



2015 Annual Corporate Social Responsability Report

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1 Ence at
a glance

1 Ence at a glance

Business Model

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

TARGETS

STRATEGY

- To increase pulp production capacity
- To minimise production costs
- To increase installed biomass-fuelled power generation capacity



**EBITDA OF €375 MILLION
BY 2020**

KEY LINES OF INITIATIVE AND
DECISION-MAKING POWER

CORPORATE GOVERNANCE

- Adaptation for latest CNMV recommendations
- Equal opportunities
- Exchange of information by telematic means and shareholder participation

**Board
Composition &
remuneration**

**Rules of
operation**

RISK MANAGEMENT

- Market positioning
- Financial risk monitoring and control
- Preventative maintenance
- Reinforced sales team
- Continuous improvement

ERM system

IN-HOUSE RULES

- Ethics and compliance
- Corporate social responsibility
- Quality management excellence

Code of Conduct

**Crime prevention
protocol**

**Corporate Social Responsibility
Policy**

TQM model

**Integrated
management system**

BUSINESS ACTIVITIES

BUSINESS MODEL

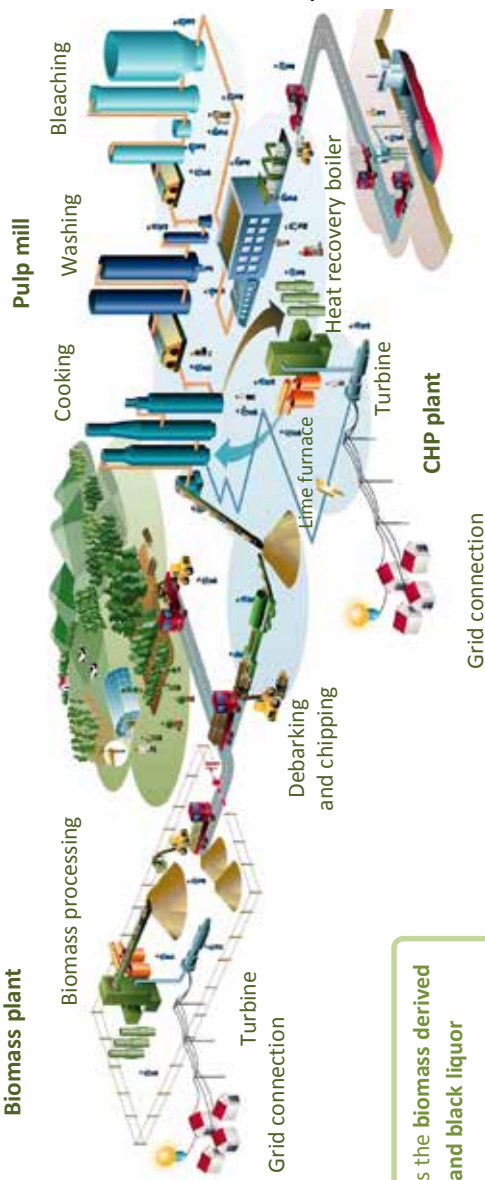
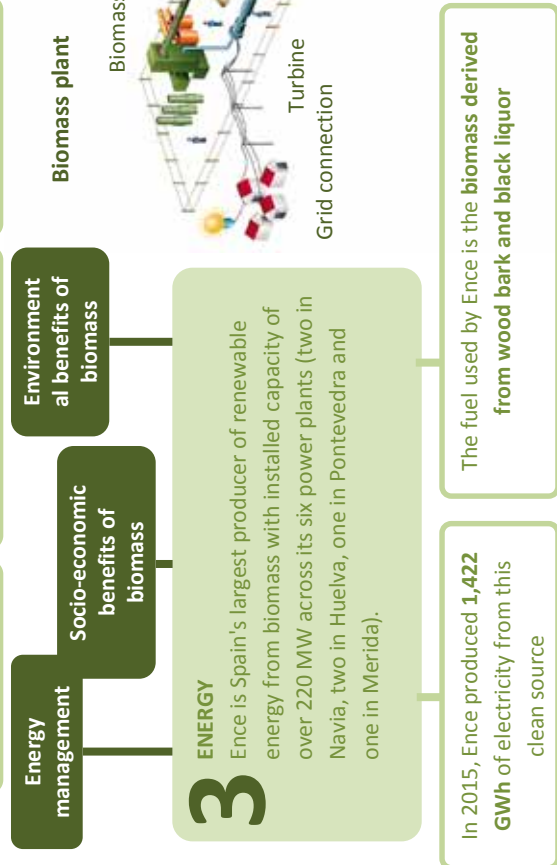
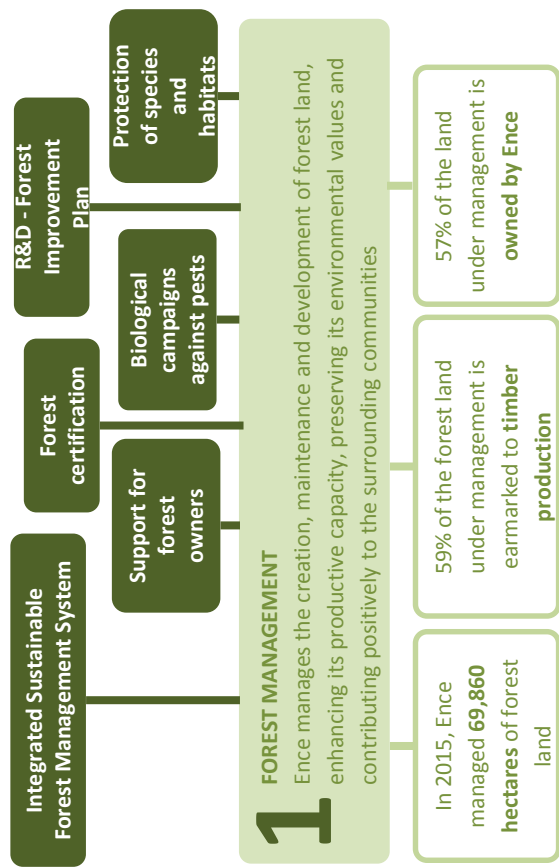
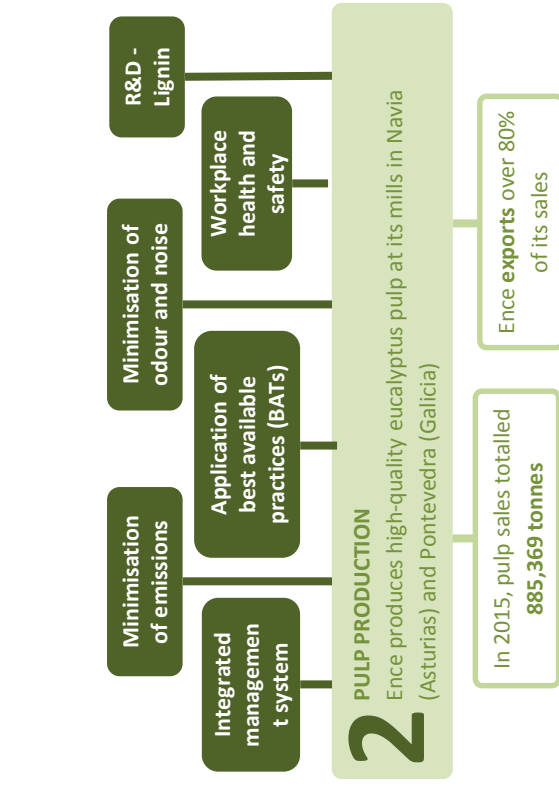


STAKEHOLDER ENGAGEMENT



- Mutually-beneficial relations
- Collaboration
- Value creation
- Transparency
- Dialogue

As a company firmly committed to sustainability and its surroundings, Ence conducts its business under an integrated productive model articulated around the most stringent and widely-regarded international sustainability and corporate responsibility criteria. Ence's integrated productive model spans the cultivation of trees, the generation of energy from a renewable source and the production of natural pulp, all of which framed by sustainable and environmentally-friendly management.







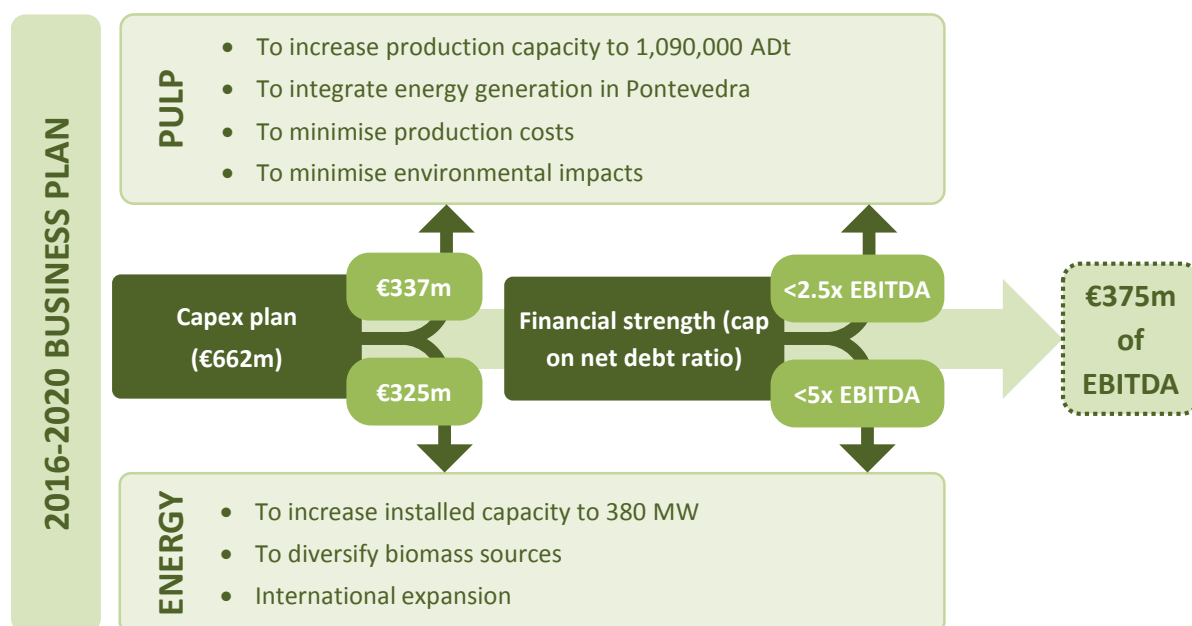
2 Strategy, governance model and management

Strategy

Ence has unveiled its newest business plan to the investment community: ambitiously, the plan contemplates doubling the company's EBITDA and valuation by 2020.

In November 2015, Ence presented its **2016-2020 Business Plan** which establishes quantifiable **objectives** in terms of pulp production and biomass-fuelled power generation capacity and earnings targets and outlines the **capital expenditure** planned to enable their delivery. Ence's **track record** in forestry management, pulp production and renewable power generation has enabled it to build up, over time and with each milestone achieved, **compelling know-how** in the timber and biomass markets. The new business plan is underpinned by the **strengths** derived from this track record.

Assuming **stability** in terms of prevailing pulp prices and the dollar-euro exchange rate, Ence has set its sights on delivery of **EBITDA of €375 million** in 2020, which would be equivalent to roughly double the FY15 figure and would also imply doubling the company's value. To achieve this guidance, it has prepared an **ambitious capital expenditure plan** which calls for investing around **€662 million** in its core pulp and energy business lines. These investments will enable Ence to grow in a highly competitive fashion, by increasing its **pulp production** and **energy generation capacity** while minimising **production costs** and the potentially adverse **environmental impacts** derived mainly from its pulp production activities.



In the **pulp business** the planned investments (approximately €337 million to 2020) will be earmarked to **increasing pulp production capacity** at the Navia and Pontevedra mills to 1,090,000 ADt (air dry tonnes), **integrating power generation** from biomass into the productive process at the Pontevedra mill, **rationalising production costs** via process enhancement and efficiency measures at the factory level and **minimising environmental impacts** (prioritising control over liquid and gaseous discharges and odour levels). In tandem, the company plans to continue to make progress on the sustainable forestry front and work to respond to its most exacting customers' demands in sustainability matters.

In the **energy business**, the priority is to **increase installed** biomass-fuelled power generation **capacity to 380 MW** by 2020

2015 Annual CSR Report

by **building new plants** (focusing on turnkey arrangements funded by non-recourse project finance facilities). **€325 million** of capital expenditure will be earmarked to this effort. The company will continue to **diversify the sources of the biomass** it uses as fuel, taking in agricultural biomass, a development that implies a significant technical and logistical challenge. In addition to the growth envisaged in this business line in **Spain**, where Ence sees compelling upside, the company is analysing potential entry into **new countries such as Chile, Colombia and India**, high-growth markets deemed safe and propitious to foreign direct investment.

All of this will be underpinned by Ence's **financial strength**, as leverage (in terms of **net debt**) will be capped at 2.5 times EBITDA in the pulp business and 5 times in the energy business.

Delivery of these ambitious targets requires correctly-functioning **governance bodies** to guarantee optimal **decision-making**, appropriate **management of financial and non-financial risks** and **management of the company's everyday activities** focused on compliance with the plan, underpinned by steadfast principles in the areas of **ethics and compliance, excellence, transparency and corporate social responsibility**. Ence views its **relationships with its stakeholders**, articulated around mutual benefits and open and transparent communication, as fundamental.



Corporate Governance

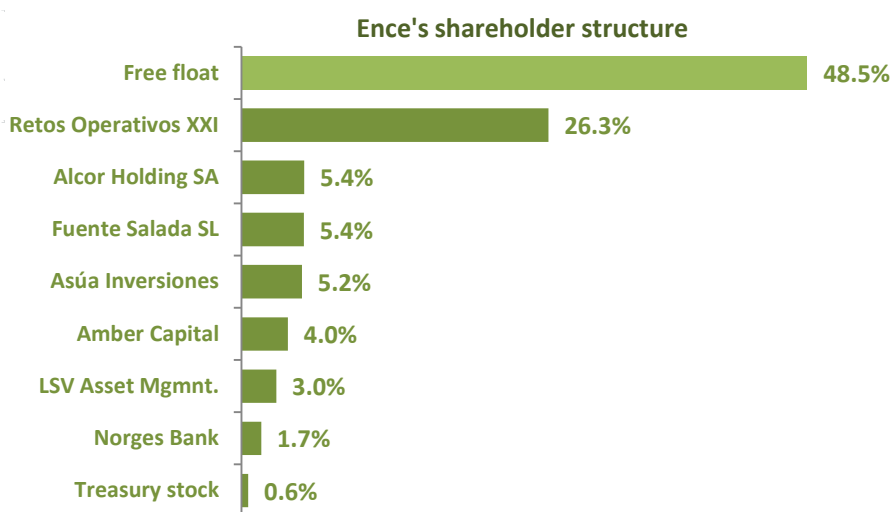
In order to guarantee optimal decision-making in line with its objectives and priorities, Ence regulates its governing bodies' workings around principles of good governance, business ethics and transparency.

Ownership structure

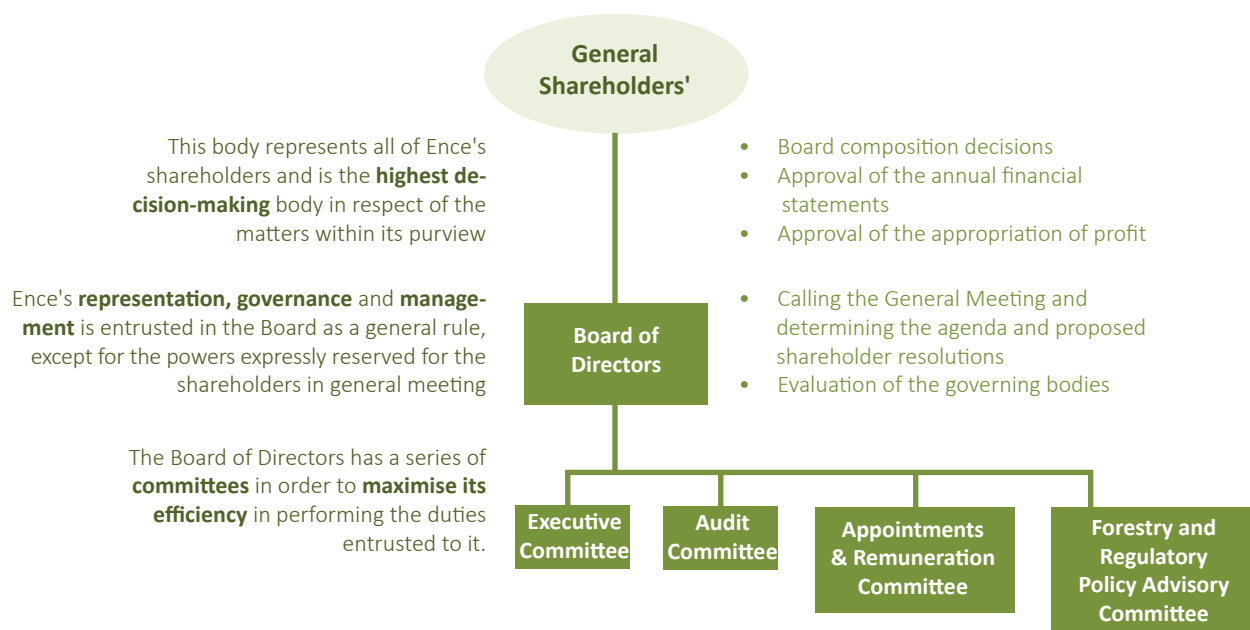
Ence Energía y Celulosa is a public limited company (sociedad anónima). Its registered office is located in Madrid, at calle Beatriz de Bobadilla, 14. The breakdown of its share capital and shareholder structure is shown here:

Share capital	No. of shares	No. of voting rights
225,245,250	250,272,500	250,272,500

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



Governance structure



General Shareholders' Meeting

Ence's General Shareholders' Meeting is the body empowered to rule on the **matters reserved to the vote of the shareholders** under the law and the company's Bylaws and, generally, to ratify as many resolutions as are required in its capacity as the **company's sovereign body**. Specifically, its **powers** include:

- Approving the annual financial statements and the proposed appropriation of profit
- Appointing or removing directors and reviewing and discharging their performance
- Appointing or removing the statutory auditor
- Deciding on matters referred to it by the Board of Directors
- Approving Bylaw amendments
- Approving and amending the General Meeting Regulations

Ence's corporate governance rules and regulations are encompassed by its Bylaws and the following rules:

- The General Meeting Regulations
- The Board Regulations

For more information, go to the corporate website (www.ence.es) and the securities market regulator's website (www.cnmv.es).

All Ence shareholders whose shares are on record in the corresponding share registries within five days of the scheduled Meeting date are entitled to **attend and vote** at General Shareholders' Meetings.

Annual General Meeting

The Annual General Meeting, duly called, shall meet within six months of year-end to debate and resolve on the matters itemised in the related agenda. Similarly, at such Meetings, the shareholders shall debate and resolve on resolutions regarding any other matter which, falling within the purview of the Meeting, may be added to the agenda.

In 2015, Ence held its Annual General Meeting on **27 April**; the main resolutions ratified were:

- Examination and approval of the annual financial statements and management report
- The motion to distribute a cash dividend with a charge against the share premium account
- Examination and discharge of the Board of Director's performance and the re-election of its members.

Any Meeting other than that Annual General Meeting is deemed an **Extraordinary General Meeting**. The Board of Directors may call an Extraordinary General Meeting whenever it deems so doing in the company's best interests. No Extraordinary General Meetings took place in 2015.

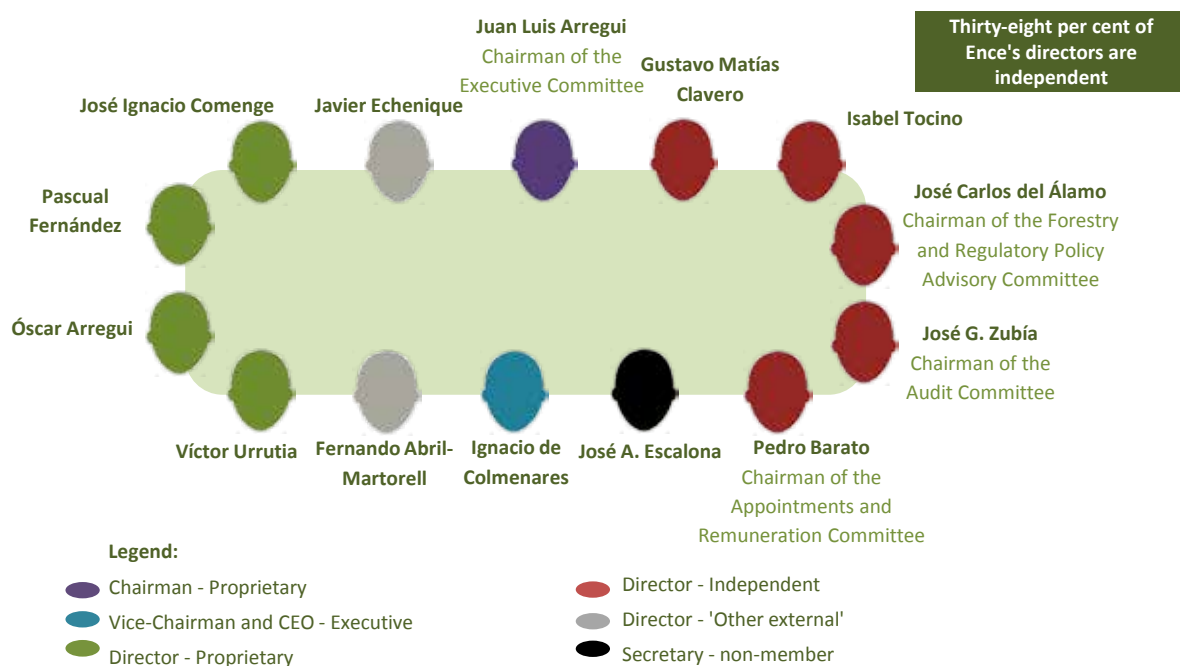
Shareholders in possession of at least 5% of the company's share capital are entitled to call an Extraordinary General Meeting, stipulating the proposed agenda items in any such call notice

In order to foster attendance at, participation in and decision-making during the General Shareholders' Meetings, the shareholders entitled to attend can cast their **votes by correspondence** on the motions related to the agenda items, specifically by post by sending in their attendance and voting cards, duly filled in by the shareholder, to the company's registered office.

In addition, in order to improve the information provided to its shareholders, Ence operates an **Online Shareholder Platform**, which is hosted within its corporate website, accessible to all shareholders and validly-constituted shareholder associations duly registered in the special-purpose register set up by the Spanish securities market regulator, the CNMV for its acronym in Spanish. Shareholders can use this Forum to post (i) proposed addenda to the agenda resolutions published in the General Meeting call notice; (ii) requests to second any such proposals; (iii) initiatives for building the sufficient support to enable the exercise of the minority shareholder rights provided for in law; and (iv) offers or requests to act as proxy.

2 Strategy, governance model and management

Board of Directors



The Board of Directors' mission is to **supervise the company** and **create value for its shareholders**, as well as exercising the powers of **representation and management** vested in it by the company's Bylaws and the law. Its **core powers** notably include following:

- Appointing or removing directors and reviewing and discharging their Calling General Shareholders' Meeting and determining the corresponding agenda and proposed shareholder resolutions
- Issuing the annual financial statements and other reports to be put before the General Meeting for approval and presenting and proposing the same documents at such Meetings
- Approving the director remuneration regime
- Assessing the performance of its committees, chairperson, directors, the chief executive and the board itself

Board composition and remuneration



• Director appointment and removal

- The Appointments and Remuneration Committee is empowered to **propose the appointment, re-election and removal** of directors for approval by the Board and, ultimately, ratification by the company's shareholders in general meeting.
- Directors are appointed for a **maximum term of three years** and may be re-elected once or more for the same term of office.
- The Appointments and Remuneration Committee evaluates directors' backgrounds to select **the most qualified candidates**, making proposals to the Board in this respect. This Committee also ensures that men and women opt for Board positions on **equal terms**, establishing to this end a target for representation by women, who are under-represented, issuing guidance for how to achieve this target and making sure that the selection procedures are unbiased so as to prevent discrimination on any grounds.
- All of Ence's directors must be **renowned individuals with reputed academic and professional backgrounds**; they must have the skills and competence to discharge the duties intrinsic to a position of such responsibility.

The directors' biographies are available for download from the corporate website

• Remuneration

- The director remuneration policy, which is approved by the company's shareholders on the terms stipulated in Spain's Corporate Enterprises Act, determines their compensation in their capacity as such within the Bylaw-stipulated remuneration regime; this policy must include a cap on the total amount of remuneration to be paid annually to the directors for their work on the Board.
- It is up to the Board of Directors to determine the remuneration payable to each director for the performance of his or her director-related duties on the basis of a report and recommendation from the Appointments and Remuneration Committee, which will consider to this end the duties and responsibilities assigned to each director, their membership of Board Committees and other objective circumstances deemed relevant.

Board functioning



• Meetings

- The Board of Directors meets, at the behest of its Chairman, as many times as are deemed opportune towards the optimal functioning of the company, meeting at least six times a year and at least quarterly. The Board must prepare an **annual schedule of ordinary sessions** before the start of each year, establishing a meeting frequency designed to enable the Board to carry out its duties with due efficiency.
- The notice calling ordinary meetings may be made by letter, fax, telegram or electronic mail, authorised by the signature of the Chairman or Secretary or Vice-Chairman at the behest of the Chairman. Meetings must be called with at least two days' notice.

In 2015, the Board met on 13 occasions

• Voting by proxy

- Directors must do their best to attend the meetings called by the Board but, when they cannot do so in person, they must endeavour to be represented by another member from the same class of directorship. In the event that the director who cannot attend is a non-executive director, his or her vote may only be conferred in another non-executive director.
- Voting in writing and without a formal meeting is only permitted when none of the directors opposes this way of proceeding; under these circumstances the directors may submit their votes by e-mail, including any observations they would like recorded in the meeting minutes.

• Ratification of resolutions

- Board resolutions are carried with the favourable vote of the straight majority of attending directors, whether present or duly represented, unless the law or the company's Bylaws stipulate a qualified majority. In the event of a draw, the Chairman has the casting vote.
- Voting in writing and without a formal meeting is only permitted when none of the directors opposes this way of proceeding.

2 Strategy, governance model and management

Committees

Executive Committee

The **Board of Directors delegates the matters and transactions it deems fit** in this committee. The Board may delegate all powers except for those that cannot be delegated pursuant to company law, the company's Bylaws or the Board Regulations.

In 2015:

- 4 meetings
- 1 executive member
- 5 non-executive members

Audit Committee

This Board committee is responsible for ensuring **compliance, financial transparency and assessment of the risks** that could affect the company. Its duties include the following:

- Proposing to the Board of Directors the appointment, re-election or non-renewal, as appropriate, of the statutory auditor.
- Supervising the work of the company's internal audit service
- Monitoring the process of drawing up and disclosing the company's legally-required financial information and ensuring its integrity.
- Issuing annually, prior to issuance of the audit report, a report expressing an opinion on the independence of the auditor
- Supervising effectiveness of the company's internal controls and the internal control and risk management systems (financial and non-financial risks), including the internal control over financial reporting system and the systems controlling environmental and health and safety matters.
- Examining compliance with the company's corporate governance rules and making the necessary proposals for their improvement. Specifically, the Audit Committee is tasked with gathering information and, as warranted, issuing a report to the members of the Board of Directors on any disciplinary measures taken and with regularly appraising the effectiveness and appropriateness of the company's corporate governance regime.

In 2015:

- 9 meetings
- 0 executive members
- 5 non-executive members

Appointments and Remuneration Committee

This Board committee is vested with the powers related to **director appointment, evaluation and remuneration**. Its **duties** include the following:

- Evaluating the universe of skills, knowledge and experience needed on the Board.
- Raising proposals for the re-election, removal or appointment of independent directors before the Board and reporting on proposals for the re-election, removal or appointment of all other classes of directors.
- Proposing to the Board annual director and executive pay schemes and amounts.
- Reporting back on the evaluation of the performances of the Chairman of the Board and the company's chief executive officer.

In 2015:

- 6 meetings
- 0 executive members
- 5 non-executive members



Forestry and Regulatory Policy Advisory Committee

This Board committee handles matters related to **forestry and regulatory policy**. Specifically, it is empowered to report and advise on, collaborate with and make proposals with respect to the following aspects:

- Ence's actions in respect of policy and regulations in matters related with the company's activities and operations, particularly with forest planning issues.
- Institutional relations with the various competent authorities, providing input into the process of establishing policies, regulations, ordinance and plans in these areas.
- The establishment and implementation of policies, regulations, ordinance and plans vis-a-vis the various government and territorial authorities, particularly with the aim of fostering cooperation in forest land management and forest owner cooperation or concentration.

In 2015:

- 4 meetings
- 1 executive members
- 5 non-executive members

In addition to the above committees, Ence has a **Management Committee** comprising the CEO and heads of the company's business units and corporate departments. This committee is responsible for the company's management and jointly takes key strategic decisions, submitting them to the Board of Directors for approval as required.

Members of the Management Committee

- CEO (Ignacio de Colmenares y Brunet)
- Pulp and Energy Operations Officer (Jaime Argüelles Álvarez)
- Forestry Manager (Javier Arregui Abendivar)
- Procurements Officer (Álvaro Eza Bernaola)
- Corporate Resources Officer (María José Zuera Saludas)
- Finance and Corporate Development Officer (Alfredo Avello de la Peña)
- Communication and Institutional Relations Officer (Luis Carlos Martínez Martín)



Risk management

Adequate risk management enables the company to maximise the positive effects of the decisions it takes while minimising the adverse consequences of the risks to which Ence's business and earnings are exposed

Ence's **Board of Directors**, with the help of the **senior management team**, defines the company's risk management policies as a function of the risk factors to which it is exposed, establishing internal control systems designed to keep the probability and impact of occurrence of the risk events so defined within established risk tolerance levels. Meanwhile, the **Internal Audit Department** verifies that the risk management principles and policies defined by the Board of Directors are properly implemented and oversees due compliance with the internal control systems in place throughout the organisation.

Ence's risk management system

Ence's enterprise risk management (ERM) system is designed to identify, assess, prioritise, address and monitor situations that could pose a threat to the company's activities and objectives. The ERM system encompasses the parent company, Ence, and the Group companies, all of its businesses- pulp, energy and forestry- and all of its corporate functions.

The enterprise risk management (ERM) system is defined and explained in Ence's Risk Management and Control Policy and its Risk Management Procedure

Various risk management roles and responsibilities have been assigned at the corporate level:

- The **Board of Directors** is ultimately responsible for risk identification and implementation of the appropriate internal controls in order to facilitate delivery of the company's strategic objectives.
- The **Audit Committee** assists the Board in supervising effectiveness of the company's internal controls and the internal control and risk management systems, including the internal control over financial reporting (ICFR) system and the systems controlling environmental and health and safety risks.
- Ence's **Internal Audit Department** is responsible for the company's everyday risk management, to which end it draws up the Group's risk management criteria and procedures and proposes them to the Board of Directors.
- To this end, the senior executives in charge of Ence's various departments are **Risk Owners**: their job is to continuously manage the various risks within their areas of influence at the purely operational level.

The ERM system contemplates the risks to which delivery of Ence's various objectives is exposed, distinguishing between strategic, operational, financial reporting and compliance related risks. The ERM system is reviewed regularly in order to introduce



The following table itemises the **key risks** that could have an impact on Ence's activities along with the corresponding strategies and procedures put in place by the company to mitigate these risks:

	Key risks associated with:	Risk mitigation strategies:
Decision-making risks	Business continuity in the event of natural catastrophes or disasters and the terms of the concessions entitling the company to occupy the land its operational centres are located on	Prevention and minimisation of the potential impacts entails a series of management measures, such as: <ul style="list-style-type: none"> - Combating the pests that threaten the company's biological assets - Timely management of applications to renew land occupancy concessions (in 2015, the company applied to have the concession over the Pontevedra site extended)
	Compliance , particularly in relation to the upcoming BREF requirements	Ence participates actively in the forums shaping decisions regarding the new BREF regulations.
	Market share objectives , focusing on the contraction in demand for certain products and potential changes in market preferences	Ence has reinforced its presence and positioning in the European market and continually monitors trends in the pulp market
Financial risks	Financial discipline in the face of pulp price, exchange rate and interest rate volatility	Ence is in constant contact with its financial institutions with the aim of arranging, as appropriate, the pertinent financial hedges and/or futures in order to mitigate potential fallout from pulp price volatility. In addition, Ence monitors the currency markets and the trend in the dollar-euro exchange rate and hedges its most important financing transactions against currency and interest rate volatility
	Tax risk derived from public fiscal policy	The Audit Committee continually monitors the company's tax-related risks with a view to assisting the Board with its task of determining tax risk management and control policy
Operational risks	Upgrading of productive facilities , focusing on installation and equipment obsolescence	Ence reviews civil works, invests and carries out maintenance programmes in order to prevent its facilities and machinery from becoming obsolete
	The decommoditisation of pulp in response to customer needs	Ence is working to improve its customer relations, its understanding of their product needs, to which end it is reinforcing its sales team

2 Strategy, governance model and management

Operational risks	Streamlining of operating costs with a view to making its products and services increasingly competitive	Ence is working to identify its most competitive goods and services and to expand its pool of suppliers
	Post-production logistics, focusing on end product stock outages and maritime transportation costs	Ence continually reviews stock plans in an attempt to identify and address potential deviations Ence has adopted the strategy of bearing the cost of any variation in shipping costs with respect to quotes provided in order to minimise shipping costs
Organisational risks	Key risks associated with: Changes in energy market regulations	Risk mitigation strategies: Ence is calibrating its output levels in order to achieve the initially-estimated profitability levels despite the changes in energy market regulations
	Workplace health and safety	Ence desarrolla planes de prevención de riesgos laborales basados en la formación y el mantenimiento de sistemas integrados de gestión y obtención de las certificaciones ISO, OSHAS y FSC
Environmental risks	Key risks associated with: This category relates to the main risks associated with the impact of the company's operations on the environment	Risk mitigation strategies: Ence's risk-mitigation strategies consist of continuous improvement programmes coupled with investments at its productive facilities specifically designed to make them more environmentally-friendly



Ethics and compliance

Ence is a socially responsible company committed to a corporate culture articulated around the ethical conduct of its employees and governed by transparency in both its internal dealings and interactions with its surroundings

Code of conduct

Ence's Code of Conduct was **updated and approved at a Board meeting** held in October 2015. It is binding on all employees, executives, directors and third parties who act on behalf of the company or are otherwise included within its scope of application.

Ence's Code of Conduct is available on its corporate website www.ence.es

The **core goal** of the Code of Conduct is to define ethical ground rules, articulated around Ence's vision, with a view to creating a solid corporate culture and shoring up the company's reputation.

Ence's ethical cornerstones

- Sustainability
- Continuous improvement
- Commitment
- Responsibility
- Transparency
- Professionalism
- Care
- Respect
- Dialogue

The Code enshrines the **ethical cornerstones** of the company's culture and expounds the principles that Ence unilaterally undertakes to uphold, including an explicit pledge to behave ethically within the company and in its relations with its other stakeholders.

The **Audit Committee** is tasked with **monitoring and controlling** application of the Code of Conduct, as well as ensuring sufficient acquaintance and strict compliance with it at the corporate level. In addition, in 2015, the Audit Committee set up a **Whistle-blowing Channel**, which can be used by any of the parties bound by the Code of Conduct to report potential breaches or events or conduct that violate the law and/or Ence's body of rules and regulations. The Whistle-blowing Channel can be accessed by e-mail or ordinary post. In 2015, three complaints were received and the opportune investigations were initiated.

Key initiatives undertaken in 2015

- The Code of Conduct was updated to introduce the changes made to Spain's Criminal Code in relation to the criminal liability of legal persons. The most important changes were:
 - To set up a **Whistle-blowing Channel** for reporting potential Code breaches
 - To amend the **contractual clauses** witnessed by executives, employees, customers and suppliers
 - To implement a **disciplinary regime** for penalising Code breaches
 - To create an **Ethics and Liability Compliance Committee**
- To **publicise the Code of Conduct internally** by means of a top-down communication campaign and its presentation to management personnel and professionals employed under individual contracts
- To introduce **formal acceptance** of the Code by means of signature of an annual statement of compliance with the Code of Conduct and the new contractual clauses

Crime prevention protocol

In 2015, Ence took an exemplary step forward in its crime prevention policy with the introduction of a new **Crime Prevention Protocol** articulated around Spain's recently amended Criminal Code, as required under Spanish Organic Law 1/2015, which took effect on 1 July 2015.

This new protocol includes, in addition to the newly updated Code of Conduct, a series of procedures designed to guarantee Ence's stakeholders and the courts and authorities that it exercises the legally-stipulated control over crime prevention. The **Crime Prevention Protocol** includes a series of specific measures and controls for each identified crime across a universe of areas (environment, consumer protection, corruption, employee rights, etc.). This protocol stipulates the creation and operation of an **Ethics and Liability Compliance Committee** to control, supervise, evaluate and update the protocol. It is up to the Audit Committee to handle and resolve any complaints received in this respect.

2 Strategy, governance model and management

Corporate Social Responsibility Policy

In its capacity as an environmentally-aware benchmark player in the eucalyptus pulp market and biomass renewable power segment and a committed and responsible manager of forest plantations, Ence has been systematically deploying initiatives designed to orient its business activities around the **principles of economic, environmental, labour and social sustainability**, all underpinned by a desire to stay close to its communities, their problems and, in short, to improve the well-being of the people who live in them.

Ence's commitments to its stakeholders are articulated in its **Corporate Social Responsibility Policy**, which was approved by the Board of Directors in 2015, duly exercising its non-delegable powers and in line with the recommendations issued in the Good Governance Code approved by Spain's securities market regulator with respect to corporate social responsibility. This policy is designed to ensure implementation of and compliance with these pledges. The commitments reflect how Ence views its stakeholders. The policy seeks to facilitate efficient and satisfactory relations with the company's various stakeholders by establishing channels for the exchange of information and as the basis of a mutually-beneficial relationship. The goals of this policy are to:

- Contribute to improving personal well-being
- Foster economic and social development in Ence's business communities
- Create sustainable value for Ence's shareholders, employees, forest owners, customers, suppliers, influencers, communities and surroundings

Ence's CSR principles

- Commitment to upholding the law and Ence's ethics principles
- Commitment to people
- Commitment to our external and internal customers
- Commitment to institutions
- Committed to the environment
- Commitment to doing things better
- Commitment to results

Ence's Corporate Social Responsibility Policy enables it to identify the company's stakeholders and establish the relationships and commitments to be pursued with each. Below is a list of Ence's stakeholders and the main pledges made to each:

Commitments	
Shareholders and investors	The duties of transparency, accountability and share price maximisation
People	Career development, quality work, workplace health and safety and job satisfaction
Customers	Quality, confidence and satisfaction
Strategic partners and suppliers (incl. forest owners)	Confidence, transparency and collaboration
Government	Confidence, transparency and contribution
Community and environment	Creation of sustainable value
Influencers	Transparency and collaboration

See the Appendix for the full Corporate Social Responsibility Policy



Excellence

Ence is strategically committed to managerial excellence, underpinned by quality, efficiency and continuous improvement

The total quality management (TQM) model

Ence implemented its total quality management (TQM) model as the means to **cultural and management practice transformation** in 2011. Thanks to the involvement of senior management, Ence has developed a proprietary management excellence model which has been implemented on the basis of a continuous improvement approach with a focus on maximising efficiency and competitiveness by addressing matters related to quality, health and safety, environmental protection and pollution prevention as one.

The TQM model is structured around three key lines of initiative (“Managing improvement”, “Managing processes” and “Managing day-to-day activities”) which **make the model easier to understand and implement**. The model further establishes a series of **fundamental improvement targets** with a clear-cut environmental focus:

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

Integrated management system

Ence has developed an integrated management system with the overriding goal of ensuring that all of the company’s activities are carried out under the scope of the management policy established by senior management and the defined targets and goals are met.

This integrated system is **certified by an accredited organism** which audits it annually. The management system is articulated around processes that are identified and evaluated in order to facilitate control tasks and their continuous improvement.

The integrated management system has been implemented at the **Huelva, Navia and Pontevedra** operations centres and complies with the following international standards:

- UNE-EN-ISO 9001:2008 (**quality management**)
- UNE-EN-ISO 14001:2004 (**environmental management**)
- OHSAS 18001:2007 (**workplace health and safety management**)

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

Continual improvement approach

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

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

2 Strategy, governance model and management

Ence's environmental management policy is based on **compliance with prevailing legislation**, which establishes the requirements with which all pulp production related activities must comply. The operations centres in Huelva, Navia, Pontevedra and Merida hold the corresponding corresponding **integrated environmental permits** for the pursuit of their industrial activities, as required under Spanish Law 16/2002 on the Integrated Prevention and Control of Contamination. The goal of these permits is to prevent, or at least reduce, and control air, water and soil contamination with a view to protecting the environment as a whole. To this end, the permits encompass a series of authorisations with respect to emissions, liquid discharges, waste management and soil and underground water protection. Against this backdrop, the permits set emission limits for each facility based on best available techniques and oversight and control plans in respect of all relevant environmental parameters.



Nordic Swan ecolabel

The Navia and Pontevedra complexes obtained the Nordic Swan ecolabel (the official Scandinavian ecolabel, created in 1989 by the Nordic Council of Ministers representing Sweden, Denmark, Finland, Iceland and Norway) for their compliance with the most stringent environmental standards in 2014. The goal of this ecolabel is to help consumers take environmentally-friendly purchasing decisions.

Obtained following a rigorous assessment of the environmental impact of the company's products throughout their entire life cycle, this ecolabel promises compliance with the seal's stringent requirements in the areas of climate change mitigation, energy efficiency and resource consumption (water, chemical products and raw materials).

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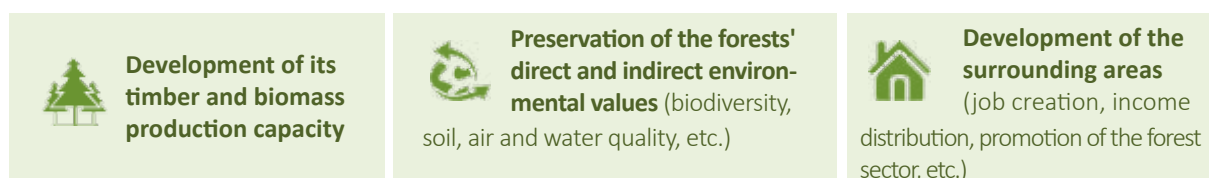


3 Business
lines

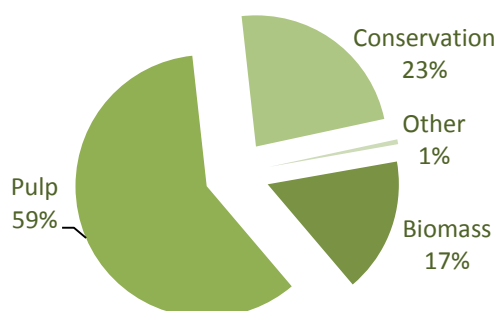
Forest management

Management of forest tracts and plantations, caring for and maintaining them in order to extract timber and biomass, coupled with applied research into species yields, constitute Ence's key activities in the forestry segment

Ence's activities in the forestry arena consist of the **creation, maintenance and development of forest cover**, upholding the most stringent sustainability criteria, with the following **key objectives**:



Land under management by use (hectares)*



Against this backdrop, the company combines and coordinates forest ownership activities, forestry care work, extraction efforts and applied research taking an end-to-end approach.

Twenty-three per cent of the forest land managed by Ence is being managed for ecosystem conservation purposes

Of the total land mass managed, in 2015, 59% was primarily oriented towards the **production of timber for pulp**, 17% was earmarked to the **production of biomass** and the remainder, around 17,000 hectares, was being managed for **ecosystem protection and conservation** purposes.

	Ence Energy	Energy Extremadura	Energy Huelva	Norfor	Silvasur	Total
Biomass	118.73	127.18	3,699.39	35.53	7,607.19	11,588.02
Pulp	0.00	0.00	4,484.67	11,130.56	25,911.59	41,526.82
Conservation	0.00	0.00	544.43	1,913.81	13,882.37	16,340.61
Other	0.00	0.00	0.00	413.32	0.00	413.32
Total	118.73	127.18	8,728.49	13,493.22	47,401.15	69,868.77



The forest management business is governed by a transparent, efficient and responsible Management Plan centred on rationale use of all the goods and services offered by forest land, meaning not only what they have to offer productively but also their ecological and social attributes. Among the key tools used to correctly control and monitor these activities, it is worth highlighting:

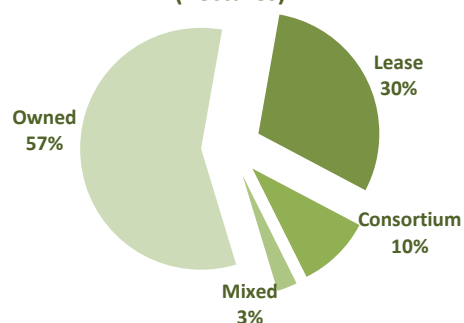
- Forest planning and stewardship
- Ongoing forestry cataloguing, underpinned by LiDAR technology
- Establishment of fire prevention plans
- Integrated pest control plans
- Specific biodiversity conservation and protection mechanisms
- Specific plans for managing endangered species
- Identification, assessment and protection of unique attributes
- Exhaustive mapping of non-productive areas subject to management plans
- Identification of 'high conservation value forest'
- Establishment of ecological corridors
- Fragmentation of felled areas
- Implementation of a total quality management (TQM) system

Ence, as Spain's leading private forest manager, managed 69,869 hectares of forest land in 2015, 57% of which it owns

Key forest management initiatives

- Full implementation of an end-to-end management model designed to make full use of the tree (wood and residual biomass)
- Development of a model for converting forest plantations initially earmarked to the production of timber for pulp to competitive biomass-producing plantations in the south of Spain
- Performance of tests to estimate timber volumes in forested plots by using drones and LiDAR scanning technology
- Development of a biological campaign in northern Spain to combat the *Gonipterus* or eucalyptus snout beetle (which defoliates the trees) by placing deposits or egg capsules, or oothecas, parasitised with the *Anaphes nitens* (a small wasp) on the affected plantations
- Analysis of the parasitised ootheca production process, having conducted a benchmarking study comparing Spain and Chile As part of this effort, Ence has entered into a collaboration agreement with a Chilean bio-factory with the aim of improving the production process, the goal being to hopefully reduce production costs in 2016 in order to increase the availability of and access to these oothecas in northeastern Spain

Land under management by contract type (hectares)*



For further details, please see the appendix.

This business unit is also tasked with **purchasing timber from third parties**, as not all the timber consumed by Ence is sourced from forest land managed directly by the company. Ence's work as timber buyer, whether in the form of standing timber or supplies, has implied the purchase of 2.7 million cubic metres of **timber** for over €177 million. As for timber **biomass**, the company has moved over one million tonnes to its various power plants, entailing a purchasing volume of €44 million.



Support for forest owners

Ence fosters direct purchasing from forest owners, articulating its relationship with them around proximity and mutual benefits, to which end it provides them with all the resources it can to enhance the owners' forest management work.

In this sense, Ence's forest management efforts extend beyond the forest land it owns. This **extension** (the exchange of ideas, know-how and techniques with a view to achieving better structured forests and plantations) has been a cornerstone of the company's work for years now, underpinned by its conviction that a well-organised, professional and expert sector will generate **mutual benefits** for forest owners and sector players alike.

To this end it systematically supports owners in areas such as:

- The transmission of know-how
- Joint pest control efforts
- Encouragement to plant genetically enhances species
- Forest certification
- Association-building

In addition, Ence continues to work to promote the integration of adjacent forest plantations into landowner associations, as it views this scale as vital to reducing procurement costs and boosting sector competitiveness.

In 2015, direct purchases from forest owners and small suppliers accounted for 72% of timber purchases

Once again last year, Ence consolidated its benchmark position in the field of **Sustainable Forest Management**, across both the forests it manages and those it sources from, applying the most demanding, internationally-renowned corporate responsibility criteria to the land it owns and encouraging their adoption by third-party managers. The company promotes the **certification of forest land** under the benchmark voluntary sustainable forestry management and chain of custody standards: FSC (Forest Stewardship Council) and PEFC (Programme for the Endorsement of Forest Certification Schemes). The goal is to move towards full certification (100% of own and third-party timber) under the two schemes (PEFC and FSC). Chain of custody certification under both schemes constitutes a tool that guarantees the traceability of the certified wood.

Year	% FSC-certified	% PEFC-certified
2010	28	77
2011	28	89
2012	30	72
2013	31	68
2014	40	75
2015	55	82

In 2015, 82% of total certifiable land area was PEFC-certified and 55% was FSC-certified.

ENCE's goal is to have 100% of its forest tracts dual-certified within a maximum term of four years.

Lastly, it is worth highlighting the fact that **8.2%** of the land mass managed by Ence is considered **high conservation value forest**, a forest management designation developed by the FSC to identify managed areas, resources, habitats or sites that present high conservation values as defined by specific attributes (such as inclusion within designated birdlife protection zones, the presence of catalogued endangered species and areas fundamental to meeting local communities' basic needs, among others).



R&D

Improving plant health and resistance to the continuous changes in their surroundings as a result of pests, disease and climate change remained one of the biggest challenges and the priority focus of the R&D work undertaken in the forestry business in 2015.

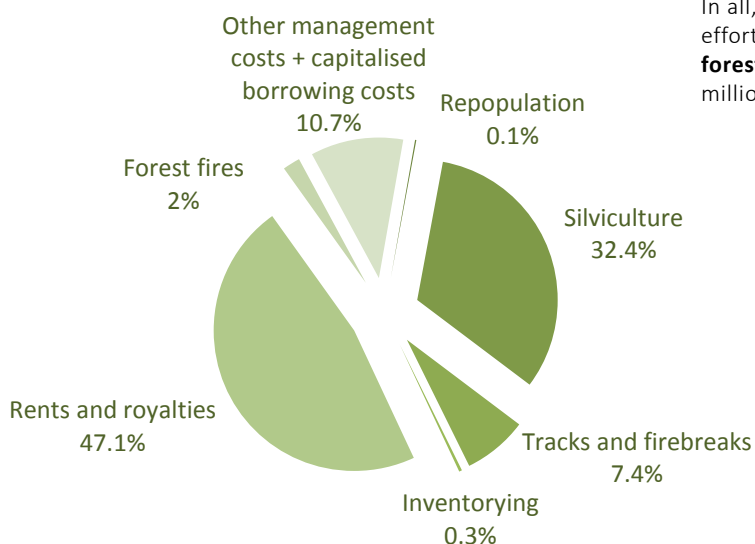
Ence continues to structure its efforts around its **Forest Improvement Plan**, which has proven effective at tackling these challenges for more than three decades. The Improvement Plan translates into genetic improvement programmes, silviculture initiatives and programmes for the end-to-end control of the pests and diseases that afflict eucalyptus trees.

Within the genetic improvement plan, it is worth highlighting the implementation and evaluation of the first experimental tests on elite clones of a strain of the *Eucalyptus globulus* that tolerates the *Gonipterus* pest and *Mycosphaerella* pathogen. In the eucalyptus growing and care arena, the nursery plant breeding process has been significantly overhauled at the operational level.

2015 was shaped by the following **milestones** on the R&D front:

- Completion of the research project called "Study of the productive potential of Eucalyptus hybrids using ferti-irrigation", using water potential, water rationalisation and sap analysis measures
- Ongoing development of the pest and pathogen control programme entailing assessment of the effectiveness and efficiency of new active components for pest control purposes
- Finalisation of two research projects related with the alternative use of the ash produced from the combustion of plant-based biomass titled "Generation of fertilisers from biomass ash" and "Application of paper industry and unused tyres for the construction of light-weight filling materials and other construction materials"
- Testing of process improvements designed to make better use of biomass waste by means of application of Cornrower system technology which maximises the amount of corn harvest waste that can be reused for energy generation purposes
- Ence's R&D experts actively collaborate with associations and forest owners on the resolution of phytosanitary and silvicultural problems related with eucalyptus plantations, advising them on matters as varied as eucalyptus species and strain selection, land preparation, planting methods and all the forestry care work required to enhance productivity

Forestry investments (€)*



In all, Ence **invested** around **€6 million** in this effort, earmarking a noteworthy €2.15 million to **forest care and maintenance work**, and over €3 million to the generation of income and royalties.

* For further details, please see the appendix

Pulp production

Ence is Europe's leading producer of eucalyptus pulp and the number-two player by market share in terms of sales

Ence produces **eucalyptus pulp**, which is primarily used as the main raw material for **making paper**. In 2015, 57% of the pulp sold by Ence was used to make **tissue paper**, 17% to make **printing and writing papers**, 25% for **specialty papers** and the remaining 1% for **packaging**.

In 2015, Ence produced 898,166 tonnes of pulp.



The **Navia** plant has produced 469,112 tonnes of ECF (Elemental Chlorine Free) pulp in 2015

The **Pontevedra** plant has produced 429.054 tonnes of TCF (Total Chlorine Free) pulp in 2015.

Wood chipping

The trunks are debarked and chipped for input into the process

Cooking

The wood chips are placed in the digesters along with the white liquor which, after being cooked, results in a raw

Filtering

Physical processes are deployed to eliminate impurities from the pulp

Washing

The pulp is separated from the black liquor

Bleaching

Bleaching agents are added to the pulp derived from the prior stage

Dying

As much water as possible is eliminated using physical processes

Ence produces high-quality pulp at its mills in **Navia** (Asturias) and **Pontevedra**, where it uses environmentally-friendly technology and continuous improvement methodology to reinforce the competitiveness and quality of its pulp. Thanks to this, coupled with an advanced logistics system, it **exports over 96%** of the pulp it makes to Europe, which is home to the most demanding customers in the world.

Ence's sales volume amounted to **885,369 tonnes in 2015, over 80% of which was exported**



R&D

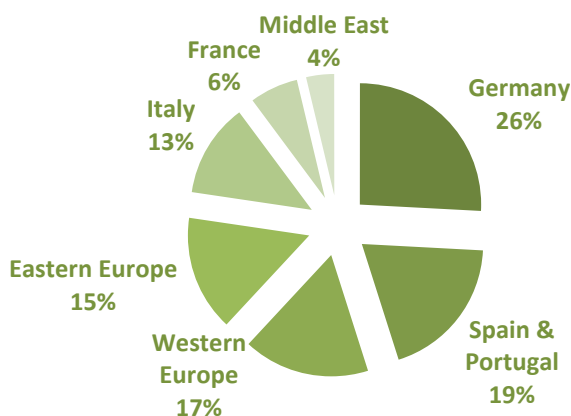


In 2015, Ence launched **two research programmes** in the lignin area. Both projects are aimed at generating a commercial outlet for lignin. Lignin is a polymer found in the cell walls of vegetable organisms whose job is to lend support to the stem. As a result, the more lignin a plant contains, the woodier it is.

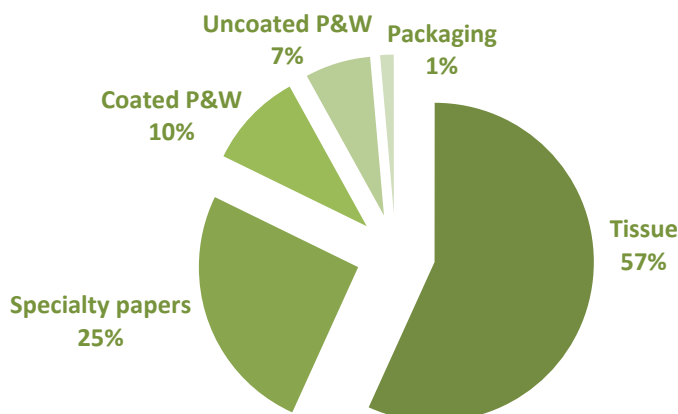
The first project is a **three-year international research study** into functional applications of kraft lignin. The project addresses the production of lignin and its conversion into value-added products such as low-cost carbon nano-fibres, resins and active carbon fibres.

The second project, known as **Ligno-Spread**, covers the conversion of Ence's kraft lignin into renewable chemical precursors capable of generating products that add value along technical, environmental and economic dimensions. This project falls under the "Call to action on climate change and the efficient use of resources and raw materials" project which is part of the Spanish regional research grant initiative, FEDER-INNTERCONNECTA 2015, and is funded by the Spanish Ministry of the Economy and Competitiveness and the European Regional Development Fund. Ence successfully bid for the chance to lead this project as part of a consortium of companies from Galicia, Spain.

Sales mix by geography



Sales mix by segment



In 2015, Ence sold **885,369 tonnes** of pulp, marking a year-on-year decline on account of the discontinuation of pulp production in Huelva. Over 50% of these sales went to Germany, Spain, Portugal and France.

In the wake of discontinuation of pulp production in Huelva, the company is striving to implement a **new sales mix** which will enable it not only to make its sales more profitable but also to reinforce the company's sales strategy, specifically underpinned by:

- **Decommoditisation:** identification of differentiating needs implying greater value-added
- **Reach:** focus on smaller and more profitable customers
- **Customer orientation:** the goal is excellent customer management, engaging and involving the entire organisation in this task

Due to the nature of its business activities, Ence has a valid **environmental management system** through which it identifies potential environmental impacts and mitigating initiatives. Similarly, Ence fosters application of the sector-specific **best available practices (BAT)** in order to make its processes more efficient, reduce the associated economic costs and minimise the potential impact on the environment.

Energy

Ence is Spain's largest producer of renewable energy from biomass. It currently has over 220 MW of installed renewable energy capacity

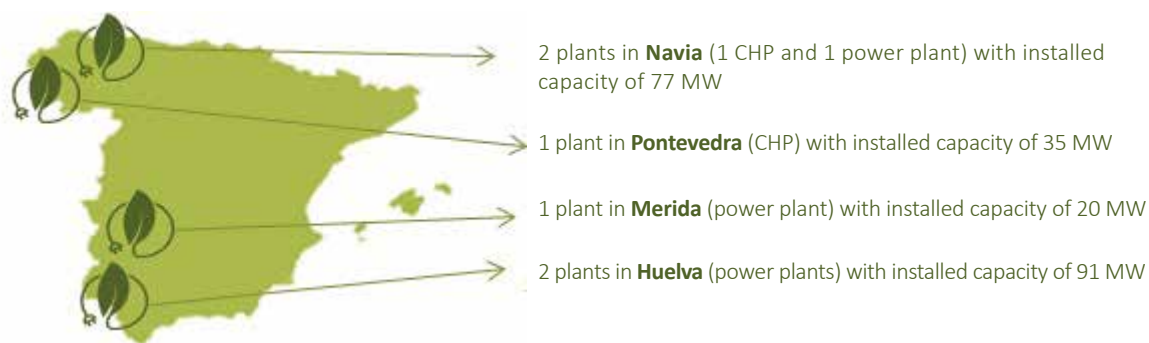
Ence generates power at its **six productive facilities** (two in Navia, two in Huelva, one in Pontevedra and one in Merida). Two of these plants are **biomass cogeneration (CHP) plants** and are integrated into the pulp mills in Navia and Pontevedra; the other four are pure **electricity generation plants** fuelled exclusively by forestry

In 2015, Ence generated 1,422 GWh of renewable energy

and agricultural biomass. The **combined generation of heat and power** is harnessed for the industrial activities carried out by Ence at its operations centres. Any surplus power is sold to the Spanish electricity grid.

In order to generate energy, Ence uses **biomass** from two key sources:

- Wood bark (solid biomass) and forest waste
- The so-called black liquor, a byproduct of the timber cooking processes, is used to recover chemical products that are reused once again in the cooking process



Despite the challenges posed by the recent electricity market reforms in Spain, there is **tremendous scope for the development of biomass renewable energy in Spain**, which is the second-largest country in the European Union in terms of forest land. Forest biomass is the only renewable source of energy which presents a positive economic balance in terms of the benefits generated due to its ability to create jobs, drive the development of rural areas and generate environmental contributions both via carbon capture and the implicated process of caring for and cleaning the woods, reducing the risk of fires by up to 70%.

All of Ence's independent power plants and co-generation plants are registered in the register of so-called special regime power producers regulated by Spanish Royal Decree 661/2007

Energy management

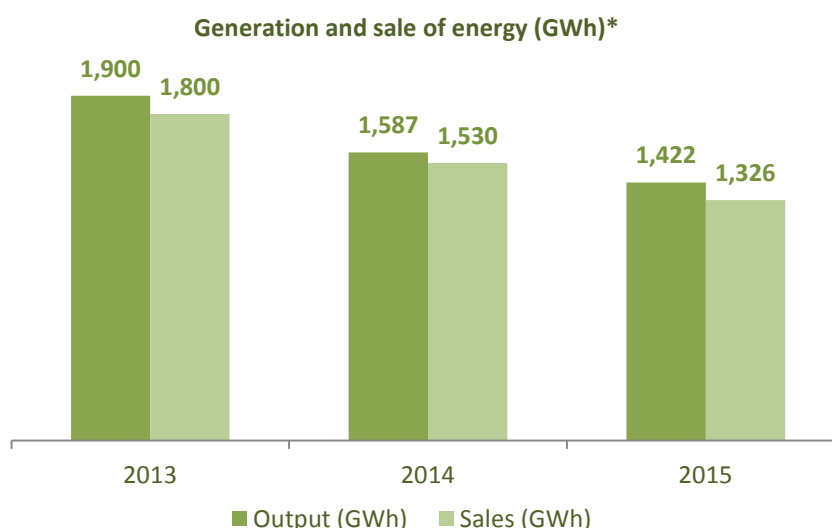
In addition to the generation of electricity, this business unit also handles the management of all the **sector-related tasks**:

- The purchase and sale of electricity (front office, middle office and back office)
- Energy business planning and control
- Plant operations and management
- Monitoring of national and international energy regulations
- Analysis and execution of new projects

Ence participates in the Spanish **daily electricity market** via its own energy control centre. The company does not delegate the related sector processes in third parties but rather manages them directly thanks to a multi-disciplinary in-house team. This team is responsible for presenting daily and intra-day electricity purchase and sale bids to the electricity market operator (OMIE) and for managing dealings with the TSO, Red Eléctrica de España, the anti-trust authority (CNMC), the Ministry of Industry and other sector bodies.

In 2015, Ence produced **1,421 million kWh** of electricity and sold **1,326 million kWh**. These figures are down from the 2014 numbers as a result of the discontinuation of co-generation in Huelva in the wake of the closure of the pulp mill at this complex and the impact of the new remuneration regime in the Spanish electricity sector which limits subsidised remuneration for biomass-generated power to 6,500 equivalent hours a year, obliging the company to pare back output. The impact of these developments was partially mitigated by the impact of the first full year of operations at the Merida power plant, which was commissioned in April 2014.

Thanks to the company's R&D efforts, coupled with the experience gained harnessing biomass, Ence has managed to develop **technology that is 100% 'made in Spain'**, which positions it ideally to expand its biomass power generation business internationally.



Performance in 2015

In 2015, revenue totalled €664 million, down slightly from 2014 as a result of lower sales volumes in the wake of the closure of the company's pulp mill in Huelva. Revenue in the pulp business amounted to €567 million, while revenue in the energy business totalled €97 million.

Adjusted EBITDA came to €200 million. The pulp business generated adjusted EBITDA of €170 million, while the energy business generated €30 million. Note that Ence reported a net profit of €49.9 million in 2015, compared to a loss of €140.9 million in 2014.

Net debt at year-end 2015 stood at €241 million, down 15% from year-end 2014, which translated into a net debt-to-EBITDA (adjusted) leverage ratio of 1.2x.

It is also worth highlighting the fact that the company refinanced the €250 million of bonds issued in 2013 in October 2015, substantially reducing its borrowing costs (the coupon on the new bonds has been reduced to 5.375% per annum) and lengthening its maturity profile (the new bonds are due 2022).

Share price performance

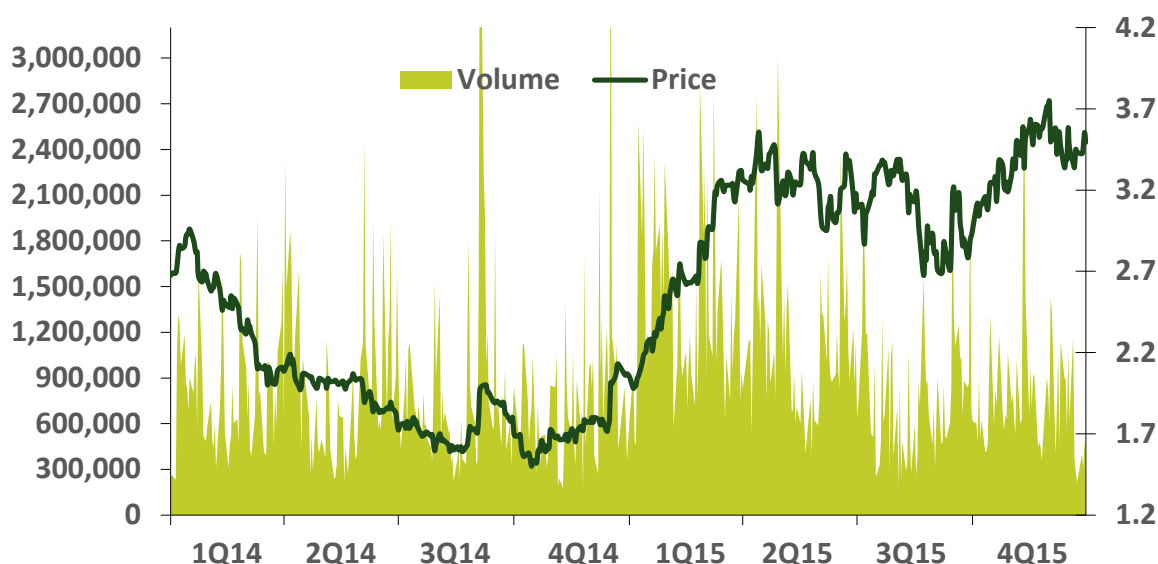
The share price gained a noteworthy 69% in 2015, outperforming the Spanish and European stock markets by 76% and 65%, respectively.

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

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

In addition to its market presence in its capacity as a listed company, in October 2015, Ence issued €250 million of 3.735% bonds due 2022, using the proceeds to buy back the bonds issued in 2013.

Note that Ence may buy back its bonds on the secondary market from time to time. Any such buyback activity would be carried out on the basis of analysis of all relevant factors, including the bonds' quoted price and the Group's liquidity position, and in compliance with all applicable legal requirements.



Source: Thomson Reuters

2015 Annual CSR Report







4 Impact on stakeholders

4 Impact on stakeholders

Embedded into Ence's is an explicit commitment to its various stakeholders, namely the people, groups and institutions affected by the company's activities and which could in turn significantly influence its activities. Accordingly, Ence strives to pursue efficient and satisfactory **relations with these stakeholders**, to which end it establishes a range of communication channels in an attempt to foster the **exchange of information** and provide a basis for a **mutually-beneficial relationship**.



Employees

Ence is committed to its human capital, keenly aware that its professionals constitute a strategic driver of sustainable value creation for the company and its surroundings. Ence fosters safe work practices, autonomy, participation and teamwork with the aim of attracting and retaining talent, sharing and upholding the company's values and achieving employee satisfaction.

At 31 December 2015, Ence had **843 employees**, up 0.6% year-on-year.

Over 17% of its employees are women	76% are aged between 30 and 50	86% enjoy indefinite contracts and 98% work full days	54% of the employees under indefinite contracts are covered by collective bargaining agreements	Absenteeism fell by 0.69 points in 2015 to 3.75%	Employee turnover was 2.61%
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For Ence, human capital management is fundamental to delivery of the company's strategic objectives as it is its people who, with their shared values and skills, work day after day to deliver the best possible results.

The key lines of initiative pursued in the human resources management arena in 2015 were:

- To boost the commitment to people and to Ence
- To accelerate implementation of the total quality management (TQM) model by means of a reinforced on-the-ground presence and participation in this area's daily meetings
- To hone executive and middle management leadership skills via specific training programmes
- To enhance talent management by working consciously to ensure the company attracts, develops and retains the professionals it needs to create a competitive and sustainable advantage

Talent Scholarships

In 2015, Ence rolled out a Talent Scholarships programme with the aim of encouraging career development and job prospects for young people, while facilitating talent selection in parallel, in yet another sign of the company's commitment to its surroundings.

The Talent Scholarship programme is implemented in the company's corporate headquarters in Madrid as well as in the operations centres in Huelva, Navia and Pontevedra. In 2015, 59 interns participated in the programme, discharging responsibilities in different areas of the firm including the corporate finance, communication and internal audit departments, among others.

Diversity and equal opportunities

Ence promotes diversity and equal opportunities and rejects all forms of discrimination, whether on the grounds of race, gender, religion or nationality. This pledge is expressly enshrined in its **Ethics Code** and articulated in its **Equality Plan**. The latter plan promotes effective application of the principle of non-discrimination between men and women, guaranteeing the same job and career development opportunities for both genders at all levels of the organisation. The **remuneration policy** is likewise designed to guarantee non-discrimination in pay, compensating employees competitively based on market criteria. The ratio between the starting salary and the minimum wage stipulated in Spanish legislation is 125%.

Although Ence belongs to a sector in which female representation has traditionally been low, in 2015, 17.7% of the workforce was female.

In addition, as part of its **Harassment Prevention Policy**, Ence has pledged to prevent, avoid, remedy and discipline potential instances of harassment as part of its non-negotiable commitment to guaranteeing the dignity, integrity and non-discriminatory treatment of all employees and equal opportunities for all.

4 Impact on stakeholders



Internal communication and engagement

The exchange of relevant information concerning what is going on at the company between management and the various departments and employee motivation in general are key objectives for Ence. At Ence, internal communication is structured around the following **channels**:

Corporate intranet	The gateway to many corporate applications and a key tool for engaging employees. It is home to all of the information disseminated by Ence to both its external and internal audiences.
Top-down communication	This enables the transfer of know-how to all employees while facilitating the receipt in parallel of input from employees about issues raised. It starts at management and is rolled right across the organisation on a staggered basis in keeping with the organisational structure. This method is used frequently and always in accordance with specifically designed communication campaigns.
Online newsletter	A monthly publication containing news about the company's various business units.
Formal communication	Management uses e-mail to disseminate specific news or memos and to send messages to the organisation. This method of communication is complemented by written communications in the case of employees without daily access to computers.
Informal communication	Ence has placed screens in its offices and in the industrial areas of its operations centres. These screens are used to transmit messages and explanations related to the progress made on the company's projects as well as matters of an operating nature within the industrial complexes. The various departments are also equipped with noticeboards which are used to report on department-specific performance indicators and news.

In order to foster two-way communication across all levels of the organisation, in 2015 Ence introduced **new communication channels**, notable among which the Breakfast with Management sessions (five of which were held in 2015), the organisation of quarterly meetings at the corporate level (two meetings in 2015) and the "Health and safety department wants to hear from you" initiative (this forum met on three occasions).

Another of Ence's priorities is to recognise its employees and their contributions; this effort is articulated around employee recognition events (where employees are officially thanked for their participation in continuous improvement activities) and performance evaluations. Performance evaluations are based on continuous

In 2015, Ence organised 10 employee recognition events and 1,038 people participated in continuous improvement activities

In 2015, 18.7% of Ence's employees participated in the performance evaluation scheme

dialogue regarding objectives, achievements, reinforcements and recognition and analyse not only 'what is achieved' but also 'how it is achieved', 'with which resources' and 'in what situations'. The process is undertaken continuously throughout the year and encompasses all of the organisation's skilled workers and middle management. It is linked to the variable component of the remuneration received by employees entitled to bonuses.

Training and career development

The overriding goal of the professional training programme is to encourage personal and professional development at all levels with a view to improving **employee integration** in the company and employee **commitment to the organisation's strategic goals**. The most noteworthy training initiatives developed by Ence in 2015 were the following:

In 2015, Ence imparted 15,922 hours of training in total; this translates into 19.04 hours of training per employee

Workplace health and safety

Training to promote and embrace **safe work practices** at all levels of the organisation. Note that during the last quarter of 2015, Ence completed definition of its Workplace Health and Safety Training Plans for 2016 and 2017, which will imply a substantial increase in training hours for staff covered by collective bargaining agreements.

The TQM model and management tools

This idea behind this type of training is to **orient management around the customer** with a view to increasing customer satisfaction and delivering **continuous improvement** in operating efficiency and the ability to use the available management tools optimally.

Environmental training

The aim of the environmental training initiatives is to raise employee awareness of the need to care for and **respect the environment** and to **use limited resources responsibly**

Development of leadership skills

Here the aim is to nudge the firm towards a **more participative management style**. Management skills training is targeted at individuals holding key positions, professionals who manage teams and people singled out for career development programmes. In 2015, the company launched a new programme called "**Driving your development**", in which 30 middle and senior managers participated, receiving 641 training hours in total

Language training

Language training is primarily carried out in Spanish and is targeted at newly-hired skilled workers, originating from South America, in Navia and Pontevedra.

Technical and management skills training

The purpose of these courses is to equip workers with process and technology related skills specific to their trade or area of expertise and the knowledge they need to grow in their respective professions (hydraulics and pneumatics, mechanical, instrument, process knowledge and skills, etc.). Among the initiatives carried out in this category in 2015, the technical training plan for **operations and maintenance** and the **Green Belt** training sessions stand out.

In 2015, Ence continued to work to integrate **talent management and retention** into its people management processes with the aim of ensuring that the company attracts, develops and retains the professionals it needs to create and sustain a competitive advantage. Ence structures this effort around the following lines of initiative:

- Establishment of a clear vision of the organisation and the company's key positions
- Identification of key management personnel, their potential successors and up-and-coming talent
- Anticipation of and readiness for upcoming movements and situations
- Identification of potential gaps and implementation of corrective measures as necessary

All of the above is underpinned by two basic people management systems: the Management by Objectives system (the 'what') and the Management by Performance system (the 'how'), in keeping with Ence's corporate culture.

4 Impact on stakeholders

Employee satisfaction

For management it is important to know what Ence's employees think and understand their level of satisfaction at the company in order to design new initiatives and adapt them to their expectations and needs. To this end, Ence regularly conducts **workplace climate surveys** with the goal of measuring the level of employee commitment in each of the company's markets and departments, tracking trends in sentiment and designing action plans on the basis of the feedback received with the aim of boosting employee satisfaction

According to the most recent available results, the highest rated aspects are as follows:

- At the organisational level, the degree of **engagement** and **connection** with the company
- As for Ence's commitment, the **clarity of the organisational structures** and **job responsibilities**, and also employees' assessment of the **resources** available for doing their jobs
- In terms of their immediate bosses, their **management style** in terms of **their ability to communicate and delegate, acknowledgement, accessibility**, etc.

Benefits offered to employees

- Health insurance (the firm pays 50% of the insurance premium)
- Income support equivalent to up to 100% of real salaries (excluding overtime) in the event of temporary disability due to a common illness or accident
- Life and accident insurance (the firm pays 50% of the insurance premium)
- Employee pension plan
- Commissary (financed by the company)
- Factory canteen (subsidised by the company by means of a restaurant card)
- Transportation costs (payment of monthly travel passes)
- Loans for home purchases, home or vehicle repair and emergency situations
- Scholarships for the children of employees pursuing university studies or second-level vocational training
- Bonuses for new children and marriage, help following a demise
- Flexible compensation plan

Labour relations

at Ence, management-employee relations are based on dialogue and joint responsibility, the idea being to foster a labour relations climate that is propitious to working towards efficiency and productivity gains.

The highlights in this arena in 2015:

- Execution of a protocol covering vacancies and temporary workers
- Establishment of monthly meetings with the Works Committee to track human capital related performance indicators
- Execution of the collective bargaining agreement covering office employees in Pontevedra
- Celebration of elections to renew the members of the Pension Plan Oversight Committee

The Employee Relocation Plan implemented by Ence in the wake of discontinuation of pulp production in Huelva yielded good results: 90.52% have been relocated

It is worth highlighting the healthy results of the **Relocation Plan** rolled out by Ence in the wake of discontinuation of pulp production in Huelva and the downsizing of corporate services in Madrid: **135 people** signed up for this plan in search of new job opportunities.

Workplace health and safety

Employee safety and health in the workplace is one of Ence's strategic human resource management priorities. Specifically, Ence seeks to foster cultural change that results in safer operations and processes.

Principles of cultural change at Ence

- Integration of workplace safety into daily activities and all operations under the slogan, "Safety is the top priority", with management palpably committed and leading by example
- Systematic assessment of safety-related risks
- Registration and analysis of all workplace accidents and incidents
- Correction of all unsafe conduct, taking a "zero tolerance" approach
- Selection of safety-certified suppliers and subcontractors and oversight of their compliance with Ence's safety rules
- Incorporation of safety and ergonomics principles at the drawing board phase

The **main accident risks** at Ence are falls (same-level or from a height), collisions with objects and contact with chemical substances. Among the workplace health and safety management tools used by Ence, it is worth highlighting the so-called **Safety Precautions and Observations**, which help standardise attitudes and conduct in respect of occupational safety by identifying safe and unsafe practices, correcting the unsafe ones and communicating them throughout the company, and the **Standard Operating Procedures** which stipulate the correct way of performing tasks and how to prevent errors or unsafe practices. Against this backdrop, the firm performs regular **safety inspections and audits**.

“Zero Target” for accidents across all business activities, including in-house and outsourced staff

In addition, Ence has an **OHSAS 18001-certified Occupational Health and Safety Management System** that enables it to reduce accident rates and increase productivity, comply with health and safety legislation and foster a culture of safety by integrating prevention into the company’s overall system and getting all employees engaged in the quest to continually improve the firm’s health and safety record.

The Joint Health and Safety Service which has taken on the task of **supervising health matters** not only performs medical checks on the basis of specific protocols but also prepares briefing documents which provide additional information on general health considerations in order to promote **healthy lifestyle habits**.

Ence’s goal is to achieve a **zero-accident rate** across all its activities by means of:

- Visible and unwavering commitment on the part of middle management
- The provision of guaranteed safe and healthy conditions for in-house staff, contractors and visitors
- Leadership by example and prioritisation of safety by top management, framed by continuous improvement
- Ongoing training on health and safety and emergency response matters
- Making sure that contractors integrate Ence’s principles into their management systems

In 2015 there were **no lost-time injuries**; there were **19 accidents which did not entail lost time**.

Key initiatives undertaken in 2015

- **Forestry**
 - Health and safety and accident prevention awareness sessions entailing a range of activities in different parts of Spain
 - Ad-hoc meetings with sub-contracted firms and self-employed professionals to overview implementation of the remote control devices
 - Internal audit (Bureau Veritas) to review the Workplace Health and Safety Management System covering the Northern Forestry Area
 - Bi-monthly safety meetings with outsourced logging firms
 - The provision of training on job-related dangers and risk to in-house staff
- **Pulp**
 - The provision of theoretical and practical fire protection training to the entire staff at the Huelva complex
 - Re-certification of the Workplace Health and Safety Management System under the OHSAS 18000 standard
 - Updating of the outsourced firm ranking to factor in workplace safety considerations
- **Energy**
 - External audit (Bureau Veritas) to review the Workplace Health and Safety Management System
 - Regulatory audit (AENOR)
 - Internal audit
 - Serious injury audit (ATISAE)
 - Chemical products structure and storage audit (INERCO)
 - Prize for the best Safety Precaution and Observation of 2015
 - Emergency response training with the help of PREVinsa and the Asturias Fire Department

Strategic partners and suppliers

Ence's commitment to its suppliers translates into close, trust-based and mutually-beneficial relationships and contributes to their development and growth, particularly at the local level

The overriding goal of Ence's supplier management strategy is to build relationships based on **trust** and **transparency**. To this end, it works to establish responsible ties and contribute to a process of mutual development and growth, focusing particularly on local suppliers. Ence performs **regular supplier assessments** as part of its continuous improvement effort. Specifically, it checks that the products and services it buys conform with the agreed technical specifications and contractual terms, respectively. The assessment criteria are underpinned by the criteria around which the ISO and TQM certification systems are articulated.

Ence's goal is to assess 100% of its suppliers on their environmental commitments

As for the timber purchased by Ence, it is important to distinguish between timber **purchased from suppliers** and that purchased from **forest owners and associations**:

Purchases from suppliers

- Ence encourages purchasing from small-scale suppliers.
- Last year, it purchased 64% of its timber from small-scale suppliers (< 3,000 m³ debarked/year).
- In 2015, 85% of the timber purchased by Ence came from Galicia, 12% from Asturias and 3% from Portugal
- Of the firm's 212 timber suppliers, 148 have PEFC chain of custody certification and 124 are FSC-certified.

Purchases from forest owners and associations

- In 2015, Ence purchased timber from a total of 1,198 forest owners.
- On average, it purchased 488 tonnes per owner in 2015.
- Thirty-nine per cent of the timber purchased in 2015 was bought through some form of forest association.

Since 2011, Ence has been fostering **direct timber purchases from forest owners**, articulating its relationship with them around proximity and mutual benefits, to which end it provides them with all the resources it can to enhance the owner's forest management work.

The contracts entered into with timber sellers go beyond the mere acquisition of timber by establishing guidelines for collaborating on issues of structural importance for the **future of the forest sector** such as the planning of forest planting, improved phytosanitary standards, sustainable management of eucalyptus plantations and the injection of greater transparency into the timber market.

This is evident in Ence's efforts to encourage suppliers to adopt **best practices** in planting and obtain sustainable forestry certifications. To this end, Ence provides **training** to forest owners whose land is particularly apt for planting eucalyptus trees. These training initiatives address matters such as where to place the saplings, timber prices, certification issues and the keys to an exemplary plantation. Ence also explains the benefits of the **enhanced *Eucalyptus globulus*** saplings, which are the result of decades of work and selection of the finest specimens by Ence's forest research experts: these enhanced trees grow 30% taller than those planted from eucalyptus seeds, thanks to favourable silviculture and treatments.

In parallel, the direct purchase of timber from suppliers also benefits timber users such as Ence. By eliminating **intermediation costs**, the company and producers can retain the margin that is earmarked to third parties when such a party intermediates between the seller and the buyer.



Customers

Ence strives to maximise its customers' satisfaction across all its lines of business, fostering long-term relations and seeking to become the benchmark supplier in the market

Pulp

Ence is active in the most demanding pulp segments in Europe, a market to which it sent 96% of its production in 2015. This is prompting Ence to gradually adapt to the market paradigm, increasing its presence in the faster-growing segments (tissue paper) and scaling it back in those segments that are in decline.

Energy

In the energy market, Ence has to comply with myriad obligations imposed on electricity sellers under the scope of the Spanish regulatory framework. Ence strives to highlight its virtues to the main electricity sector players by generating ties of cooperation and strategies in areas of shared interest and mutual benefit.

Ence implemented its prevailing **customer relationship system** in 2012; this system enables it to articulate its relationship with its customers and to register potential incidents, categorising them appropriately:

- **Incidents:** Derived from potential breaches of the product or service requirements agreed upon internally by the organisation or directly with the customer that could affect the latter in any way (quality, quantity, price, service, etc.).
- **Complaints:** Derived from customer dissatisfaction with one or more of the requirements stipulated in the service provided or product delivered yet falling short of a breach of terms.
- **Claims:** Deriving from customer dissatisfaction that does potentially imply a breach of terms or related to other aspects of greater gravity such as accidents caused by the product or service supplied, additional costs, returns, etc.

However, Ence's customer relationship system is a **proactive system**, which means that Ence does not wait for a customer to present a claim; rather, its sales managers **visit the company's customers regularly** to track their expectations and satisfaction with respect to the products and services provided by the company.

When handling claims, the final report sent to the customer is articulated around an **8D report** (description of the problem, interim containment plans, analysis of the root causes, corrective action, prevention of system problems and verification work). The level of customer satisfaction is measured by the feedback provided by them. Ence also uses the **voice of customer (VOC) model** to track customer perceptions and expectations with a view to implementing initiatives designed to decommo- ditise its products and increase its market share and reach in Europe. Ence also uses other customer communication channels, including **software applications** designed to facilitate the sharing of specific information, **e-mails** and **conference calls**.

In 2015, Ence conducted 427 customer visits

In 2015, Ence conducted **427 customer visits**; these visits were attended by different people from the various factories, always including someone from the manufacturing, logistics, sales and quality control areas. During these visits, customers are interviewed about six topics (Ence's image, products, sales service, logistics service, technical assistance and their outlook for the future with respect to market aspects).

4 Impact on stakeholders



Environment

Aware of the potential environmental ramifications of its business activities, and by means of application of best available techniques, Ence is striving to become a sector benchmark in environmental management

Sustainable forest management

Ence has positioned itself as the **benchmark Spanish player** in forest sustainability thanks to its strategic focus on three key lines of initiative: **environmental responsibility, management efficiency** and **social commitment**. Ence uses internationally-recognised standards of excellence, such as the FSC (Forest Stewardship Council) and PEFC (Program for the Endorsement of Forest Certification) schemes, in managing its own forest tracts and fosters their adoption in the case of third-party forests. In addition, Ence aims to deliver continuous improvement in its consumption of natural resources and forest management performance. Lastly, Ence works to promote its management criteria and share the know-how acquired in its rural operations by collaborating actively on planning matters, pest control, plant issues and forest certification, among other aspects.

Ence's forest management effort goes beyond environmental sustainability by also fostering the development of local communities, generating jobs and creating value

Ence provides forest owners and administrative staff with free training on best silvicultural practices in order to help guarantee well cared for and healthy plantations

Ence works under the scope of a **Management Plan** centred on rationale use of all the goods and services offered by forest land, meaning not only what they have to offer productively but also their ecological and social values. Under the umbrella of this Plan, Ence prepares Technical Forest Management Plans, Technical Forest Development Plans and Ongoing Forest Inventory Plans. In addition, each management unit has a Planning Project that defines management criteria, objectives and priorities, evaluates alternatives and facilitates decision-making. Combined, these tools enable correct monitoring and control of the various activities, including the controlled use of phytoncides, verification of the health status of the forest tracts, confirmation of protective measures and analysis and cataloguing of each area's singular traits. These initiatives in turn enable the identification and application of corrective and preventative measures.

Pests and pathogens endanger conservation of our forest reserves and undermine productive yields. Depending on the condition in question, annual tree growth can be stunted by as much as 30%, with loss of trees in extreme cases. Against this backdrop, the **phytosanitary effort** is a key management aspect. Ence tackles pest and disease control from an **R&D standpoint**, developing more vigorous and resistant plants and pursuing research agreements and programmes in collaboration with Spanish and international laboratories in an attempt to find the best treatments possible

Noteworthy initiatives

- **Forest planning with the authorities**
 - Collaboration agreements in Asturias and Galicia for the development and coordination of a common health plan to fight the *Gonipterus* beetle
 - Restoration work at the Rubín Marsh in collaboration with FAPAS (the Astur Fund for the Protection of Wild Fauna) and the Banco Santander Foundation
 - Agreement with the regional government of Andalusia for the establishment of forest planning guidelines for Ence's eucalyptus plantations
- **Forest supplies**
 - Launch of (i) the dual FSC + PEFC certification system to promote integrated certification and (ii) the forest owner association payment system to promote joint and orderly forest management
 - Agreement with the regional government of Andalusia for the presentation of a Life project on biodiversity and connectivity



Ence unveils its Rubín Marsh restoration project

On 5 and 6 November 2015, at the Casa de las Mareas within the National Park comprising the Santoña, Victoria and Joyel marshes (Cantabria), Ence participated in a seminar titled "*Looking to the future. Restoration of coastal wetlands, a tool against climate change*".

This initiative is a joint effort by Ence, FAPAS, the coast authorities and the National Park's management, co-financed by the Banco Santander Foundation, with the aim of restoring the Rubín March, part of forest land owned by Ence and in the process of being returned to the government under the terms of the initial concession. This restoration project highlights Ence's commitment to conservation and its absolute openness to actively designing and executing joint projects with the various vested parties.

4 Impact on stakeholders

FOREST CERTIFICATION

In order to make its sustainable forest management strategy as efficient as possible, Ence has an **integrated forest management system** which provides the framework for compliance with the ISO quality and environmental management standards and the PEFC and FSC sustainable forestry and chain of custody standards.

Sustainable forest certification is crucial as responsible management of Spain's forests is vital to securing the forest sector's future

In tandem, Ence encourages the **certification of third-party forest tracts** by means of a broad programme for extending sustainable standards which stipulates the measures needed to give individual owners the tools for managing their forests more sustainably. It also promotes the **creation of certification groups on the part of owners and suppliers** in order to facilitate their access to the FSC and PEFC certification schemes



FSC certification ensures that the forest management unit is being managed in accordance with the scheme's **10 principles** and **56 criteria**. This certification is awarded for a five-year term; however, the certified management systems and on-the-ground results are reviewed in depth annually. The certifying entity evaluates the social, economic and environmental attributes of this forested land area in order to verify its management under sustainable development criteria.

Having successfully broken down the financial and technical barriers which had impeded small owners from accessing FSC certification, Ence's goal is to foster **dual certification of forest tracts** to give owners better access to the markets for certified timber.



The goal of PEFC certification is to ensure that forest land is managed responsibly and that its myriad functions are being protected for present and future generations.

Products originating in forests certified under the PEFC standard guarantee consumers that they are buying goods from sustainably-managed forests, thereby helping to combat **illegal logging** and shoring up the **important functions** performed by forest resources such as their role in maintaining ecosystems and biological diversity and as the source of financial sustenance for many rural populations.

Promotion of dual certification (PEFC+FSC) translates into a higher certification premium for forest owners, endows Ence with greater flexibility in terms of satisfying its customers' requirements (selecting the certification required in accordance with their needs) and guarantees the highest standards of sustainability in third-party forest management. Ence's commitment to forest certification

The reach of Ence's purchasing of certified timber in 2015 is estimated at 7,345 hectares in the case of PEFC and 5,500 hectares in the case of FSC

has translated into growth in the area of forest land managed under sustainability criteria and, by extension, improved management of third-party forests.

Total land area under management (hectares)	PEFC-certified	% PEFC-certified*	FSC-certified	% FSC-certified*
69,869	56,833	82%	38,147	55%

** This percentage is calculated out of the total potentially certifiable area, i.e., excluding the area devoted to energy crops and leased to third parties*

In addition to the progress made on the certification front, the following activities stood out in 2015:

- Ence continues to participate actively in the **FSC Standards Committee**, having organised two seminars for interested parties in Huelva and Madrid in recent months
- Ence is pioneering the introduction of a **due diligence system** in Spain as part of broader timber regulations, having initiated the process of certifying its suppliers in order to reduce the risk of illicitly-sourced timber
- Ence has entered into a collaboration agreement with the **COPADE Foundation** for the development of fair trade policies

PROTECTING NATURE AND AND ITS SPECIES

Over **5,700 hectares** of the forest land managed by Ence qualifies as **high conservation value forest**, presenting one or more of the classification attributes stipulated by the FSC. In addition, another **11,700 hectares** are **official protected nature reserves**, a designation assigned by the various competent Spanish authorities. In the areas and habitats subject to some form of protection requirements, Ence takes action to improve their conservation status and develop preventative measures. Generally speaking, it only intervenes when necessary in an attempt to allow the areas follow their natural course so as to maintain their ecological functions and preserve their forest structure and diversity. **Routine monitoring** is carried out annually. Every five years their classification, ecological functions and state of conservation and any change therein are reviewed in greater depth.

With the aim of preventing the isolation of these areas of natural vegetation, Ence takes action to connect them with other protected and non-protected forest areas, whenever feasible, in order to enhance one of the functions of these areas, namely the provision of shelter and safe passage for their fauna, acting as **wildlife corridors**.

The Integrated Management System includes **specific instructions and recommendations** for management of protected species articulated around systematic identification and monitoring activities, factoring in distinct characteristics related to their nutrition, reproductive cycle and habitats.

Legal framework

The protected species inventoried by Ence are those covered by the following pieces of legislation:

- Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora (Annexes II, IV and V) (the Habitats Directive)
- The Spanish Catalogue of Threatened Species (CEEAA)
- List of Wild Species subject to the Special Protection Regime (LESRPE)
- Regional catalogues of threatened species
- The Spanish Red List of Vascular Flora
- Directive 2009/147/EC on the conservation of wild birds

Managed forests: unique environmental values

In 2015, Ence identified all the unique values present in its managed forests, taking a specific management approach and validating them all by means of audit processes. In all, it identified 118 environmental values, 9 social values and 230 cultural values. Between 2015 and 2016, the plan is to re-catalogue these unique values using new environmental and social criteria. The main values identified are:

- Protected flora species present in the forests managed by the company numbering 14; they have been identified visually in specific reports
- The forests containing protected flora species number 61 out of a total of 228 on which floral studies have been performed
- Some 252 forests have been certified under the FSC scheme and 343 under the PEFC scheme
- Thirty-five Sites of Community Importance have been identified in the forests managed by Ence

4 Impact on stakeholders

TRACEABILITY

As Ence does not obtain all of its timber from directly-managed forest land, supplying its factories also with timber purchased from third parties, the **traceability of the wood it buys** is another core component of Ence's forest management work.

Ence has established a **timber supplier evaluation system**, by means of which it analyses various aspects of their activities (origin, government permits, etc.). These suppliers are subject to a **programme of periodic audits** designed to guarantee compliance with the stipulated criteria. Ence also has a **traceability regime**, which encompasses the suppliers evaluated, based on a system of delivery notes, which ensures that all of the timber purchased by Ence is duly identified and accompanied by information regarding its origin, volume and forest management certification, if the supplier is certified.

Management of the environmental impacts of the pulp production process

The potential impacts deriving from the manufacture of pulp are associated with the consumption of natural resources (raw materials, energy and water) and the generation of waste (in solid, liquid or gas form). To minimise these impacts and become the sector benchmark in terms of its environmental performance, Ence has set itself the following **targets** and established the corresponding mitigating initiatives:

- Reducing odour pollution
- Improving the quality of wastewater
- Reducing air pollution
- Reducing noise pollution
- Cutting waste generation

In order to monitor and control all relevant environmental aspects, Ence has an integrated environmental management system which has been certified by an accredited organisation which conducts annual audits to verify ongoing compliance with the criteria required under the UNE-EN-ISO 9001:2008 quality management standard, the UNE-EN-ISO 14001:2004 environmental management standard and the OHSAS 18001:2007 occupational health and safety standard. Ence's operations centres also participate in the Community eco-management and audit scheme (EMAS) governed by Regulation (EC) No. 1221/2009 and possess the corresponding integrated environmental permits, which encompass the various authorisations with respect to emissions, liquid discharges, waste management and soil and underground water protection.



MATERIAL CONSUMPTION AND WASTE MANAGEMENT

Ence uses a series of raw materials and auxiliary products in its pulp production process. The main raw material is **timber**, generally made up of cellulose (50%), lignin (25%) and hemicellulose (25%); it also contains resins, fats, waxes and other substances in small quantities. The other relevant materials used in the manufacturing process on account of the volumes consumed are the various **chemical products** adding during the various steps of the productive process in order to separate and treat the cellulose fibres contained in the timber and to treat the waste generated in the process.

Responsible use of chemical products and chlorine-free bleaching

Pursuant to Regulation (EC) No. 1907/2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (**REACH**), Ence checks that the chemical products it uses comply with this regulation before using them. To this end, Ence has registered the following products: calcium oxide, calcium carbonate, chlorine dioxide, white, green and black liquors, ashes (generated in the biomass furnace) and dregs (inert elements derived from clarification of the green liquor). Moreover, all the requirements stipulated in the REACH Regulation have been incorporated into the integrated management system.

Ence also participates actively in **registered substance consortia** in order to update the registry in the event of changes in their composition or new identified uses. Despite the fact that pulp does not need to be registered as it is made from natural substances that are not chemically altered or classified as hazardous, REACH does require information tracking the use given by customers to the registered substances present in the end product.

Ence similarly requires that its chemical substance **suppliers** have their products registered for their specific use in the pulp production process, have the pertinent dossiers for all the substances they sell and keep their products correctly labelled in accordance with prevailing European legislation.

Beyond the responsible use of chemical products, Ence is strategically committed to **chlorine-free bleaching** at its factories, using the elemental chlorine free (ECF) process in which elemental chlorine replaces chlorine dioxide to prevent dioxin contamination. And at the Pontevedra mill, the company uses the totally chlorine-free (TCF) bleaching process which does away with chlorine compounds, using hydrogen peroxide as the bleaching agent instead. Elsewhere, some of the best available techniques (BATs) applied, such as oxygen delignification and modified cooking to a low kappa value, significantly reduce the use of bleaching agents.

The pulp production process generates, above all, **dregs** (inert elements derived from the green liquor clarification process), **ashes** in the biomass furnace and **bioslurry** at the wastewater treatment facility. Ence minimises the generation of waste throughout the entire productive process by using sub-products, such as biomass, to harness its energy value. The dregs and ashes are collected and managed by authorised waste handlers and are used to produce cement and soil improvers (used in land recovery projects). Bioslurry is burnt in the biomass furnace to harness its energy value.

At its factories, Ence sorts its non-hazardous waste (solid urban waste, paper and board, glass, scrap, wire) to facilitate recycling. Its hazardous waste (used oils, used batteries and empty packaging, among others) are collected and managed by authorised carriers and handlers.

As for the **packaging** the company places on the market, Ence wraps the pulp it sells using a grade of paper which customers can incorporate directly into the paper production process along with the pulp, thereby reducing the volume of waste generated as a result of consumption of Ence's products.

4 Impact on stakeholders

ENERGY USAGE AND AIR POLLUTION

The consumption of energy, in the form of fuel and electricity, is another crucial aspect of Ence's environmental management effort. **Fuel-oil** is the fuel used most extensively in the productive process, being the main source of power for the ovens and furnaces (natural gas is only used in the co-generation plants).

Ence has been a signatory of the 'Carbon Price Communiqué' since 2012

Thanks to the implementation of **dry debarking** and the **concentration of solids** in the black liquor, Ence has managed to increase the amount of energy harnessed from the biomass obtained from the production of pulp.

The key sources of emissions (the recovery furnace and lime furnaces, among others) are equipped with **automatic metering systems**, which are connected up to a control system which is then used to track and manage the indicators measured. In this manner, the company checks that the emission limits stipulated in each factory's environmental permit are not exceeded.

In addition to these control systems and the initiatives taken to make its processes more energy efficient, Ence has taken specific measures to reduce its emissions, such as the installation of **electrostatic precipitators and scrubbers** (filtering systems).

	PONTEVEDRA			NAVIA		
	2015	BREF	AAI	2015	BREF	AAI
RECOVERY BOILER						
Particles (mg/Nm ³)	19	10-40	150	24	10-40	50
SO ₂ (mg/m ³)	24	5-50	200	15	5-25	200
TRS (mg/Nm ³)	3	1-5	-	-	1-5	-
SH ₂ (mg/Nm ³)	2	-	5	1	-	7.5
NO _x (mg/Nm ³)	188	120-200	260	192	120-200	300
LIME FURNACES						
Particles (mg/Nm ³)	9	10-30	50	27	10-30	50
SO ₂ (mg/m ³)	10	5-70	300	43	5-70	1200
TRS (mg/Nm ³)	2	1-10	-	-	1-10	-
SH ₂ (mg/Nm ³)	2	-	5	2	-	7.5
NO _x (mg/Nm ³)	167	100-200	380	315	100-350	600

	PONTEVEDRA			NAVIA			HUELVA 40MW			HUELVA 50MW			MERIDA		
	2015	BREF	AAI	2015	BREF	AAI	2015	RD815/2013	AAI	2015	RD815/2013	AAI	2015	RD815/2013	AAI
BIOMASS FURNACE															
Particles (mg/Nm ³)	25	-	100	25	30	50	64	30	100	3	20	30	6	30	50
SO ₂ (mg/m ³)	219	-	1700	40	200	200	2	200	300	10	200	200	13	200	200
NO _x (mg/Nm ³)	426	-	600	177	300	300	103	300	600	150	250	300	226	300	400
CO (ppm)	89	-	616	-	-	-	-	-	-	-	-	-	-	-	-

Emission levels at Ence's operations centres are within the **limits established in their corresponding environmental permits** and within the benchmark ranges stipulated in the sector's Best Available Techniques Reference Document (**BREF**), which will be mandatory from 2018.

At the **Pontevedra** operations centre, all of the initiatives contemplated in the Environmental Reliability Plan, focused on the prevention of air emissions from the recovery furnace in the event of incidents, have been completed. A plan is being executed at the **Navia** operations centre to reduce emissions from the biomass furnace. Availability of the electro-filters has been improved and work has been undertaken to improve the distribution and control of oxygen.

WATER CONSUMPTION AND LIQUID DISCHARGES

Water is another important input. The **water** used at its operations centres is **taken from surface sources**, the requirements for which are established in the corresponding environmental permits.

Throughout the entire process, Ence strives to implement measures designed to foster **efficient water consumption** as well as its **reuse**, for example by means of dry debarking and condensate stripping. The use of water in the productive process results in the **generation of discharges**, mainly as a result of the pulp cooking, washing, bleaching and drying processes.

These liquid effluents are characterised by their **suspended solids** (mainly cellulose fibre) and the associated **organic load**. The main **parameters analysed** in this respect are suspended solids, wastewater pH, biological oxygen demand (BOD), chemical oxygen demand (COD), total organic carbon (TOC), the nitrogen content in its various forms and phosphorus.

Applying the principle of **prevention before correction**, Ence controls its processes in order to minimise wastewater volumes and enhance their quality to the extent possible, at all times complying with the requirements stipulated in the corresponding discharge permits.

	PONTEVEDRA			NAVIA			HUELVA			MERIDA		
	2015	BREF	AAI	2015	BREF	AAI	2015	Draft of the BREF	AAI	2015	Draft of the BREF	AAI
Volume discharged (m ³ /ADt)	30.8	25-50	37	34.4	25-50	45	232			-	-	-
Suspended solids (kg/ADt)	0.52	0.3-1.5	1.8	1.15	0.3-1.5	2	13 (mg/l)	5-30	150	9.6 (mg/l)	5-30	20
COD (kg/ADt)	4.45	7-20	7	4.9	7-20	15	15 (mg/l)	30-150	-	-	-	-
BOD (mg/l)	9	25	48	24	25	100	-			<5 (mg/l)		10
AOX (kg/ADt)	<0.0003	0.2	0.02	0.06	0.2	0.2	0.08 (mg/l)		8.7	-	-	-
Total nitrogen (kg/ADt)	0.21	0.05-0.25	0.65	0.11	0.05-0.25	s/e	1.83 (mg/l)	1-50	8	<5 (mg/l)	1-50	25
Total phosphorous (kg/ADt)	0.012	0.02-0.11	0.09	0.035	0.02-0.11	s/e	0.53 (mg/l)		4	0.39 (mg/l)		3
TOC (mg/l)	-	-	-	-	-	-	4		150	-	-	-
pH	-	-	-	-	-	-	-	-	-	7.7		6-9
Conductivity	-	-	-	-	-	-	-	-	-	1101		1200
Chlorides (mg/l)	-	-	-	-	-	-	-	-	-	152	500-1000	200
Sulphates (mg/l)	-	-	-	-	-	-	-	-	-	233	300-1500	300
Nitrates (mg/l)	-	-	-	-	-	-	-	-	-	11.22		25

The discharge readings obtained at all the operations centres not only comply with the **limits established in the corresponding integrated environmental permits (IEPs)**, but also **outperform the values stipulated in the sector's Best Available Techniques Reference Document (BREF)**, despite the fact **that these are not mandatory until 2018**.

ODOUR AND NOISE

Ence views odour generation as another of the significant environmental impacts of its business operations and, with a view to reducing odour, measured in minutes, at diffuse sources, is currently executing a project for the expansion of the specific facility for the treatment of diluted odorous gases at the Navia operations centre. This project will enable **gas to be captured at 13 new points**, notable among which the scrubber extractor fans and weak black liquor tanks. The new facility is expected to be commissioned in 2016. In addition, in order to enhance control, the company has installed **continuous TRS monitors** (incoming and outgoing) to detect incidents.

Ence is working towards a 'ZERO ODOUR' target

The **Pontevedra** operations centre registered record-low odour emissions in 2015 (measured in minutes). Emissions at stationary sources declined by 50% from 2014, while emissions from diffuse sources were down 70%. At the **Navia** operations centre, source emissions fell by 94% from 2014 (in minutes).

4 Impact on stakeholders

As for the company's efforts to minimise the noise made by its facilities, the **Navia** operations centre has drawn up an **action plan** in order to reduce sound emissions in the perimeter of the factory to 55 dBA. This plan is based on sound-proofing the continuous digester pipes, installing silencers in the vapour vents, sound-proofing equipment in the timber area (drum discharge, chipper, table and conveyor power sources), sound-proofing the cooling tower, evaporators and biomass shredder ventilators, among other sound-proofing measures. An acoustics study has also been carried out at the Merida operations centre with a view to identifying the main sources of noise emissions at this facility. Having so identified these sources, a report was sent to SENER in order to establish corrective measures to guarantee compliance with regulatory noise thresholds. These actions have already been defined and consist of screening the furnace and cooling towers and work is underway.

In 2015, noise emissions were within the thresholds **stipulated in the IEPs** at the company's operations centres other than Merida, where they were slightly higher.

	PONTEVEDRA		NAVIA		HUELVA		MERIDA	
	2015	AAI	2015	AAI	2015	AAI	2015	AAI
Day	62.1	70	61.7	65	68	75	66.4	65
Afternoon	61.1	70	-	-	-	-	-	-
Night	57	60	60.1	55	59.7	70	57	55



Production of power from renewable sources

Ence is spearheading a global endeavour in the production of power from biomass thanks to the company's efforts on the R&D front and the experience gained harnessing biomass, developing **technology that is 100% 'made in Spain'** in the process. Ence plans to gradually increase its renewable energy production capacity in Spain and abroad in the years to come, **mitigating the environmental impacts** associated with power production as well as the impact on its earnings of pulp and paper sector cyclicity.

There is **tremendous scope for the development** of biomass renewable energy in Spain, the second largest nation in the European Union in terms of forest area. In fact, it is the only renewable source of energy which presents a positive economic balance on account of the benefits generated in terms of **job creation, the development of rural areas** and **environmental contributions** via both carbon capture and the implicated process of caring for and cleaning up the woods, reducing the risk of fires by up to 70%.

It is, moreover, the most stable and only manageable source of renewable energy as it does not depend on unpredictable variables such as sunlight, wind conditions or the availability of certain agricultural waste. Biomass has a role to play in gradually **substituting national coal**, creating jobs in the vicinity of affected coalfields, in light of the proximity of these areas to forests with the potential to generate biomass.

Key environmental advantages

- **Compliance with internationally-stipulated renewable energy targets:** The use of biomass as an energy fuel could cover a significant portion of Spain's commitment to the European Union regarding the percentage of renewable sources in its overall mix.
- **Large-scale carbon capture:** Biomass presents a positive net carbon capture balance (it emits less carbon than is captured). The carbon capture process is particularly efficient in forest energy crops.
- **Reduction of fires and reforestation:** Sustainable forest management, specifically the work related to the gathering and cleaning up of the biomass that builds up in forests, implies three major environmental benefits:
 - Reduced risk of fires
 - Enhanced use of forest space
 - Support for the natural regeneration of forest cover (reduced risk of pests and better tree quality)
- **Reuse of forest, agricultural and industrial waste:** Reutilisation of this waste implies less uncontrolled burning of agricultural waste, reduced visual contamination, waste recovery, reduced manufacturing costs and scope for monetisation, among other benefits.

Key socio-economic advantages

- **Job creation:** Delivery of the 2020 Renewable Energy Plan in terms of expansion of installed biomass recovery capacity is expected to create an estimated 15,000 new jobs (direct and indirect) in rural areas
- **Source of revenue and savings for the tax authorities:** Delivery of the 2020 Renewable Energy Plan is expected to generate €671 million in new annual tax revenue and savings.
- **Investment in rural regions:** Delivery of the 2020 Renewable Energy Plan is expected to spark investment of €3 billion in rural areas, primarily accruing to local suppliers.
- **Economic development in rural areas:** Delivery of the 2020 Renewable Energy Plan will make valuable use of unprofitable agricultural land which does not compete with other crops, providing the rural sector with fresh alternatives for viable and sustainable crops.

All of these advantages are multiplied thanks to Ence's commitment to **generating value** in its business markets by means of close collaboration with forest producers, **growth of the business** and the associated **investment wherewithal**, the **research effort** ongoing to make this business increasingly efficient and **mitigation of its environmental impacts**, while also **reducing Spain's dependence on energy imports**.

Society

Monitoring, listening to and acting in response to the concerns of third parties with respect to the company's business activities are priorities at Ence

Ence's ties with society are primarily articulated around its relationship with the **residents** of the communities in which it does business, but also its engagement with the **media** and its philanthropic work with **non-governmental organisation** (NGOs). Ence works proactively to create a solid bond with the stakeholders affected directly or indirectly by its business operations, one that is based on mutual trust.

In addition, this **two-way and proactive relationship** provides Ence with feedback about its business environment which it can then leverage to do things better and generate ties of cooperation that lead to the development of actions and strategies of **common interest and mutual benefit**, at all times underpinned by the utmost transparency in terms of information sharing and accountability

Key initiatives undertaken

- **Society**
 - Factory visits and presentation of the facilities to students, neighbourhood associations, job seekers in training, etc.
 - Dispatch of memos directly to residents living in the immediate vicinity of the factories warning them about operating aspects that could affect them (noise and dust).
 - Development of initiatives designed to boost the job prospects of local residents vis-a-vis Ence and its subcontractors
 - Regular meetings with neighbourhood associations and their leaders organised by each operations centre.
 - Sponsorship/patronage of community initiatives in the surroundings of the factories, scholarship programmes, research agreements with local universities.
 - Development of specific procedures for attending to calls from residents living in the vicinity of the company's factories.
 - Execution of projects in collaboration with government authorities and local bodies.
 - Working sessions with special interest groups in order to exchange information about topics of interest.
 - Permanent presence in the main social networks (Twitter, LinkedIn, Facebook, Youtube).
 - Participation in radio chats and/or programmes organised by the media to debate and resolve public questions and/or concerns.
- **Journalist community**
 - Ongoing distribution of information to the media.
 - Ongoing and ad-hoc provision of the information requested by the media.
 - Open media access to the company's facilities and its most important events (AGM).
 - Media presentations covering the main upgrade work planned for the Pontevedra complex.

Ence is collaborating with a local research team on a project investigating the use of seaweed to make paper

As for its responsible communication practices, in 2015, Ence helped to prepare the report on the **Economic Impact of Ence's Forestry Activity in Galicia** via Ence's Chair at Vigo University. The report analysed over 250,000 commercial transactions to determine the real impact of Ence forestry activity in Galicia

In 2015, Ence prepared six letters addressed to the general public informing residents about improvements introduced at the firm and providing salient information

The report shows that Ence purchases over €122 million of forest products and services in Galicia each year. This figure includes timber purchases and of products and services related with its forestry management work, which represent around €25 million per annum.

The analysis performed by the researchers at Vigo University leads to the conclusion that in silvicultural work alone, the company's annual demand for timber generates close to 178.000 day's wages in forestry each year. Moreover, the paper sub-sector, in which Ence commands a weight of over 90%, is the chain in the forest-timber value chain in Galicia that presents the highest productivity level per hour worked, outperforming the furniture sub-sector and other timber manufacturing industries by 75% in this respect.

Ence carries out forestry activities in 186 municipalities in Galicia, 59% of the region's total. During the period analysed, Ence purchased timber in virtually all of the municipalities in the province of La Coruña, in 88.71% of those in the province of Pontevedra, in 52.2% in the town councils of Lugo and just over 4% in the case of Orense.



Shareholders

Ence is considered the sector player with the best IR effort by the financial journal *Institutional Investor*

Ence has a dedicated **Investor Relations department** whose main remit is to facilitate communication and foster ongoing contact with the company's shareholder base and the broader investment community. This department's job is to keep all the financial market participants up to speed with the company's strategy, business results and earnings, as well as its key developments and corporate transactions. Ence strives for simple and effective communication and is committed to ensuring the **credibility** and **transparency** of its disclosures.

Ence bases its relations with its existing and potential shareholders and investors on the search for and development of a dynamic approach, striving to stray ahead of events and fostering smooth and transparent communication

Framed by this philosophy, Ence's objective is to intensify contact with research analysts, shareholders, investors and rating agencies in order to maximise its visibility in the investment community, ensure the utmost transparency and, ultimately, help maximise the company's valuation. To this end, Ence pledges to pursue a proactive communication strategy and provide transparency-driven disclosures, while complying stringently with applicable regulations.

Along these lines, Ence continues to make progress on its commitment to offering analysts and investors the information they need to study the company in depth, providing comprehensive content and fostering dialogue in the process. In 2015, Ence placed the spotlight on communication with the analyst and investor communities by means of:

- **Five roadshows** in four cities (London, Madrid, Frankfurt and Dusseldorf)
- Attendance at **12 equity and fixed-income conferences** in six cities (London, Geneva, Paris, Bologna, Madrid and Frankfurt)
- Organisation of an **Investor Day** in Spain, which included a visit around the Navia complex.
- Meetings with the **rating agencies** - S&P and Moody's- to review the company's financial situation with the aim of having its credit ratings upgraded; as a result, these agencies' outlook for Ence's ratings was changed from negative to stable
- Management of information requests through the **IR inbox**.

The **communication channels** oriented most particularly at investors are the corporate website (www.ence.es), the IR e-mail inbox, the information filed with the CNMV and the company's social network accounts (LinkedIn, Twitter, Facebook and Youtube).

Ence, sector leader in IR

In 2015, and for the fourth year in a row, Ence was named the **best European IR Company** in its sector among 30 contenders by the prestigious financial journal *Institutional Investor*. Some 1,107 sell-side analysts and 763 buy-side analysts participated in the *Institutional Investor study*, confirming Ence as the undisputed IR leader in the paper and packaging category since 2012. The 2015 edition of the Best IR Companies by *Institutional Investor* also distinguished the company's IR Director, Rafael Rico, who ranked first in the sector in the opinion of the financial analysts surveyed.

Government and regulators

Ence collaborates with all levels of government and the regulators with the aim of improving and developing new projects within the realm of its activities and, ultimately, enhancing the quality of living and social, economic and environmental well-being in Ence's surroundings and communities

Ence is in **direct contact** with its **key government stakeholders** (the Spanish Ministry of Industry, the General Directorate of Energy Policy and Mining, various regional and local governments and the energy sector watchdog (CNE), among others) in order to keep them abreast of the company's activities and its positive and potentially negative impacts.

Ence views its ability to deal sincerely with the public institutions in the various places in which it is present as one of its hallmarks. We contribute to the shared goal of improving the quality of living and social, environmental and economic aspirations of the society that hosts us and of which we are part by means of compliance with our tax and workplace health and safety obligations, etc. Ence constantly shows signs of its willingness to collaborate and predisposition towards agreement and commits to the various institutional structures that allow it to channel this philosophy.

In terms of harnessing the energy in biomass, Ence's public relations effort is aimed at accurately representing the **significant benefits** the recovery of biomass can offer society and at raising **proposals** for the promotion of biomass as a source of energy as a means to improving the well-being, in socio-economic terms, of the populations living in the regions in which Ence operates. It is a member of various **associations** such as ACOGEN, APPA and ASPAPEL, in which it participates actively in activities in support of the generation of power from biomass.

In the forestry management arena, Ence continues to collaborate actively on the process of **modifying and adapting existing regulations to factor in sustainable management criteria**. In the case of the **FSC scheme**, Ence formed part of a taskforce set up to adapt **Spanish regulations to the management reality** of small and large forest owners alike. This work was conducted with social agents (universities and owner associations), economic players (certifiers and consultants), with the support of environmental NGOs, and, naturally, with the backing and knowledge of the FSC. The recently completed assignment consisted of adapting the Spanish standard to the **new international benchmark** by means of participation in the **Expert Committee** set up to this end. As for the **PEFC scheme**, Ence participated in the so-called **CTN-162**, the Standardisation Expert Committee tasked with developing the voluntary regulations related with sustainable forest management in respect of forest classification, indicator elaboration, management unit definition and unregulated training aspects. In addition, Ence worked with the FSC, PEFC and competent authorities at the regional, national and European levels to clarify the framework for implementation in Spain of the **European due diligence regulation with respect to the legal origin of timber (EUTR)**, which took effect in 2013. Ence's role consisted of, on the basis of consultation, preparing proposals for the design of a simple and clear regime for ensuring **the licit origin of all the timber** sold in its areas of influence.

In terms of pulp production, the various operations centres receive **periodic inspections** from the authorities to ensure compliance with the guidelines and directives, mainly environmental, stipulated in prevailing legislation



Key initiatives with public authorities and institutions

- Collaboration work with the regional governments of Galicia and Asturias for the development and coordination of a common health plan to fight the Gonipterus beetle.
- Review with these same regional administrations and with the Hydrographic Confederation of Cantabria of existing bureaucracy with a view to making it easier to recover forest waste.
- The promotion and development of eucalyptus forest owner associations (cotos redondos) in Galicia.
- Review of the regional government of Galicia's Forestry Plan
- Participation in community initiatives such as the 10k Marín Gran Prix, sponsorship of the Marín Ence Peixe Galego basketball team, etc.
- Joint collaboration with Fundación Empresa-Universidad Gallega for the launch of Ence's 2016 Talent Programme under which 28 recent graduates from Galician universities will intern at Ence for one year.
- The launch, together with the University of Oviedo, of Ence's Asturias Talent Programme, under which 17 youths from this region will intern at Ence's Navia complex for one year.
- The donation of pulp to the Centro de Investigacións Forestais de Lourizán, a research centre run by the regional government of Galicia, for use in research projects.
- Presentation of the Report on the Economic Impact of Ence's Forestry Activity in Galicia compiled by Ence's Chair at Vigo University.
- Factory visit for the Galician chapter of the Círculo de Empresarios business owner association.
- Decision on the Ence Pontevedra scholarships for post-graduate studies.





5 About this report

Scope

The information included in this Annual Corporate Social Responsibility Report for 2015 encompasses all of the activities performed by the Ence Energía y Celulosa S.A. Group between 1 January and 31 December 2015.

Moreover, it addresses the company's financial and non-financial performance in its capacity as a firm specialised in sustainable forest management, pulp production and the generation of power from biomass.

Underlying standards

Ence's 2015 Corporate Social Responsibility Report was developed on the basis of the guidelines established in version G4 of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines.

The balanced and reasonable depiction of Ence's performance in 2015 required application of the following principles:

- The principles for determining the content of the report in terms of stakeholder inclusiveness, the sustainability context and completeness.
- The principles for determining the quality of the report in terms of balance, comparability, accuracy, timeliness, clarity and reliability.





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Corporate Social Responsibility Policy

1.- Foreword

Ence is a benchmark player in the eucalyptus pulp market and biomass renewable power segment. Its business operations are underpinned by responsible end-to-end management of timber resources, respect for the environment and its sustainability and a commitment to respect people, their safety and their development.

In keeping with the above, in recent years, Ence has been systematically deploying initiatives designed to orient its business activities around the principles of economic, environmental, labour and social sustainability, framed by a desire to stay close to its communities, their problems and their development and to improve the well-being of the people who live in them.

All of these initiatives are covered in the Sustainability Reports which Ence has been preparing regularly and the Code of Conduct which defines the ethical foundations of its conduct, necessary to creating a solid corporate culture with which all of its stakeholders can identify and building the company's reputation.

2.- Purpose

Spanish Law 31/2014 (of 3 December 2014), amending the Corporate Enterprises Act in order to strengthen corporate governance, placed the spotlight on all of these aspects, to the extent of requiring Spain's listed companies to develop a dedicated corporate social responsibility policy which, as stipulated in article 529.ter.1.a), must be approved specifically at the board level, a duty that cannot be delegated.

Against this backdrop, Ence's Board of Directors ratified this corporate social responsibility policy and agreed to oversee its implementation and enforcement with a view to helping to improve individual well-being, boost the economic and social development of the communities in which it is present and create sustainable value for its shareholders and investors, employees, forest owners, customers, suppliers, influencers, communities and surroundings.

This corporate social responsibility policy cannot be viewed separately from the rest of rules and regulations comprising Ence's governance regime; it is best embodied in the Code of Conduct, which establishes the principles and values that must guide the conduct of all of the professionals working at the company in dealing with each other and engaging with external stakeholders.



The Code of Conduct includes a chapter about financial reporting transparency and disclosure integrity which specifically mentions the company's accounting and financial reporting obligations and states that the professionals who work at Ence are required to provide comprehensive, transparent, comprehensible and accurate information such that its stakeholders can take independent and informed decisions when deciding whether to establish relations with the company.

Ence has a disciplinary regime which penalises any conduct that violates the law or breaches the principles enshrined in the Code of Conduct.

3.- Corporate strategy

Ence articulates its business strategy around sustainability. Ence has embedded economic, social and environmental sustainability criteria into its forestry, manufacturing and power generation businesses and into its management model; these criteria are designed to ensure an orientation around results, mutually-beneficial relations with suppliers, forest owners, customers and other stakeholders and due management of the company's environmental impacts.

Ence's mission is to be a benchmark producer of eucalyptus pulp and a leading biomass power generator, underpinned by responsible end-to-end management of timber resources. To this end, Ence is strategically committed to continuous improvement as the means to efficiency and competitiveness gains, coupled with a commitment to respect for people- and their safety and development- and environmental protection.

Ence strives, through this efficiency and competitiveness, to offer products and services that satisfy its customers' needs, develop a strong and environmentally-friendly forestry sector and grow in biomass-fuelled renewable power.

Ence's vision is to be a world leader in the end-to-end and sustainable exploitation of the tree and agricultural biomass.

The company's corporate strategy drivers are related to efficient productive processes, sales diversification, growth in the generation of power fuelled by agricultural and forestry biomass and maintenance of a solid and robust financial structure.

4.- General principles

To attain its mission and see its vision materialise, Ence articulates its activities around the following principles, which form the framework which guides and regulates how the organisation works:

- Commitment to and respect for the law and Ence's business ethics: we are duty-bound to comply with, respect and apply the law and our in-house rules and regulations in the course of discharging the responsibilities assigned to each one of us.

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- Commitment to people: we respect and listen to people, we acknowledge and value their work and contributions and we prioritise their safety and professional and personal development.
- Commitment to our external and internal customers: we listen to our customers, we work to satisfy our customers, we are consistent, we are good for our word and we honour our commitments.
- Commitment to institutions: we collaborate with the various institutions in the places where we have an industrial presence and we contribute to the shared goal of improving the well-being of the society which hosts us and of which we are part.
- Commitment to the environment: we strive to ensure that all of our operations are economically, environmentally and socially sustainable by means of responsible and sustainable management.
- Commitment to improvement: we are professionals, non-conformists and we learn and improve continually, we encourage initiative and teamwork, we seek managerial excellence.
- Commitment to results: we fight for our results and to create value for our shareholders; we take pride in delivering our objectives and commitments; we work as a team.
- Commitment to Ence: we are individually and collectively committed to the Ence endeavour, we see the company as our own and we are proud to work at it.

5.- Stakeholder engagement

Ence's stakeholders, meaning the people, groups and institutions affected by the company's activities and that could have a significant impact on it, are one of the cornerstones of this corporate social responsibility policy.

Ence's goal is to pursue efficient and satisfactory relations with these stakeholders, to which end it establishes a range of communication channels in an attempt to foster the exchange of information and provide the basis for a mutually-beneficial relationship. The following are Ence's stakeholders:

- Shareholders: Ence's owners. They guide the company's strategy based on decisions that facilitate the company's growth, sustainability and results over the short, medium and long term.
- People: the professionals work who at or for Ence make it possible for the company to improve and, by extension, deliver ever better results. Management is strategically committed to generating the trust of the people who work at or for the company- one of its most valued assets- to acknowledging and developing them.
- Customers: Ence sells high quality products and establishes trust-based relations with its customers based on respect and a promise of timely supply.
- Strategic partners and suppliers: these are crucial members of all of Ence's management systems (quality, environmental, workplace health and safety, chain of custody, sustainable forest management, etc.). They guarantee the supplies we need for the company to work optimally and are the visible face of the sustainable forest management effort.
- Forest owners: Ence works increasingly closely and strategically with its forest owners, actively fostering direct access to and communication and engagement with them. These initiatives establish guidelines for collaborating on issues such as forest plantation planning, improved phytosanitary standards, sustainable management and the injection of greater transparency into the timber market.



- Government and regulators: Ence works with the sector institutions to defend the sector's and company's interests in respect of control efforts, the promotion of new activities and the development of new projects. In addition, by paying taxes and levies, we contribute to the maintenance of public positions, this being one of our key contributions to society.
- Community and environment: Ence is keenly interested in fostering good relations with its surroundings with a view to understanding the concerns prevailing in its local communities and presented by the groups that represent them.
- Influencers (analysts, media, NGOS): these play a crucial role in building Ence's reputation and forging the shift in perception needed in some places regarding the company's industrial activities, which are environmentally-respectful and sources of job and wealth creation.

6.- Stakeholder commitments

Ence's commitment to its various stakeholders forms part of its vision, which specifically alludes to its existing and potential shareholders, people, customers, suppliers, forest owners, governments, business communities and influencers.

Our commitments to each of these stakeholders are outlined below:

6.1 Commitment to shareholders and investors

Here at Ence we are committed to creating value for our shareholders and investors and we do so by means of rigorous management, reporting transparency and financial market engagement. We boast a strong financial structure- focused on keeping leverage low and liquidity solid- which is a core driver of our competitiveness.

6.2 Commitment to people

We know, comply with and/or enforce the rules of engagement/conduct vis-a-vis others and our safety procedures. We handle our relationships with care and treat people with manners, consideration and respect, displaying concern about their and others' safety.

We try to continually improve the work climate and our safety standards. We value and appreciate the work, time and contributions of other people, we listen to their opinions and share information and knowledge with them in an open and transparent manner, duly identifying risky situations.

We engage proactively with our people. We offer help and devote time to others and we contribute actively with our conduct and contributions to making our work environment, peer-to-peer relations and work conditions safer and more pleasant.

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6.3 Commitment to our external and internal customers

We carefully and efficiently plan and execute the initiatives needed to satisfy the demands of our internal and external customers. We uphold the commitments assumed in order to facilitate their work, earn their trust and keep them satisfied.

We defend our customers, put ourselves in their position and try to understand their points of view. We react quickly and nimbly to resolve any problems and conflicts brought to us by our internal and external customers and we propose ideas and solutions for their prevention.

We get to know our internal and external customers, visiting them and systematically and proactively listening to them. We communicate and collaborate with them to identify, respond to and even anticipate their real needs. We propose value-adding initiatives and strive to build long-term relationships with them.

6.4 Commitment to partners and suppliers

Ence takes a zero-tolerance stance on human rights violations in any form and on the illegal use of natural resources. To this end we evaluate our suppliers and partners using a continuous improvement tool in order to ensure their employees' rights are upheld.

We build relationships with our suppliers of goods and materials and with our partners and service providers based on mutual trust and two-way communication.

We establish strong ties with responsible suppliers and partners in a bid to shore up both parties' reputations and sustainability credentials.

We contribute to the development and growth of our suppliers, particularly those based closest to our facilities.

We assess our suppliers and partners regularly using a continuous improvement tool.

6.5 Commitment to forest owners

Ence is the largest private forest owner-manager in Spain as well as the main buyer of timber. Its forest sustainability policy, articulated around the three major lines of initiative outlined below, has made it a standard-bearer in the sector:



- Environmental responsibility: Ence follows and promotes management criteria inspired by excellence across its owned tracts of forest and third-party forests, taking its cues from the sustainable forest management frameworks (PEFC and FSC). Indeed, its goal is to achieve dual forest certification for all its operations, whether owned by it or by third parties.
- Management efficiency: Ence's forestry business has a series of environmental impacts on account of the consumption of water, electricity and gas-oil. Ence aims to use these resources to the highest standards of efficiency. In parallel, it develops and promotes best management practices (in the silviculture and genetic arenas) in order to maximise the yield from the land under its management.
- Commitment to society: Ence carries out its forestry activities in rural areas and it engages proactively with these rural communities in an attempt to share its broad know-how with a view to facilitating the professional development and efficient management of these forests.

Assistance with planning, pest control, plant matters and forest certification are some of the cornerstones of this policy of engagement.

Ence's forestry business is regulated by an integrated forest management system which provides the framework for compliance with the ISO quality and environmental management standards and the sustainable forestry and chain of custody standards, PEFC and FSC.

Forestry-related initiatives are guided by the Sustainability Principles approved by Ence's senior management.

6.6 Commitment to governments and regulators

Ence establishes direct relationships with the main sector institutions and the various regulatory bodies in order to identify and defend the sector's and company's interests in respect of control efforts, the promotion of new activities and the development of new projects.

Ence views its ability to deal sincerely with the institutions in the various places in which it is present as one of its hallmarks. We contribute to the shared goal of improving the well-being and social, environmental and economic aspirations of the society that hosts us and of which we are part. To this end, Ence constantly shows signs of its willingness to collaborate and predisposition towards agreement and commits to the various institutional structures that allow it to channel this philosophy.

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In the tax arena, Ence undertakes to comply with prevailing legislation in the countries and territories in which it operates. Moreover, as is borne out by its track record, Ence has expressly pledged not to enter into or maintain any form of contractual relationship with companies resident in tax havens or to set up or use opaque or artificial structures unrelated to its core business with the sole aim of avoiding or reducing its tax burden.

In the forestry management arena, Ence collaborates actively on the process of modifying and adapting existing regulations to factor in sustainable management criteria.

6.7 Commitment to its surroundings

At Ence we take into consideration, comply with and/or enforce the regulations and procedures applicable to all of the activities we carry out, whether they are economic or environmental in scope or simply affect the relations with other people inside or outside the firm.

We pursue our business activities in a socially responsible manner and/or make sure that they are pursued by others with similar rigour. We are respectful of the environment, minimising the consumption or incorrect use of resources of all kinds and their environmental impact (waste, emissions, discharges, noise, etc.).

We make a difference by contributing ideas and promote, through our conduct and by example, behaviour that helps create ties of cooperation and improve internal operating practices and procedures concerning the efficient consumption and appropriate use of scarce resources and their environmental impact.

Ence places sustainability at the heart of its business. We have embedded economic, social and environmental sustainability criteria into our forestry, manufacturing and power generation businesses and into our management model.

End-to-end management of forest assets for the production of pulp and renewable energy encompasses the entire value chain and constitutes a competitive advantage. This presence throughout the entire value chain enables the application of best practices in managing and exploiting these forest plantations, which in turn leads to more efficient energy and pulp production.

6.8 Commitment to other influencers (analysts, media, NGOs)

Ence is firmly committed to the analysts, media and non-government organisations (NGOs) that play a crucial role in building its reputation and forging the shift in perception needed in some places regarding the company's industrial activities so that its stakeholders understand that they are environmentally-respectful and sources of job and wealth creation.



Ence is keenly aware of the importance of maintaining close ties with these influential groups on account for their capacity to vouch for Ence's business activities in general.

7.- Results tracking systems

Ence's Board of Directors is the highest governance body in terms of its administration and representation and is therefore ultimately responsible for supervising and controlling compliance with this corporate social responsibility policy.

To this end, on a quarterly basis, through its Audit Committee, it monitors a series of stakeholder indicators and reports which cover:

- Compensation matters
- Work-life balance
- Company benefits
- Internal communication and engagement
- Code of Conduct
- Talent management and retention
- Training and career development
- Management-employee relations
- Workplace health and safety (pulp)
- Odour levels
- Liquid effluents
- Air emissions
- Noise levels
- Water consumption at the pulp mills
- Summary of activities in the forestry area
- Classification of forest land by use and ownership category
- Sustainable forest management
- Consumption indicators
- Nursery production
- Consumption of energy and chemical products and packaging
- Materials and spare parts
- Quarterly financial statements
- Quarterly earnings reports

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8.- Risk supervision mechanisms

The Board of Directors of Ence is responsible for overseeing all of the risks to which the company is exposed that could jeopardise its ability to deliver its objectives, taking the actions required to make sure they are all duly managed, i.e., identified, evaluated, prioritised and mitigated/managed.

Risk management is a never-ending cycle involving Ence's Board of Directors, senior management and staff, who define, design and execute the strategy for identifying, evaluating and managing all the risks that, were they to materialise, could adversely affect delivery of the Group's objectives, all of which framed by acceptable risk tolerance levels.

Ence updates its risk maps regularly. These maps classify risks by their nature, specifically within the environmental, decision-making, financial, legal, operational and organisation risk categories.

In order to manage its risks optimally, Ence believes it is vital to maximise transparency with respect to the information reported both within and outside of the organisation. To this end, Ence's professionals are made aware that the information reported regarding risk management must comply with the following requirements:

- It must be complete, ensuring transmission of all information of relevance for risk management purposes.
- It must be correct and accurate, ensuring that the information reported is error-free.
- It must be additive insofar as it should foster the development of a culture of risk control and management.
- It must be reported on a timely basis, i.e., as soon as it is known and deemed relevant for risk management purposes.

9.- Stakeholder communication channels

Ence has several channels for communicating with and engaging its stakeholders and uses them to provide them with information about the various aspects of greatest importance to each and, to the extent possible, a reasonable response to their demands.

Each of these channels has its own characteristics in terms of format, frequency and intensity of use. They range from channels that are available permanently, such as dedicated e-mail accounts and the corporate website, to sporadic forums, such as surveys, meetings and presentations, and more ad-hoc events.

The most important communication channels used by Ence to communicate with its stakeholders are as follows:



2015 Annual CSR Report

Stakeholder	Communication channels	Key considerations
Shareholders and investors	General Shareholders' Meeting Quarterly earnings reports Quarterly earnings presentation given by the CEO Regular meetings Monthly information for the Board of Directors Roadshows Attendance at seminars and conferences Periodic distribution of information updates Information submitted to the CNMV Annual Report Annual Corporate Governance Report Sustainability Report Dedicated tab on the corporate website Press dossiers and releases Dedicated e-mail inbox: ir@ence.es Social networks	Corporate profile Financial indicators Market performance Reputation Corporate governance Risk evaluation and management Transparency
People	Annual Report Sustainability Report Intranet People management policy Two-yearly workplace climate survey Performance evaluation Top-down communication Screens installed in work facilities Noticeboards Memos by e-mail Online monthly newsletter Health and safety committees Annual training plan Regular meetings by unit/area Whistle-blowing channel	Company information Changes in the workforce Continuous improvement of work conditions Labour relations
Customers	Annual Report Sustainability Report Price-sensitive event filings Periodic visits Participating in sector meetings Satisfaction surveys Product environmental dossiers Press dossiers and releases E-mail Social networks Whistle-blowing channel	Tenders Data protection R&D References FSC and PEFC certification Competitiveness Satisfaction of their needs Compliance Prices
Strategic partners and suppliers	Annual Report Sustainability Report Participation in debates within sector associations Oversight and compliance with prevailing regulations Regular visits and meetings Proposals for framework and other agreements Whistle-blowing channel	Keeping our word Assurance regarding the scope for providing the service over the long-term Selection criteria Improvement of working conditions Financial support Timber market

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Stakeholder	Communication channels	Key considerations
Forest owners	Annual Report Sustainability Report Participation in debates within sector associations Participation in conferences Facility tours Press dossiers and releases Website Tracking and responding to complaints, suggestions and information requests CSR initiatives Whistle-blowing channel	Company benefits Adequate forest management Keeping our word Legal compliance Business performance Common interests Information exchange Forest certification
Government	Annual Report Sustainability Report Environmental declarations Tax filings Round tables, taskforces Regular dialogue and meetings Reports specific to each environmental permit Collaboration agreements Regular reports and documents Ad hoc reports and documents	Verification of compliance with legal requirements Application of best available practices (BATs) Support drafting and implementing public policies Collaboration with development of technical/scientific standards Promotion of the rational use of forest products and services
Community and environment	Annual Report Sustainability Report Environmental declarations Talks, chats and seminars Guided tours Tracking and responding to complaints, suggestions and information requests CSR initiatives Websites Whistle-blowing channel	Minimisation of environmental impacts Efficient use of resources Common interests Interaction with other economic/cultural activities Environmental conservation and awareness Conservation of protected and endangered species and habitats Heritage conservation effort Creation of jobs and wealth
Influencers	Annual Report Sustainability Report Environmental declarations Open line, distribution of press dossiers/releases, memos, opinion and editorial articles Talks, chats and seminars Facility tours Websites Collaborations and activities	Conflict resolution R&D Environmental, economic and social impacts of our businesses Business and financial indicators

Quantitative indicators by business line

Land area by contract type

	Ence Energy	Energy Extremadura	Energy Huelva	Norfor	Silvasur	Total
Biomass	118.73	127.18	3,699.39	35.53	7,607.19	11,588.02
Pulp	0.00	0.00	4,484.67	11,130.56	25,911.59	41,526.82
Conservation	0.00	0.00	544.43	1,913.81	13,882.37	16,340.61
Other	0.00	0.00	0.00	413.32	0.00	413.32
Total	118.73	127.18	8,728.49	13,493.22	47,401.15	69,868.77

Certified land area

	2013	2014	2015	Total
FSC Spain	26,769	35,591	38,147	100,507
PEFC Spain	59,866	57,864	56,833	174,562
Total	86,634	93,455	94,980	275,070

Forestry investments

	Ence Energy	Energy Extremadura	Energy Huelva	Iberflorestal	Norfor	Silvasur	Total
Repopulation			654		8,882		9,536
Silviculture	963,791	476,371	113,709		423,101	169,921	2,146,893
Tracks and firebreaks			38,193	6,451	89,388	358,645	492,677
Inventorying	11,641	760	924		8,152	790	22,267
Rents and royalties	862,613	504,134	610,578	174,479	589,744	383,014	3,124,562
Forest fires						132,955	132,955
Other management costs + capitalised borrowing costs	277,969	232,991	23,871		135,688	37,003	707,522

