of the investments are devoted to personnel.

# Supplier accreditation and management

The great capillarity of Ence's supply chain represents an opportunity to create value in rural environments, as mentioned above, but it also entails risks given the high number of suppliers that the company works with. For this reason, Ence has equipped itself with various mechanisms to minimise the risks derived from its supply chain, especially with regard to wood traceability.



These mechanisms include procedures for supplier accreditation, with which Ence ensures that its suppliers, especially wood suppliers, assume the legal and **sustainability requirements** established by the company. These procedures also serve to assess the risk level of each supplier and, based on this assessment, establish the monitoring and evaluation plan for them.

In the wood and biomass supplier accreditation process, Ence ensures that the supplier companies subscribe to the following commitments:

- A statement that the wood supplied does not come from controversial sources and that the supplier has applied the Due Diligence System as indicated in EU Regulation 995/2012.
- Commitment from the supplier to provide data on the geographical origin of all wood supplied and the supply chain, as well as data necessary to make the risk designation.
- Commitment by the supplier to collaborate in the Ence Wood Origin Verification Programme, with a periodic inspection format.
- If the supplier is considered to be "high risk" in relation to the origin of the wood supplied, Ence undertakes to provide all the necessary data to identify the forest managers of origin in the place of origin of the raw material, as well as the entire supply chain of the products supplied.
- In the event that the supplies are considered to be of 'high risk', the supplier also undertakes to
  allow inspections of its own operations and those of previous suppliers in the chain by second or
  third parties.

The procedure also includes other aspects, such as ensuring compliance with the fundamental conventions of the ILO (International Labour Organisation), certification according to a Sustainable Forest Management System and the quality (ISO 9001) and environmental (ISO 14001) certification systems. The accreditation process takes place when the supplier is registered and is renewed every two years. The percentage of Ence's wood suppliers certified with this system in 2018 was 96.4%.

As for service providers (such as subcontractors for the use of wood for standing purchases), although they are considered to present a lower risk level, within the framework of Ence's Integrated Forest Management System an accreditation questionnaire is also applied to them. This questionnaire includes aspects such as environmental management, occupational health and safety and quality. Ence's efforts to extend this approval system to as many service providers as possible have resulted in a notable increase in the number of approved providers over the last three years, from 9% in 2016 to 46% at the end of 2018.

In addition to the accreditation, in terms of supplier management, Ence carries out **periodic evaluations** as a tool for continuous improvement. These evaluations review compliance with the technical specifications of the products purchased and the contractual terms of the services. Evaluation criteria include those of the forest certification systems (FSC® and PEFC), ISO 9000 and 14000 and *Total Quality Management*.



# Society

#### Positive social impact of the activity

The activity developed by Ence as the leading European company in eucalyptus pulp production and the leading Spanish company in renewable energy production using agricultural and forestry biomass has a positive social impact not only in those places where its operations centres are located, but throughout its entire value generation chain.

Through its wood supply chain, Ence contributes to generating **employment**, to **establishing the population in the rural environment** and to **professionalising** and orienting the Spanish forestry sector towards sustainability, promoting **sustainable forest management** practices among its suppliers. By promoting renewable electricity generation with agricultural and forest biomass, Ence also promotes the stimulation and the transition to a **circular economic model** for these sectors, generating value and



avoiding practices such as uncontrolled burning that harm the environment and the company.

Ence's activity also adds value to company in other respects, for example by helping to reduce the risk of forest fires by keeping forests clean and by protecting natural capital in its sustainable forest operations.

In this sense, in 2015 Ence, through the Ence Chair of the University of Vigo, prepared the Report on the **Economic Impact of Ence's Forestry Activity in Galicia**, an analysis of more than 250,000 commercial operations to determine the real impact of the company's forestry activity in this Community. The report is available at <a href="https://www.ence.es/images/pdf/Informe Economico Forestal Ence.pdf">https://www.ence.es/images/pdf/Informe Economico Forestal Ence.pdf</a> and includes, among other data, that forest purchases made by Ence in Galicia in one year exceed 122 million euros. This figure includes both purchases of wood and purchases of products and services related to forest management, which amount to some 25 million euros per year.

The analysis carried out by researchers from the University of Vigo concludes that in forestry work alone the annual demand for wood from the company generates about 178,000 days in the forests each year. In addition, the paper subsector in which Ence's weight exceeds 90% is the link in the forest/wood chain in Galicia which generates higher productivity per hour worked and improves that of the furniture subsector and other wood manufacturing industries by 75%.



#### Vocation of relationship with and closeness to the environment

Proximity to society and especially to the communities in which it carries out its activities is a strategic priority for Ence, as it understands that establishing bonds of trust with the groups in its environment is key to guaranteeing the company's long-term sustainability. In fact, the vocation of relationship and closeness with its environment, with its problems, its development and improving the quality of life of the people who live in it is one of the foundations of Ence's Sustainability Policy.

In this same policy, Ence manifests its commitment to the environment, to public administrations and regulators and to other influential groups, such as the media and NGOs. To materialise this commitment, Ence maintains a relationship based on transparency and open dialogue with society and works proactively with its stakeholders to resolve the concerns of individuals and groups that are directly or indirectly related to its activity.

But in addition to fulfilling its duty to address the concerns of its stakeholders, Ence takes its commitment to society one step further, developing social initiatives that seek to improve the quality of life and generate development opportunities for the communities in which it operates.

With all this, Ence seeks to generate a bond of trust based on generating shared value and mutual benefit with the environment, which translates into a solid reputation and a relationship of mutual benefit that is sustainable over time.

# Pontevedra Social Plan

One of the main exponents of Ence's commitment to society is the Pontevedra Social Plan.

The Plan is part of the "Environmental Pact" signed by Ence with the Department of the Environment of the Galicia Regional Government in 2016, which includes a series of investments and projects associated with environmental improvements, which will contribute to the economic development of Pontevedra and Galicia, as well as the sustainability of the activity carried out by ENCE in its Pontevedra operations centre (for more information, see Note 30.1 of the Group's Consolidated Annual Accounts).

The first edition of the Plan was launched in 2017 as one of the largest social initiatives of a private company in Spain. The Plan, which has been designed on an annual basis, consists of allocating assistance to finance social, cultural, environmental, sports or economic and employment promotion projects, among others.

The Pontevedra Social Plan has an annual budget of 3 million euros and is structured into six action areas:





In 2018, the 2nd edition of the Ence Pontevedra Social Plan was translated into grants for 296 projects, 70 more than in the previous edition. They include the following awards:

- 111 Sports support projects
- 50 Support projects and assistance to education and culture
- 48 Projects for recovery and care of the environment
- 34 Projects for the fight against social exclusion
- 28 Projects for driving entrepreneurship and innovation
- 25 Neighbourhood assistance projects

Project applications and awards are managed with the utmost rigour and transparency in a seven-phase process:



The 2018 call entails the following maximum amounts per action area:

Action area	Maximum amount
Combating social exclusion	€ 530,000
2. Recovery and care of the environment	€ 400,000
3. Diverse neighborhood assistance	€ 200,000
4. Support and assistance to education and culture	€ 300,000
5. Boosting entrepreneurship and innovation	€ 600,000
6. Support for grassroots sport	€ 900,000



7. Digitalisation of the grant application and award process	€ 20,000
8. Administration, management and communication	€ 50,000
TOTAL	€ 3,000,000

A communication campaign has also been launched to publicise the Social Plan and Ence's contribution to society in Pontevedra, consisting of publishing informative reports and advertising in written and digital press, radio and social networks. A new website has been also created specifically for the Social Plan (<a href="www.plansocialence.es">www.plansocialence.es</a>).

#### Other social initiatives

Landscape integration of the Pontevedra biofactory

During 2018, progress was made with the visual and landscape integration project around the Pontevedra biofactory, with the aim of progressively transforming it into a plant that combines utility and landscape values.



Collaboration agreement with Navia Town Council

With the aim of boosting employment and patronage in Navia (Asturias), and as part of Ence's commitment to the environments in which it operates, the company signed a Framework Collaboration Agreement with Navia Town Council in 2017, which entails the endowment of 100,000 euros per year for sponsoring social activities and improving the environment, 50% of new hires of local residents each year, priority for contracting local suppliers, the development of professional skills through internships with university graduates, bachelor's and master's degrees and support for projects for improving and caring for the environment.

Within the framework of this Agreement, Ence collaborated on various projects in 2018, such as rehabilitation of the emblematic Casino de Navia building, for which Ence donated 30,000 euros in wood to remodel the roof. With the opening of the Navia Casino, one of the symbols of the municipality has been recovered, which will contribute to reactivating the cultural life of the town to a large extent. In terms of culture, the company has collaborated on revitalising the environment, promoting several activities in the shipping council such as concerts and the Navia 2018 Book Fair.



Sport is another area in which Ence wishes to sustain its commitment to the community. The company has therefore provided 22,500 euros to finance new athletic tracks with rubber coating in the El Pardo area. These are the only facilities of this kind in the entire West Asturias. Finally, Ence has also sponsored various sporting events, such as the descent to the Ría de Navia and the 1st Cuenca del Navia triathlon.



Collaboration Agreement with the San Juan del Puerto Town Council

In line with the collaborations established in the surroundings of the biofactories of Navia and Pontevedra, Ence signed a Framework Collaboration Agreement in 2017 with the Town Council of San Juan del Puerto, a municipality close to the renewable energy generation complex with biomass from Ence in Huelva. The purpose of this agreement to develop actions to promote protection of the environment, generating local employment and improving the quality of life of local citizens. The Convention contemplates actions in the following areas:

- Construction of the access footbridge to the marshes, salt flats and Muelle del Tinto docks. The
  footbridge, inaugurated in the first quarter of 2018 resolves residents' disconnection with this
  recreational and leisure area.
- Collaboration with the municipal employment agency in promoting job offers and selection of local personnel for its production centre.
- Joint promotion of the advantages of biomass and support to the sector by implementing communication actions with this objective.

Within the framework of this Agreement, Ence has made a total contribution in 2018 of 114,200 euros + VAT.

Ence is also committed to promoting grassroots sport in the surroundings of its Huelva energy complex. Following this premise, it has sponsored several benjamines clubs in the town of San Juan del Puerto Huelva this year.

Also, to encourage sportsmanship and academic excellence among young people, the company gave five students and players of different ages a scholarship worth 100 euros for enrolment in a local sports school for next year. The assistance included teaching aids for the professional development of young students.

# Dialogue and communication with stakeholders

One of Ence's objectives in terms of its relationship with its stakeholders is to establish and maintain different channels of communication, participation and dialogue that foster information exchange and serve as the basis for a mutually beneficial relationship.

As established in the company's Sustainability Policy, each of these channels has its own characteristics in terms of format, content and frequency of communication, to adapt to the needs of each stakeholder. In this sense, Ence provides permanent and continuously available channels such as e-mail and corporate websites as well as periodic channels such as surveys, meetings and presentations and periodic channels.

# **Digital channels**

Ence has the websites <u>www.ence.es</u> <u>www.encepontevedra.com</u>; <u>www.plansocialence.es</u> and <u>www.compramosmadera.es</u>, and is present on Linkedin, Twitter, Facebook, YouTube and Google+. It also



has a specific mailbox to receive queries on matters related to sustainability: <a href="mailto:sostenibilidad@ence.es">sostenibilidad@ence.es</a> through which Ence's stakeholders can contact the corporate sustainability area.

For internal communication Ence uses the corporate intranet, which this year has a renewed interface that is more adapted to web 2.0. It also uses 'Ence Today' e-newsletters, the 'my Ence' App for employees, the multimedia screens in offices, biofactories and plants and the specific website for employee training. More details on these platforms for dialogue with employees are provided in the People section of this report.

#### Visits to the facilities

Other forms of relationship with stakeholders in Ence's surroundings are visits to the operations centres organised by the company to make its biofactories and independent renewable energy generation plants known to representatives of the administration, students, neighbourhood associations and other groups. As an example, in February 2018 Ence's biofactory in Navia received a visit from the Asturias Principality Regional Minister for Infrastructures, Territorial Planning and the Environment to find out about Ence's activity and the various environmental improvements made.



This past year, the Ence biofactory in Pontevedra opened its doors to the local Employment Workshops, to various eucalyptus forest suppliers and to students from several local educational centres. The Ence energy complex in Huelva also received visits from various collectives throughout the year, including students of Energy Engineering from the University of Huelva and the San Juan del Puerto Basketball Club.

#### Media relations

Ence maintains a proactive relationship of collaboration and transparency with the local and national media, key players in the transmission of information to the rest of the company's stakeholders. To achieve this, Ence works continuously on several lines, including:

- Permanent dissemination of information through press releases, communiqués, etc. on operational, environmental and financial aspects. The Press Room section of Ence's corporate website contains some of the press releases issued by the company (<a href="https://ence.es/es/notas-de-prensa.html">https://ence.es/es/notas-de-prensa.html</a>).
- Continuous communication and delivery of information requested by the media.
- Open access for media to the company's facilities and main events (Shareholders' Meeting, annual technical stops, etc.)
- Presentations of milestones and outstanding projects, such as the 2019-2023 Strategic Plan, progress on the construction of the Huelva plant, etc.
- Participation in programmes and other spaces organised by the media to resolve citizens' doubts and concerns.
- Launching of advertising and information campaigns on various aspects, such as the launch of the 2nd edition of the Pontevedra Social Plan and the Talent 2018 Programme.
- Other initiatives, such as the recording of Huelva Teleonuba local television's First Line Programme at the Huelva Energy Complex, on the advantages of biomass power generation and the use of agricultural by-product to produce electricity.



## Other relationship channels

In addition to the mechanisms mentioned above, Ence also establishes channels for dialogue and interaction with its stakeholders in the form of regular **meetings** with neighbourhood associations and representatives from each operation centre, attending to **calls from residents** who live near its factories, working meetings with specific groups to exchange information on matters of interest and sending **direct communications** to neighbours in the immediate vicinity of the facilities to inform them of operational aspects that may affect them.

Ence also actively participates in relevant **sector forums and events** that provide an opportunity to get to know and interact directly with its stakeholders.

Among the forums in which Ence has been present throughout 2018, it is worth highlighting the conference entitled Circular Economy and Natural Capital in Corporate Strategies, organised by Ence in collaboration with the newspaper El Economista and inaugurated by the Secretary of State for the Environment. At this conference, held in November 2018, Ence's CEO announced the investments into sustainability planned by the company within the framework of its 2019-2023 Strategic Plan and explained how Ence contributes towards promoting the circular economy.

Another of the forums in which Ence has had a presence throughout 2018 has been the workshop on the necessary factors to ensure the sustainability of the Galician forest held in Pontevedra, in which the sustainability of the forest in Galicia was debated together with representatives of the Forest Research Centre of Lourisán, the Wood Cluster, Asefoga and the College of Forest Engineers.

Ence also participated in the Galician Energy Trade Show, a biennial event held from 22 to 24 March at the Silleda Exhibition Centre (Pontevedra), which was attended by more than 6,000 professionals who met to find out about the latest news and proposals from the most important companies in the energy sector in the community. Together with Ence, more than 255 exhibiting entities from twenty countries participated in the forum.

Ence has also been present in Galiforest, the 5th International Forest Monograph for Southern Europe, which was held from 28 to 30 June 2018 in Boqueixón (Santiago de Compostela) and in which more than 180 exhibitors participated and more than 5,600 visitors attended who were interested to see this showcase about the importance of Galicia in forestry and machinery manufacturing, and in quality technical conferences.



# Public administrations, regulatory bodies and other institutions

As stated in its Sustainability Policy, for Ence, having a loyal understanding with institutions of the places where the company is installed is one of its hallmarks.

Ence collaborates with these bodies with the **common objective** of improving the quality of life and the social, environmental and economic aspirations of the society it is a part of. For all these reasons, Ence constantly demonstrates its willingness to collaborate and its predisposition to reach an agreement and is committed to the different institutional instruments that enable it to be channelled. Specifically in the field of forestry, Ence actively collaborates to contribute to the evolution of the regulations related to sustainable forest management.

Ence maintains a direct relationship with the main public administrations of reference in its sector (Ministry of Industry, Commerce and Tourism, Ministry of Agriculture, Fisheries and Food, Ministry for the Ecological Transition, General Directorate of Energy Policy and Mines, National Energy Commission), as well as the regional and local administrations of the regions in which it operates (Regional Communities, Provincial Councils and Town Councils) to publicise the company's activity and participate in the platforms in which matters of relevance to the sector are addressed.

As the European leader in the production of eucalyptus pulp, the first private forest manager and the first Spanish company to generate renewable energy with biomass, Ence also participates actively in sector associations related to its activity lines, as well as in other forums and platforms for promoting development and jointly addressing the challenges of these sectors. With these associations, Ence also actively collaborates on implementing communication actions to make society aware of the positive impacts of the forestry, agricultural and renewable energy sectors.

#### Institutional relations in the forestry sector

In the forestry sector, Ence works with various stakeholders such as owners' associations, forestry and forest services companies' associations, auctioneers' and sawmills' associations and forest industry associations such as the Wood and Forest Industry Cluster, with the aim of advancing consolidation of the wood value chain in Galicia, improving the capacity to generate value for each of its links, promoting key aspects such as excellence in forest management, simplification of legal regulations and safety and communication with society.



monte industria

Ence has also participated in the debate with numerous civil society organisations belonging to the timber value chain, such as trade unions, NGOs, universities, forestry associations, foundations, political groups, etc. to produce a **Universal Thesis on the Forest Sector**. This thesis was born with the objective of establishing, from the consensus of all stakeholders in the wood value chain, a long-term vision to overcome the structural problems of smallholdings and rural abandonment and to value the forest, making it competitive and socially, economically and environmentally sustainable.

The conclusions of this Universal Thesis, which highlight the perfect compatibility and even complementarity between production and conservation, as well as the great importance of the rural sector as a source of resources and values for society as a whole and the risk for society as a whole that its abandonment entails, have been used by Ence and the entire value chain as a basis for debate and contributions to the **Galician Forest Plan**, which includes, among other points, the need for a Strategic Plan for the Forest Industry to guide forest planning and management based on the needs of society as expressed also in the market, especially focused on leveraging the enormous opportunity that the bioeconomy represents, the requirement for a Galician Forest Statistical Plan including more frequent and extensive information on the sector, and the need to ensure economically sustainable forest management, by means of appropriate compensatory mechanisms, in those zones in which limitations on



use are established so as to guarantee values that society requires outside the market. Another issue that has been insisted on from the sector historically and in the debate on the forestry plan is the reform of the Administration, specifically in the separation between fires and forest management in different general directorates, separation that the Council of Ministers implemented on 5/12/2018.

Ence also participates in the forestry sector in Asturias, maintaining a fluid and efficient relationship with associations, entities and administrations related to the sector.

Thus, Ence presides over **CETEMAS** (Forestry and Wood Technology Centre of Asturias), a leading technological centre in the forestry sector, with growing activity and regional, national and even international recognition.



Ence has also been working intensely in Asturias to achieve a structuring of the sector similar to that of Galicia, intensifying contact between the different forest associations of owners, service companies, and auctioneers and sawmills together with the industry, constituting the Forestry Platform of Asturias in 2018, and beginning to develop initiatives in the area of Communication and Regulatory Simplification.

Ence has set up and coordinates the *Eucalyptus globulus* working group with members of the aforementioned platform - specifically **PROFOAS** (Association of Forest Owners of Asturias), **ASMADERA** (Asturian Association of Forest, Wood and Furniture Entrepreneurs) and **ASYMAS** (Business Association of Forestry and Environment of

Asturias) - to develop innovative solutions that contribute to improving the management of the 60,000 ha of Eucalyptus existing in Asturias. This group was submitted to the call for assistance from the Asturias Principality for Operating Groups, within the 2014-2020 RDP and the assistance needed for its development during 2019 was granted in December. The project is aimed at three areas for improvement: the grouped management of smallholder plantations, improving forestry and genetic materials used in plantations, and the development of specific photogrammetry tools using drones.

Ence also has participated in the supra autonomous Task Force **Timber Chain**,, coordinated by **ASMADERA**, with funding from the Ministry of Agriculture, Fisheries and Food within the National Programme for Rural Development 2014 - 2020, with the European Agricultural Fund for Rural Development for the drafting of the corresponding innovative solution project. The objective of this Operative Group is to develop, through *Blockchain* technology, a platform that will integrate in a single



interoperable, *open source* and secured tool, all the information and chain of actions related to forest management, including the relationship with Public Administrations, to guarantee its traceability and compliance with the EUTR Regulation. The project contributes to developing forest management and certification, streamlining and securing transactions between the links in the forest value chain, increasing transparency and energising the market, and transferring all the measurable benefits of forest management to society.

The setting up of this Task Force, of which Ence is a member, contributes to the development of the European Association for Innovation in Productive and Sustainable Agriculture. It is made up of stakeholders from different organisations that have joined forces to innovate and solve a problem detected in the forestry sector, with a joint and multisectorial approach to action. In addition to Ence, other important associations and entities of the Spanish forestry sector participate in this Group, such as ANFTA, ADEMAN, COSE, DotGis CORPORATION FUO, Fundación Universidad de Oviedo, CETEMAS, UNEMADERA, Asturias Ministry for Rural Development and Natural Resources, FSC ESPAÑA and CTIC.



Ence also participates in the supra-autonomous Operative Group **GOSSGE** led by **ASPAPAEL** (Spanish Association of Manufacturers of Pulp, Paper and Cardboard), which aims to innovate in prospecting and controlling the eucalyptus pest *Gonipterus platensis*. This



project has a duration of two years and, in addition to Ence, COSE (Confederation of Spanish Forestry Organisations), ASEFOGA (Galician Forestry Sector Association), AFG (Galician Forestry Association), CETEMAS (Wood Technology and Forestry Centre Foundation), GALCA, PROFOAS, Galicia Regional Government(General Directorate of Forests), Asturias Principality (General Directorate for the Rural Environment), Cantabria Regional Government (General Directorate for the Natural Environment), the ETSI of Forests, and the Natural Environment of the UPM (Department of Statistics) and ASPAPAEL participate as group leaders.

This project develops three fundamental lines of work, based on innovation in detecting pest levels, in biological control techniques and in control techniques with biological phytosanitary matters. Eucalyptus plantations are currently affected by the pest *Gonipterus*, which causes serious economic, social and environmental damage. With this approach, the project aims to reduce the damage caused by this pest by improving the phytosanitary status of eucalyptus plantations, their production and the sustainability of their forests.

The positive impacts of the project are linked to the potential capacity to revert the situation of pest prevalence that will have the effect of a comprehensive improvement in the forest chain, the creation of 5,000 direct and indirect jobs, improving the forest's capacity to mitigate the effects of global warming, storing a greater amount of carbon and increasing the productivity and yield of the eucalyptus crop by 20-25% without the need to expand the cultivation area.

Ence's experience in this field makes it one of the leading participants in this project. Since 2016, the company has been developing a project to improve the efficiency and biological control capacity of this pest (more details on the project can be found in the chapter on forest management).

For this initiative, Ence collaborates with the **Galicia Regional Government and the Asturias Principality**, as well as with research and technological centres such as the Estación Fitopatolóxica "Do Areeiro" and **SERPA** (Public Entity: Sociedad de Servicios del Principado de Asturias S.A. In this sense, collaboration began in 2018 with **ASFONOR** (Asociación Forestal del Norte) for starting up a biofactory by this association to which Ence will provide the technological transfer of the production process by training personnel of the Association in its Figueirido facilities in Pontevedra.

This year, Ence has also signed an agreement with the Agricultural Chemical Ecology Centre of the Mediterranean Agricultural Forrestry Institute, dependent on the **Valencia Polytechnic University**, for the isolation and structural elucidation of the *Gonipterus platensis* aggregation pheromone. This project aims to advance knowledge of pest ethology with the aim of improving monitoring and efficiency in control methods.



Ence also collaborates with educational institutions, such as the **University of Santiago de Compostela**, with which Ence has collaborated signing a letter of support for developing the **BioReDes** project (Biological Resources and Rural Development) as a Strategic Grouping initiative within the Galicia Regional Government's call in the field of primary production, agriculture, livestock and forestry.



Other key players with which Ence maintains close institutional relationships are the organisations dedicated to promoting responsible forest management, such as FSC® and PEFC.



Ence is a member of FSC Spain and as such has been a member of the Board of Directors for the last three years. In order to consolidate and promote FSC certification and, by extension, certified Sustainable Forest Management, Ence has led or participated in different initiatives from the association itself. Thus, in order to encourage member affiliation (and increase resources), Ence proposed a motion at the 2018 General Assembly to normalise member affiliation to chambers, developing a working committee for this purpose. Also in this area, Ence has participated in the last two years in the Commission for drafting the Internal Regulations, presented to the General Assembly of Members in 2018. In the field of improvements and technical developments, Ence has participated in the last four years in the Standards Committee, whose objective has been to develop a new Spanish standard that adapts to the country's forest management, the FSC international International Generic Indicator (IGI) requirements. The work was completed in autumn 2018, with the new standard expected to be approved by FSC International in the first quarter of 2019.

Ence also participated in the Risk Assessment Committee, whose purpose is to analyse the state forest production situation and define and guarantee the level of environmental, social and economic risk posed by timber exploitation in Spain. The Committee was able to justify that all wood from Spain is low risk (assessment approved by FSC International after a public consultation), which implies that non FSC certified wood in Spain does not require additional "controlled wood" certification. Finally, also in the area of FSC, Ence has led and developed a pilot test for adapting the new Payment Standard for Environmental Services (or Ecosystems), in collaboration with FSC International, FSC Spain and AENOR, the results of which were communicated to society through a paper presented at the National Environment Conference. More information on this project can be found in the sustainable forest management section of this report.

# Institutional relations in the pulp sector

In the pulp sector, Ence belongs to the **Spanish Association of Pulp, Paper and Cardboard Manufacturers (ASPAPEL)**. This state-level professional organisation brings together the main companies in the pulp and paper sector and their associates account for more than 90% of the sector's production.



Ence participates to contribute towards achieving the association's objective, which is to contribute to competitive and sustainable development in the sector and to promote its image and products.

In Galicia, Ence is a member of the **Confederation of Businessmen of Pontevedra** Advisory Council and the **Confederation of Business Owners of Galicia**.

Ence also belongs to the consortium of the **UNED Centre in Pontevedra**, as a member of its Governing Board and is represented in the Plenary as well as in the Executive Commission of the **Chamber of Commerce** of Pontevedra, Vigo and Villagacía de Arousa.

Ence also chairs the Board of Directors of the **AIMEN** association, an Innovation and Technology centre highly specialised in the field of materials and advanced manufacturing technologies.

#### Institutional relations in the renewable energy sector

In the field of renewable energy generation, the objective of Ence's collaborations with other institutions is fundamentally to transfer to society the benefits of biomass management at both an environmental and social level, and to present proposals based on the promotion of biomass as an energy source, which improve the socio-economic environment of the populations where Ence operates.

Ence forms part of different associations such as **ACOGEN** (Spanish Cogeneration Association) and **APPA** (Renewable Energy Companies' Association) in which it actively participates in order to address matters of relevance to the sector and strengthen external communication and relations with the administrations.







Ence also collaborates on research projects with institutions in the sector. In 2018, for example, Ence collaborated with the Centre for the Development of Renewable Energies (CEDER), attached to the CIEMAT Department of Energy, on the proposal "Laboratory equipment optimisation for the physical and chemical analysis of biomass for obtaining heat and electricity", within the State Programme for generating Knowledge and the Scientific and Technological Strengthening of the R&D+i System, the State Sub-programme for Research Infrastructure and Scientific-Technical Equipment, within the framework of the State Plan for Scientific and Technical Research and Innovation 2017-2020.

#### Tax contribution

Ence's contribution through its activity to public administrations in tax matters amounted to 131.76 million euros. This contribution is broken down as follows:

- 67.13 million euros contributed through direct tax
- 64.63 million euros in managed tax

The direct tax paid by ENCE during the period and the returns to the Public Administrations collected by ENCE as a result of its activities, broken down by Receiving Public Administration, are detailed below:

Direct tax						
	Galicia and Asturias	Andalusi a	Madrid and other	Total		
Corporate Income Tax	24,527	2,735	8,534	35,796		
Tax on electricity generation	4,456	6,156	1,848	12,461		
Social security contribution	9,913	1,545	1,206	12,663		
Fees, duties, business activity tax, etc.	4,685	1,424	104	6,213		
	43,581	11,860	11,692	67,133		

Managed tax				
	Galicia and Asturias	Andalusi a	Madrid and other	Total
Withholdings	9,929	981	6,734	17,645
VAT	29,908	10,424	4,063	44,395
Worker social security	2,070	281	241	2,592
	41,907	11,686	11,039	64,631



#### **Environment**

Ence contributes to the **protection and improvement** of the environment through the company's own business model, based on bioeconomy and renewable energy production, and also by demonstrating a clear commitment to the environmental sustainability of its operations.

As the European leader in the production of eucalyptus pulp and Spain's leading producer of biomass energy, Ence understands its **responsibility** to respect the environment and integrates it into the company's **vision**, **mission** and **values** and the principles established in its Sustainability Policy: "Ence ensures that activities are carried out in a rigorous, environmentally and socially responsible manner, it is respectful of the environment, minimises the consumption or improper use of resources of all kinds and implements all measures possible to reduce the environmental impact of its activities in terms of waste generation, emissions, effluents, noise, effects on biodiversity, etc."

This commitment translates into significant **investments** to apply the best available techniques and improve process efficiency, allocating more than 14.3 million euros to environmental investments in 2018. Ence's commitment is also embodied in a quest for **continuous improvement** in environmental performance driven by the company's senior management and shared by the entire organisation.

Ence applies its commitment to respecting and improving the environment throughout all phases of its value chain, both in its forestry and pulp production activities and in generating renewable energy, with a special focus on the potential environmental impacts of its activity and on global environmental challenges such as climate change.







#### RENEWABLE ENERGY



# Use of residual agroforestry biomass

- Contribute to circularise the business model of the agricultural sector, giving value to the residual biomass
- Avoid uncontrolled burning
- Reduce risk of forest fires
- Principles of sustainable biomass management (Ence's Code for the Sustainability of Biomass as Fuel)



#### Environmental management in the generation process

- Reduction of water consumption
   Minimisation and recovery of waste
- Improved disposal parameters
- Improved air qualityNoise reduction



#### Renewable and manageable energy production

- Clean and manageable energy, prevents emissions derived from the use of fossil fuels
- Manageable generation, does not depend on uncontrollable resources
- An autochthonous and abundant energy resource in Spain

# **Regulatory compliance**

Ence's environmental commitment is based on rigorous and exhaustive compliance with current regulations, which establish the requirements to be met by all activities related to pulp production and renewable energy generation.

The Integrated Environmental Authorisation (IEA) for each of the biofactories and power plants establishes the environmental conditions necessary for an industrial facility. Its aim is to avoid, or where this is not possible, to minimise and control emissions to the atmosphere, water and soil in order to achieve a high level of protection of the environment as a whole.

In this context, the IEA establishes the limit values for each installation based on the best available techniques as well as the monitoring plans for all relevant environmental aspects. Ence puts all the measures at its disposal to comply with and even improve these limit values established by the AAI and punctually informs the corresponding administrations of their evolution.

#### **Environmental management systems**

In its aspiration to contribute to protecting and improving the environment, the environmental management carried out by the company goes **beyond compliance with current regulations**. Ence has implemented TQM (*Total Quality Management*) since 2011 as a model for cultural transformation and management practices. Thanks to the involvement of senior management, an Excellence in Management model has been developed, which is implemented through continuous improvement and with a focus on maximum efficiency and competitiveness, which comprehensively addresses the quality, health and safety of people, respect for the environment and prevention of pollution.

The TQM management model is structured around three fundamental axes: Managing Improvement, Process Management, and Daily Activity Management, which facilitate their understanding and implementation. An Environmental Policy is defined within the framework of the model that establishes the company's general objectives on the matter, and a series of Fundamental Improvement Objectives (FIO) are established, with a clear environmental orientation directed towards the company:

Reducing the impact of odours



- ✓ Improved discharge quality
- ✓ Improved energy efficiency
- ✓ Reduced consumption of raw materials
- ✓ Reducing waste generation

Ence has also developed an Integrated Management System at the biofactories in Pontevedra, Navia and at the energy operations centre in Huelva in order to ensure that all of the company's activities are carried out pursuant to the management policy established by senior management and the objectives and goals defined. This integrated management system is certified by an accredited body that carries out the corresponding audits annually. Management is organised by identified and evaluated processes to facilitate monitoring and continuous improvement. The integrated management system is implemented pursuant to the following international standards:

- UNE-EN-ISO 9001, for quality management
- UNE-EN-ISO 14001, for environmental management
- OHSAS 18001, for occupational health and safety management

During 2017 in Navia and 2018 in Pontevedra and Huelva, the Integrated Management System (IMS) was consolidated by renewing the environmental and quality management certification by accredited bodies pursuant to the new UNE-EN-ISO 14001:2015 and UNE-EN-ISO 9001:2015 standards, respectively.

The adaptation to ISO standards under the criteria of the revised standard in 2015, implies an advance in the adaptation of the GIS to risk assessment analysis in all areas of the company's management, as an initial premise for implementing changes

These certificates can be consulted on Ence's website (<a href="https://ence.es/sostenibilidad/respeto-por-el-medio-ambiente/#">https://ence.es/sostenibilidad/respeto-por-el-medio-ambiente/#</a>).

Both biofactories and the Huelva Energy Operations Centre also adhere to European Union Eco-Management and Audit Scheme (EMAS) Regulation 1221/2009. Validation of the Environmental Declaration enables the sites to remain registered under this scheme, each site having been the first to reach this demanding voluntary commitment in their respective Regional Communities, which only a small number of companies have reached to this day. The Environmental Statements are also available on Ence's corporate website (https://ence.es/sostenibilidad/declaraciones-ambientales/)

Within the TQM model, operational standards have been developed that favour the control and management of possible environmental impacts.

The improvement in the control of processes with the PDCA and SDCA cycle and the operational improvements of the key process indicators (KPI's), enable Ence to achieve results that certify the effectiveness of this management model.

These results were also obtained as a result of the commitment of all the people who work at Ence as well as the investment that the Company has made in recent years into implementing the best available techniques, as well as the best environmental practices defined in the *Best Available Techniques in the Pulp and Paper Industry 2014*, approved by the Environment Committee of the European Parliament.

The excellent environmental results achieved have enabled, for example, the pulp produced in Pontevedra and Navia, since 2014, to be awarded the **Nordic Swan** ecolabel (the official eco-label for the Nordic countries established in 1989 by the Nordic Council of Ministers, made up of Sweden, Denmark, Finland, Iceland and Norway) for complying with the most demanding standards of environmental respect, and which enables consumers to make purchasing decisions that respect the environment.





After a rigorous process of assessing the environmental impact of products throughout their life cycle, this eco-label ensures compliance with their stringent requirements in terms of climate change mitigation, energy efficiency and use of resources (water, chemicals and raw materials).

#### **Environmental performance**

The main environmental aspects related to Ence's activity can be grouped into the following categories:

- Material consumption
- Energy consumption
- Water consumption
- Emissions into the atmosphere
- Climate change mitigation and GHG emissions
- Liquid effluents
- Waste generation
- Other aspects: odorous impact and noise

The main indicators of the company's environmental performance in each of these sections are detailed below.

#### **Material consumption**

Ence uses a series of raw materials and auxiliary products for the **pulp paste production process**. The primary raw material is **wood**, mainly eucalyptus. The wood **is used in full**, using pulp for producing the paste and the rest (bark, black liquid) as biomass for energy production. The rest of the relevant materials for Ence according to the volume consumed are **chemical products** that are added at different stages of the production process to separate and treat the pulp contained in the wood and to manage the waste and effluents generated.



Responsible use of chemicals and chlorine-free bleaching in pulp production

In application of Regulation 1907/2006 on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH Regulation), Ence verifies that the chemicals it uses comply with this regulation before authorising their use. Ence has therefore registered: calcium oxide, calcium carbonate, chlorine dioxide, white, green and black liquids, ashes (from the biomass boiler) and dregs (inert elements from clarifying the green liquid). All the requirements of this regulation have also been incorporated into the Integrated Management System.



Ence also actively participates in the registered substances consortia in order to update the registration if there are any changes in the composition or new identified uses. Although pulp paste does not have to be registered as a natural substance since it is not chemically modified and not classified as dangerous, REACH requires that information is collected on customer uses due to the registered substances present in the final product.

Ence also requires that its suppliers have registered the substances supplied for specific use in the production process, that all substances have the relevant safety data sheets and that they are correctly labelled pursuant to current European regulations.

Beyond the responsible use of chemical products, Ence is committed to chlorine-free bleaching in its production centres, using the process known as ECF (*Elemental Chlorine Free*) in the Navia factory, in which elemental chlorine is replaced by chlorine dioxide to prevent dioxin contamination. In the Pontevedra factory the bleaching is TCF (*Total Chlorine Free*), where no chlorine compound is used, but oxygenated water is used as a bleaching agent. ENCE also promotes the use of Best Available Techniques (BAT) such as delignification with oxygen or modified low kappa firing, which significantly reduce the consumption of bleaching agents.

In the case of **independent power plants**, the main material consumed is **biomass** used as fuel, mostly residual agroforestry biomass and pomace. These plants also consume the **chemical products** necessary required for treating waste and effluents, such as ammonia used for the catalytic reduction of NOx from combustion gases in the La Loma and Enemansa plants. Due to the technology it uses, the Huelva plant also consumes sand for the fluid bed boiler.

As far as **forestry** activity is concerned, the main materials consumed are the substrate used in production at Ence's nurseries and in fertilisers.

The consumption of the main materials used in Ence's operations centres is:

Navia Biofactory	2016	2017	2018
Wood consumption (m <sup>3</sup> )	1,515,324	1,565,712	1,618,645
Biomass consumption (t)	374,174	373,569	380,590
Soda consumption (t)	10,488	10,796	8,303
Oxygen consumption (t)	8,344	8,621	8,922
Hydrogen peroxide consumption (t)	3,739	3,662	4,228
Sulphuric acid consumption (t)	17,619	17,796	18,552
Sodium chlorate consumption (t)	13,522	13,642	14,435

Pontevedra Biofactory	2016	2017	2018
Wood consumption (m³)	1,299,960	1,319,150	1,294,194
Biomass consumption (t)	244,156	214,577	248,375
Soda consumption (t)	9,978	10,433	10,146
Oxygen consumption (t)	9,777	9,154	8,922
Hydrogen peroxide consumption (t)	8,067	7,643	8,454
Sulphuric acid consumption (t)	5,689	5,398	5,271

Huelva	2016	2017	2018
--------	------	------	------



Biomass consumption (t)	589,875	623,245	645,867
Soda consumption (t)	409.4	498.3	409.4
Sulphuric acid consumption (t)	51.5	92	59
Sand consumption (t)	3,917	5,788	6,421

Enemansa	2017	2018
Biomass consumption (t)	88,130	96,377
Ammonia consumption (t)	249	236

Note: The Enemansa plant was acquired by Ence in December 2016

La Loma	2017	2018
Biomass consumption (t)	85,806	77,336
Ammonia consumption (t)	162.5	135.3

Note: The La Loma plant was acquired by Ence in December 2016

Lucena	2017	2018
Biomass consumption (t)	50267	96,601

Note: The Lucena plant was acquired by Ence in June 2017. The figure for 2017 corresponds to the period August-December 2017

Mérida	2016	2017	2018
Biomass consumption (t)	145,803	138,890	168,230
Soda consumption (t)	0.5	0.5	1.3
Sulphuric acid consumption (t)	26.0	27.6	12.9

Note: soda and sulphuric acid are consumed by the subcontractor that carries out the operation and maintenance of the plant.

Forestry	2016	2017	2018
Substrate consumption (t)	433.0	533.0	725.4
Fertiliser consumption (t)	0.4	4.1	10.9
Herbicide <b>consumption</b> (t)	0.3	0.3	0.1

# Recovered and recycled materials

In the pulp production process, the vast majority of the chemical reagents used are recovered so that they can be reintroduced into the production cycle. Lime, soda and sodium sulphate are therefore recovered and the quantities of these materials that are recirculated in the process are much greater than the needs for virgin material.

In the case of forestry, the plastic trays used in the seedbeds, the wooden pallets and the substrate for filling seedling trays are mainly reused in Ence's nurseries:



Forestry	2016	2017	2018
Recovery of <b>seed trays</b> (t)	179.9	183.6	151.6
Recovery of wooden pallets (t)	-	-	17.6
Substrate recovery (t)	13.8	25.6	38.9

#### **Energy generation and consumption**

The consumption of energy, in the form of fuels and electricity, is another relevant environmental aspects of Ence's activity.

In the pulp paste production process, the most commonly used fuels are **lignin** (in the form of black liquid) and **biomass** obtained from wood, which contributes to **circular economy**, the production process, reducing the demand for additional fuels. In order to improve the energy efficiency of this biomass, Ence has implemented processes such as dry debarking and concentrating solids in black liquid by evaporation.

As fossil fuels, pulp production plants mainly use fuel oil for furnace feed and boiler support.

In the electricity generation activity, the main fuel used is biomass, but the plants also use auxiliary fuel (fuel oil or diesel) as a support fuel for specific times, such as starting a boiler. At the Lucena plant, natural gas is also used as fuel for the cogeneration process.

With regard to forestry, the main fuel used is petrol and diesel used by forestry technicians' vehicles and nursery machinery.

The consumption of the main fuels used in Ence's facilities is detailed below:

Navia Biofactory	2016	2017	2018
Fuel consumption (GJ)	275,233	322,465	243,672
Diesel A consumption (GJ)	19.1	19.4	0
Propane consumption (GJ)	55.1	92.7	0
Natural gas consumption (GJ)	668,532.7	708,168.9	764,656.1
Biomass consumption (GJ)	2,836,680.0	2,981,792.8	2,833,187.4

At the Navia biofactory, total fuel consumption in the recovery boiler and Biomass boiler has been reduced by up to 24%, which has a significant impact on the installation's greenhouse gas emissions associated with combustion processes.

Pontevedra Biofactory	2016	2017	2018
Coke consumption (GJ)	184,992	168,911	158,459
Fuel consumption (GJ)	1,131,884	1,033,859	1,089,262
Propane consumption (GJ)	1,957	1,122	1,781
Biomass consumption (GJ)	1,415,138.7	1,317,088.9	1,560,580.0

Huelva	2016	2017	2018
Fuel consumption (GJ)	35,311	28,324	56,110



Diesel B consumption (GJ)	-	53.7	53.7
Propane consumption (GJ)	15.7	108.1	83.8
Biomass consumption (GJ)	6,853,733.3	7,241,465.7	7,800,487.8

Enemansa	2017	2018
Diesel C consumption (GJ)	7,383.8	4,978.6
Biomass consumption (GJ)	1,481,411.9	1,386,333.1

Note: The Enemansa plant was acquired by Ence in December 2016

La Loma	2017	2018
Diesel C consumption (GJ)	7,445.9	7,891.5
Biomass consumption (GJ)	1,431,288.1	1,113,376.4

Note: The La Loma plant was acquired by Ence in December 2016

Lucena	2017	2018
Diesel B consumption (GJ)	3.9	10.4
Natural gas consumption (GJ)	1,112,174	872,176
Biomass consumption (GJ)	-	1,356,226

Note: The Lucena plant was acquired by Ence in August 2017. Natural gas is consumed in the cogeneration plant.

Mérida	2016	2017	2018
Diesel A consumption (GJ)	429.5	0	0
Diesel B consumption (GJ)	0	610.7	914.7
Biomass consumption (GJ)	1,862,355.4	1,753,232.4	2,016,146.8

Forestry	2016	2017	2018
Diesel consumption (GJ)	1,417,220.1	1,299,238.3	1,663,062.5
Petrol consumption (GJ)	1,298.8	1,175.3	1,224.0

As far as electricity consumption is concerned, the production of energy from biomass enables Ence's biofactories to be **practically self-sufficient**. From the part of the wood not used to produce pulp and from local biomass, almost all of the energy consumed in the industrial process is generated using renewable methods.

In the case of independent power plants, the plant's own consumption for its operation is obviously much lower than the energy generated for sale to the market, as well as the electricity purchased for consumption situations in plants with electricity generation shutdown.

The data on generation, self-consumption and sale to the electricity market and, where appropriate, steam, for each of Ence's plants is:



Navia Biofactory	2016	2017	2018
Electricity generation (GWh)	517.5	563.6	554.7
Purchased <b>electricity</b> consumption	270.6	279.1	284.0
Electricity self-consumption (GWh)	28.8	31.7	32.2
Electricity sales (GWh)	485.0	527.9	519.3
Energy intensity (MWh/tAD)	0.53	0.53	0.54
Cogeneration steam consumption (GJ)	7,460,909	7,750,284	8,002,703

Pontevedra Biofactory	2016	2017	2018
Electricity generation (GWh)	201.6	225.3	239.0
Purchased <b>electricity</b> consumption	231.5	235.6	239.1
Electricity self-consumption (GWh)	6.9	8.2	8.3
Electricity sales (GWh)	194.7	217.4	230.7
Energy intensity (MWh/tAD)	0.55	0.54	0.55
Cogeneration steam consumption (GJ)	6,703,838	6,647,799	6,610,938
Steam sales (GJ)	6,030,815	6,259,921	6,061,200

Huelva	2016	2017	2018
Electricity generation (GWh)	536.7	541.2	492.8
Purchased <b>electricity</b> consumption	1.36	1.86	2.34
Electricity self-consumption (GWh)	45.21	41.05	44.3
Electricity sales (GWh)	491.5	500.2	448.6
<b>Energy intensity</b> (GJ biomass/GWh generated)	12,769.6	13,379.4	15,828.3

Enemansa	2017	2018
Electricity generation (GWh)	103.5	105.8
Purchased <b>electricity</b> consumption	0.22	0.23
Electricity self-consumption (GWh)	12.8	13.0
Electricity sales (GWh)	90.7	92.8
<b>Energy intensity</b> (GJ biomass/GWh generated)	14,313.2	13,101.0

Note: The Enemansa plant was acquired by Ence in December 2016

La Loma	2017	2018
Electricity generation (GWh)	88.9	92.6
Purchased <b>electricity</b> consumption	0.56	0.38
Electricity self-consumption (GWh)	11.8	13.3



Electricity sales (GWh)		77.1	79.3
<b>Energy intensity</b> (GJ generated)	biomass/GWh	16,108.7	12,017.2

Note: The La Loma plant was acquired by Ence in December 2016

Lucena	2017	2018
Electricity generation (GWh)	209.4	180.6
Purchased <b>electricity</b> consumption	0.28	0.48
Electricity self-consumption (GWh)	13.6	12.3
Electricity sales (GWh)	196.8	168.3
<b>Energy intensity</b> (GJ biomass/GWh generated)	-	7,509.0
Heat sales (GJ)	-	460,798

Note: The Lucena plant was acquired by Ence in June 2017. In this plant, the natural gas cogeneration installation provides heat to an adjacent installation for drying the olive-pomace, which in turn, once dried and extracted, serves as fuel for the plant

Mérida	2016	2017	2018
Electricity generation (GWh)	150.4	149.1	150.0
Purchased <b>electricity</b> consumption	0.63	0.58	0.59
Electricity self-consumption (GWh)	13.5	14.6	15.5
Electricity sales (GWh)	136.9	134.5	134.6
<b>Energy intensity</b> (GJ biomass/GWh generated)	12,381.2	11,759.2	13,439.3

Forestry	2016	2017	2018
Purchased <b>electricity</b> consumption	0.19	0.19	0.19

# Water consumption

Ence uses water in the biofactories and in the independent energy plants and nurseries of its forestry operation. Water is supplied by means of surface or underground sources, always within the framework of the corresponding environmental authorisations.

Aware of the importance of this resource, Ence has set as a **priority** for **reducing water consumption** in its operations, implementing measures to promote **efficiency** in consumption and its **reuse**, such as dry debarking or *stripping* condensates, in the case of pulp biofactories.

The water treatment process projects that Ence is designing for the Pontevedra biofactory are also noteworthy in this regard. This project will make it possible to reduce the volume of effluent to the Pontevedra estuary by 40% and to take only 60% of the flow currently consumed from the River Lérez. In



2018, a reduction of nearly 10% has already been achieved with respect to water consumption per tonne of pulp produced in 2016.

The biomass plant in Lucena (Córdoba) is another example of efficiency in water consumption and circular economy, as it uses the water from the municipality's WWTP, thus avoiding additional extraction.

The following is a detail of the water consumption of each of Ence's facilities, as well as its origin.

Navia Biofactory	2016	2017	2018
Surface <b>water</b> consumption (m³)	19,577,591	19,555,011	19,828,447
Source: Navia river			
Water consumption ratio (m³/tAD)	34.7	33.8	35.0

Pontevedra Biofactory	2016	2017	2018			
Surface <b>water</b> consumption (m³)	15,776,520	15,505,018	14,766,269			
Source: Bora Dam on the River Lérez						
<b>Water</b> consumption ratio (m³/tAD)	37.4	35.7	33.8			

Huelva	2016	2017	2018	
Surface <b>water</b> consumption (m³)	4,757,576	5,231,076	5,107,150	
Source: El Sancho dam on the river Tinto				
Municipal supply water consumption (m³)	57,338	51,050	53,511	

Enemansa		2017	2018
Ground <b>water</b> (m³)	consumption	37,702	35,125

Source: aquifer survey 23

Note: The Enemansa plant was acquired by Ence in December 2016

La Loma			2017	2018
Municipal consumption	supply n (m³)	water	47,952	49,608

Note: The La Loma plant was acquired by Ence in December 2016

Lucena	2017	2018
Consumption of wastewater	513,342	461,856



Source: Lucena WWTP

Municipal supply **water** 1,232 636 consumption (m³)

Note: The Lucena plant was acquired by Ence in June 2017

Mérida		2016	2017	2018
Surface water (m³)	consumption	552,641	595,144	662,043

Source: Guadiana River

Water consumption at the Mérida, Lucena and Huelva facilities is higher due to the use of cooling towers. Consumption is lower in the Enemansa and La Loma plants due to the use of air condensers as cooling systems without water consumption.

Forestry			2016	2017	2018
Municipal	supply	water	11,366	17,018	19,181
consumptio	n (m³)		ŕ	,	ŕ



## **Emissions into the atmosphere**

Ence has continuous control systems to monitor and manage the main emission parameters of its facilities. This controls that the emission limits established in the corresponding environmental authorisations of each installation are not exceeded.



The key factors involved in the **efficient and low emission combustion** (gases and particles) of biomass are

- 1) Use of biofuels of defined and controlled quality, according to standards.
- 2) Use of certified technology equipment according to normative specifications and guaranteed by the manufacturer for the biofuels used.
- 3) Effective control of operating conditions and maintenance of combustion equipment.

Ence works proactively on the above three points ensuring **reduced atmospheric emissions** while **optimising energy** production.

Ence is also within a completely defined legal framework of emission limit values for large combustion plants (>50 MWt) and for medium-sized combustion plants (<50MWt). Royal Decree 815/2013, 18 October, approving the Regulation on industrial emissions and the development of Law 16/2002, 1 July, on integrated pollution prevention and control, transposes Directive 2010/75/EU and established emission values for adaptation for biomass electricity generation plants. Subsequently, the Commission Implementing Decision (EU) 2017/1442 of 31 July 2017 establishing conclusions on Best Available Techniques (BAT) under Directive 2010/75/EU for large combustion plants establishes even more restrictive values on biomass for emissions of the different parameters (particles, NOx, SO<sub>2</sub>) and introduces limit values for new parameters (HF, HCL, NH<sub>3</sub>, Hg)

Ence has already begun to adapt to the new Emission Limit Values indicated in the BAT document in the plants that so require it, anticipating the date of entry into force of the BATs (August 2021).

Since Ence's commitment to environmental protection goes beyond regulatory compliance, the company, with a focus on **continuous improvement**, develops and implements **systems for reducing its emissions**, such as installing electrostatic precipitators and *scrubbers* in the case of biofactories or catalytic reduction systems (SCR) in the case of Enemansa and La Loma plants, non-catalytic reduction systems (SNCR) in Mérida, sleeve filters in Lucena and Huelva, or desulphurisation systems in Mérida and Huelva.

Thus, the emission values recorded in Ence's operations centres not only comply with the limits established by their respective AAI, but also provide for compliance with the values of the BREF (*Best Available Techniques Reference Document*) or Best Available Techniques (BAT) reference range of Large Combustion Plants in the shortest possible time.

The emissions of the parameters of Ence's operations centres are detailed below, according to the parameters established in their corresponding AAIs:

Navia Biofactory	2016	2017	2018
NOx (t)	1019.0	1102.0	1,490.6
<b>SO<sub>2</sub></b> (t)	213.0	240.0	130.2
Particles (t)	132.0	118.0	132.5
SH <sub>2</sub> (t)	2.0	2.0	1.7

Pontevedra Biofactory	2016	2017	2018
NOx (t)	877	817	589
SO <sub>2</sub> (t)	206	201	172
Particles (t)	51	49	132
SH <sub>2</sub> (t)	5.3	1.3	1.9
CO (t)	161	137	142



Huelva	2016	2017	2018
NOx (t)	405.0	448.0	476.0
SO2 (t)	35.9	191.0	197.0
Particles (t)	20.6	23.4	9.7

Enemansa	2017	2018
NOx (t)	51.0	105.5
SO <sub>2</sub> (t)	0.1	0.3
Particles (t)	1.8	0.8
CO (t)	227.0	120.4

Note: The Enemansa plant was acquired by Ence in December 2016

La Loma	2017	2018
NOx (t)	362.0	327.0
<b>SO</b> <sub>2</sub> (t)	147.0	132.0
Particles (t)	254.0	229.0
<b>CO</b> (t)	133.0	120.0

Note: The La Loma plant was acquired by Ence in December 2016

Lucena	2017	2018
NOx (t)	407.0	353.0
SO <sub>2</sub> (t)	108.0	113.0
Particles (t)	59.5	53.2
CO (t)	725.0	697.0

Note: The Lucena plant was acquired by Ence in June 2017

Mérida	2016	2017	2018
NOx (t)	140.1	148.5	218.4
SO2 (t)	5.5	7.8	43.5
Particles (t)	2.8	1.2	4.1
CO (t)a	71.8	73.7	171.6



## Mitigation of climate change and greenhouse gas emissions

Ence contributes to the mitigation of climate change through its own activities, thanks to **carbon fixation** in its forest areas, the use of biomass as an energy source in cellulose biofactories, and **renewable energy generation** at the independent power plants.

Through the generation of renewable and manageable energy, without depending on variable factors such as the sun or wind, Ence plays an important role in the **transition towards a sustainable energy model**. A such, using the national energy mix as a baseline, renewable energy generation at Ence's independent plants prevented the emission of over 718,500 tonnes of CO<sub>2</sub> in 2017. In addition, the use of residual agroforestry biomass as an energy source contributes to the care and upkeep of woodlands, reducing fire risks by up to 70%.

Ence also pushes forward its commitment to the fight against climate change in its Code for the Sustainability of Biomass as a Fuel, a pioneering initiative to ensure complete sustainability in the use of biomass and care for the environment in its use as an energy source. Thus, one of the principles of the Code is to



**minimise carbon emissions** by looking at the total carbon footprint (i.e. taking into account the balance of greenhouse gas emissions throughout their life cycle) and limiting the collection distance of agricultural and forestry waste.

In addition, the company has set itself a 2019 objective of having a **carbon footprint analysis**, which will serve as a starting point for establishing a monitoring methodology and an emissions reduction plan. This analysis will include the organisation's direct emissions (Scope 1), indirect emissions from electricity consumption (Scope 2), and other indirect emissions (Scope 3).

It is worth highlighting that the plants in Navia, Pontevedra, Huelva, and Lucena currently take part in the **EU Emissions Trading Scheme** (EU-ETS). Therefore, emissions from the use of fuels are audited and verified every year when the corresponding notification report is made.

The following tables report the main GHG emissions generated as a result of Ence's activities:

Navia Biofactory	2016	2017	2018
GHG emissions (tCO <sub>2</sub> ) - Scope 1	58,328	64,077	61,265
GHG emissions (tCO <sub>2</sub> ) - Scope 2	97,430.8	120,025.5	122,128.1

Pontevedra Biofactory	2016	2017	2018
GHG emissions (tCO <sub>2</sub> ) - Scope 1	102,569.0	93,265.0	97,299
GHG emissions (tCO <sub>2</sub> ) - Scope 2	83,324.2	101,312.7	102,826.3

Huelva	2016	2017	2018
GHG emissions (tCO <sub>2</sub> ) - Scope 1	2,734.0	2,203.0	4,352.0
GHG emissions (tCO <sub>2</sub> ) - Scope 2	490.4	801.1	1005.0



Huelva's 2018 increase in emissions is due to higher fuel consumption as a result of a greater number of boiler shutdowns.

Enemansa	2017	2018
GHG emissions (tCO <sub>2</sub> ) - Scope 1	547.1	368.9
GHG emissions (tCO <sub>2</sub> ) - Scope 2	93.0	100.7

Note: The Enemansa plant was acquired by Ence in December 2016

La Loma	2017	2018
GHG emissions (tCO <sub>2</sub> ) - Scope 1	551.7	584.8
GHG emissions (tCO <sub>2</sub> ) - Scope 2	240.1	162.8

Note: The La Loma plant was acquired by Ence in December 2016

Lucena	2017	2018
GHG emissions (tCO <sub>2</sub> ) - Scope 1*	62,393	49,193
GHG emissions (tCO <sub>2</sub> ) - Scope 2	121.8	204.8

Note: The Lucena plant was acquired by Ence in June 2017

<sup>\*</sup>Emissions mainly come from the Natural Gas cogeneration process.

Mérida	2016	2017	2018
GHG emissions (tCO <sub>2</sub> ) - Scope 1	31.8	45.2	67.8
GHG emissions (tCO2) - Scope 2	225.4	250.1	252.7

Forestry	2016	2017	2018
GHG emissions (tCO <sub>2</sub> ) - Scope 1	1,418.5	1,300.4	1,664.3
GHG emissions (tCO2) - Scope 2	68.5	83.8	83.7

#### **Liquid effluents**

Liquid effluents are generated as a result of the use of water for production processes in Ence's operations sites. These effluents undergo various treatment and purification processes depending on their characteristics and undergo rigorous monitoring to control that they comply with the limits established in the corresponding environmental authorisations. In addition, applying the **principle of prevention**, Ence carries out operational controls of the processes in order to minimise the quantity of effluents and improve quality to the greatest extent possible. The company's efforts in this area have resulted in **significant reductions** in waste volume, namely 22% in Huelva, 21% in Lucena, 13% in La Loma, and 11% in the Pontevedra biofactory compared to 2016. Reducing the volume of waste in the Pontevedra biofactory alone implies avoiding more than 1.5 million cubic metres of waste per year.

In the case of cellulose biofactories, these liquid effluents are characterised by their suspended solids content (mainly cellulose fibre) and the associated organic load. The main parameters analysed are



suspended solids, pH, Temperature, BOD (Biological Oxygen Demand), COD (Chemical Oxygen Demand), nitrogen content in its different forms, and phosphorus.

In the case of the independent power plants, the parameter limits in the Authorizations are diverse, adapting to the characteristics of the receiving environments. In the case of pomace consumption plants, the effluent flow generated by rainwater in storage areas is led to evaporation basins or forced evaporation systems, and these flows are not discharged. The discharge volumes at the different plants also differ depending on the cooling system used at the plant (greater volume at facilities with cooling towers).

The following tables detail the discharge volumes and characteristics of the liquid effluents from Ence's different operating sites:

Navia Biofactory	2016	2017	2018
Waste volume (m3)	18,507,702	18,744,895	19,962,866

Destination: Maritime-Terrestrial Public Domain through underwater pipeline

## Waste parameters\*

рH	7.7	7.5	7.7
Conductivity (S/cm)	3.5	3.4	3.4
Suspended solids (mg/l)	26.4	21.3	23.0
BOD (mg/l)	26.0	11.0	28.0
COD (mg/l)	123.0	119.0	131.0

Pontevedra Biofactory	2016	2017	2018
Waste volume (m3)	13,883,381	12,983,999	12,376,933

Destination: Ría de Pontevedra through the Os Praceres WWTP underwater pipeline

# Waste parameters

рH	7.2	7.3	7.4
Suspended solids (Kg/day)	640	539	765
BOD (Kg/day)	326	268	187
COD (Kg/day)	4,956	4,498	5,206
AOX (Kg/day)	<0.38	<0.35	<0.34
N Ammoniacal (Kg/day)	99	99	119
Total P (Kg/day)	13	11	23

Huelva	2016	2017	2018
Waste volume (m3)	1,952,725	1,393,801	1,531,171

Destination: maritime-terrestrial public domain (MTPD) Tinto River mouth (transition

# Waste parameters\*

рН	7.3	7.4	7.3
Suspended solids (mg/l)	19.5	7.3	< 11
Oils and grease (mg/l)		< 2.5	< 2.5
AOX (mg/l)	0.1	0.08	



TOC (mg/l)	4.6	4.3	< 5.3
Total N (mg/l)	1.2	1.1	< 1
P Total (mg/l)	0.8	1.0	< 1.1
Residual Chlorine (mg/l)		<0.1	< 0.1

Annual average of regulatory controls. In September 2017 the Integrated Environmental Authorisation (IEA) was modified, adding limit values for the Oils and Greases and Residual Chlorine parameters and eliminating it for AOX.

La Loma	2017	2018
Waste volume (m3)	17,803	15,496

Destination: Public water domain (Arroyo de la Parrilla)

# Waste parameters\*

рН	8.2	7.9
Conductivity (μS/cm)	810.9	959.0
Suspended solids (mg/l)	2.0	12.0
BOD (mg/l)	6.5	9.0
COD (mg/l)	20.1	34.0
Total phosphorus (mg/l)	0.7	0.6
AOX (mg/l)	1.9	0.1

Annual average of regulatory controls. Note: The La Loma plant was acquired by Ence in December 2016

Lucena	2017	2018
Waste volume (m3)	313,811	247,435

Destination: Public water domain UTM coordinates X: 367,373 Y: 4,135,881

# Waste parameters\*

Conductivity (μS/cm)	1366.3	1212.3
Suspended solids (mg/l)	8.4	6.5
BOD (mg/l)	8.9	10.9
COD (mg/l)	29.0	39.0

Annual average of regulatory controls. Note: The Lucena plant was acquired by Ence in June 2017

Mérida	2016	2017	2018
Waste volume (m3)	315,949	382,801	466,773

Destination: public water domain (Guadiana River waterway)

# Waste parameters\*

рН	8.0	8.0	7.8
Conductivity (μS/cm)	1082.3	1023.0	1032.4
Suspended solids (mg/l)	12.4	5.1	7.0
Chlorides (mg/l)	152.4	153.3	126.8



Sulphates (mg/l)	205.0	204.7	169.1
BOD (mg/l)	5.3	4.2	5.4
COD (mg/l)	< 5	6.4	20.0
Total N (mg/l)	6.4	5.1	4.6
Nitrates (mg/l)	17.5	12.2	15.8
Total P (mg/l)	0.6	0.3	0.4

Annual average of regulatory controls

Forestry	2016	2017	2018
Waste volume (m3)	634	727	886

Destination: Tree nursery septic tank (North nursery), public water domain (South

The Enemansa plant does not discharge effluents outside the facility at present. Liquid effluents are handled through an authorised operator.



# Waste minimisation and recovery

Ence contributes to the circular economy through its activities by producing cellulose, a renewable bioproduct, which can replace other non-renewable materials such as plastic in its final applications and thus favour the circularity of consumption models. In addition, Ence applies the principles of the circular economy in its production processes, prioritising the **prevention and minimisation of waste generation** through strict operational control of its processes.



Generated waste is **reused and recovered** to replace other types of materials, such as lime sludge that can be used as a substitute for chemical compounds to neutralize effluents or ash that can be used to manufacture technosols or fertilisers. As such, Ence ensures that **the vast majority of waste generated at its operations sites is recycled and recovered** and only a minimum amount is deposited in landfills.

Regarding the types of waste, during the cellulose pulp production process, *dregs* (inert elements from the clarification of green liquor), ashes from the biomass boiler, and biosludge from the effluent treatment plant are mainly produced. *Dregs* and ashes are collected and handled by authorised operators and used for the production of technosols, used for land reclamation. Biosludge is recovered to make power.

At the independent power plants, the most relevant waste is ashes and slag generated in biomass boilers. Similar to what takes place at the biofactories, the waste generated at these facilities is collected and handled by authorised operators in accordance with current regulations and the vast majority is reused. At some of the plants, the ashes and slag are marketed as by-products for the production of fertilisers.

In its forestry activities, Ence also applies the principles of the circular economy, such as reusing seedbeds at its nurseries to avoid the consumption of virgin materials.

Non-hazardous waste (municipal solid waste, paper and cardboard, glass, scrap metal, and wire) is collected selectively for recycling. Hazardous waste (used oils, used batteries and accumulators, and empty packaging, among others) is collected by authorised transporters and handled by authorised operators.

Regarding the packaging that the company puts on the market, Ence uses a type of paper to wrap cellulose that is sold that meets the necessary characteristics so customers can incorporate it directly into their process along with the pulp, thus reducing the amount of waste generated by customers through the consumption of Ence's products.

The amounts of the main waste generated at Ence's operations sites are detailed below:

Navia Biofactory	2016	2017	2018
Amount of waste generated (t)	45,433.3	43,435.3	45,230.6
Hazardous waste (t)	150.4	112.8	379.1
Non-hazardous waste (t)	45,282.9	43,322.6	44,851.5
% of waste reused, recycled, or recovered	96.0%	96.2%	95.9%

Pontevedra Biofactory	2016	2017	2018
Amount of waste generated (t)	30,059	22,905	29,650
Hazardous waste (t)	94.0	41.1	153.0
Non-hazardous waste (t)	29,965	22,864	29,497
% of waste reused, recycled, or recovered	99.82%	99.96%	99.98%

Huelva	2016	2017	2018
Amount of waste generated (t)	81,719.2	133,000.1	141,846.3
Hazardous waste (t)	1,973.3	368.5	304.8
Non-hazardous waste (t)	79,745.8	132,631.6	141,541.5



% of waste reused, recy	cled, or	96.2%	99.5%	99.1%
recovered		30.270	33.370	33.170

At the Huelva operations site, 2018 saw an increase in the generation of ashes and sands from biomass boilers due to the increase in agricultural biomass combustion, which has a high ash and inert content. However, within the principle of circular economy, practically all generated waste was recovered. In addition, the study of alternative uses for ashes and sands from biomass boilers is being furthered with the aim of them being considered and used as by-products.

Enemansa	2017	2018
Amount of waste generated (t)	15,090.5	14,481.2
Hazardous waste (t)	6.5	2.4
Non-hazardous waste (t)	15,084.0	14,478.8
% of waste reused, recycled, or	100.00%	99.98%

Note: The Enemansa plant was acquired by Ence in December 2016

La Loma	2017	2018
Amount of waste generated (t)	3,280.9	10,039.2
Hazardous waste (t)	1.1	0.9
Non-hazardous waste (t)	3,279.8	10,038.4
% of waste reused, recycled, or	99.79%	99.99%

Note: The La Loma plant was acquired by Ence in December 2016

Lucena	2017	2018
Amount of waste generated (t)	19.2	17.2
Hazardous waste (t)	2.2	2.1
Non-hazardous waste (t)	17.0	15.1
% of waste reused, recycled, or	65.3%	71.8%

Note: The Lucena plant was acquired by Ence in June 2017

Regarding the Lucena plant, the percentage of waste reused, recycled, or recovered is somewhat lower than the other plants as a result of the generation of waste from insulating material derived from specific activities involving the gas purification systems (electro-filters).

Regarding ash and slag waste, the Lucena plant has lodged a request for them to be classified as by-products with the Ministry for Ecological Transition (MITECO). The same request was made for the Enemansa and La Loma sites in 2017. As such, ash and slag from the combustion of pomace will be deemed raw materials for the manufacture of fertiliser, thus consolidating Ence's leadership position within the Circular Economy model.

Mérida	2016	2017	2018
Amount of waste generated (t)	6,479.0	12,487.2	29,223.4



Hazardous waste (t)	3.8	4.0	2.8
Non-hazardous waste (t)	6,475.2	12,483.2	29,220.6
% of waste reused, recycled, or	99.96%	99.99%	100.00%

Regarding Mérida, the slag generated is being recovered as part of the Emgrisa project to restore the degraded soil at the Saelices el Chico uranium mine in Salamanca. The same use has been proposed for mining facilities in the Mérida area and approved by the Government of Extremadura. In addition, this operations site continues to collaborate, along with other companies in the region, on the LIFE iCirBus Circular Economy project, with the aim of recovering ash produced in boilers. 2018 ended with the development of the third phase corresponding to field tests of fertilisers obtained through ash and tests with new materials incorporating ash at the plant.

Forestry	2016	2017	2018
Amount of waste generated (t)	57.1	134.6	105.2

Regarding the forestry unit's tree nurseries, most of the waste corresponds to plant matter and waste similar to municipal waste. Ence is working on the definition of measurement systems to provide a breakdown of the types of waste generated by this business unit although, in comparison with the other sources of waste generation, the quantity is not significant.

## Other aspects: odour, noise, and air quality impacts

Ence aims to be perceived as a **responsible neighbour** in the communities where it does business. To this end, the company works tirelessly to reduce odour and noise impacts that may be generated by some of its activities and which could be a nuisance to the communities surrounding its operations sites.

## Reducing the impact of odours

The generation of odorous compounds is inherent to the production process of cellulose pulp through the Kraft process as, in some of its phases, reduced volatile sulphur compounds are produced (hydrogen sulphide, methyl-mercaptan or methanothiol, dimethyl sulfide and dimethyl disulfide, which are measured in terms of *Total Reduced Sulphur*, or TRS). These compounds, if not handled properly, can be emitted into the atmosphere and generate odour nearby the plants.

In order to minimise the generation of odours, Ence has been developing improvement initiatives in its processes for several years, with special focus on the prevention of odour leaks and the treatment of odorous gases and with the aim of reaching the goal of zero odour. The **Zero Odour Plan** began in 2010. Since then, several projects have been carried out, from an initial diagnosis of air quality status to a characterisation of the TRS emitted by all sources at the biofactories. With this information, process engineering modifications were proposed, such as the review of emissions sources and the oxidation of the TRS from the recovery boiler, in order to minimise emissions of these compounds, managing to reduce over 99% of odorous emissions at both plants through channelled sources as of the launching of the Zero Odour Plan.

#### **Indicators and monitoring systems**

Ence has developed its own methodology of indicators and monitoring systems to track and set targets for the reduction of its odour emissions, consisting of three main indicators for monitoring odour improvements:

- Minute odour emissions through channelled sources.
- Minute odorous emissions through diffuse sources.



- An Odour Impact Index (OII) that takes into account parameters such as the emission of SH<sub>2</sub> through channelled and diffuse sources and the qualitative records of odour perception carried out in the areas surrounding the biofactories.

As a means of encouraging the involvement of its stakeholders in the odour detection system and continuous improvement, Ence has developed a mobile application that is currently in the testing phase so employees at the Pontevedra biofactory and other area groups can send alerts regarding odour generation incidents detected near the biofactory. Ence analyses the data received from this alert system in real time to analyse the possible causes of the incident and correct it immediately.

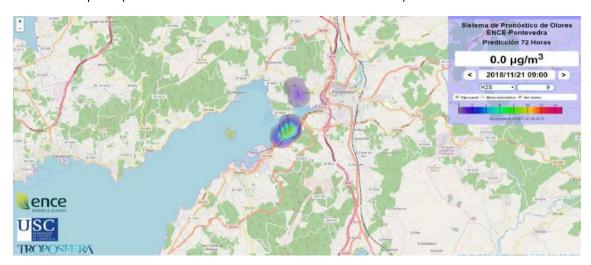
In addition to this alert system, Ence has collaborated with the University of Santiago de Compostela and the Troposfera environmental consultancy firm to develop a **system for predicting potential odour impacts** based on a mathematical model designed ad hoc for the company that takes into account the emitting sources, the meteorological conditions (temperature, humidity, wind speed and direction, etc.), and the surrounding area's topography. This



system, called **PrOlor**, makes it possible to become aware of potential odour incidents within 72 hours and thus be able to plan process interventions to minimise potential impacts.

The PrOlor system runs daily and combines data from three different models: the WRF model and the CALMET and CALPUFF models. The WRF model (meteorological model) runs with 4 domains of different resolutions, from the main domain with 36 km of resolution to the 1.3 km lower resolution domain centred on the Pontevedra estuary. Once the above is run, the CALMET meteorological model is run, and the *downscaling* or increase in spatial resolution up to 250 m is done.

To feed these models, emissions obtained in two measurement campaigns using a TRS chromatograph and dynamic olfactometry were used. The system analyses 5 chemical compounds and odour concentration, taking into account all fixed and diffuse sources and also has a special functionality to detect odour peaks (incidents with a short duration of less than an hour).



As a result of Ence's efforts, significant reductions in the odour impact index have been achieved in recent years, as demonstrated by the following results:

Navia Biofactory	2016	2017	2018
Odorous impact index	2.6	0.68	0.53



Pontevedra Biofactory	2016	2017	2018
Odorous impact index	0.31	0.17	0.13

## **Noise minimisation**

Noise generated by our facilities is another aspect that Ence identifies as relevant and which, therefore, forms part of the improvement objectives set by the company. Action plans have been defined at priority operations sites and reduction plans will be defined for the other facilities throughout 2019. Noise data from the operations sites are detailed below:

2016	2017	2018
61.6	63.2	64.8
61.6	63.2	64.8
61.0	60.8	61.9
2016	2017	2018
61	60	58
61	59	58
56	57	51
50	5/	21
	61.6 61.6 61.0 2016 61	61.6 63.2 61.6 63.2 61.0 60.8 2016 2017 61 60 61 59

Mérida	2016	2017	2018
Noise (dB) (day)	-	62.4	-
Noise (dB) (night)	-	53.4	-

Huelva, Enemansa, Lucena, and La Loma do not require recurrent regulatory noise controls; at Enemansa, the last ones were done prior to 2017.

# Air quality

The impact of Ence's activities on air quality, in terms of particle and other compound emissions, is also subject to prevention, monitoring, and control by the company. The following table lists the air quality indicators at Ence's operations sites where controls are required in their respective IEAs.

Navia Biofactory	2016	2017	2018
Air Quality (Particles) (PM10 μg/Nm³)	10	11	10
Air Quality ( <b>SO</b> <sub>2</sub> ) (μg/Nm³)	3	6	4
Air Quality ( <b>NO</b> <sub>x</sub> ) (μg/Nm³)	10	8	9

Pontevedra Biofactory	2016	2017	2018
Air Quality ( <b>Particles</b> ) (μg/Nm³)	15	15	15
Air Quality ( <b>SO</b> <sub>2</sub> ) (μg/Nm <sup>3</sup> )	4	3.5	3.5
Air Quality (SH <sub>2</sub> ) (μg/Nm <sup>3</sup> )	1.5	1.6	2.5

Enemansa	2017	2018
Air Quality (PST)	-	21.8
Air Quality (PSED)	-	73.6



## **About this report**

#### Scope

The information included in this Sustainability Report 2018 refers to all the activities carried out by Grupo Ence Energía y Celulosa S.A. from 1 January 2018 to 31 December 2018. The scope of this report for the purposes of the *Global Reporting Initiative* is the same as with the Consolidated Financial Statements of Ence Energía y Celulosa, S.A. and its subsidiary companies. Any exceptions to this scope are detailed in the corresponding sections of this report and in the GRI indicators table.

This Report constitutes the company's consolidated Non-Financial Information Statement and forms part of the consolidated Management Report of Ence Energía y Celulosa, S.A. and Subsidiary Companies. The content of the report has been defined in response to Law 11/2018 of 29 December, which amends the Commercial Code, the revised text of the Law on Capital Companies approved by Royal Legislative Decree 1/2010 of 2 July, and Law 22/2015 of 20 July, on Accounts Auditing in the area of non-financial information and diversity.

Annex 2 of this report contains a table specifying the section of the report that responds to each specific requirement set out in that law or justifies a possible omission if applicable.

#### **Reference standards**

The Sustainability Report 2018 has been done in accordance with *Global Reporting Initiative* (GRI) standards, in the *GRI Standards* version, based on the *core* compliance option.

The balanced, reasonable presentation of Ence's performance throughout 2018 required the application of the following principles:

- The principles for defining the content of the report, in terms of stakeholder inclusiveness, sustainability context, materiality, and completeness. These principles ensure that Ence has taken into account the company's activities and impacts as well as the expectations and substantial interests of stakeholders in defining the contents of the report.
- The principles for defining the quality of the report, in terms of accuracy, balance, clarity, comparability, reliability, and timeliness.

With this report, Ence seeks to respond to its stakeholders' information demands, in addition to demonstrating its firm commitment to sustainability and transparency.

## **Materiality analysis**

Dialogue and analysing its stakeholders' priorities form the basis for identifying the main issues to which Ence must respond, both from the point of view of sustainable business management and from the point of view of information reporting. In order to determine the most relevant aspects on which to work and report, Ence has implemented various analysis mechanisms both internally and externally.

On the one hand, Ence's Management Committee carries out an annual global strategic reflection in which the definitions of the company's mission and vision are reviewed and, where appropriate, updated, and the general guidelines and



objectives for the following year are approved. This strategic review includes an analysis of the



environment in which the relevant facts and changes in relationships and expectations for **up to 8 stakeholders** are reviewed: shareholders, individuals, pulp and energy customers, public administrations, forest owners and farmers, community and environment, partners and suppliers, and other influential groups. With this analysis, the relevant aspects to be dealt with in the strategic guidelines and projects for the following year are identified.

On the other hand, the management teams with the business areas carry out the same strategic reflection and analysis of stakeholder expectations exercise, but with a greater level of detail and a greater focus on the most relevant stakeholders for each.

In addition, the corporate sustainability area and those responsible for sustainability in the business areas (cellulose, energy, supply chain, human capital) analyse the expectations and information requirements that stakeholders give to the company through the various dialogue channels that Ence offers them and through the results of the different perception studies that the company carries out (organisational climate survey, reputation studies, customer surveys, etc.).

To complete the analysis of material aspects, other sources are also reviewed, such as the goals of the Sustainable Development Objectives (SDO), questionnaires from the main sustainability analysts, international standards and regulations for reporting non-financial information, forest plans, reports on impacts, trends, and challenges in forestry and energy sector sustainability, and analysis of content concerning Ence published on media and social networks. In addition, a materiality analysis *benchmark* has been conducted for 10 companies in the forestry and paper sector and 10 companies in the energy sector, with a focus on renewable energy companies.

As a result of these analyses, the following list of material issues has been identified:

Material subject	Section of the report in which it is covered
	Corporate governance; Ethics and
Ethics and integrity in management	compliance
Employee and subcontractor health and safety	People
Economic performance	Strategy and business model; Performance 2018
Supply chain	
Sustainable forest management	Forest management; Partners and suppliers; Environment
Biomass sustainability	Partners and suppliers; Environment
Human Capital	
Human Capital Management and organisational climate	People
Diversity and equality	People
Environmental aspects	
Climate change mitigation and adaptation	Business model and strategy; Environment
Minimising the water footprint	Environment
Reducing environmental impacts (noise, odours, emissions)	Environment
Efficient use of resources and	Business model and strategy;
promotion of the circular economy	Environment
Protection of biodiversity	Forest management; Environment
Company	



Relationship with communities	Partners and suppliers; Society; Public administrations, regulators, and other institutions
Support for landowners/farmers and rural area revitalization	Partners and suppliers; Society; Public administrations, regulators, and other institutions

In this way, Ence ensures that both the business's sustainability work and the contents of this report are aligned with its stakeholders' expectations, thus complying with the materiality principle of the reference standard for its publication (*Global Reporting Initiative*).

## **Contact information**

For any query, clarification, or suggestion regarding the contents published in this report, please contact the following addresses:

Ence Energía y Celulosa, S.A.

Central Office

Calle Beatriz de Bobadilla, 14

28040 Madrid

Tel: +34 91 337 85 00

Fax: +34 91 337 85 56

General information: info@ence.es

Sustainability: <a href="mailto:sostenibilidad@ence.es">sostenibilidad@ence.es</a>



# **Annex 1: GRI Standards content index**

GRI Standard	Indicator and description	Report section / direct response	Verification notes
FOUNDATION (GRI 101)			
101 Principles		About This Report (p. 152-154)	
GENERAL CONTENTS (GRI 102:	GENERAL CONTENTS 2018)		
Organisational Profile			
102-1 Name of the organisation	n	Ence Energía y Celulosa S.A.	
102-2 Activities, brands, produ	cts, and services	Business Model, Energy, Cellulose, Performance (p. 5-13)	
102-3 Location of headquarters	S	C/ Beatriz de Bobadilla 14 28040 Madrid, Spain	
102-4 Location of operations		Business Model, Energy, Cellulose (p. 5-13)	
102-5 Ownership and legal form	m	Corporate Governance (p. 14)	
102-6 Markets served		Business Model, Energy, Cellulose (p. 5-13)	
102-7 Scale of the organisation		Performance, People (p. 5-13; 85-86)	
102-8 Information on employe	es and other workers	People	
102-9 Supply chain		Partners and suppliers (p. 111-115)	
102-10 Significant changes to supply chain	o the organisation and its	The most significant change to the organisation during the reporting period was the acquisition of the Termollano (Ciudad Real) solar thermal plant on 30 November 2018, which is detailed in the sections on Performance and Strategy, as well as in the organisation's management report. This plant is not included in the reporting scope. For more information, see Annual Accounts.	
102-11 Precautionary Principle	or approach	Risk management (p. 31-36)	
102-12 External Initiatives		Sustainable forest management, Administrations and	



102-13 Membership of associations	institutions (p. 78-81; 125-129) Sustainable forest management, Administrations and institutions (p. 78-81; 123-127)
Strategy	
102-14 Statement from senior decision-maker  102-15 Key impacts, risks, and opportunities	Letter from the Chief Executive Officer (p. 3- 4) Risk management (p.
102-13 Key impacts, risks, and opportunities	31-36)
Ethics and integrity	
102-16 Values, principles, standards, and norms of behavior 102-17 Mechanisms for advice and concerns about ethics	Corporate Governance, Ethics and Compliance, Sustainability Management (p. 5, 42) Corporate Governance, Ethics and Compliance
	(p. 14-30; 36-40)
Governance	
102-18 Governance structure	Corporate Governance (p. 14-30)
102-19 Delegating authority	Corporate Governance (p. 16)
102-20 Executive-level responsibility for economic, environmental, and social topics 102-21 Consulting stakeholders on economic,	Corporate Governance (p. 14-30) Corporate Governance,
environmental, and social topics	About this report (p. 14-30; 152-154)
102-22 Composition of the highest governance body and its committees	Corporate Governance (p. 14-30)
102-23 Chair of the highest governance body	Corporate Governance (p. 19)
102-24 Nominating and selecting the highest governance body	Corporate Governance (p. 24-26)
102-25 Conflicts of interest	Corporate Governance (p. 27-28)
102-26 Role of highest governance body in setting purpose, values, and strategy	Corporate Governance (p. 14-30)
102-27 Collective knowledge of highest governance body	Corporate Governance (p. 19)
102-28 Evaluating the highest governance body's performance	Corporate Governance (p. 25)
102-29 Identifying and managing economic, environmental, and social impacts	Corporate Governance, Risk Management, Strategy (p. 14-30, 31- 36; 10-13)
102-30 Effectiveness of risk management processes	Risk Management (p. 31-36)



102-31 Review of economic, environmental, and social	Corporate Governance,
topics	Risk Management,
	Strategy (p. 14-30, 31-
	36; 10-13)
102-32 Highest governance body's role in sustainability	Corporate Governance
reporting	(p. 23-24)
102-33 Communicating critical concerns	Concerns recorded
	through the various
	channels of interaction
	with Ence's
	stakeholders, such as,
	for example, visits to
	customers, employee
	perception studies,
	contact with investors,
	and so on, are conveyed
	to the Board through
	the inclusion of specific
	items on the agendas of
	the regular meetings of
	the Board and its
	Delegated Committees.
102-34 Nature and total number of critical concerns	The main concerns
	raised by the Board and
	its delegated
	committees regarding
	sustainability were
	related to health and
	safety, the
	environmental
	performance of the
	facilities, and equality
	and diversity in the
	workforce. The
	Company has launched
	initiatives to address
	these concerns, as
	described in this
	document and in
	section 30
	(Environment) of the
	Autonomous Regions.
102-35 Remuneration policies	Corporate Governance
	(p. 25-26)
102-36 Process for determining remuneration	Corporate Governance
<u>-</u>	(p. 25-26)
102-37 Stakeholders' involvement in remuneration	Shareholders
	participate in the
	approval of
	remuneration proposals
	and policies through
	their vote at the Annual



	General Meeting and
	General Meeting and, where appropriate, at
	any Extraordinary
	Meetings.
102-38 Annual total compensation ratio	The annual total
	compensation ratio of
	the highest-paid person
	with respect to the
	average for the workforce is detailed
	below:
	30.0
	2017 2018
	28.5 24.4
102-39 Percentage increase in annual total compensation	Annual total
ratio	compensation in 2018
	of the highest-paid
	person fell by 9.8%
	compared to 2017, while the average
	while the average annual total
	compensation for the
	workforce increased by
	5.1%.
Stakeholder engagement	
102-40 List of stakeholder groups	Sustainability
	management (p. 43)
402 44 Callastica banasining agency and	DI- / 07 00\
102-41 Collective bargaining agreements	People (p. 97-98)
102-41 Collective bargaining agreements 102-42 Identifying and selecting stakeholders	Sustainability
102-42 Identifying and selecting stakeholders	Sustainability management (p. 43-47)
	Sustainability management (p. 43-47) Sustainability
102-42 Identifying and selecting stakeholders	Sustainability management (p. 43-47)
102-42 Identifying and selecting stakeholders	Sustainability management (p. 43-47) Sustainability management, Society, Shareholders (p. 42-46; 103-104)
102-42 Identifying and selecting stakeholders	Sustainability management (p. 43-47) Sustainability management, Society, Shareholders (p. 42-46; 103-104) Sustainability
102-42 Identifying and selecting stakeholders  102-43 Approach to stakeholder engagement	Sustainability management (p. 43-47) Sustainability management, Society, Shareholders (p. 42-46; 103-104) Sustainability management, Society,
102-42 Identifying and selecting stakeholders  102-43 Approach to stakeholder engagement	Sustainability management (p. 43-47) Sustainability management, Society, Shareholders (p. 42-46; 103-104) Sustainability management, Society, Shareholders (p. 42-46;
102-42 Identifying and selecting stakeholders  102-43 Approach to stakeholder engagement  102-44 Key topics and concerns raised	Sustainability management (p. 43-47) Sustainability management, Society, Shareholders (p. 42-46; 103-104) Sustainability management, Society,
102-42 Identifying and selecting stakeholders  102-43 Approach to stakeholder engagement	Sustainability management (p. 43-47) Sustainability management, Society, Shareholders (p. 42-46; 103-104) Sustainability management, Society, Shareholders (p. 42-46;
102-42 Identifying and selecting stakeholders 102-43 Approach to stakeholder engagement 102-44 Key topics and concerns raised  Reporting practice	Sustainability management (p. 43-47) Sustainability management, Society, Shareholders (p. 42-46; 103-104) Sustainability management, Society, Shareholders (p. 42-46; 106-107)
102-42 Identifying and selecting stakeholders  102-43 Approach to stakeholder engagement  102-44 Key topics and concerns raised  Reporting practice  102-45 Entities included in the consolidated financial	Sustainability management (p. 43-47) Sustainability management, Society, Shareholders (p. 42-46; 103-104) Sustainability management, Society, Shareholders (p. 42-46; 106-107)  This information can be
102-42 Identifying and selecting stakeholders  102-43 Approach to stakeholder engagement  102-44 Key topics and concerns raised  Reporting practice  102-45 Entities included in the consolidated financial statements	Sustainability management (p. 43-47) Sustainability management, Society, Shareholders (p. 42-46; 103-104) Sustainability management, Society, Shareholders (p. 42-46; 106-107)  This information can be found in the Annual Accounts report, section 2.
102-42 Identifying and selecting stakeholders  102-43 Approach to stakeholder engagement  102-44 Key topics and concerns raised  Reporting practice  102-45 Entities included in the consolidated financial	Sustainability management (p. 43-47) Sustainability management, Society, Shareholders (p. 42-46; 103-104) Sustainability management, Society, Shareholders (p. 42-46; 106-107)  This information can be found in the Annual Accounts report,
102-42 Identifying and selecting stakeholders  102-43 Approach to stakeholder engagement  102-44 Key topics and concerns raised  Reporting practice  102-45 Entities included in the consolidated financial statements	Sustainability management (p. 43-47) Sustainability management, Society, Shareholders (p. 42-46; 103-104) Sustainability management, Society, Shareholders (p. 42-46; 106-107)  This information can be found in the Annual Accounts report, section 2. About This Report (p.
102-42 Identifying and selecting stakeholders  102-43 Approach to stakeholder engagement  102-44 Key topics and concerns raised  Reporting practice 102-45 Entities included in the consolidated financial statements  102-46 Defining report content and topic Boundaries	Sustainability management (p. 43-47) Sustainability management, Society, Shareholders (p. 42-46; 103-104) Sustainability management, Society, Shareholders (p. 42-46; 106-107)  This information can be found in the Annual Accounts report, section 2. About This Report (p. 152-154) About this report (152-
102-42 Identifying and selecting stakeholders  102-43 Approach to stakeholder engagement  102-44 Key topics and concerns raised  Reporting practice  102-45 Entities included in the consolidated financial statements  102-46 Defining report content and topic Boundaries  102-47 List of material topics	Sustainability management (p. 43-47) Sustainability management, Society, Shareholders (p. 42-46; 103-104) Sustainability management, Society, Shareholders (p. 42-46; 106-107)  This information can be found in the Annual Accounts report, section 2. About This Report (p. 152-154) About this report (152- 154) The data contained in this report
102-42 Identifying and selecting stakeholders  102-43 Approach to stakeholder engagement  102-44 Key topics and concerns raised  Reporting practice 102-45 Entities included in the consolidated financial statements  102-46 Defining report content and topic Boundaries 102-47 List of material topics	Sustainability management (p. 43-47) Sustainability management, Society, Shareholders (p. 42-46; 103-104) Sustainability management, Society, Shareholders (p. 42-46; 106-107)  This information can be found in the Annual Accounts report, section 2. About This Report (p. 152-154) About this report (152- 154) The data contained in



	imply restatements of the information contained in previous CSR reports issued by the company. These changes may be due to rounding of decimal places, differences in measurement methods, or post-report revisions.
102-49 Changes in reporting	The content of the report has been defined in response to Law 11/2018 of 29 December on the Auditing of Accounts in matters of non-financial information and diversity. The annex to this report contains a table specifying the section of the report that responds to each specific requirement set out in that law or justifies a possible omission if applicable.
102-50 Reporting period	2018
102-51 Date of most recent report	2017
102-52 Reporting cycle	Annual
102-53 Contact point for questions regarding the report	About this report (p. 154)
102-54 Claims of reporting in accordance with the GRI Standards	About this report (p. 152)
102-55 GRI content index	GRI content index
102-56 External assurance	External assurance

GRI Standard	Indicator and description	Report section / direct response	Verification notes
THEMATIC CONTENTS - ECONOM		response	notes
Economic performance			
103-1 Explanation of the mat Boundary	pproach and its	Performance. (p. 82-84) For further information, see the consolidated annual accounts Performance. For further information, see the consolidated annual accounts Performance. For further information, see the consolidated annual accounts	



201-1 Direct economic value generated and distributed	Performance (p. 84)
201-2 Financial implications and other risks and opportunities due to climate change	Risk Management (p. 31-36)
201-3 Defined benefit plan obligations and other retirement plans	People (p. 95); Annual Accounts; Annual Corporate Governance Report, Annual Reports on Directors' Remuneration
201-4 Financial assistance received from government	In 2018, Ence received a total of € 793,594 in public subsidies from various bodies (CDTI, IDAE, IDEPA)
Market presence	
103-1 Explanation of the material topic and its Boundary	Strategy, Performance, Cellulose, Energy, Forest Management
103-2 The management approach and its components	Strategy, Performance, Cellulose, Energy, Forest Management
103-3 Evaluation of the management approach	Strategy, Performance, Cellulose, Energy, Forest Management
202-1 Ratios of standard entry level wage by gender compared to local minimum wage	People (p. 94) 100%. All the members of the
202-2 Proportion of senior management hired from the local community	Management Committee are from Spain, the country in which Ence's relevant operations sites are located.
Indirect economic impacts	
103-1 Explanation of the material topic and its Boundary	Strategy, Performance, Cellulose, Energy, Forest Management (p. 10-13; 47-81; 82-84; 111-115; 116-122)
103-2 The management approach and its components	Strategy, Performance, Cellulose, Energy, Forest Management (p. 10-13; 47-81; 82-84; 111-115; 116-122)
103-3 Evaluation of the management approach	Strategy, Performance, Cellulose, Energy, Forest Management (p. 10-13; 47-81; 82-84; 111-115; 116-122)
203-1 Infrastructure investments and services supported	Strategy, Performance, Cellulose, Energy, Forest Management (p. 10-13; 47-81; 82-84; 111-115; 116-122)
	Cellulose, Energy, Partners and
203-2 Significant indirect economic impacts	Suppliers (p. 47-81; 111-115)



103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach 204-1 Proportion of spending on local suppliers	Partners and suppliers (p. 111-115)	
Anti-corruption		
103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Ethics and compliance (p. 36-39)	
205-1 Operations assessed for risks related to corruption	Ethics and compliance (p. 36-39)	
205-2 Communication and training about anti- corruption policies and procedures	Ethics and compliance (p. 36-39) In 2018, 340 employees received training on compliance issues, including training on Ence's Code of Conduct and Criminal Compliance Policy.	
205-3 Confirmed incidents of corruption and actions taken	Ethics and compliance (p. 36-39)	
Anti-competitive behaviour		
103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	Ethics and compliance (p. 36- 39	
206-1 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	No legal actions have been brought against Ence in relation to unfair competition, monopolistic practices, or free competition during the reporting period.	

GRI Standard Indicator and description	Report section / direct response	Verification notes
THEMATIC CONTENTS - ENVIRONMENT		
Materials		
103-1 Explanation of the material topic and i	ts	
Boundary	Environment (p. 128-131)	
103-2 The management approach and i	ts	
components	Environment (p. 128-131)	
103-3 Evaluation of the management approach	Environment (p. 128-131)	
301-1 Materials used by weight or volume	Environment (p. 131-133)	
301-2 Recycled input materials used	Environment (p. 131-133)	
301-3 Reclaimed products and their packagir	g	
materials	Environment (p. 131-133)	



Energy	
103-1 Explanation of the material topic and its	
Boundary	Environment (p. 128-131)
103-2 The management approach and its	Environment (p. 120-131)
components	Environment (p. 128-131)
103-3 Evaluation of the management approach	Environment (p. 128-131)
302-1 Energy consumption within the organisation	Environment (p. 134-137)
302-3 Energy intensity	Environment (p. 134-137)
302-4 Reduction of energy consumption	Environment (p. 134-137)
302-5 Reductions in energy requirements of	Environment (p. 134-137)
products and services	Environment (p. 134-137)
Water	
103-1 Explanation of the material topic and its	
Boundary	Environment (p. 128-131)
103-2 The management approach and its	
components	Environment (p. 128-131)
103-3 Evaluation of the management approach	Environment (p. 128-131)
303-1 Water withdrawal by source	Environment (p. 137-139)
Biodiversity	
103-1 Explanation of the material topic and its	5
Boundary	Forest Management (p. 72-77)
103-2 The management approach and its	Forest Management (p. 72-77)
components 103-3 Evaluation of the management approach	
103-3 Evaluation of the management approach	Forest Management (p. 72-77) The nearest protected areas
	(<5 km) to Ence's operations
	sites are the Pontevedra
	estuary (declared a sensitive
	area), the Peñarronda-Barayo
304-1 Operational sites owned, leased, managed	SAC (Navia), the Nicoba and
in, or adjacent to, protected areas and areas of high	Santa Ribera Marshes SCIs
biodiversity value outside protected areas	(Huelva), the Guadiana River
	SCI and the Sierra de las Cabrerizas SBPA (Mérida), and
	the Guadalimar River and
	Guadalquivir River SCIs
	(Lucena).
304-2 Significant impacts of activities, products,	
and services on biodiversity	Forest Management (p. 72-77)
304-3 Habitats protected or restored	Forest Management (p. 72-77)
304-4 IUCN Red List species and national	
conservation list species with habitats in areas	
affected by operations	Forest Management (p. 72-77)
Emissions	
103-1 Explanation of the material topic and its Boundary	Environment (p. 128-131)
103-2 The management approach and its	Liivii Oilillelit (p. 120-131)
components	Environment (p. 128-131)
103-3 Evaluation of the management approach	Environment (p. 128-131)
÷ 11	.,



305-1 Direct (Scope 1) GHG emissions	Environment (p. 142-143)	
305-2 Indirect (Scope 2) energy generation GHG		
emissions	Environment (p. 142-143)	
	The intensity of the Group's	
305-4 GHG emissions intensity	emissions in 2018 as a function of net turnover amounted to	
	530.7 tCO <sub>2</sub> /Million euros.	
305-7 Nitrogen oxides (NOx), sulphur oxides (SOx),		
and other significant air emissions	Environment (p. 142-143)	
Effluents and waste		
103-1 Explanation of the material topic and its		
Boundary	Environment (p. 128-131)	
103-2 The management approach and its	,	
components	Environment (p. 128-131)	
103-3 Evaluation of the management approach	Environment (p. 128-131)	
306-1 Water discharge by quality and destination	Environment (p. 143-146)	
306-2 Waste by type and disposal method	Environment (p. 143-146)	
, , , , , , , , , , , , , , , , , , ,	A one-off, non-significant	
	spillage of effluent water has	
200 2 Cionificant smills	been recorded, with no effect	
306-3 Significant spills	outside the facility and the	
	Administration at the La Loma	
	plant was notified.	
Environmental compliance		
103-1 Explanation of the material topic and its		
Boundary	Environment (p. 129-131)	
103-2 The management approach and its	Francisco (n. 120-121)	
components	Environment (p. 129-131)	
103-3 Evaluation of the management approach	Environment (p. 129-131)	
307-1 Non-compliance with environmental laws	There were no significant breaches of environmental	
and regulations	laws and regulations during	
and regulations		
	the reporting period.	
Supplier environmental assessment	the reporting period.	
Supplier environmental assessment		
103-1 Explanation of the material topic and its	Environment, Partners and Suppliers, Forest Management	
	Environment, Partners and	
103-1 Explanation of the material topic and its Boundary	Environment, Partners and Suppliers, Forest Management	
103-1 Explanation of the material topic and its Boundary  103-2 The management approach and its	Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management	
103-1 Explanation of the material topic and its Boundary	Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131)	
103-1 Explanation of the material topic and its Boundary  103-2 The management approach and its components	Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and	
103-1 Explanation of the material topic and its Boundary  103-2 The management approach and its	Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management	
103-1 Explanation of the material topic and its Boundary  103-2 The management approach and its components	Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131)	
103-1 Explanation of the material topic and its Boundary  103-2 The management approach and its components  103-3 Evaluation of the management approach  308-1 New suppliers that were screened using	Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and	
103-1 Explanation of the material topic and its Boundary  103-2 The management approach and its components  103-3 Evaluation of the management approach	Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management Suppliers, Forest Management	
103-1 Explanation of the material topic and its Boundary  103-2 The management approach and its components  103-3 Evaluation of the management approach  308-1 New suppliers that were screened using environmental criteria	Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131)	
103-1 Explanation of the material topic and its Boundary  103-2 The management approach and its components  103-3 Evaluation of the management approach  308-1 New suppliers that were screened using	Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management (p. 64-81; 111-115; 128-131) Environment, Partners and Suppliers, Forest Management Suppliers, Forest Management	



GRI Standard Indicator and description	Report section / direct response	Verification notes
THEMATIC CONTENTS - SOCIAL		
Employment		
103-1 Explanation of the material topic and its Boundary	People (p. 85-89)	
103-2 The management approach and its components	People (p. 85-89)	
103-3 Evaluation of the management approach 401-1 New employee hires and employee turnover	People (p. 85-89) People (p. 85)	
401-2 Benefits provided to full-time employees	, ,	
that are not provided to temporary or part-time employees	People (p. 95)	
401-3 Parental leave	People (p. 97)	
Labour/management relations		
103-1 Explanation of the material topic and its		
Boundary	People (p. 97-98)	
103-2 The management approach and its		
components	People (p. 97-98)	
103-3 Evaluation of the management approach	People (p. 97-98)	
	Minimum notice periods comply with current legislation	
402-1 Minimum notice periods regarding	(Collective Bargaining	
operational changes	Agreements signed and	
	applied at each site and the	
Occupational health and cafety	Workers' Statute).	
Occupational health and safety  103-1 Explanation of the material topic and its		
Boundary	People (p. 98-103)	
103-2 The management approach and its		
components	People (p. 98-103)	
103-3 Evaluation of the management approach	People (p. 98-103)	
403-1 Workers representation in formal joint		
management–worker health and safety committees	People (p. 98-103)	
403-2 Types of injury and rates of injury,	1 copie (p. 38-103)	
occupational diseases, lost days, and absenteeism,		
and number of work-related fatalities	People (p. 98-103)	
403-3 Workers with high incidence or high risk of	People (p. 98-103)	
diseases related to their occupation 403-4 Health and safety topics covered in formal	People (p. 98-103)	
agreements with trade unions	People (p. 98-103)	
Training and education		
100.1 Europementian of the many 111 1 111		
103-1 Explanation of the material topic and its		
Boundary	People (p. 89-91)	
Boundary 103-2 The management approach and its		
Boundary 103-2 The management approach and its components	People (p. 89-91)	
Boundary 103-2 The management approach and its		



404-2 Programs for upgrading employee skills and transition assistance programs	People (p. 89-91)
404-3 Percentage of employees receiving regular performance and career development reviews	People (p. 89-91)
Diversity and equality of opportunities	
103-1 Explanation of the material topic and its Boundary	People (p. 95-97)
103-2 The management approach and its components	People (p. 95-97)
103-3 Evaluation of the management approach 405-1 Diversity of governing bodies and	People (p. 95-97)
employees 405-2 Ratio of basic salary and remuneration of women to men	People (p. 95-97) People (p. 95-97)
Non-discrimination	Γεορίε (μ. 33-37)
103-1 Explanation of the material topic and its Boundary	People, Ethics and Compliance (p. 36-37)
103-2 The management approach and its components	People, Ethics and Compliance (p. 36-37)
103-3 Evaluation of the management approach	People, Ethics and Compliance (p. 36-37; 95)
406-1 Incidents of discrimination and corrective actions taken	No cases of discrimination were recorded in the reporting period
Freedom of association and collective bargaining	
103-1 Explanation of the material topic and its	Ethics and Compliance,
Boundary	People, Partners and Suppliers (p.36-37; 98; 111-115)
Boundary  103-2 The management approach and its components	
103-2 The management approach and its	(p.36-37; 98; 111-115) Ethics and Compliance, People, Partners and Suppliers
103-2 The management approach and its components  103-3 Evaluation of the management approach  407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	(p.36-37; 98; 111-115) Ethics and Compliance, People, Partners and Suppliers (p. 36-37; 42; 98; 111-115) Ethics and Compliance, People, Partners and Suppliers
103-2 The management approach and its components  103-3 Evaluation of the management approach  407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk  Child labour	(p.36-37; 98; 111-115) Ethics and Compliance, People, Partners and Suppliers (p. 36-37; 42; 98; 111-115) Ethics and Compliance, People, Partners and Suppliers (p. 36-37; 42; 98; 111-115) No operations or suppliers were identified in which the right to freedom of association and collective bargaining could have been at risk during the reporting period
103-2 The management approach and its components  103-3 Evaluation of the management approach  407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	(p.36-37; 98; 111-115) Ethics and Compliance, People, Partners and Suppliers (p. 36-37; 42; 98; 111-115) Ethics and Compliance, People, Partners and Suppliers (p. 36-37; 42; 98; 111-115) No operations or suppliers were identified in which the right to freedom of association and collective bargaining could have been at risk during the



	control systems that make this
Farmed an annual constitution	risk not deemed significant.
Forced or compulsory labour	
103-1 Explanation of the material topic and its Boundary	Ethics and Compliance, People, Partners and Suppliers (p. 36-37; 42; 98; 111-115)
103-2 The management approach and its components	Ethics and Compliance, People, Partners and Suppliers (p. 36-37; 42; 98; 111-115)
103-3 Evaluation of the management approach	Ethics and Compliance, People, Partners and Suppliers (p. 36-37; 42; 98; 111-115)
409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	No operations or suppliers with significant risk of forced or compulsory labour were detected during the reporting period.
Security practices	
103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach  410-1 Security personnel trained in human rights policies or procedures	Ence's Sustainability Policy states the company's public commitment to Human Rights even though the company carries out its operations (including its supply chain) in European Union countries in which there are robust regulatory frameworks and control systems that make this risk not deemed significant. However, Ence is working to include human rights training in the training programmes for outsourced security personnel
Rights of indigenous peoples	for its facilities in 2019.
103-1 Explanation of the material topic and its	- Annanan
Boundary  103-2 The management approach and its components  103-3 Evaluation of the management approach 411-1 Incidents of violations involving rights of indigenous peoples	Ence does not operate in countries or territories inhabited by indigenous peoples. Therefore, this aspect is not considered material.
Human rights assessment	
103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach 412-1 Operations that have been subject to human rights reviews or impact assessments	Ence carries out its operations in European Union countries where the risk of Human Rights violations is not deemed significant. Certification systems for the wood suppliers Ence works with, such as the FSC® chain of



regulations.	oliance labour
compliance training, include training on Ence's conduct, which include company's business print on, among other things protection of workers' and the assessment of herights compliance in su evaluation processes.	ceived cluding de of es the nciples ss, the rights numan upplier
412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights assessment  Significant invest contracts are entered into companies located countries where the right human rights violations deemed significant.	in isk of
Local communities	
103-1 Explanation of the material topic and its Boundary (p. 116-123; 111-115)) 103-2 The management approach and its components (p. 116-123; 111-115)	
103-3 Evaluation of the management approach Society, Partners and Sup (p. 116-123; 111-115)	ppliers
413-1 Operations with local community engagement, impact assessments, and development programs  Society, Partners and Suppliers (p. 116-123; 11 development programs	
413-2 Operations with significant actual and potential negative impacts on local communities (p. 116-123; 111-115)	ppliers
Supplier social assessment	
103-1 Explanation of the material topic and its Boundary  Forest Management, Pa and suppliers (p. 64-81) 115)	
103-2 The management approach and its components  Forest Management, Pa and suppliers (p. 64-81)  115)	
Forest Management, Pa and suppliers (p. 64-81) 115)	
414-1 New suppliers that were screened using social criteria  Forest Management, Pa and suppliers (p. 64-81) 115)	
414-2 Negative social impacts in the supply chain and actions taken  Forest Management, Pa and suppliers (p. 64-81)  115)	
Public policy	



103-1 Explanation of the material topic and its	Ethics and Compliance, Administrations and
Boundary	Institutions (p. 36-39; 123-
·	127)
103.3. The management engreesh and its	Ethics and Compliance, Administrations and
103-2 The management approach and its components	Administrations and Institutions (p. 36-39; 123-
	127)
	Ethics and Compliance,
103-3 Evaluation of the management approach	Administrations and Institutions (p. 36-39; 123-
	127)
	No contributions were made
415-1 Political contributions	to political parties and/or
	representatives during the year.
Customer health and safety	
103-1 Explanation of the material topic and its	Cellulose, Excellence in
Boundary	management (p. 47-56; 108- 110; 40-41)
100 0 71	Cellulose, Excellence in
103-2 The management approach and its components	management (p. 47-56; 108-
components	110; 40-41)
103-3 Evaluation of the management approach	Cellulose, Excellence in management (p. 47-56; 108-
	110; 40-41)
	The cellulose produced by
	Ence has certificates that prove its safety for customers
416-1 Assessment of the health and safety impacts	and end consumers, both the
of product and service categories	MSDS (Material Safety Data
	Sheet) and the ISEGA
	certification of suitability for food contact.
	There were no cases of non-
416-2 Incidents of non-compliance concerning the	compliance related to health
health and safety impacts of products and services	and safety impacts for Ence's product and service categories
	during the reporting period.
Marketing and labelling	
103-1 Explanation of the material topic and its	Customers, Cellulose (p. 46-
Boundary 103-2 The management approach and its	56; 108-110) Customers, Cellulose (p. 46-
components	56; 108-110)
103-3 Evaluation of the management approach	Customers, Cellulose (p. 46- 56; 108-110)
	Ence includes a label on its
417.1 Dequirements for product and coming	cellulose products that allows
417-1 Requirements for product and service information and labelling	traceability and provides customers with all relevant
	information about its
	production, such as the



417-2 Incidents of non-compliance concerning product and service information and labelling  417-3 Incidents of non-compliance concerning marketing communications	production date, the product code, the name of the biofactory in which it was produced, or the lot number.  No cases of non-compliance related to product information and labelling were recorded in the reporting period.  No instances of non-compliance related to marketing communications were recorded in the reporting period.	
Customer privacy		
103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components	Ence's information security procedure includes the requirement to sign confidentiality clauses or	
103-3 Evaluation of the management approach	agreements with customers and suppliers.	
418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	No complaints were registered regarding breaches of customer privacy and losses of customer data during the reporting period.	
Socioeconomic compliance		
103-1 Explanation of the material topic and its Boundary	Strategy, Performance, Business model (p. 10-13; 82- 84)	
103-2 The management approach and its components	Strategy, Performance, Business model (p. 10-13; 82- 84)	
103-3 Evaluation of the management approach	Strategy, Performance, Business model (p. 10-13; 82- 84)	
419-1 Non-compliance with laws and regulations in the social and economic area	There were no significant breaches of social and economic laws and regulations during the reporting period.	



**Annex 2: NFIS Contents Index** 

	Contents of the Non-Financial Information Statement					
	Contents of Law 1	11/2018 NFI	Standard used	P. Report		
		A brief description of the group's business model, including its	products, and services	P. 5-13; 47-81		
	Description of	business environment, organisation and	GRI 102-4 Location of operations	P. 5-13		
Business model	the group's business model	structure, the markets in which it operates, its objectives and	GRI 102-6 Markets served	P. 48, 49, 58		
	model	strategies, and the main factors and trends that	GRI 102-15 Key impacts, risks, and Opportunities	P. 31-36		
		may affect its future evolution.	GRI 102-7 Scale of the organisation	P. 5-9; 85-86		
Information on environment al issues		Policies applied by the group, including the due diligence procedures applied to identify, assess,	GRI 103-2 The management approach and its components	P. 128-131		
	Policies prevent, and mitigate significant risks and impacts, and verification and control, as well as the measures that have been adopted.	GRI 103-3 Evaluation of the management approach	P. 128-131			
		Main risks related to issues associated with the group's activities, including, where relevant and proportionate, its commercial relations, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the	GRI 102-15 Key impacts, risks, and Opportunities	P. 31-36; 128-131		
			GRI 102-11 Precautionary principle or approach	P. 31-36		
	Main risks	procedures used to identify and evaluate them pursuant to the national, European, or	GRI 102-30 Effectiveness of risk management processes	P. 21-24; 31-36		
		international reference frameworks for each subject. This should include information on the impacts that have been identified, giving a breakdown of these impacts, in particular on the main risks in the short, medium, and long term.	GRI 201-2 Financial implications and other risks and opportunities due to climate change	P. 35-36		
	General	Current and foreseeable effects of the company's activities	GRI 102-15 Key impacts, risks, and opportunities GRI 102-29 Identifying and	P. 31-36; 40; 128-131		
	General	on the environment and, where	managing economic, environmental, and social impacts	P. 18; 21-24; 31-36; 40-41		



	appropriate, on health and safety.	GRI 102-31 Review of economic, environmental, and social topics	P. 21-24
		GRI 102-11 Precautionary principle or approach	P. 31-36; 40-41; 128-131
	Environmental assessment or certification procedures	GRI 102-29 Identifying and managing economic, environmental, and social impacts	P. 42-46; 128-131
		GRI 102-30 Effectiveness of risk management processes	P. 35-36; 41; 128-131
	Resources dedicated to the prevention of environmental risks	GRI 102-29 Identifying and managing economic, environmental, and social impacts	P. 40; 52; 62-65; 128-131
	Application of the precautionary principle	GRI 102-11 Precautionary principle or approach	P. 31-36
	Provisions and guarantees for environmental risks	GRI 307-1 Non-compliance with environmental laws and regulations	P. 163
	Measures to prevent, reduce, or remedy	GRI 103-2 Management Approach (with a view to GRI's 302 and 305)	P. 128-131; 139-141
Contaminatio	carbon emissions that seriously affect the environment, taking	GRI 302-4 Reduction of energy consumption	P. 134-137
n	into account any form of air pollution specific to an activity, including	GRI 302-5 Reductions in energy requirements of products and services	P. 131; 134-137
	noise and light pollution.	GRI 305-7 NOx, SOx, and other significant air emissions	P. 142-143
Circular Economy and waste prevention and management	Measures for prevention, recycling, reusing, and other forms of waste recovery and disposal. Actions to combat food waste	GRI 103-2 GRI 103-2 Management Approach (Effluents and waste) GRI 301-1 Materials used by weight or volume GRI 301-2 Recycled input materials used GRI 301-3 Reclaimed products and their packaging materials GRI 306-1 Water discharge by quality and destination GRI 306-2 Waste by type and disposal method GRI 306-3 Significant spills	P. 143-149
	Water consumption and water supply according to local constraints	GRI 303-1 Water withdrawal by source	P. 137-139
Sustainable		GRI 103-2 Management Approach (Environment)	P. 128-131
use of resources	Consumption of raw materials and measures taken to improve the efficiency of their use	GRI 301-1 Materials used by weight or volume	P. 131-133



		GRI 301-2 Recycled input materials used	P. 131-133
		GRI 301-3 Reclaimed products and their packaging materials	P. 146-148; 6; 9; 57-63; 128-131
		GRI 102-2 Management Approach (Energy)	P. 6; 9; 134-137
	Energy: Consumption, direct and indirect;	GRI 302-1 Energy consumption within the organisation (energy from renewable and non-renewable sources)	P. 134-137
	Measures taken to improve energy	GRI 302-3 Energy intensity	P. 134-137
	efficiency, Use of renewable energies	GRI 302-4 Reduction of energy consumption	P. 134-137
		GRI 302-5 Reduction in energy requirements of products and services	P. 40-41
		GRI 305-1 Direct (Scope 1) GHG emissions	P. 142-143
	Greenhouse Gas Emissions	GRI 305-2 Indirect (Scope 2) energy generation GHG emissions	P. 142-143
		GRI 305-4 GHG emissions intensity	P. 142-143; 163
		GRI 102-15 Key impacts, risks, and opportunities	P. 31-36; 49-51; 58-589; 68-69; 77-79; 129-133
Climate Change	Measures taken to adapt to the	GRI 103-2 The management approach and its components	P. 10; 35-36; 58
	climate change	GRI 201-2 Financial implications and other risks and opportunities due to climate change	P. 35-36; 58
	Reduction targets voluntarily set in the medium and long term to reduce GHG emissions and resources implemented to that end.	GRI 103-2 Management Approach (GHG emission reduction)	P. 58; 142-143
	Measures taken to preserve and restore	GRI 103-2 Management Approach (Biodiversity)	P. 72-76
	biodiversity	GRI 304-3 Habitats protected or restored	P. 72-76
Protection of biodiversity	Impacts caused by activities or operations in protected areas	GRI 304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	P. 162
	in protected areas	GRI 304-2 Significant impacts of activities, products, and services on biodiversity	P. 72-76



			GRI 304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	P. 74-75
Information on social and		Policies applied by the group, including the	GRI 103-2 The management approach and its components	P. 85-89
personnel issues		due diligence procedures applied to identify, assess,	GRI 103-3 Evaluation of the management approach	P. 85-89
	Policies	prevent, and mitigate significant risks and impacts, and verification and control, as well as the measures that have been adopted.	GRI 102-35 Remuneration policies	P. 91-95
		Main risks related to issues associated with the group's activities,	GRI 102-15 Key impacts, risks, and Opportunities	P. 31-36
	includi relevar propor comme produce that meffects and hem nations international frameworks ubject include the imbeen ico breakd impact the menations of the meant of the mean	including, where relevant and proportionate, its commercial relations, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to identify and evaluate them pursuant to the national, European, or international reference frameworks for each subject. This should include information on the impacts that have been identified, giving a breakdown of these impacts, in particular on the main risks in the short, medium, and long term.	GRI 102-30 Effectiveness of risk management processes	P. 31-36; 85-89
		Total number and	GRI 102-7 Scale of the organisation	P. 85-86
		distribution of employees by gender,	GRI 102-8 Information on employees and other workers	P. 85-86
	Employment  T d e m	age, country and professional classification	GRI 405-1. b) The percentage of employees by job category for each of the following diversity categories: gender and age group	P. 85-86
		Total number and distribution of employment contract modalities	GRI 102-8 Information on employees and other workers	P.85
		Average annual number of permanent, temporary and part-	GRI 102-8 Information on employees and other workers	P.85-86



		time contracts gender, age professional classification	by and									
			GRI 401-1.b) Total number and turnover rate of staff during the reporting period, by age group, gender and region (for dismissals)		g e	P. 86, the number of dismissals is detailed below:						
					Dismissals	М	F	Total	М	F	Total	
		Number	of		Spain Individual c.	6	0	2017 6	5	0	2018 5	
		redundancies	by		31-50 years	3	0	0	2	0	2	
		gender, age	and		<30 years	0	0	0	1	0	1	
		occupational			>50 years	3	0	0	2	0	2	
		classification			Total	6	0	6	5	0	5	
					Total		Ů	Ū	•	·	,	
					Dismissals Portugal	М	F	Total 2017	М	F	Total 2018	
					Individual c.	1	0	1	0	0	0	
					31-50 years	1	0	0	0	0	0	
					<30 years	0	0	0	0	0	0	
					>50 years	0	0	0	0	0	0	
					Total	1	0	1	0	0	0	
		Average salaries their evolution disaggregated gender, age professional classification or evalue	ution by and	and remu	: Ratio of ba uneration o or each ca	f wome	n   F	P. 94-96				
		Pay gap		and remu	: Ratio of ba uneration o r each job o	f wome	n F	P. 94-96				
		Remuneration of e or average jobs in company	-	entry lev	2 Ratios of el wage b I to local	y gende	r	P. 94				
		The average remuneration directors	erage of and	GRI 102 policies	2-35 Rem	uneratio	n F	P. 25-26	; 160			
			uding ition, nces,	determini	he mar	ess founeration	n	P. 25-26				
		to long-term sa pension systems any other paym disaggregated gender	vings and	employee	3 Obligatio welfare prement plar	lans an		P. 160				
		Implementation labour disconne measures	of ction	GRI 10 Approach disconnec		nagemen (labou		P. 97-98				
		Employees disabilities	with	employee	<ol> <li>b) Perces by job cates by job c</li></ol>	egory fo	r y F	P. 97				
o	Organisation of work	Organisation of wo time	rking	of empl	c) The tota byees by ent contra	type o	f F	P. 85-86				



		time or part-time) and by	
		gender.	
		GRI 103-2 Management Approach (Organisation of work)	P. 85-86
	Number of absentee hours	GRI 403-2 Types of accidents and ratios of occupational accidents, occupational illnesses, lost days and absenteeism, and number of related deaths (section a)	P. 101-102
	Measures aimed at facilitating the enjoyment of work/life	GRI 401-3 Parental leave	P. 97-98
	balance and encouraging coresponsibility for it by both parents.	GRI 103-2 Management approach	P. 97-98
	Occupational health and safety conditions	GRI 103-2 Management Approach (Health and Safety)	P. 98-103
	Accidents at work (frequency and severity) disaggregated by gender	GRI 403-2 Types of accidents and ratios of occupational accidents, occupational illness, lost days and absenteeism, and number of related deaths	P. 98-103
Health and Safety	Occupational illness (frequency and severity) disaggregated	GRI 403-2 Types of accidents and ratios of occupational accidents, occupational illness, lost days and absenteeism, and number of related deaths	P. 98-103
	by gender	GRI 403-3 Workers with high incidence or high risk of diseases related to their occupation	P. 98-103
	Organisation of social dialogue, including	GRI 102-43 Approach to stakeholder engagement (trade union and collective bargaining)	P. 98-103
	procedures for informing, consulting and negotiating with	GRI 402-1 Minimum notice periods regarding operational changes	Pág.164
Social	staff	GRI 403-1 Representation of workers on joint health and safety committees	P. 101
Relations	Percentage of employees covered by collective bargaining agreements by country	GRI 102-41 Collective bargaining agreements	P. 85
	Assessment of collective agreements,	safety committees	P. 98-103
	particularly in the field of health and safety at work	GRI 403-4 Occupational health and safety issues addressed in formal agreements with workers' legal representation	P. 98-103
Tuele	Policies implemented in	GRI 103-2 Management Approach (Training and education)	P. 89-91
Training	the field of training	GRI 404-2 Programmes for upgrading employee skills and programmes	P. 89-91



		Total number of hours of training by professional category	GRI 404-1 Average annual training hours per employee	P. 89-91
	Accessibility	Universal accessibility for people with disabilities	GRI 103-2 Management Approach (Diversity and Equality of Opportunities and Non-Discrimination)	P. 97
		Measures taken to promote equal treatment and opportunities for men and women	GRI 103-2 Management Approach (Diversity and Equality of Opportunities	P. 94-97
		Equality plans	GRI 103-2 Management Approach (Diversity and Equality of Opportunities and Non-Discrimination)	P. 94-97
			GRI 103-2 Management Approach (Employment)	P. 93; 111-115
	Equality	Measures taken to promote employment	GRI 404-2 Programmes for upgrading employee skills and transition assistance programmes	P. 85-91; 112-113
		Protocols against sexual and gender-based harassment	GRI 103-2 Management Approach (Diversity and Equality of Opportunities and Non-Discrimination)	P. 36-37; 97
		The integration and universal accessibility of persons with disabilities	GRI 103-2 Management Approach (Diversity and Equality of Opportunities and Non-Discrimination)	P. 36-37; 97
		Anti-discrimination and, where appropriate, diversity management policy	GRI 103-2 Management Approach (Diversity and Equality of Opportunities and Non-Discrimination)	P. 97
			GRI 406-1 Incidents of discrimination and corrective actions taken	P. 165
Information on respect		Policies applied by the group, including the due diligence procedures applied to identify, assess, prevent, and mitigate significant risks and impacts, and	GRI 103-2 The management approach and its components	P. 165-167
for human rights			GRI 103-3 Evaluation of the management approach	P. 165-167
	Policies		GRI 410-1 Security personnel trained in human rights policies or procedures	P. 165-167
		verification and control, as well as the measures that have been adopted.	GRI 412-2 Employee training on human rights policies or procedures	P. 168-170
	Main risks	Main risks related to issues associated with the group's activities, including, where relevant and proportionate, its commercial relations, products or services	GRI 102-15 Key impacts, risks, and Opportunities	P. 31-36
		that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to identify and evaluate them pursuant to the	GRI 102-30 Effectiveness of risk management processes	P. 31-36



		national, European, or international reference frameworks for each subject. This should include information on the impacts that have been identified, giving a breakdown of these impacts, in particular on the main risks in the short, medium, and long term.		
		Application of human rights due diligence procedures	GRI 103-2 Management Approach (Human Rights Assessment) GRI 414-2 Negative social impacts in the supply chain and actions taken	P. 31-37; 45; 70; 114-116  P. 70; 114-116
		Prevention of risks of human rights violations	GRI 103-2 Management Approach (Human Rights Assessment)	P. 36-37; 45; 170
		and, where appropriate, measures to mitigate, manage and redress any abuses	GRI 412-1 Operations that have been subject to human rights reviews or impact assessments	P. 70; 167
		committed	GRI 410-1 Security personnel trained in human rights policies or procedures	P. 167
		Complaints about human rights violations	GRI 102-17 Mechanisms for advice and concerns about ethics	P. 15; 36-39; 158
	Human Rights		GRI 103-2 Management Approach (Human Rights Assessment)	P. 167
			GRI 411-1 Rights of indigenous people	P. 167
			GRI 419-1 Non-compliance with laws and regulations in the social and economic area	P. 169
		right to collective bargaining, the elimination of discrimination in employment and occupation, the elimination of forced or compulsory labour and the effective abolition of child labour.	GRI 103-2 Management Approach (Non- discrimination; Freedom of Association and Collective Bargaining; Child Labour; Forced or Compulsory Labour and Human Rights)	P. 36-37; 98-101; 166-167
Information relating to the fight		Policies applied by the group, including the due diligence	GRI 103-2 The management approach and its components	P. 36-38; 161
against corruption	Policies	procedures applied to identify, assess,	GRI 103-3 Evaluation of the management approach	P. 36-38; 161
and bribery		prevent, and mitigate significant risks and impacts, and	GRI 205-2 Communication and training about anti-corruption policies and procedures	P. 36-38; 161



		verification and control, as well as the measures that have been adopted.  Main risks related to issues associated with the group's activities, including, where relevant and proportionate, its commercial relations, products or services	GRI 102-15 Key impacts, risks, and Opportunities  GRI 102-30 Effectiveness of risk management processes	P. 31-36 P. 31-36
	Main risks	that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to identify and evaluate them pursuant to the national, European, or international reference frameworks for each subject. This should include information on the impacts that have been identified, giving a breakdown of these impacts, in particular on the main risks in the short, medium, and long term.	GRI 205-1 Operations assessed for corruption-related risks	P. 36-38
		Measures taken to prevent corruption and bribery	GRI 103-2 Management Approach (with a view to GRI 205 Anticorruption) - If the entity submits the 205-2, it also covers this requirement of the law with this indicator	P. 36-38; 161
		Measures to combat money laundering	GRI 103-2 Management Approach (Anticorruption)	P. 36-38; 161
	Corruption and bribery		GRI 103-2 Management Approach (Anticorruption)	P. 36-38; 161
		Contributions to foundations and non-	GRI 201-1 Direct economic value generated and distributed (Investments in the Community)	P. 84; 117-121
	profit entities	profit entities	GRI 203-2 Significant indirect economic impacts GRI 415-1 Political representative and party contributions	P. 47; 57; 62; 112-114 P. 168
Information about the company		Policies applied by the group, including the due diligence procedures applied to identify, assess, prevent, and mitigate significant risks and impacts, and verification and control, as well as the measures that have been adopted.	GRI 103-2 The management approach and its components	P. 116-122
	Policies		GRI 103-3 Evaluation of the management approach	P. 116-122



	Main risks related to issues associated with the group's activities, including, where relevant and proportionate, its	GRI 102-15 Key impacts, risks, and Opportunities	P. 31-36
Main risks	commercial relations, products or services that may have negative effects in those areas, and how the group manages those risks, explaining the procedures used to identify and evaluate them pursuant to the national, European, or international reference frameworks for each subject. This should include information on the impacts that have been identified, giving a breakdown of these impacts, in particular on the main risks in the short, medium, and long term.	GRI 102-30 Effectiveness of risk management processes	P. 31-39
	Impact of the company's activity on employment and local development	GRI 203-1 Infrastructure investments and services supported GRI 203-2 Significant indirect economic impacts GRI 204-1 Proportion of spending on local suppliers GRI 413-1 Operations with local community engagement, impact assessments, and development programmes GRI 413-2 Operations with significant actual and potential negative impacts on local communities	P. 116-122  P. 51-53; 111-115  P. 111-115  P. 111-115; 116-122  P. 111-115; 116-122; 149-152
The company's commitment to sustainable development	Impact of the company's activity on local populations and territory	GRI 203-1 Infrastructure investments and services supported GRI 203-2 Significant indirect economic impacts GRI 413-1 Operations with local community engagement, impact assessments, and development programmes GRI 413-2 Operations with significant actual and potential negative impacts on local communities	P. 116-122  P. 49-50; 58-59; 111-115  P. 111-122  P. 111-122; 149-152
	Relations maintained with local community stakeholders and the modalities of dialogue with them	GRI 413-1 Operations with	P. 42-46; 111 P. 111-122



			GRI 102-13 Membership of associations	P. 123-127
	Association or sponsorship actions	GRI 203-1 Investment into infrastructure and support services	P. 116-122	
		GRI 201-1 Direct economic value generated and distributed (Investments in the Community)	P. 84	
		Inclusion of social, gender equality and environmental issues in procurement policy	GRI 103-3 Management Approach (Environmental and Social Assessment of Suppliers)	P. 111-113
			GRI 102-9 Supply Chain	P. 111-113
			GRI 103-3 Management Approach (Environmental and Social Assessment of Suppliers)	P. 111-117
			GRI 308-1 New suppliers that were screened using environmental criteria	P. 68-72; 111-117
Subcontractin g and suppliers	Consideration in relations with suppliers and subcontractors of their social and environmental responsibility	GRI 308-2 Negative environmental impacts in the supply chain and actions taken	P. 64-81; 130	
		GRI 407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	P. 165	
		GRI 409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	P. 165	
			GRI 414-1 New suppliers that were screened using social criteria	P. 111-117
			GRI 414-2 Negative social impacts in the supply chain and actions taken	P. 71-72; 117-1189
		Supervision and audit systems and results thereof	GRI 308-1 New suppliers assessed according to environmental criteria	P. 71-72; 111-117; 118-119
			environmental impacts on the value chain and actions taken	P. 68-72; 111; 131
			GRI 414-2 Negative social impacts on the value chain and actions taken	P. 71-72; 117-118
			GRI 103-2 Management Approach (Customer Health and Safety)	P. 40; 69; 168
Consumers	Measures for the health	health and safety impacts of product and service categories	P. 168	
	Consumers	and safety of consumers	GRI 416-2 Incidents of non- compliance concerning the health and safety impacts of products and services	P. 168
			GRI 417-1 Requirements for product and service information and labelling	P. 168; 169
			GRI 102-17 Mechanisms for advice and concerns about	P. 14; 36-39; 156
Consumers	Consumers	and safety of	GRI 416-1 Assessment of the health and safety impacts of product and service categories GRI 416-2 Incidents of noncompliance concerning the health and safety impacts of products and services GRI 417-1 Requirements for product and service information and labelling	P. 168 P. 168; 169



		ethics (complaints received and resolutions received)	
	Complaint systems, complaints received	GRI 103-2 Management Approach (Customer Health and Safety)	P. 109-110
	and their resolution	GRI 418-1 Substantial complaints related to customer privacy breaches and loss of customer data.	P. 169
	Profits obtained by country	GRI 201-1 for payments to public administrations pursuant to OECD guidelines http://www.oecd.org/tax/bep s/country-by-country- reporting.htm	P. 82-84; 127
Ta: inform	-	GRI 201-1 for payments to public administrations pursuant to OECD guidelines http://www.oecd.org/tax/bep s/country-by-country- reporting.htm	P. 127
	Public subsidies received	GRI 201-4 Financial assistance received from government	P. 160



## Annex 3: External assurance

# Deloitte.

Delotte, S.L. Plaza Pablo Ruiz Picasso, 1 Torne Picasso 28020 Madnir España

Tel: +34 915 14 50 00 www.deloitte.es

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

# INDEPENDENT LIMITED ASSURANCE REPORT

To the Shareholders of Ence Energía y Celulosa, S.A.,

In accordance with Article 49 of the Spanish Commercial Code, we have performed the verification, with a scope of limited assurance, of the 2018 Sustainability Report that contains the Consolidated Non-Financial Information Statement ("NFIS") for the year ended 31 December 2018 of Ence Energía y Celulosa S.A. and subsidiaries ("the Company" or "Ence"), which forms part of the consolidated directors' report of Ence.

The Sustainability Report includes information, additional to that required by current Spanish corporate legislation relating to non-financial reporting and by the Global Reporting Initiative Standards for sustainability reporting ("GRI standards"), that was not the subject matter of our verification. In this regard, our work was limited solely to verification of the information identified in Appendix 1 "GRI Standards Table of Contents" and Appendix 2 "NFIS Table of Contents".

## Responsibilities of the Directors

The preparation and content of the Sustainability Report of Ence are the responsibility of the Board of Directors of Ence. This Sustainability Report was prepared in accordance with the GRI standards in their core option. In addition, the NFIS included in the Sustainability Report was prepared in accordance with the content specified in current Spanish corporate legislation and with the criteria of the selected GRI standards, as well as other criteria described as indicated for each matter in Appendix 2 "NFIS Table of Contents" to the 2018 Sustainability Report.

These responsibilities of the Board of Directors also include the design, implementation and maintenance of such internal control as is determined to be necessary to enable the Sustainability Report and the NFIS to be free from material misstatement, whether due to fraud or error.

The directors of Ence are also responsible for defining, implementing, adapting and maintaining the management systems from which the information necessary for the preparation of the Sustainability Report and the NFIS is obtained.

## Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), which is based on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Deloite, S.L. Hochia en el Regoto Mercanti de Madrid. Iamni 13.050, sección 8º. folio 188, hisp M-54414, membrión 96º. C.F. B. 7810/4455 Democife soniat Plata Patio Rusz Pisseus, 1, Tome Picasso, 29020, Machad



Our firm applies International Standard on Quality Control 1 (ISQC 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our engagement team consisted of professionals who are experts in reviews of nonfinancial information and, specifically, in information about economic, social and environmental performance.

#### Our Responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed, which refers exclusively to 2018. The information relating to previous years was not subject to the verification provided for in current Spanish corporate legislation.

We conducted our review in accordance with the requirements established in International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements other than Audits or Reviews of Historical Financial Information, currently in force, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the guidelines published by the Spanish Institute of Certified Public Accountants on attestation engagements regarding non-financial information statements.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and, consequently, the level of assurance provided is also substantially lower.

Our work consisted in requesting information from management and the various units of Ence that participated in the preparation of the Sustainability Report, reviewing the processes used to compile and validate the information presented in the Sustainability Report, and carrying out the following analytical procedures and sample-based review tests:

- Meetings held with Ence personnel to ascertain the business model, policies and management approaches applied, and the main risks relating to these matters, and to obtain the information required for the external review.
- Analysis of the scope, relevance and completeness of the contents included in the 2018 Sustainability Report based on the materiality analysis performed by Ence and described in the "About this Report" section, taking into account the contents required under current Spanish corporate legislation.
- Analysis of the processes used to compile and validate the data presented in the 2018 Sustainability Report.



- Review of the information relating to risks and the policies and management approaches applied in relation to the material matters described in the "About this Report" section of the Sustainability Report.
- Verification, by means of sample-based tests, of the information relating to the contents included in the 2018 Sustainability Report and the appropriate compilation thereof based on the data furnished by the information sources.
- Obtainment of a representation letter from the directors and management.

#### Conclusion

Based on the procedures performed in our verification and the evidence obtained, nothing has come to our attention that causes us to believe that:

- a) the 2018 Sustainability Report of Ence was not prepared, in all material respects, including the adequacy of the contents revised detailed in Appendix 1 "GRI Standards Table of Contents", in accordance with GRI standards in their core option.
- b) the NFIS of Ence for the year ended 31 December 2018 was not prepared, in all material respects, in accordance with the content specified in current Spanish corporate legislation and with the criteria of the selected GRI standards, as well as other criteria described as indicated for each matter in Appendix 2 "NFIS Table of Contents" to the Sustainability Report.

## Use and Distribution

This report has been prepared in response to the requirement established in corporate legislation in force in Spain and, therefore, it might not be appropriate for other purposes or jurisdictions.

DELOITTE, S.L.

Helena Redondo

26 de febrero de 2019

