



SUSTAINABILITY REPORT 2011



Energía y Celulosa

A young girl with light-colored hair, wearing a striped shirt, is standing in a forest. She is holding a large green leaf up to her face, partially covering her eye. The background is filled with many thin, vertical tree trunks, creating a dense forest scene. The entire image has a green tint.

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1.

KEY FIGURES

1. KEY FIGURES



Ence is a company engaged in the cultivation of forest resources for the manufacture of pulp and renewable energy. It is a leading producer of pulp and energy from biomass and is committed to sustainable development and the mitigation of climate change.

Sustainability is an intrinsic value to Ence's activity. Using a natural raw material – the tree – as a basis for its industrial and forestry operations, the Ence Group creates wealth and employment and provides social cohesion in every community in which it operates, while proactively working to protect and improve the environment.

We are Europe's leading producer of eucalyptus pulp and the largest producer of renewable biomass energy in Spain.

Ence operates three industrial plants in Spain (in Huelva, Navia in Asturias, and Pontevedra) with an output capacity of 1,340,000 tonnes of paper pulp and 1,490,000 MWh of renewable electric power.

**“At Ence
we contribute
to sustainable
development”**

We have a workforce of 1,406 employees and generate more than 11,000 jobs in Spain, almost 60% of which are in rural areas.

In 2011 we increased energy production by 12%.

The company sustainably manages 113,348 hectares of forest in Spain, Portugal and Uruguay.

OUR CONTRIBUTION TO SOCIO-ECONOMIC DEVELOPMENT

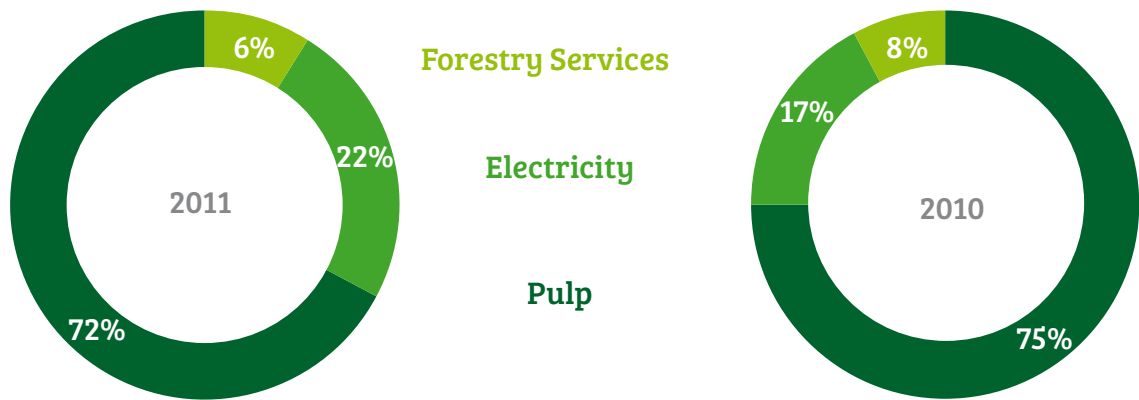
- Ence's total revenue during 2011 was **€ 825 million**.
- Our EBITDA in 2011 was **€139.1 million**.
- In 2011 we allocated **€101.6 million to investments**.
- Pulp production reached a **production record figure** in 2011 of 1,243,108 tonnes, a 7% increase year-on-year over 2010 levels.
- In 2011, **electricity production was 1,521 GWh in the year**, a 12% increase compared to 2010.
- Ence is the largest producer in Spain of renewable **biomass energy with 230 MW of installed capacity**.
- The company managed **3,768,000 m3 of timber** in the year, 5.4% more than in 2010.
- At Ence, we promote **purchase from local suppliers**: domestic timber purchase increased by **12.3%** in 2011, reaching a volume of 2,274,000 m3.



PRODUCTION

2011	Pulp Production	1,243,108 TONNES
	Energy Production	1,521 GWh
2010	Pulp Production	1,156,466 TONNES
	Energy Production	1,332 GWh

SALES



	Tonnes	%
Northern Europe	390,117	34
Central Europe	320,056	28
Southern Europe, the Mediterranean and Asia	436,870	38
TOTAL	1,147,043	

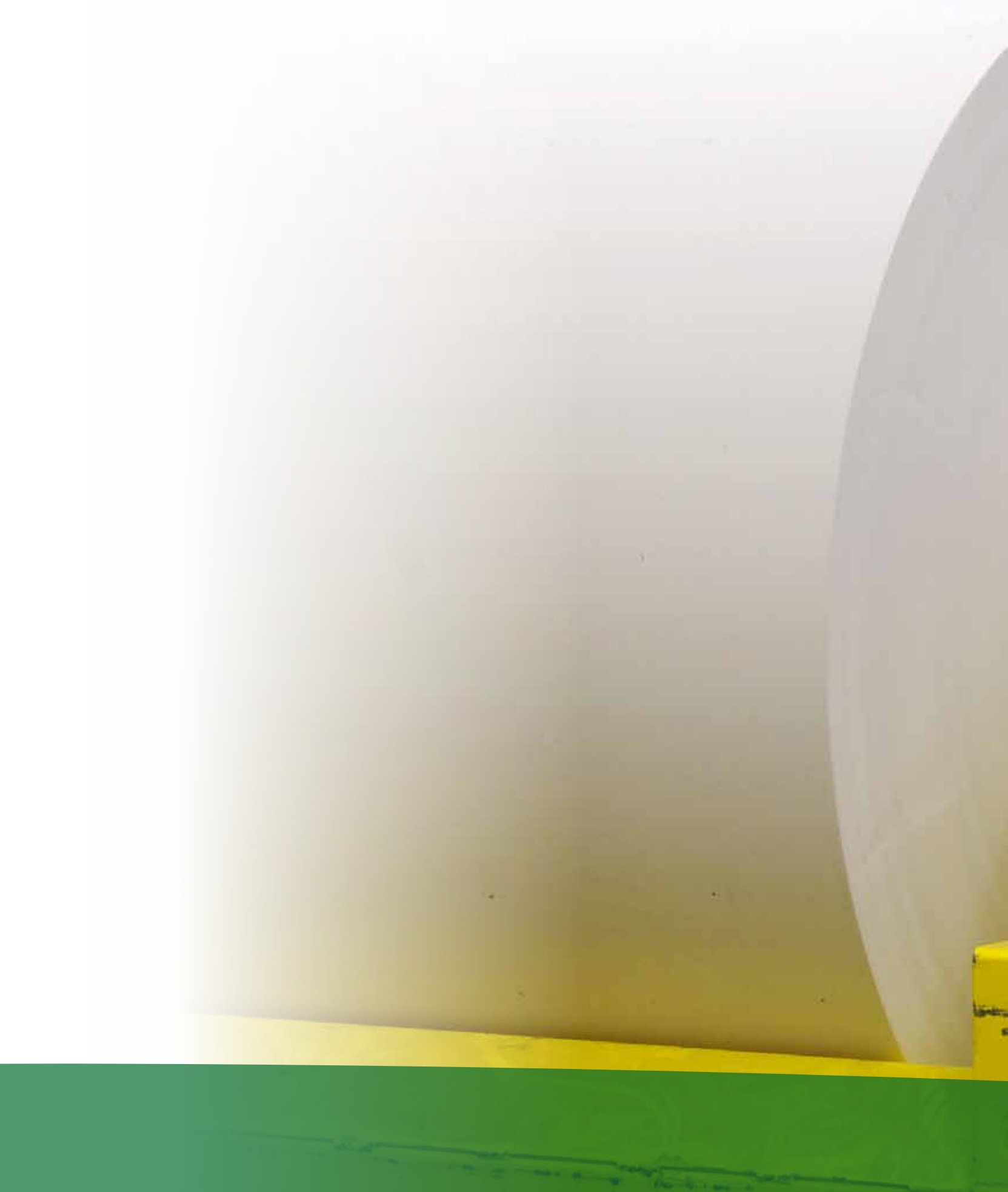
OUR CONTRIBUTION TO SOCIETY - EMPLOYMENT AND HUMAN CAPITAL

- There are 1,406 employees in our workforce in Spain, Portugal and Uruguay, of whom 70% have permanent or open-ended contracts.
- Our activity generates over 11,000 jobs in Spain, 60% of these in rural areas.
- Salary costs in 2011 amounted to € 82.6 million.
- In 2011, 5,049 hours of training were given, with 1,529 participants in 141 courses.
- Training expenditure accounted for € 278,600.
- Women accounted for 14% of the Group's total workforce in 2011.

OUR CONTRIBUTION TO THE ENVIRONMENT

- The development of biomass energy could allow CO2 savings of up to 12 million tonnes.
- We have reduced the impact of our processes: we do not use elemental chlorine to bleach paper pulp. Our production at Pontevedra is totally chlorine free (TCF).
- Eucalyptus plantations can be an effective alternative to deforestation, at the same time as providing energy and pulp; two basic products for society.
- The tonnage of CO2 emissions from our plants has fallen year-on-year since 2002.
- Our factories in Huelva, Navia and Pontevedra have been awarded ISO 9001 Quality Management and ISO 14001 Environmental Management Certification, and have achieved EMAS registration.





A close-up photograph of industrial machinery in a paper mill. Two large, white, circular paper reels are visible in the background. In the foreground, a yellow mechanical arm or bracket is positioned, featuring a red rectangular safety label. A black hydraulic hose is connected to the machinery. The scene is brightly lit, and the overall color palette is dominated by the white of the paper and the yellow of the machine.

2.

**ENCE, ENERGIA
Y CELULOSA**

1. 2011 ACHIEVEMENTS

Ence, in its commitment to sustainability from the point of view of its three spheres of activity, carried out the following actions in 2011:

ECONOMIC SUSTAINABILITY

- Signing of Project Financing for construction of a 50 MW plant for renewable power generation using biomass in Huelva.
- Keeping the company in the FTSE4Good Ibex sustainability index, which takes in the 34 Spanish companies with the most responsible behaviour.
- Award from the “Federación de Empresarios” for Quality, Design and Innovation.
- Start of operation of the new electricity transmission line in Navia which enables all the power produced in Ence’s Operations Centre in Asturias to be delivered to the grid.



SOCIAL SUSTAINABILITY

- Renewal of commitment to the United Nations’ Global Compact, providing for compliance with the 10 principles and their dissemination.
- Sponsorship of Jaime Caballero, a long-distance swimmer who lends his image to the “Siempre Adelante” association, which works to raise the visibility of the situation of people suffering from Amyotrophic Lateral Sclerosis.
- Observance of the “Fundación Corresponsables” manifesto for shared responsibility.
- Joint publication of the Huelva Nature Guide: Exceptional Places to enjoy, developed together with the NGO woodland protection group “Bosques Sin Fronteras”.
- School visit programmes in the framework of the “We want you to get to know us” campaign.
- Setting up of a Committee of Multidisciplinary Experts with the University of Huelva.
- Holding of the Doñana 21 Forum: “Renewable energy: sustainable energy”.
- Holding of the Ence Forestry Congresses in Padrón (La Coruña, Spain), with representatives from the whole forestry sector in Galicia.
- Development of a citizens’ information campaign on Ence’s environmental standards and improvement in Galicia.
- Organisation of congresses for exchange of knowledge and experience with forestry producers in various towns in Galicia.
- Participation in the Vegadeo Trade Show, which is of particular importance to the primary sector in Asturias, Spain,
- Economic support to the main sports clubs in Navia (Asturias).
- Economic support to Pontevedra CF football club and other sports clubs in Pontevedra.



ENVIRONMENTAL SUSTAINABILITY

- Support to the FSC in its approach to the Spanish government to drive forestry certification. Certification of 20,582 hectares managed by Ence in Huelva.
- Construction of the 50 MW Huelva plant according to the Best Available Techniques.
- Driving the Manifesto for Recognition of the Andalusian Forestry Sector with all of Andalusia's companies and competent authorities.
- Sponsorship of and participation in the Andalusian Biomass Congress with the Association of Andalusian Forestry Companies.
- Setting up of the Working Group for sustainable management of Terraces with UPM, UHU, Tragsa and Greenpeace.
- Ence, founder member of the "Doñana" Technological Centre for Sustainable Development.
- Approval of a budget of €14 million within the project for eliminating odours from Ence factories.
- Joint organisation of the "Changing Forests" Conference with Spain's Eucalyptus Research and Documentation Centre (CIDEU).
- Backing for the Spanish Fund for the Protection of Wild Animals (FAPAS) for Osprey recovery.
- Tart of construction of a new effluent treatment plant at Ence's Operations Centre in Navia.



2. MISSION, VISION AND STRATEGY

ENCE ENERGIA Y CELULOSA'S MISSION

- We are a **leading company** in the production of eucalyptus pulp and **renewable biomass energy** based on **comprehensive and responsible timber management**.
- Our aim is to offer **efficient and competitive solutions to meet our customers' needs, develop a strong forestry industry, and increase the production of renewable biomass energy**.
- We are committed** to the **respect of people, their safety and development**, to **continuous improvement** and to **our surroundings**.
- With **everyone's help**, we **generate significant returns for our shareholders**, Ence's **growth** and **wealth and employment** in the areas where we operate.

1.- A BENCHMARK COMPANY

- We are and wish to continue to be a preferred purchasing option due to our capacity for supply, product quality, geographic proximity in the European market and customer service.
- We are the leading manufacturer of short fibre in Europe and Spain's largest private forest owner and manager,
- To continue to be a benchmark company, we also need to be a benchmark in production costs.

2.- A LEADER IN RENEWABLE BIOMASS ENERGY

- We are the main and biggest renewable biomass energy company in Spain, both in terms of installed power and of power generated from this source.
- We make full use of the timber, using biomass from our production processes, crops and forestry wastes.

- Being pioneers and leaders in forestry crops for energy production needs to lead us to produce the cheapest fuel on the market.

3.- COMPREHENSIVE MANAGEMENT

- Our management covers the whole value chain, including tree selection, planting and cultivation and their harvesting, purchase, transport and receipt in the pulp and energy plants.
- Comprehensive management requires research and development of the best plants, application of efficient forestry practices - management and maintenance - for plantations and the best harvesting practices, adopting the best logistical solutions and achieving improved performance in pulp and energy production.
- This management applies to our own assets and to other forest owners with which we have a close, stable relationship.
- At Ence we want to make comprehensive management a differentiating advantage, making access to competitive timber easier and generating wealth throughout the value chain.




4.- RESPONSIBLE TIMBER MANAGEMENT

- We respect the cultural, social and environmental values of the surroundings and the aspirations of forest owners and other players in the sector.
- Responsible management is accredited with both our own and third parties' certified management, so guaranteeing the traceability of the timber we manage.



5.- EFFICIENT AND COMPETITIVE FULFILMENT

- We produce pulp and energy and deliver them to our customers as they need them, with less resources and better costs than our European competitors.
- Being efficient means identifying and eliminating/ reducing everything that does not add value in forestry and industrial operations.





6.- MEETING OUR CUSTOMERS' NEEDS

-  Understood as not only complying on agreed quality, time and price, but also constantly working/ collaborating with customers, offering solutions so as to be the preferred European supplier so that “when they have to choose a European supplier, they choose Ence”.
-  At Ence, we need to focus on our external customers, those who buy our products (pulp, energy), our source of income, our *raison d'être* and the ones we need to see as a stimulus for improving as a company.
-  We also need to satisfy our internal customers, those who need our work to carry out their own and who have a deciding influence on the products and services we provide.


7.- DEVELOPING A STRONG FORESTRY SECTOR

-  As part of comprehensive timber management, we will develop a strong forestry sector, meaning:
 - Increasing timber production from our own and third party plantations, that everything is “certified” (FSC and PEFC) and with lower costs than our Iberian Peninsula competitors.
-  Achieving a strong forestry sector involves a cultural change internally and in the external players involved in the chain and also requires:
 - Promotion, together with the Authorities, of land use planning to obtain larger management units.
 - Increasing the efficiency of practices for forestry use in all the areas where we act.
 - Promoting and developing timber suppliers which are Ence’s “allies” (which manage with professional, efficient, certified, reliable and faithful business criteria, with long-term relationships).




8.- GROWING IN RENEWABLE BIOMASS ENERGY

-  Biomass from energy crops and forest residues.
-  We want to grow in this business to stabilise our results by exploiting our know-how and capabilities in forestry management.
-  We want to make a significant leap and triple our renewable energy production from biomass to be the undisputed leader in the Spanish market, as the springboard for our international establishment.
-  Achieving this goal requires us to boost all our project management and financing capabilities and to carry out industrial management of biomass as a renewable, competitive fuel, especially among energy crops.


9.- WE ARE COMMITTED

-  We see the company as our own: we make Ence’s project and objectives our own, striving for them as a team.

10.- RESPECT FOR PEOPLE

-  The people who work in or for Ence are the pillar on which the company is set.
-  At Ence we understand respect as a value which goes beyond proper treatment. Respect requires listening, appreciating, acknowledging and taking into account the work, knowledge, contributions and points of view of others.
-  At Ence we do not accept behaviour contrary to respect for people as we have defined it.

11.- RESPECT FOR SAFETY

-  At Ence we aspire to “0 accidents” among all those who work in our industrial and forestry operations and energy crops and also among our contractors and visitors.

🍃 Safety is everyone's responsibility, both individually and collectively, and requires preventive attitudes which identify, anticipate and correct risk situations and unsafe behaviour.

🍃 We need to build safety into the design of our industrial and forestry facilities, correcting our own unsafe behaviour and that of others, and when an accident does occur, spending time and resources to eliminate the causes which led to it.

12.- DEVELOPING PEOPLE

🍃 We want everyone linked to Ence to take part in our company's growth and development, which needs to result in their benefit, training and professional and personal development. For this reason:

- As a company we need to offer training and create the conditions, means and instruments to capitalise on everyone's potential, giving responsibilities and increasing delegation and autonomy.
- As people, we need to be willing to learn, teach and share knowledge, taking on new responsibilities, acting with initiative and putting things into practice.

🍃 Personal development and growth as individuals come as a result of professional development.

🍃 At Ence we appreciate managers who facilitate the professional development of their collaborators.

13.- CONTINUOUS IMPROVEMENT

🍃 Continuous improvement as an attitude of non-conformism with the current situation, requiring the spirit to overcome, with enthusiasm and the passion to want to do things better every day.

🍃 Continuous improvement also requires the availability and working with standards, comparing our results to them and acting as a consequence, bringing problems to the surface and correcting them and if there are no problems, improving the standards and formulating new objectives.

🍃 Continuous improvement also means improving processes and doing things differently, managing to increase the value of the final product by improving its quality, reducing costs or improving delivery times.




14.- COMMITMENT TO OUR ENVIRONMENT

🍃 At Ence, this commitment shows itself in the fact that we are proactive, we listen, we anticipate and we are receptive to trends in ideas, the concerns of all those people and groups of people directly or indirectly related to our activity and we act as a result using criteria of sustainability, rationality and corporate responsibility.



🍃 Our commitment to our surroundings also implies respecting the environmental conditions, which means:

- That our forestry and energy crop activity is a carbon sink.
- That we commit to continually reducing odours, emissions, effluents and noise in our industrial pulp and energy activity.


15.- EVERYONE PARTICIPATES

-  All of us, each and every one of the people who make up ENCE, all being aligned, are working as a team, collaborating and contributing actively to achieving its objectives.
-  We understand participation as active contribution, individually or collectively as a team, being a reflection of our professionalism, personal responsibility, collaborative spirit, initiative, involvement, etc.
-  We promote participation through the implementation of micro-companies, as a framework for action in which people can identify with their work and develop a sense of ownership, responsibility and team work to meet customers needs, improve their processes and contribute to solving problems related to their area of activity.



16.- PROFITABILITY FOR OUR SHAREHOLDERS

-  As a private company quoted on the Stock Exchange, we need to generate the necessary profitability to remunerate those who commit their capital by investing in Ence.
-  Profitability for shareholders requires increasing the value of their economic share in the company by management to generate confidence and achieve continuous appreciation of the share price and cash flow for recurring dividend distribution.

17.- GROWTH

-  Growth is understood as the increase in the company's value, which requires excellent management of current businesses (forestry).

18.- GENERATING JOBS AND WEALTH

-  At Ence we collaborate proactively with the local communities in which we operate to facilitate the availability of qualified people and suppliers who can meet our needs.
-  Under equivalent conditions and applying criteria of rationality and transparency, we prefer local recruitment of people and contracting of suppliers.

VISION

-  **To be global leaders in FULL, sustainable use of forestry crops "sustainable use of the whole tree".**


1.- Global leaders

To be recognised worldwide in full use of the tree and the energy generated from its use, being innovators in industrial operations in the field of energy due to use of the primary energy (heat, CO₂, etc.) from our boilers and plants.

World leader in the generation of power from forest biomass.

Best eucalyptus pulp producer in Europe.

2.- FULL, sustainable use

-  While respecting the environment, use:
 - The whole tree: the lignin, pulp, branches, bark and stumps, while using the least possible amount of resources, water, land, fertilisers, plant protection products, etc.
 - All of the energy, heat, products and by-products of our industrial activity.

To do this, we develop and apply the best available techniques to improve our current business and are proactive in search of other potential uses and new technologies.



VALUES

Ence, a committed company.

1. COMMITMENT TO PEOPLE.

- We respect people and listen to them.
- We communicate.
- We recognise and appreciate their work and contributions.
- We take their safety and their professional and personal development into account.

2.- COMMITMENT TO OUR EXTERNAL AND INTERNAL CUSTOMERS.

- We listen to our customers.
- We work to satisfy our customers.
- We are consistent; we do what we say and keep our promises.

3. COMMITMENT TO THE ENVIRONMENT

- We strive for the sustainability (economic, environmental and social) of all our operations.

- We want to stand out due to our responsible, sustainable management.
- We do what we say.

4. COMMITMENT TO IMPROVEMENT.

- We are professional and non-conformist, we learn and improve continuously.
- We encourage initiative and teamwork.
- We pursue excellence.

5. COMMITMENT TO RESULTS

- We strive for results and to provide value to our shareholders.
- We like to fulfil our objectives and commitments.
- We work as a team.

6. COMMITMENT TO ENCE ENERGIA Y CELULOSA

- The Ence Project is our personal and collective commitment.
- We feel that the company is our own and are proud to work for it.



STRATEGY

Ence Energía y Celulosa's strategy is aimed at creating value both in its three business areas (Pulp, Energy and Forestry) and in its corporate areas, especially Financial.

In Pulp, the management strategy is aimed at optimising production, reducing the cash cost, minimising investment and, from the commercial point of view, achieving an increase in market share in Europe and increasing our customer base.

In the Energy area, Ence works to achieve maximum efficiency optimisation, which will enable it to achieve growth in biomass, at the same time as carrying out a full analysis of the opportunities which present themselves in the international sphere.

In the Forestry area, it is clearly aligned with plantation

sustainability, reducing disintermediation with direct purchases from forestry owners, optimising prices with lower timber imports, controlling logistics and achieving ever greater diversification of suppliers.

In conclusion, the strategy for pulp is aimed at reducing cost, commercial management, always looking to the international market and greater diversification in the customer base. In Energy, the aim is for growth of new projects. And in Forestry, the aim is for efficient supply management and the reduction in the weight of fixed assets.

From the financial point of view, a fundamental lever in Ence's management strategy, the company has a conservative policy, permitting a high cash flow conversion; excellent financial debt performance, with an optimal debt/EBITDA ratio, the best in the market; and a very active strategy for coverage of exchange rates, supply prices and interest rates.



3. SUSTAINABLE MANAGEMENT MODEL

Ence Energía y Celulosa makes sustainability the core of its business, with a **360 degree vision**. Ence's strategy is based on **'triple sustainability'**, from the point of view that it is impossible to do without any of its three bases: **economic**, **social** and **environmental**.

Ence Energía y Celulosa focuses its activity on **sustainable forestry management** in the production of **pulp and renewable energy**. It creates, cultivates and maintains forest areas for the sourcing of wood and biomass, all based on comprehensive and responsible management.

Sustainability is intrinsic to our activity.

Our **360 degree vision** supports our making sustainability a long-term strategic value: **being an economically profitable company**, as we take a natural, renewable natural raw material – trees – and we generate **essential products for society (electricity and pulp) from it**. In addition, **we benefit the community** by **creating thousands of direct, indirect and related jobs**. Our forestry operations **create employment for people in rural areas**, who might otherwise be forced to emigrate or leave the countryside.

We always act within a framework of efficiency: full use of the resource and respect for the environment. Indeed, the essence of our 2020 vision is **SUSTAINABLE USE OF THE WHOLE TREE**.



Sustainability
is intrinsic
to our
activity

OUR APPROACH TO SUSTAINABILITY

ECONOMIC PERFORMANCE

- Invigoration of the local economy by creating jobs in rural areas.
- Strategy aimed at financial stability and profitability for our shareholders.
- Enhance our profile in the renewable energy market.
- Maximise production optimisation.
- Implement sustainable investment projects.

ENVIRONMENTAL PERFORMANCE

- Increase efficiency by making maximum use of the tree.
- Minimise environmental and climate change impacts.
- Commitment to obtaining certification for our factories and forests.
- Improve environmental performance as a form of coexistence and respect for the surroundings and people.
- Manage resources responsibly, including wood, water and energy consumption.

SOCIAL PERFORMANCE

- Membership of the United Nations Global Compact since 2010.
- Social sustainability in the areas where we operate.
- Guarantee safety at work, equality and diversity.
- Attract and retain talent through training and innovation.



**VISIBLE COMMITMENT
FROM SENIOR AND
MIDDLE MANAGEMENT
AND WORKERS**

The people who work at Ence are responsible for openly demonstrating their commitment to this policy.

**TRAINING
AND PARTICIPATION
OF PEOPLE**

We will promote awareness and ongoing training, encouraging active participation from everyone.

**COMMUNICATION
WITH
STAKEHOLDERS**

We will maintain an attitude of transparency and fluid communication with our stakeholders.

**SUSTAINABILITY,
COMPLIANCE WITH
REGULATIONS AND
OTHER REQUIREMENTS**

Sustainability in our actions is a basic, inexorable principle. Ence undertakes to comply with the applicable regulations, legislation and other requirements.

**RISK PREVENTION,
PLANNING AND
CONTINUOUS IMPROVE-
MENT**

We have achieved effective prevention of risks, accidents and impacts that affect people, goods and the environment, including the control of serious accidents.

**COOPERATION WITH
OUR CUSTOMERS,
SUPPLIERS AND
CONTRACTORS**

We manufacture our products in accordance with our customers' specifications.
We encourage our suppliers and contractors to implement management guidelines and requirements.

DATA OR MANAGEMENT ASPECT	OPERATING UNIT OR SUBSIDIARY	ACCREDITED CERTIFYING BODY	CERTIFIED AREA AND AVAILABLE VALIDATION DOCUMENTATION
Data on environmental parameters	ENCE-Navia (CEASA) ENCE-Huelva ENCE-Pontevedra	LRQA AENOR AENOR	EMAS Environmental Declaration (EU Regulation 1221/2009), validated by the competent authority
Data on greenhouse gas emissions	ENCE-Navia (CEASA) ENCE-Huelva ENCE-Pontevedra	LRQA AENOR AENOR	Annual Report on Carbon Emissions, as per Spanish Law 1/2005, regulating the system for trading greenhouse gas emission rights.
Data on environmental investments	ENCE-Navia (CEASA) ENCE-Pontevedra ENCE-Huelva	Deloitte	Annual Accounts Report, as per Resolution of 25 March 2002 (recognition, valuation and information on environmental aspects in annual accounts).
Occupational risk management OHSAS 18001	ENCE-Navia (CEASA) ENCE-Huelva ENCE-Pontevedra NORFOR, SILVASUR, SIERRAS CALMAS	AENOR AENOR AENOR AENOR AENOR SGS	Certification of occupational health and safety management in accordance with the OHSAS 18001 international standard.
Environmental management ISO 14001	ENCE-Navia (CEASA) ENCE-Pontevedra ENCE-Huelva NORFOR, SILVASUR, SIERRAS CALMAS	LRQA AENOR AENOR AENOR AENOR SGS	Environmental Management Certification in accordance with the ISO 14001 international standard (in addition, 3 factories have their management certified in accordance with EMAS, EU Regulation 1221/2009)
PEFC Sustainable Forest Management	NORFOR, SILVASUR, SIERRAS CALMAS	AENOR SGS	Sustainable forest management certification for the company's plantations and natural forests, in accordance with the Programme for Endorsement Forestry Certification (PEFC) international standard.
PEFC timber Chain of Custody standard	ENCE (Multisite Navia, Huelva and Pontevedra), NORFOR, SILVASUR	AENOR	Certification of the timber chain of custody used in the process to guarantee its traceability and that it does not come from at-risk sources, in accordance with the Programme for Endorsement Forestry Certification (PEFC) international standard.
FSC timber Chain of Custody standard	ENCE (Multisite Navia, Huelva and Pontevedra), NORFOR, SILVASUR, SIERRAS CALMAS, MASERLIT	Bureau Veritas Bureau Veritas Bureau Veritas SGS (*)	Certification of the timber chain of custody used in the process to guarantee its traceability and that it does not come from at-risk sources, in accordance with the Forest Stewardship Council (FSC) international standard.
Data and FSC Sustainable Forest Management	NORFOR, SILVASUR, SIERRAS CALMAS	Bureau Veritas Bureau Veritas SGS	Public Management Report and result of the certification audits, in accordance with the Forest Stewardship Council (FSC) international standard.
Quality Management	ENCE-Navia (CEASA) ENCE-Pontevedra ENCE-Huelva NORFOR, SILVASUR	LRQA AENOR AENOR AENOR AENOR	Quality Management Certification in accordance with the ISO 9001 international standard.

CORPORATE GOVERNANCE

The Ence Group's rules of corporate governance are set out in the company's By-laws, the Regulations of the General Shareholders' Meeting, and the Regulations of the Board of Directors.

These regulations, in addition to the Company's reference shareholders, are available to the public on the website of the Spanish National Securities & Exchange Commission (CNMV) – www.cnmv.es, and on the Ence Group website (www.ence.es).

ORGANISATIONAL STRUCTURE

The company's Executive Committee is comprised of the Managing Director and the Directors of the company's business and management divisions. The committee is responsible for the management of the Company and is its main decision-making body, although decisions may be forwarded to the Board of Directors, when these fall within areas of its competence. The composition and structure of the Executive Committee are available to the public in the Annual Report on the Ence Group's website (www.ence.es).

The **Board of Directors**, comprised of 14 members, has established the following committees:

- Appointments and Remuneration Committee.
- Executive Committee.
- Audit Committee.

The company's Corporate Governance Report for 2010 provides a detailed description of the functions of these Committees and other information of interest. The report in question is available on the Ence Group website.





4. OUR PEOPLE: A GREAT GROUP

For the Ence Group, people are key to the company's efficiency and competitiveness. We work to promote equality between workers, we foster their professional development, monitor their health and safety and encourage proactive industrial relations.

At the Ence Group, we strive to create value in every area in which we operate. This value is based on trust and recognition, the development of our employees' potential and a joint commitment from all associates to the sustainable growth of the organisation. All with the aim of making the Ence Group increasingly competitive and efficient.

To achieve this, Ence has identified **four priority areas for action within our people management and development policy**:

DEVELOP A NEW CULTURE AND VALUES FOR THE GROUP

Senior management is ultimately responsible for instilling values and a culture of confidence, results-orientation, responsibility and leadership in each area.

ENSURE OCCUPATIONAL HEALTH AND SAFETY

We are committed to developing operations within a business and organisational framework that promotes a safe and healthy environment.



STRENGTHEN MANAGEMENT CAPABILITY, DEVELOP AND RETAIN TALENT

- We have the ability to attract, develop and retain the professionals required to give the organisation a sustainable competitive edge. Making managers accountable for identifying talent and preparing succession plans for key positions is fundamental.
- We develop leadership and strategic vision skills.
- We provide the tools required to manage people and promote the development of our associates.
- We improve communication between managers and their teams

DEVELOP A FRAMEWORK FOR INDUSTRIAL RELATIONS

To address the needs of the company and its employees from an overall and long-term perspective.

KEY FIGURES

- We have **1.406 employees** in Spain, Portugal and Uruguay.
- Our activity creates over **11,000 jobs** in Spain. Some 60% of these people live in rural areas.
- **Seventy percent** of our workforce has a **permanent or open-ended employment contract**.
- Salary costs amounted to **€ 82.6 million**.
- **We increased expenditure on employee benefits by 20%** to more than one million euros.
- **Training** expenditure accounted for **€ 278,600**.
- In 2011, no occupational illnesses were reported, there were no fatal accidents and the **number of hours lost due to illness decreased 15%** compared to 2009.
- **Women** accounted for **14.13 %** of the Group's total workforce in 2011.
- Aware of the importance of **women's role** in management, the ratio of women to men in senior management positions is **1:6**.
- The number of students in vocational training on work experience placements has doubled in the past three years.



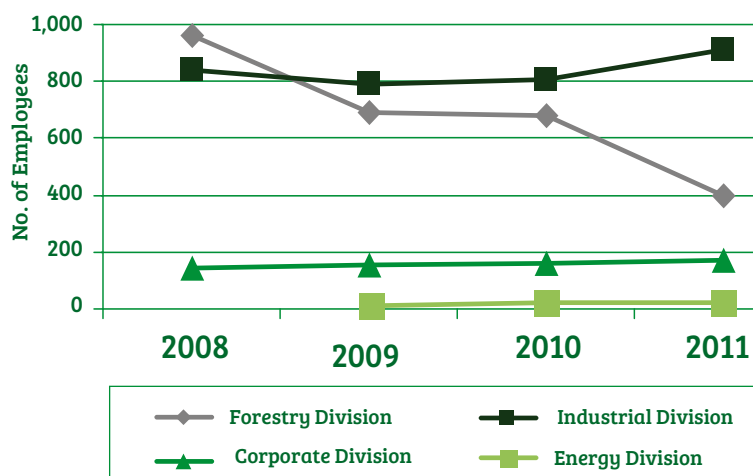
ENCE IS COMMITTED TO CREATING EMPLOYMENT

The Ence Group is comprised of **1,406** employees. In addition to this, we create employment for over 11,000 people in Spain, 60% of whom live in rural areas and have a combined income of €130 million. We are making great efforts to make ourselves a benchmark in Spain in renewable forestry biomass energy generation.

The Ence Group
is comprised of
1,406
employees.



EVOLUTION OF AVERAGE WORKFORCE

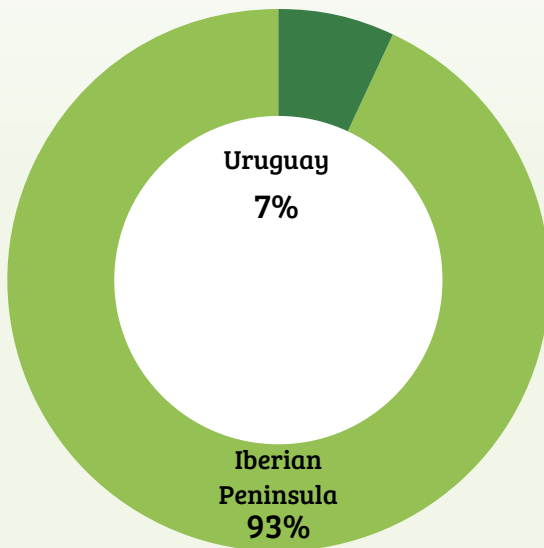


PERIOD END WORKFORCE: PERMANENT AND TEMPORARY			
	2011	2010	2009
Forestry	311	677	691
Industrial	910	804	798
Central Services	153	160	152
Energy	32	22	13
Total	1,406	1,663	1,654

TOTAL AVERAGE WORKFORCE: PERMANENT AND TEMPORARY			
	2011	2010	2009
Forestry	462	741	876
Industrial	831	786	836
Central Services	172	144	142
Energy	23	21	8
Total	1,488	1,692	1,862

By region, the Iberian Peninsula (Spain + Portugal) accounts for **93%** of the workforce; the remaining 7% are located in America (Uruguay).

Geographical distribution of permanent staff



Producing 1,000 TONNES OF PULP involves the creation of 7 direct, subcontracted or indirect jobs

71% in rural and forest areas
(5 jobs)

29% in industry
(2 jobs)

5 indirect jobs

Producing 1 MW OF BIOMASS ENERGY involves the creation of 11 direct, subcontracted or indirect jobs

91% in rural and forest areas (10 jobs)

9% in industry
(1 job)

9 indirect jobs

Some **91.3%** of our professionals are employed in production, while the remaining 8.707% are engaged in sales or support activities. Senior and middle management account for approximately **17,76%** of the workforce.

The average age of permanent employees is **42 years**, both in Spain and Uruguay. Employees between the ages of 18 and 35 years account for **31.9%** of the workforce; workers aged 36 to 50 years account for a further **42.2%**, and the remaining **25.9%** is comprised of employees in the 51 to 66-year age group.

The average number of years of service for permanent staff in the Iberian Peninsula is **13**, and **9** in Uruguay.

93% of the workforce is employed in production



WE PROMOTE DIVERSITY AND EQUAL OPPORTUNITIES

At the Ence Group we are committed to **diversity and equal opportunities**, a commitment recognised in the company's code of ethics. We are signatories of the **UN Global Compact** which means that Ence **rejects any form of discrimination** on the grounds of race, colour, sex, religion, political opinions and national or social origin. We are against child and forced labour; in fact, we take measures to eliminate the risk of child exploitation and forced or compulsory labour in our activities. Furthermore, our **policy of equal opportunities** and access to employment is in line with the principles set out in the **Universal Declaration of Human Rights**.

Employees are recruited on the basis of their skills and suitability for the position. No incidents of discrimination were recorded in 2011. By guaranteeing access to employment and training for different social groups, we succeed in creating a climate of tolerance, which is key to our competitiveness and development.

The Ence Group operates in a sector where the presence of women has traditionally been low. Although there is still a long way to go, our efforts in this field have meant that the number of women in the Group's total workforce reached **14.13%** in 2011. Aware of the importance of women's role in management, the ratio of women to men in senior management positions is 1:6.

3.36% of
our workforce is
made up of people
with
disabilities

Our payment policy stipulates that employees are remunerated on the basis of their level of professional development in relation to the job and their contribution to **results**, thus ensuring there is **no discrimination**. Proof of this is that the ratio of the base salary of men to women in positions of equal responsibility at Ence is 1:1.

Our integration policy complies with the requirements set out in the LISMI (Law on the Social Integration of the Disabled), which requires that workers with disabilities account for 2% of the workforce. In 2011 the recruitment ratio of people with disabilities was **3.36% of the workforce**. Of these, two had individual employment contracts and the others had collective bargaining contracts.



WE MANAGE, DEVELOP AND RETAIN TALENT.

1. RECRUITMENT AND INTEGRATION

At the Ence Group, we believe that people are key to the competitiveness of the company. In 2011, therefore, we continued to develop policies and strategies to **attract and retain the best professionals in the market**.

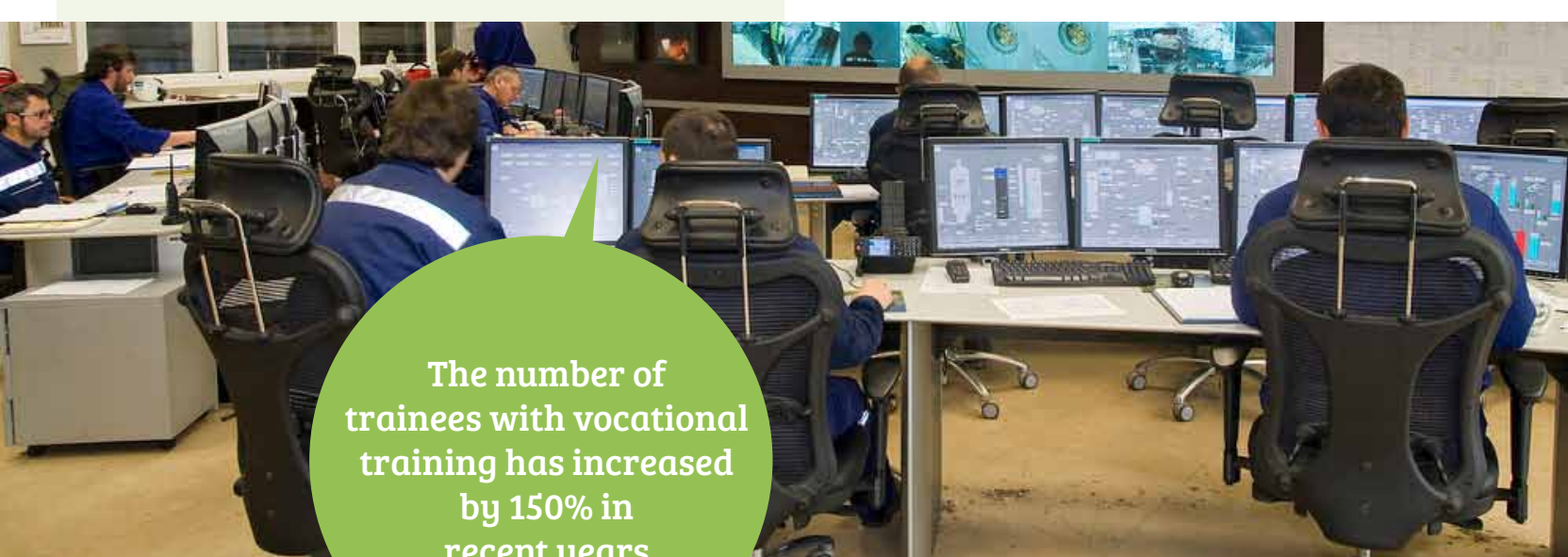
Our **Management and Support Staff Recruitment Plan** (Key Personnel) primarily looks for candidates from within the organisation, based on market criteria. Our managers are responsible for **identifying talent** and preparing candidates to take over key positions in the company, with the support of the Human Resources management team at the annual talent review meetings. Effective **integration and development of our employees** is achieved through efficiency and respect for equal opportunities. Whenever possible, we endeavour to recruit local staff, although the Ence Group does not have a specific policy in place in this regard.

We have an **Induction Programme** that aims to provide a comprehensive overview of the Ence Group to all new employees. It is our wish that they adapt to our culture as quickly and easily as possible, and that they are **suited** to the position assigned to them.

The programme consists of 6 months of **specific training** for all new employees and their progress is monitored through regular reviews and a performance evaluation at the end of the programme. The programme is completed with training that is tailored to the employee and his or her future professional development.

Within our **Scholarship Programme**, we establish collaboration agreements with Universities, Business Schools and Vocational Training Schools, enabling many **young people to start their professional experience** with training practice in our organisation. For Ence, this is an important management strategy that enables us to select the most promising candidates for recruitment to the company.

The number of students in vocational training on **work experience** placements is noteworthy, given that they have **more than doubled in number since 2008**.



The number of
trainees with vocational
training has increased
by 150% in
recent years

2. DEVELOPMENT AND TRAINING

In order to ensure that we have competent and motivated professionals who bring added value to the organisation, the Ence Group has developed a series of **Development Policies** aimed at improving their skills and, therefore, those of the company. These include a **Performance Evaluation and Management by Objectives (MBO) System and a Compensation Policy** that aims to reward the employee's contribution to and engagement with the business, as well as promote their professional development.

In addition, since 2010 more importance than ever has been placed on improving skills through specific **Training Plans** and programmes.

Performance evaluations aim to answer the question, "how is the employee performing in the job?" and concern his or her conduct and attitude. The system is based on an **annual performance interview** between the employee and his or her direct supervisor, during which qualitative and quantitative feedback is given (using assessment by objectives), strengths and expectations are discussed, and areas for improvement and development are identified.

In 2010,
16.20% of
the Ence Group's
staff completed
performance
evaluations

PERFORMANCE EVALUATIONS	2008	2009	2010	2011
Senior Management	24	28	25	21
Middle Management & Supervisors	189	153	181	167
Totals	213	181	206	188

Performance evaluations are taken by senior and middle management, and supervisors were included for the first time this year. In 2011, 188 **evaluations** were carried out, representing **13.37% of the Ence Group's total workforce**.

The **Management by Objectives (MBO) System** allows us to target management efforts towards the organisation's overall strategic goals, coordinate efforts, administer resources and set priorities. The duration of the programme coincides with the financial year and it is an integral part of the Company's Payment Policy.

Our **Payment Policy** is designed to reward and link the achievement of strategic objectives with personal development and the attainment of individual targets. The Ence Group's remuneration structure consists of a **fixed component and a variable component, in addition to employee benefits**.

The **fixed component** is equivalent to or higher than the wage stipulated in the applicable collective bargaining agreement in each country and **ensures non-discrimination and equitable and competitive remuneration**.

It is equitable because it recognises differences between employees on the basis of their responsibilities and the criticality of the position and person to the Ence Group. It is competitive because we are willing to pay to attract and retain the best professionals for key company positions.

The **variable remuneration** aims to reward employees for the achievement of individual, group, team or organisa-

Our payment
policy ensures
non-discrimination
and equitable and
competitive
remuneration

tional goals which are directly linked to the business's **key results** in the short-term. The variable remuneration to be attained is based on a percentage

corresponding to the annual fixed pay. This base is multiplied by two factors each year: the company factor and the individual factor. The **company factor** depends on the achievement of the company's profit targets, which is indicated in the annual Strategic Plan, and the **individual factor** depends on the achievement of the individual goals set for the employee at the start of the year.

Ence's salary costs amounted to € 82.5 million in 2011

The objective of the Ence Group's **training plans** is to promote the **personal and professional development** of em-

ployees at all levels of the organisation in order to improve their integration into the company and their commitment to company objectives. The plans in question are drawn up in collaboration with the various department heads and a schedule and plan are established for the implementation of training activities. The 2011 plan was prepared following a **joint assessment** to identify training needs, after which a training budget was drawn up and the training objectives and schedule were established.

The specific objectives of the Ence Group's Training Plan are the following:

- 🍃 Develop **leadership skills and strategic vision**.
- 🍃 Help **increase production, improve quality and reduce costs** by updating the technical knowledge of process employees.
- 🍃 **Improve employee productivity** by enhancing their versatility and initiative.
- 🍃 Consolidate the Integrated **Quality, Environment and Risk Prevention** System.

**Our
payment policy
ensures
non-discrimination
and equitable
and competitive
remuneration**

**External
training costs
amounted to
278,600
in 2011**

TRAINING PLAN	2007	2008	2009	2010	2011
Courses	177	156	159	156	141
No. participants	2,257	1,680	2,835	2,140	1,529
No. training hours	3,792	7,077	18,728	19,975	5,049
External Cost	232,955	250,135	244,639	229,498	278,600

LEADERSHIP AND SAFETY - KEY TRAINING AREAS FOR OUR EMPLOYEES

At the Ence Group, **developing our employees' leadership skills** is a key factor for their professional development and integration and engagement with the company. In 2011, therefore, a comprehensive leadership development programme was continued, aimed at all the company's managers. The programme – in which 220 people participated – aims to provide the tools required for people management, promote the development of employees and improve communication between managers and their teams. The training was completed with various workshops on emotional intelligence and coaching.

We concern ourselves with encouraging and maintaining the well-being of all our employees and for this reason we consider essential **safety management and the carrying out of**

training actions focused on improving this: training workers in fire fighting, training the majority of the workforce in the Internal Emergency Plan review and specific training in Accident Investigation Analysis. Furthermore, in the area of Health & Safety Management (HSM), specific courses have been given in preventive specialties, and official certificates have been awarded for Elementary, Intermediate, Advanced (HSM Officer) and HSM Auditor levels.

Courses have also been given on specific skills for specific activities, such as the operation of chainsaws and forestry equipment, among others. In 2010, the Ence Group did not consider it necessary to provide training to employees in human rights or anti-corruption as no significant risks have been identified in these areas.



WE WORK TO PROTECT THE HEALTH AND SAFETY OF OUR WORKERS

The Ence Group continuously strives to protect the health and safety of its employees. To achieve the **target of Zero Accidents**, we take a **zero tolerance** approach to non-compliance with the rules and strive to improve workers' safety habits by instilling a culture of accident anticipation in all operations. In 2011, **accident and occupational disease rates improved**, thanks to the essential role of Occupational Risk Prevention. This is part of the company's **Integrated Management System (IMS)** and has been included in the Management by Objectives programme. Indeed, it is an essential part of our day-to-day operations at all levels and the content and training have been tailored to the different company areas i.e., the forestry, industrial and corporate divisions.

The implicit objectives of our **Risk Prevention Management** system are to bring about a profound change in habits with respect to occupational health and safety, implement uniform prevention measures in all Ence Group companies and comply with the relevant legislation in this area.

In 2011,
the number
of hours lost
due to illness
decreased
by 3.079%

OUR CENTRES HAVE BEEN CERTIFIED IN ACCORDANCE WITH THE INTERNATIONAL OHSAS 18001:2007 STANDARD

All of the company's workplaces, with the exception of the forest areas in Portugal, currently have a Health & Safety Management System, certified in accordance with international standard **OHSAS 18001:2007**, in place. Among other things, this ensures that the **Occupational Risk Prevention Management** system complies with current legal requirements and is compatible with the other management systems and their respective certifications. In 2010, all of Ence's workplaces passed the compulsory Occupational Risk Prevention audits.

In Uruguay, Eufores continues to be certified under the OHSAS 18001 standard.





Our management effort was rewarded by the accident rate results obtained in 2011: **no professional illness** was declared, **no fatal accidents to our own employees** occurred and the **number of hours lost to illness fell by 3.079%** compared to 2010 (the number of hours lost to illness in 2011 was 53,248).

Ence's safety management system includes a **Joint Prevention Service (JPS)**. The **functions and responsibilities of all management levels** of the company as regards Occupational Risk Prevention is clearly identified in this service. Accordingly, health and safety is not only integrated into all of the Group's functions and decisions, it also extends to **contractors and suppliers**, thus ensuring compliance with the rules.

Furthermore, in order to improve healthcare for temporarily disabled employees, the Ence Group signed a "Management Agreement" with the Accident Insurance Company which will enable it to make progress in carrying out diagnostic tests.

Fifty percent of the members on Ence's Health and Safety Committees are comprised of **members of the management, and the other half of worker representatives**. The percentage of workers represented on Health and Safety Committees out of the total workforce in the relevant area is 1%.

Following **continuous improvement** criteria, we implemented the following improvements to the Risk Prevention System in 2011:

- 🍃 Augmentation of preventive safety audit execution
- 🍃 Occupational risk evaluation review programme
- 🍃 Investments as regards safety
- 🍃 Increased training in occupational risk prevention
- 🍃 Writing of technical notes and information bulletins regarding risk prevention

SAFETY IN THE WORKPLACE

Specific actions were carried out in 2011 in order to reinforce safety in the work place.

FACTORIES AND WORK CENTRES

- Visible and permanent commitment of Line Management to Occupational Health and Safety: Safety topic launch, carrying out of safety inspections in all areas by Senior Management, Department Heads, Risk Prevention Representatives, preventive safety audits, etc.
- Protection guarantees and healthy working conditions: Definition of mandatory PPE by delivering a three-page leaflet to all workers, signing of pipes, Contract Worker Safety management.
- Dissemination and implementation of the five inviolable safety rules.
- Shared feedback on all accidents.

NAVIA FACTORY

- Installation of mechanical protections on several lines.
- Improvement in the lime kiln conveyor belt guards.

- Installation of leak warning alarms.
- Construction and assembly of various accesses and work platforms.

NORTH AND SOUTH FORESTRY AREA

- High-visibility clothing implemented for forestry tasks.
- New signage implemented in forestry works.
- Approved training for harvesting power saw operators.
- Dissemination and implementation of the five inviolable safety rules in forestry harvesting.
- Launch and dissemination of six safety topics.
- Preparation of a daily check list for prevention in forestry harvesting works.
- Delivery and information on individual occupational health and safety cards for power saw and machine operators.
- Execution of the Inspection Programme in the field.
- Business activity coordination meetings with contractors and self-employed workers.



WE STRENGTHEN INDUSTRIAL RELATIONS THROUGH COMMUNICATION AND ENGAGEMENT

At the Ence Group, we recognise our workers' right to **freedom of association** and the protection of their rights and interests, and to establish **dialogue with the company** based on mutual **trust** and **transparency**. Indeed, it is an effective means of improving communication and ultimately enhancing the efficiency and productivity of the Group, and the resolution of disputes.

Furthermore, **we recognise the right to collective bargaining**, which leads to the signing of a **collective bargaining agreement** and which is of great importance to industrial relations in the Group.

Last year we continued with the **new organisational and business model** defined in the Strategic Plan, which contemplates three Business Units - Pulp, Forestry and Energy - in addition to a number of transverse services that provide support to these three broad areas.

Although the Ence Group does not have a minimum notice period for the communication of organisational changes, we have **committed** to, and do in practice, give workers' representatives adequate and sufficient **notice** of such changes.

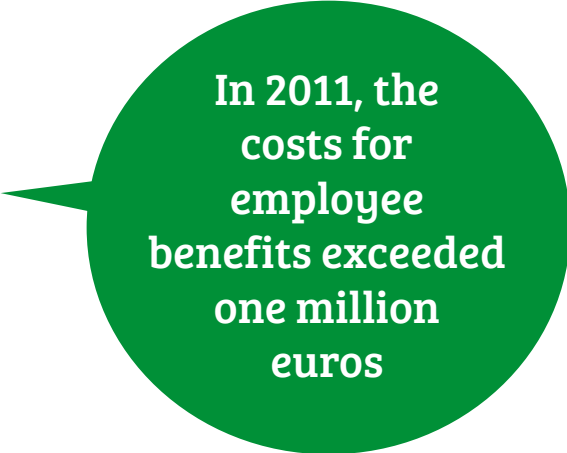
In addition, the Group has an employee benefits programme in place, which cost the company more than one million euros in 2011.

INTERNAL COMMUNICATIONS

Internal communication is a key element for supporting the Group's strategic vision and change in culture because it facilitates the smooth flow of information and strengthens mutual trust and the integration of people.

Our strategy aims to keep our employees informed of any company developments, our mission, values and strategy and to help them feel part of this and rewarded for their efforts. The **Communications Plan** therefore recognises

team **achievements**, strives to create a participative and transparent company model, integrates internal communications into the overall management of the company and creates an internal image.



In 2011, the costs for employee benefits exceeded one million euros

ETHICAL CONDUCT AND RESPECT FOR HUMAN RIGHTS

We at the Ence Group pay special attention to the preservation of **human rights**. In 2010 we became a member of the **United Nations Global Compact**, an international initiative whereby businesses worldwide are encouraged to adopt sustainable and socially responsible policies. We have therefore undertaken to support, promote, abide by and disseminate its ten principles. Every year we renew our commitment and assess our compliance with the ten principles. The results of the assessment are included in a progress report that is forwarded to the Spanish Global Compact Network and which is available to our stakeholders.

These principles are based on various **international declarations and conventions**, such as: the United Nations Universal Declaration of Human Rights, the OECD Principles of Corporate Governance, the ILO Declaration on Fundamental Principles and Rights at Work, the United Nations Convention against Corruption and the Rio Declaration on Environment and Development.

The Global Compact places special emphasis on human rights, recognises the right of employees to freedom of association and the abolition of child labour, etc. However, it also includes principles that focus on the protection of the environment, the diffusion of renewable energy and the fight against corruption.

As most of the Group's activities take place on the **Iberian Peninsula**, where there are strict regulations and controls in place with respect to human rights, there are few or no risk factors in this area. Therefore, no significant investment agreement was signed in 2010 in which it was considered necessary to include Human Rights clauses.

Furthermore, by **certifying our chain of custody**, we can be sure that the timber we use does not come from controversial sources that might violate human rights. In 2010 there were no incidents involving the violation of indigenous rights.

On the other hand, principle 10 commits us to keeping up an **active fight against corruption, extortion and bribery**, with the objective of increasing not just our own transparency, but providing greater clarity and more open communication with governments, organisations and civil society. Although we did not carry out any specific analyses concerning risks related to corruption in 2010, we maintain control and identify possible incidents of corruption, with none recorded during 2010.

We wish to encourage the entire **chain of custody and our suppliers** worldwide to abide by these ten principles and we report once a year on our progress, initiatives and activities in the area to the Spanish Global Compact Network.

THE TEN PRINCIPLES OF THE GLOBAL COMPACT

1

PROTECTION OF FUNDAMENTAL HUMAN RIGHTS

2

NOT BE COMPLICIT IN HUMAN RIGHTS ABUSES

3

UPHOLD THE FREEDOM OF ASSOCIATION AND
THE RIGHT TO COLLECTIVE BARGAINING

4

THE ELIMINATION OF FORCED AND COMPULSORY LABOUR

5

THE ABOLITION OF CHILD LABOUR

6

THE ELIMINATION OF DISCRIMINATION IN RESPECT
OF EMPLOYMENT AND OCCUPATION

7

SUPPORT A PRECAUTIONARY APPROACH TO
ENVIRONMENTAL CHALLENGES

8

UNDERTAKE INITIATIVES TO PROMOTE GREATER
ENVIRONMENTAL RESPONSIBILITY

9

ENCOURAGE THE DEVELOPMENT AND DIFFUSION
OF ENVIRONMENTALLY FRIENDLY TECHNOLOGIES

10

WORK AGAINST CORRUPTION IN ALL ITS FORMS,
INCLUDING EXTORTION AND BRIBERY



The background of the slide is a photograph of a road with multiple lanes, captured with a significant motion blur effect that creates horizontal streaks of light and dark colors. A solid green rectangular box is positioned in the upper right corner, containing the section title.

3.

**OUR
BUSINESSES**

1. FORESTRY ACTIVITY

Sustainable forest management, research applied to adaptation to climate change and the best species performance, their cultivation, care and maintenance for timber and biomass extraction constitute, together with collaboration with other owners and companies interested in developing the forest environment, our main forestry activities.

KEY FIGURES

- Ence manages a total of **113,348 hectares** of forest in Spain, Portugal and Uruguay.
- The Group has a certified area of **89,770 hectares**.
- In 2011 we planted **6,315** hectares, of which nearly 3,301 were for plantations for pulp use and 3,014 for energy crops, an amount which almost **triples that of the previous year**.
- At Ence we encourage timber purchase from local suppliers. In 2011 we managed to improve on the efforts of the year before by buying **2,274,000 m3 of domestic timber**, representing 60% of the total consumption from our factories. Of the total forest area managed by the company, 5,668 hectares are considered to be of High Conservation Value.



2011 ACHIEVEMENTS

- Forest improvement activity continues with selected planting in the reforestation the company carries out.
- Research activity continues aimed at selecting the most productive individuals and, in time, those best adapted to the edaphic and climatic conditions in the operating areas.
- FSC certification of around 20,000 hectares of the group's forest assets in the province of Huelva.
- Completion of the Forestry Certification process in Ence's plantations in Uruguay with PEFC certification of Sierras Calmas, added to the FSC certification obtained earlier.
- Setting up of specific collaboration agreements with Stakeholders in our surrounding, aimed at improved forest management: environmental impacts on terraces, fight against pests.
- Collaboration with forest owners, both in the north and the south-east, to carry out training and demonstration activities (technical training, improved planting, forest certification).
- Start of pilot projects for timber use optimisation in forests, focusing on occupational risk prevention and maintenance of environmental values.
- Execution, in the North, of a pilot analysis to identify Natural Habitats in detail in accordance with European Directive 92/43/EEC, identifying elements of these in 68 forests surveyed.
- Specific support to the project for reintroduction of the osprey by placing decoys to attract the birds or protecting the bases of eucalyptus trees which can be used as look-outs by the species.
- Collaboration with apiarists in Asturias to promote mountain beekeeping in zones of eucalyptus trees (beehive location to exploit eucalyptus spring flowering).

2012 GOALS

- Continue development and spread of genetic and forestry improvements in forests.
- Continue increasing the rooting rate and efficiency of plants during their growth in Ence's Forestry Research and Technology Centre and the Nursery in Huelva.
- Increase the Group's certified estate in the north.
- Promote the development of rapid, economic mechanisms for forest certification adapted to the characteristics of our environment.
- Start the process of certifying forests managed by Ence in Portugal.
- Consolidate approaches to our Stakeholders and development of specific tools for monitoring forest management in sensitive areas.
- Seek agreements with forestry associations to invigorate the timber market and provide greater transparency in it.
- Progressively increase mechanisation in forestry works in order to improve their safety, as well as their efficiency, so reducing impacts.
- Execution of the Habitats study in the south-east and expansion of the pilot study in the north.
- Development of specific agreements for the management of cultural and natural elements in the southern area.



OUR APPROACH TO SUSTAINABILITY

ECONOMIC PERFORMANCE

- We have a long-term investment policy to maximise self-sufficiency and to improve forestry asset management on the Iberian Peninsula.
- We strengthen R&D+i programmes by investing in advanced forestry and utilisation techniques.
- Development of a scientific-technical process for selecting species and propagation materials, enabling us to improve the productivity and efficiency of our plantations.
- Eucalyptus fibre provides better quality at a lower cost in the manufacture of paper for printing and writing, and tissue paper.
- All our plantations have a comprehensive plan for pest and disease control.
- Our forestry management reduces the risk of fire.

ENVIRONMENTAL PERFORMANCE

- We identify categories of protected areas so that preventive measures can be taken: the Natura 2000 Network, Sites of Community Interest and Special Protection Areas for Birds. We add individuals, spaces and elements of an exceptional nature to this voluntarily.
- Well-managed eucalyptus plantations guarantee the maintenance of biodiversity and their planting creates new arboreal spaces with beneficial effects for water, carbon and nutrient cycles.
- We maintain and strengthen natural ecosystems and areas of high conservation value, such as pastures and Mediterranean forests, riversides and Atlantic forest.
- All our plantations have a comprehensive plan for pest and disease control.
- Our forestry management reduces the risk of fire.

SOCIAL PERFORMANCE

- Our eucalyptus plantations create employment and wealth in rural areas through the signing of agri-forestry agreements with the owners of woodlands, being an efficient tool for rural development.
- Our eucalyptus plantations are an example of multifunctionality, producing various goods and services profitably and sustainably which benefit the rural population and contribute to supporting the surrounding population, such as honey or essential oils, hunting, cattle rearing and leisure-based activities.
- We manage the landscape appropriately to minimise the visual impact of our actions, carrying out compensating measures.



OUR RAW MATERIAL: EUCALYPTUS

Our activity focuses on **biomass energy generation and high-quality pulp production**. The raw material for these activities comes from **natural, renewable resources**: forest biomass and wood. Ence uses wood from eucalyptus forests to produce pulp.

Together with pine, eucalyptus is one of the world's most used forest **species** for industrial purposes and is grown in more than **90 countries**. It has **significant advantages** due to its **variety of uses and profitable and sustainable industrial applications**. It is regarded as one of the most useful and versatile trees from an industrial perspective. **It creates wealth** in rural areas; it surpasses other species in terms of **growth and productivity** when its wood is used



In 2011,
Ence cut
936.893 m3 on the Iberian Peninsula,
representing a
78% increase over the preceding year

to produce pulp; it produces better **quality paper at a lower cost** and is a **source of renewable energy** as biomass and energy crops.

Spain's forested area has increased 9% in the last 10 years and accounts for 33% of the country's total area. Eucalyptus plantations, devoted primarily to the production of wood for the paper industry, **account for 3% of Spain's total forested area**.

EUCALYPTUS PLANTATIONS CREATE WEALTH IN RURAL AREAS

The forests in **northern Spain** are mainly owned by local families. In Galicia, for example, there are around **670,000 forest owners**, most of whom have small estates or forest land no more than 2 hectares in area where they grow small amounts of wood.

Eucalyptus has been used in the **south of the Peninsula** to **recover old degraded agricultural soils and unused or unproductive land** that was not being used because of the region's hot dry climate. As a result, it has created a habitat suitable for hunting, livestock farming and honey production. Using the techniques learned in forestry research, the land is adapted for the planting of trees for pulp using genetically selected tree species that are suited to the climate and soil, like energy crops or research plots.

At Ence **we consider it vital to work with local suppliers**, hence we promote the purchase of wood in our environs. With the efforts made in 2010, we were able to **increase this to 2,274,000 m3**, 60% of total consumption. Wood from Ence's **forestry assets** in 2011 totalled **173,000 m3 on the Iberian Peninsula**, i.e. **5% of total** consumption. Finally, the efforts made in forestry management are worthy of note, having cut 936.893 m3 on the Iberian Peninsula in 2011, representing a 78% increase over the preceding year.

EUCALYPTUS AND THE ENVIRONMENT: 7 ANSWERS

Eucalyptus has been severely criticised because its extraordinary function and characteristics are unknown. Despite its obvious **socio-economic and environmental benefits**, for several years it was the subject of criticism and many people were against its cultivation. At Ence, we are aware of our stakeholders' (local towns, ecology groups, etc.) concerns regarding the environment and their desire to protect it from adverse impacts.

However, thanks to **open dialogue with the community and a policy of transparency and information**, we have identified **7 key questions** that address their **concerns** about the **risks and environmental impact** of our operations. We respond to these risks through sustainable and responsible forest management, as described below:

1 DOES THE EUCALYPTUS TREE DAMAGE OR DEGRADE THE SOIL IN WHICH IT GROWS?

Eucalyptus **does not damage the soil; on the contrary; it improves it**. With respect to fertility, eucalyptus does not produce substances that are toxic to soil; it is the other way around. The waste that is crushed and absorbed by the ground, such as branches, dried leaves and bark, creates nutrients. Some studies have shown that in Huelva, specifically, the nutrients provided by the eucalyptus tree are more balanced than those of the cork and holm oak and superior to the nutrients provided by the pine tree. Furthermore, the eucalyptus extracts fewer nutrients from the soil than other forest species. When planted in unused and damaged land in Mediterranean and subtropical regions, it improves the fertility of the land and restores the soil.

With regard to erosion, the eucalyptus tree acts as a plant cover to protect soil from the erosion caused by rain and regulates the flow of water, thus helping to prevent flooding and river flow regimes.

2 DOES THE EUCALYPTUS TREE REDUCE WATER SUPPLY?

The eucalyptus makes efficient use of water. Although it is a lush species that grows quickly, in spite of this it makes efficient use of water: its water balance is better than that of conifers and much better than any agricultural crop. In addition, the characteristics of its crown, the arrangement of its branches and the shape of its leaves enable more water to reach the soil than other species, thus facilitating the recharge of groundwaters.

The vertical position and shape of the leaves, along with the natural wax that covers them, mean that the tree makes more efficient use of fog water. Its roots are shallow and shorter than those of other native species, which means that the eucalyptus does not dry up deep groundwaters.

3 ARE EUCALYPTUS PLANTATIONS UNSIGHTLY FOR THE LOCAL COMMUNITY?

We take every care to minimise its visual impact on the landscape. Planning and reforestation projects include landscape management measures to reduce the visual impact of the plantations, which are nevertheless temporary. The Ence Group works with Silvasur, Norfor and the universities of Huelva and Vigo in the management of the landscape and the visual impact of its operations in order to promote pioneering projects in the management of eucalyptus forests.

4 ARE EUCALYPTUS PLANTATIONS A HAZARD IN SENSITIVE AND PROTECTED AREAS?

The Ence Group not only manages eucalyptus plantations, it also maintains and strengthens natural ecosystems and areas of high conservation value, such as cork and Mediterranean forests. In every region in which it operates, it has identified categories of protected areas: the Natura 2000 Network, Sites of Community Interest and Special Protection Areas for Birds. The aforementioned categories of natural, socio-cultural and unique heritage items identify and assess the unique habitats and landscapes, natural spaces, cultural heritage and areas of recreational value in the forests managed by Ence.

5 IS THE EUCALYPTUS AN INVASIVE SPECIES THAT HAS AN ADVERSE EFFECT ON BIODIVERSITY?

The eucalyptus promotes biodiversity and protects natural forests. In Spain, the eucalyptus tree is adapted to its environment. It is planted in forest areas with damaged or hitherto unused soil and protects it. It creates new natural spaces for the development of wildlife. In northern Spain, for instance, the roe deer has propagated in the eucalyptus plantations in Lugo and La Coruña. In the south-west, it has become a habitat for herbivores like deer and rabbits, as well as partridges, woodcocks and various birds of prey.

The eucalyptus does not wipe out other plant and tree species; it is the action of man that destroys the flora and fauna by not taking sufficient care of them. Accordingly, the Ence Group has implemented a system to ensure the forest's regeneration capacity, its vitality, and the preservation of its present and future environmental, social and economic functions. Alongside this, we maintain adequate and sustainable levels of biodiversity in our plantations, in accordance with the guidelines established by the FSC. Good forest management enables the development of biodiversity.

Forestry operations include, among other things, wildlife surveys to ensure that our activity is not having a negative impact on their habitat. The Ence Group's forest management system currently entails the identification and classification of unique heritage items, which are published in a company-funded catalogue that includes 173 elements of notable ecological, social, historical and cultural value.

The objective of this work is to align land use planning with management techniques. Improvement and preservation work includes a number of preventive measures such as erosion control in forests. When cultural heritage assets like the dolmen of Coto Muiño or the prehistoric rock carvings of Campo de Cuñas in Pé da Mua are discovered, studies are carried out and measures are taken to ensure their conservation.

7 DOES THE EUCALYPTUS PROMOTE AND SPREAD FOREST PESTS AND DISEASES?

Proper sanitary control reduces the risk of pests. At Ence, we are aware of the danger of allochthonous insects, which is why we have a Comprehensive Pest and Disease Control Plan that includes a combination of biological controls, selective products and other measures. Specifically, Ence's pest control system promotes the use of non-chemical methods based on three biological actions:

- Strengthening the forest area to make it less vulnerable to attacks by pests.
- Elimination of undergrowth.
- Production of parasitoids against the agents causing the diseases: *Gonipterus scutellatus* and *Phoracantha semipunctata*.

In Huelva, pest control levels are as high as 85%.

6 ARE EUCALYPTUS PLANTATIONS VERY SENSITIVE TO FIRE?

The eucalyptus tree reduces the risk of fire. Like any other plant species, it burns easily, but the fire does not spread as quickly as in other species like the aleppo pine, maritime pine, radiata pine, shrubs and undergrowth.

The Ence Group has designed and implemented a Forest Fire Prevention Plan in every area of activity, which is integrated into its other forestry and harvesting activities. The plan sets out basic guidelines and procedures in the event of a fire, in addition to prevention tasks and other measures to ensure compliance with current legislation.

Prevention efforts include proper forest management, regularly cleaning and removing undergrowth, bark, leaves, twigs and dried fruit shells, some of which are used as biomass to generate energy and which, once removed from the forest, are no longer a potential fuel in case of fire. The plantations also have tracks and firewalls to enable fire fighters to act quickly and effectively and to prevent the fire from spreading. A well managed eucalyptus plantation actually protects our forests against the risk of fire.

Every year, forest fires affect between 0.2% and 1.6% of Spanish forest lands. Biomass helps to reduce the risk of fire as it entails the regular cleaning of forests, the collection of agricultural waste and the pruning of fruit trees.

Because the Ence Group removes forest waste for use in biomass, its incidence of forest fires is up to 71% lower than that recorded in the whole Spanish national forest.

SUSTAINABLE FOREST MANAGEMENT

The forestry operations carried out by Ence are regulated by a **Comprehensive Forestry Management System** which establishes the actions to be taken to achieve rational use of all the goods and services from the forest, both from a production and an environmental and social point of view. This system heeds the requirements of the FSC and PEFC forestry certification schemes, as well as environmental (ISO 14001), quality management (ISO 9001) and occupational health and safety (OHSAS 18001) standards.

Ence's commitment to forestry management materialised in 1997 with the drive from the 'Elvas Iberian Declaration' on the triple function of forests. Since that time we have developed a **Sustainable Forest Management System which is pioneering in Spain**, which has objectives of maintenance and strengthening of production, ecological and social functions of the forest: the production of wood and biomass as the main production orientations; protec-

tion against environmental risks (pests, fire, erosion) and the promotion and development of the biodiversity of native forests; and the generation and distribution of profits, as well as the production of other goods and services of high social value.

This system is based on establishing Forestry Planning Projects and the development of the Reforestation and Use Technical Plans, the Continuous Forest Inventory, management inspections and audits and other instruments of the Comprehensive Quality and Environment System at a greater level of detail. Additionally, the execution of an Excellence in Management Project (Total Quality Management, TQM) reinforces the achievement of the objectives set, through efficiency in the performance of all the processes involved.

Hence, the **Planning Projects**, as technical planning documents, objectives, priorities and technical criteria for management based on land analysis and precise knowledge



Ence's
comprehensive
forestry management system
integrates management
carried out with FSC, PEFC,
ISO 9001, ISO 14001, and
OHSAS 18001 standard
requirements

of its potential and limitations, analysing the impacts of action which determine the choice of the best alternatives and associated decisions.

Associated to the Planning Projects are the **Technical Re-forestation Plans and the Technical Exploitation Plans** as tools which, at the detailed level, identify the actions to be carried out in the field according to the general objectives and in accordance with a detailed analysis of the land, including the consideration of elements such as relief, landscape, protection statuses, the existence of exceptional elements, etc.

The **Continuous Forest Inventory** is the main tool for controlling knowledge about forest status and its evolution, enabling annual characterisation of forest growth and stocks and the recording of basic parameters on them related to their plant health status. Complementary tools are the controlled use of **phytociodes** and the **checking of forest health and vitality status**, verification of **protective functions** and consideration and **inventory taking** of the peculiarities of each forest. As a result of this monitoring exercise, environmental **risks can be identified** and the appropriate **corrective and preventive measures** taken.

Ence's forestry management includes, as one of its main elements, the identification and characterisation of exceptional elements in heritage areas, collected in a company catalogue which includes **251 elements** of high ecological, social or historical/cultural value.

Not only does Ence's management take environmental sustainability criteria into consideration; we also promote the **development of local communities**. Forestry companies create jobs and have other economic and social benefits, such as livestock farming, beekeeping, hunting, fishing and activities that evolve around the natural and scenic values of the forest, in addition to environmental training and research. The group of activities which Ence carries out in the rural environment contribute to setting and diversifying income and, with this, to the development of rural areas.

UNIQUE HERITAGE ITEMS

Exceptional spaces	
Natural forests	3
Semi-natural forests	5
Exceptional habitats	5
Other	2
<hr/>	
Exceptional flora and fauna	
Exceptional trees	2
Protected species	104
Remnant species	2
Others	2
<hr/>	
Exceptional cultural items	
Moveable property	13
Archaeological elements	84
Architectural elements	15
Other	14



CERTIFIED SUSTAINABLE FOREST MANAGEMENT

In 2011, the Ence Group forested 6,315 hectares, 3,014 of which were earmarked for the production of pulp. The remaining 3,301 hectares – almost three times the level of the previous year – were allocated to the cultivation of energy crops.

Ence's forestry management is regulated by a Comprehensive Forestry Management System which documents and traces each and every one of its actions, which has enabled us to obtain **sustainable forest management certification for our forests** on the Iberian Peninsula and in Uruguay, in accordance with the strictest and most advanced international standards, such as the **ISO 14001 standard** and the **PEFC** (Programme for the Endorsement of Forest Certification schemes) and **FSC** (Forest Stewardship Council) systems.

Sustainable forest management certification guarantees that the actions taken do not compromise forest viability nor its persistence, such that they are an environmentally responsible, socially beneficial and economically profitable

**In 2011
we almost tripled
the area
allocated to energy
crops**

actions. Additionally, voluntary acceptance of sustainability standards and requirements commit Ence to avoiding the use of wood from **illegally exploited** sources, from the destruction of natural forests, from zones in which the rights of the population are infringed, from genetically modified trees or from areas of high ecological value which could be threatened by forestry operations.

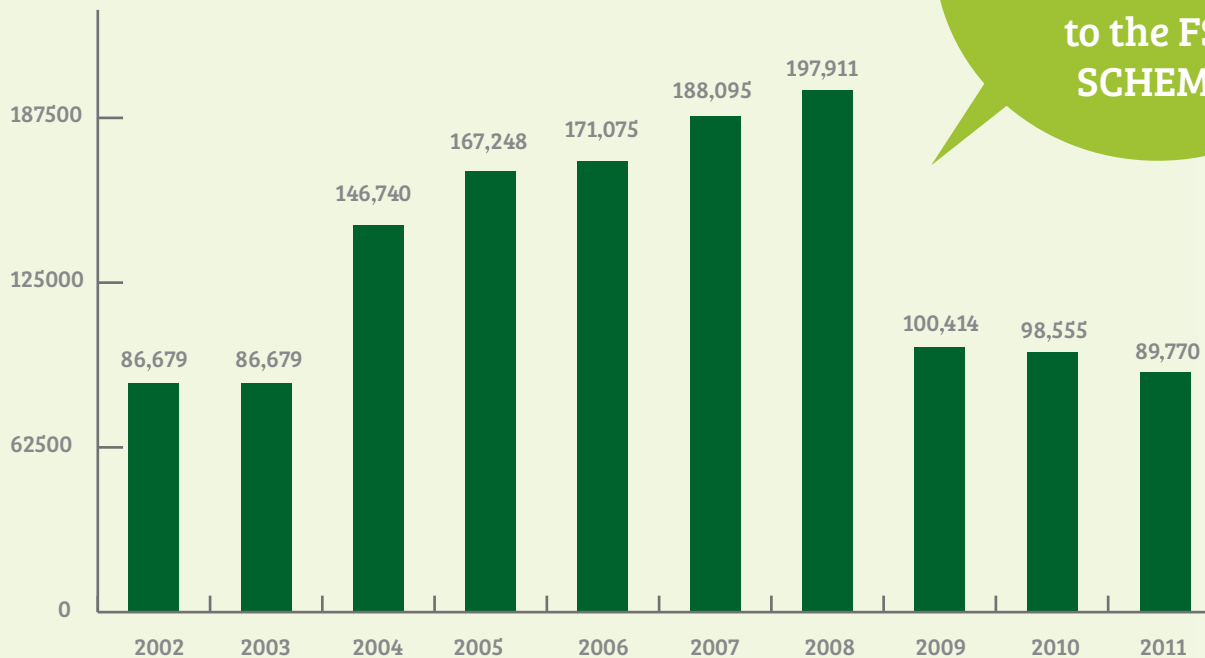


The Ence group has always been, and still is, **a promoter and driving force behind forest certification in Spain**. Ence's forestry subsidiaries, Silvasur and Norfor, were the **first two companies** in the Iberian area to obtain PEFC certification in June 2002 and form **the largest private forest area certified by the FSC in Spain**. This commitment remains and is extended in time by means of collaboration with Certification schemes, promotional activities and agreements with private and public organisations to promote forest certification.

The extension to forest certification is **Chain of custody**

certification, a traceability mechanism which permits **demonstration of controlled origin of the wood and guarantees** exclusion of wood from **controversial sources** in our production processes. We therefore contribute to the sustainability of the **entire production chain**: from the forest to the pulp plant, from our customers to the paper manufacturer, and from here to the end consumer.

Currently, in spite of the divestment carried out in Uruguay in 2009, Ence's certified area varies between 90,000 and 100,000 hectares, depending on the syndicated and leased land managed.



In 2011
Ence had
51,691.53 hectares
certified according
to the FSC
SCHEME

Certified area (Ha)

Our forest assets in Spain are fully certified by the PEFC and partially by the FSC. During 2011, nearly 20,000 hectares in the province of Huelva achieved certification by the FSC, raising the combined area managed by Ence and certified by the FSC to 23,873 hectares. The PEFC certified area at the end of 2011 totalled 61,951 hectares.

Ence’s plantations in Uruguay, through the Sierras Calmas subsidiary, are PEFC and FSC certified (27,819 hectares) and PEFC certification is expected throughout 2012.

CERTIFIED AREA (HA)					
Company	Total Area (Ha)	PEFC		FSC	
		Area	% PEFC	Area	% FSC
Ence-Energía	4,670	0	0	0	0
Ence-Energía-Huelva	11,707	8,475	72	3,052	26
Ence-Huelva	51,166	41,685	81	17,121	33
Ence-Norte	13,108	11,769	90	3,699	28
Ence-Portugal	4,539	0	0	0	0
Ence-Uruguay	28,158	27,770	99	27,819	99
TOTAL	113,348	89,770	79	51,691	46



Of the total forest area managed by the company, around 29,300 hectares (nearly 26%) are various types of natural forests. Furthermore, 5,668 hectares have been declared forests of high conservation value (MAVC) and 17,725 hectares are located in areas that have been officially declared natural protected areas by the competent authorities.

MANAGED AREA (HA)							
Company	Total Area	Natural Forests		MAVC		Protected Natural Areas	
		Conservation Area	%	MAVC Area	%	Protection Area	%
Ence-Energía	4,670	107	2	0	0	361	8
Ence-Energía Huelva	11,707	0	0	0	0	0	0
Ence-Huelva	51,166	15,655	31	5,448	11	11,661	23
Ence-Norte	13,108	1,650	12	330	2	596	5
Ence-Portugal	4,539	508	11	0	0	3,532	78
Ence-Uruguay	28,158	11,427	41	0	0	1,576	6
TOTAL	113,348	29,437	26	5,668	5	17,726	16



SUSTAINABLE FOREST MANAGEMENT SYSTEM IN URUGUAY – SIERRAS CALMAS

- The forestry management units of Sierras Calmas in Uruguay are located in the east of the country, primarily occupying the departments of Lavalleja and Rocha and, to a lesser extent, Canelones and Florida. In addition to managing the assets, **the Ence Group also administers plantations on behalf of third parties** through consortia and leasing, as well as standing timber.
- The commitment to the forest and the people who work in it for Sierras Calmas has led to the development of an **Integrated Management System**, which ensures respect for the environment in accordance with sustainability criteria: maintaining woodland biodiversity, its capacity for recovery, its viability and capability to fulfil ecological, social and economic functions now and in the future.
- Sierras Calmas has a number of **strategic objectives**, which entail:
 - Sustainable forest management of plantations
 - Production of wood of sufficient quality and quantity to meet demand
 - Continuous improvement in performance relating to:
 - Environmental aspects
 - Occupational health and safety aspects
 - Social aspects
 - Research and development: genetic improvement, forestry practices, etc.
 - Project profitability
 - Development and maintenance of an Integrated Management System.

For further
information on
Ence's sustainable forest
management, visit
the website:
[www.ence.es/
forestal.html](http://www.ence.es/forestal.html)



EUCALYPTUS PLANTATIONS AS CARBON SINKS

- Compared to other species, eucalyptus is particularly efficient in CO₂ capture, carbon fixation and oxygen generation. This is due to the fact that it has a higher growth rate and its wood is denser, thus enabling it to retain more carbon per unit of volume.
- An individual tree's potential multiplies exponentially in the case of a forest mass, as all trees have a higher carbon fixation rate in their first years of life. The forest mass effect is beneficial for the species (an isolated tree survives worse) and the better they grow, the more carbon they fix. If, in addition, a species is induced to grow faster, it will grow more quickly and fix even more carbon.
- Furthermore, eucalyptus plantations rejuvenate with each felling and, as this occurs every 10 to 15 years, the forest mass is always young and has a high carbon fixation rate: it is extracted and the carbon fixation repeats up to three times.
- Eucalyptus plantations are therefore an effective solution to deforestation. They have the ability to act as the planet's "spare lung" but only occupy 0.8% of its surface compared to the 34% used for agriculture.



REFORESTATION AND CO₂ CAPTURE

The Kyoto Protocol recognises that plantations and **forests**, along with the ocean, **are the largest carbon sink in the world**. The development and maintenance of actively growing and healthy forests means that the net fixation of carbon dioxide (CO₂) takes place in the wood itself, the biomass and the soil. Therefore, all actions aimed at the promotion of our plantations and forests have a positive effect on the environment.

Power generation **emits less CO₂ than the amount captured** from the atmosphere by the tree crops used to generate the power. Furthermore, the CO₂ capture process is **particularly efficient in forest energy crops** and the **full CO₂ emission cycle** in the construction and operation of a biomass plant **is more favourable** than that of other renewable energies. The development of biomass energy in Spain could allow CO₂ savings of up to 12 million tonnes.

Furthermore, Ence's forestry operations in Uruguay are very important to the country, and its **positive role in carbon fixation of has been expressly recognised**. The National Inventory of Greenhouse Gases of Uruguay, prepared by the Ministry of Housing, Zoning and the Environment, estimates that **23 million tonnes of carbon** are retained as a result of forestry and the change of use of the land.



**OUR COMMITMENT TO
R&D+I. THE FORESTRY FIELD**

The Ence Group improves the productivity and efficiency of its plantations through the **selection of species and the genetic improvement of propagation materials** and the most **appropriate forestry practices** for the cultivation of eucalyptus in each region.

The use of **selected plants** in plots in the province of Huelva has enabled us to double their growth and these improvements are being implemented successfully in new plantations under development. The result manifests itself in an increase in the adaptation to the setting and increased productivity.

R&D+i activity in 2011 was structured according to the following lines of action:

BIOMASS AND ENERGY CROPS

2

- Energy crop improvement programme.
- Residual biomass utilisation improvement programme.
- Assessment and characterisation of forest waste for use as fuel.

WOOD:

1

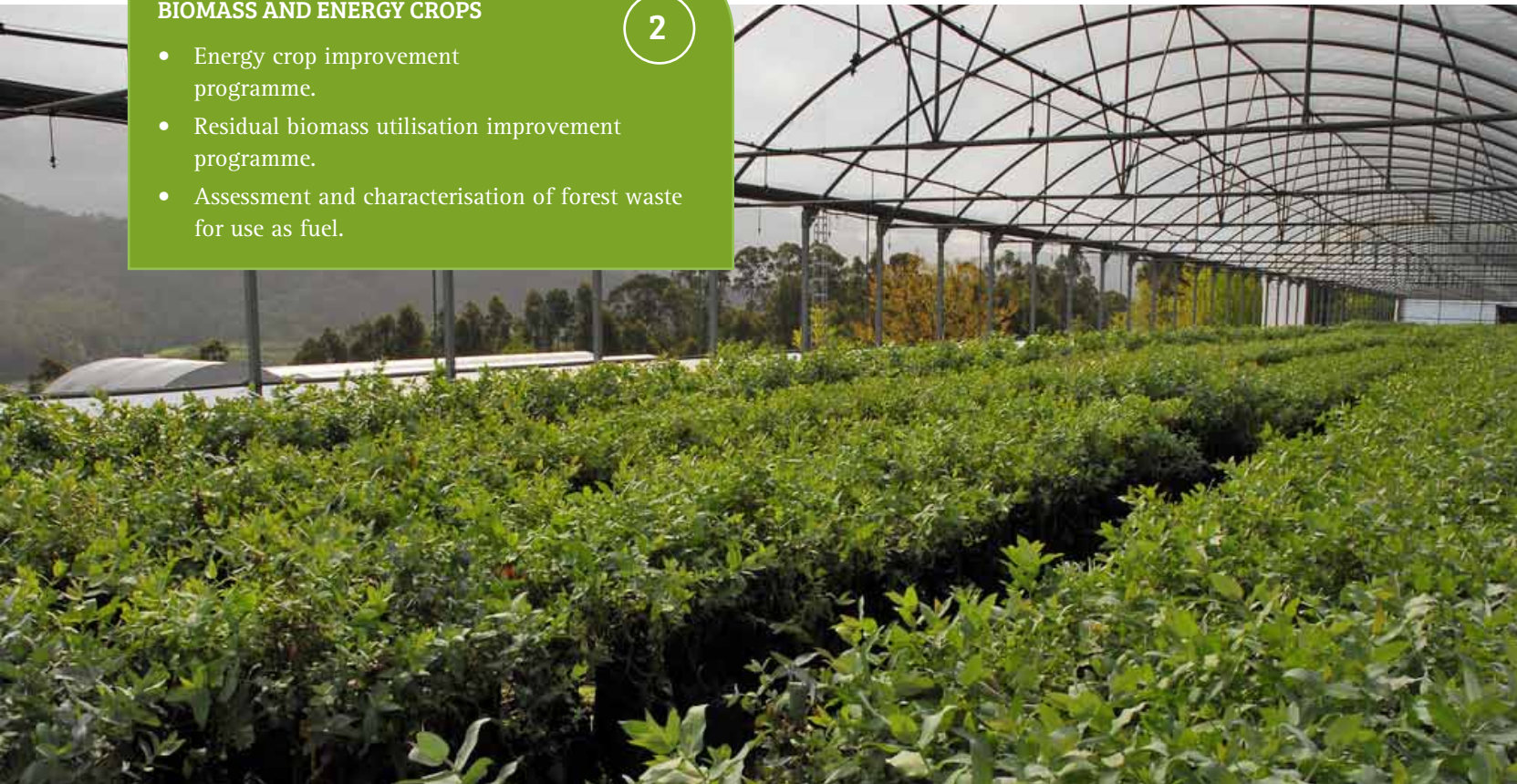
Forestry research focuses primarily on the improvement of forest species for the manufacture of pulp.

- Genetic improvement programme involving the selection of individual species best adapted to the conditions of each soil.
- Forestry improvement programme to improve the growth and productivity of plantations.

Utilisation improvement programme

TECHNICAL ASSISTANCE FOR FORESTRY

3







In 2011, we reviewed the forestry practice standards which form the guidelines for cultivating improved eucalyptus and implemented the best environmental and sustainable forest practices in the different geographical regions where we operate (north and south of the Iberian Peninsula and Uruguay). Forestry standards allow the transfer of R&D+i to operations in the case of new fertilisation tests, soils and pest control, etc.

In addition, the Ence Group's **Forestry Research, Development and Innovation Plan** was consolidated for the improvement of Energy Crops and the Utilisation of Waste Biomass.



ENCE'S FORESTRY RESEARCH, WORLD LEADER IN ENHANCED EUCALYPTUS

- 
 Ence's nursery in Huelva has developed a **world pioneering technique** for the production of **improved white eucalyptus plants** from the cuttings of trees that have proven to perform better in the field. The technique was developed by **Ence's Forestry Research Centre in Huelva** and was used to produce an annual average of 7 million plants to meet the company's forestry needs.
- 
 This is how the trees Ence grows in all of Spain for the supply of wood to its three paper pulp and electric power factories are produced. The company's R&D+i management team **monitors** the behaviour of these trees, improving and increasing their production capacity and ability to sustainably adapt to the forest lands where Ence produces the timber it needs.
- 
 The first **benefits** derived from using the improved plants produced in Huelva are adaptation to the local ecological conditions, resulting in a **significant increase in wood productivity**, in some areas even tripling the results obtained with plants from seeds. The use of what we call "plus" trees, coupled with forestry practices that bring out their full potential, produce more uniform forest lands made up of individual trees that adapt better to the different climate and geological conditions and soil characteristics.
- 
 The success of the technique lies in a strict control of factors such as humidity, temperature and sunlight. Although the technique has been fully developed, Ence's Forestry Research and Technology Centre and the Nursery in Huelva have a **continuous improvement** policy in place to **achieve better genetic materials** and to continue increasing the rooting rate and efficiency of plants during growth.

2. PULP

The Ence Group uses the best available techniques and best environmental practices to produce pulp and paper in accordance with the principles of continuous quality improvement and efficiency.

Our management system combines respect for the environment and the prevention of pollution with the health and safety of people.

KEY FIGURES

- 🌿 Pulp production reached the record level of 1,243,108 tonnes in 2011, a 7% increase over 2010.
- 🌿 The Group's three factories in Spain (Huelva, Navia and Pontevedra) have been awarded ISO 14001 certification and have been validated in accordance with the Eco-Management and Audit System (EMAS).
- 🌿 Our fuel consumption fell to 51.04 kg/ADT in 2011, 13.78 kg/ADT less than in 2010.
- 🌿 Between 2002 and 2011, we recovered a considerable amount of waste (70.7 kg/ADT), which was higher than the amount of waste sent to disposal sites.
- 🌿 We have reduced specific CO₂ emissions per tonne since 2008.
- 🌿 In 2011, we emitted 474,217 tonnes of CO₂, which represents a decrease of almost 2,721 tonnes compared to 2010.

2011 ACHIEVEMENTS

- 🌿 We continue to make significant investment to reduce odours in our pulp plants.
- 🌿 We implement measures to save water: exploitation of intermediate condensates, cooling towers, the reuse and partial closing of circuits.
- 🌿 We implement the Best Available Techniques (BATs), such as the dry debarking of trunks, extended firing at low kappa levels and oxygen delignification, etc.
- 🌿 The efficiency of our management system is shown by the certification of our centres on the Iberian Peninsula.

2012 GOALS

- 🌿 Reduce the odours caused by sulphur, nitrogen and dust particles in the air by 50% in our factory in Pontevedra.
- 🌿 Continue to reduce specific consumption of wood and water and establish a continuous improvement strategy.
- 🌿 Incorporate new Best Available Techniques and Environmental Practices in order to increase efficiency.
- 🌿 Retain ISO and EMAS Environmental Management Certification in our plants in Spain.



OUR APPROACH TO SUSTAINABILITY

ECONOMIC PERFORMANCE

- We maintain our position in the European paper industry as a strategic supplier of eucalyptus pulp.
- We maintain our leadership in the printing, writing paper, tissue paper and speciality paper segments and have strengthened our position with the leading paper manufacturers.
- We have strengthened our presence in emerging markets such as Eastern Europe and the Mediterranean countries.

SOCIAL PERFORMANCE

- Occupational risk prevention has been integrated into our management system.
- We fulfil our commitments to our customers, workers and society, implementing criteria of product and process quality, efficiency, environmental management and dialogue with agents of the local settings of our industrial complexes.
- We use eucalyptus as a raw material, which is highly rated by the manufacturers of printing and writing paper.

ENVIRONMENTAL PERFORMANCE

- Our industrial plants hold ISO 14001 certification and we have validated our Environmental Statements in accordance with EMAS.
- Our bleaching processes are Elemental or Total Chlorine Free (ECF or TCF). Furthermore, Ence's factory in Lourizán is one of only two plants in the world that bleaches paper pulp without using chlorine or chlorine compounds.
- We invest and take measures to increase energy efficiency in our factories.
- We use all of the raw material used in pulp and paper production, and all non-cellulosic biomass is used for power cogeneration.
- We save in fuel consumption, thus mitigating climate change, reducing economic costs and preventing sulphur dioxide emissions.
- We develop and implement so-called Best Available Techniques (BATs). This consequently leads to greater process efficiency, lower economic costs and the least possible impact on the environment.



CLEAN AND EFFICIENT PRODUCTION

We manufacture the following types of paper pulp: cardboard and paper for packaging; special paper, such as thermal, adhesive and carbonless papers; paper that is in contact with food and papers and pulp-based products for health and hygienic uses.

Such a wide variety of uses means that we have to meet specific requirements, particularly in the areas of health, hygiene and food. As a result, our products and the pulp production process have to undergo numerous quality controls.

The pulp and paper industry pioneered the development and implementation of what are known as Best Available Techniques (BATs). This consequently leads to greater process efficiency, lower economic costs and the least possible impact on the environment. The Best Available Techniques, or BATs, in the pulp and paper industry are set out in the official EU Best Available Techniques reference document (BREF), which was developed pursuant to the IPPC (Integrated Pollution Prevention and Control) regulation. The Ence Group actively participates in the review and updating of the BREF through Aspapel. Further information on the subject is available to the public on the European Union website: <http://eippcb.jrc.es>.

The Ence Group has incorporated the Best Available Techniques (BATs) and Best Environmental Practices (BEP) into its production processes. These include the following, among others:

We use
the Best Available
Techniques in
our production
processes

- Dry debarking of trunks.
- Extended firing at low kappa levels.
- Oxygen delignification.
- Elemental Chlorine Free (ECF or TCF) bleaching.
- Efficient process control.
- Condensate treatment (stripping).
- Collection and treatment of odorous sulphur gases.
- Emission reduction through the use of electrostatic precipitators.

As a result of the implementation of these BATs and compliance with the IPPC regulation, our factories in Huelva, Navia and Pontevedra have held the mandatory Integrated Environmental Authorisation since April 2008.



SUSTAINABLE PULP PRODUCTION

Ence's pulp production process is carried out in accordance with **Ence's management principles** and **sustainability and continuous improvement** strategy. Our management system is process-oriented and includes aspects such as quality, efficiency and sustainability.

In 2011 we continued to promote the complete integration of product and process quality and health and safety into our environmental management system, thus fulfilling the commitments made to our customers, employees and society.

We have
reduced
specific consumption
of wood,
energy
and water

The effectiveness of this management system is demonstrated by the **continuous improvement in environmental performance** of our factories. Hence the environmental management of the Industrial Complex in Spain is certified by organisations accredited under **ISO 14001** Standard. The most representative environmental monitoring and control of our industrial activity are also recorded in each complex's Environmental Declarations.

Fuel consumption (kg/ADT)



MOST REPRESENTATIVE PARAMETERS	PARAMETER VALUE	UNIT
Wood	3.18	m3/ADT
Water	36.79	m3/ADT
Fuel	51.04	kg/ADT
Electricity produced	717	kWh/ADT
Non-hazardous waste to disposal site	66.2	kg/ADT
Hazardous waste	0.8	kg/ADT
CO2	0.38	t/ADT
DQO	16.2	kg/ADT
NOx	(?)	kg/ADT
S (total sulphur, including SO2 and SH2)	(?)	kg/ADT

The Group’s three factories in Spain (Huelva, Navia and Pontevedra) have had their statements validated under the Eco-Management and Audit System (EMAS) in accordance with European Union Regulation 1221/2009. The three factories were the first in their respective Autonomous Communities to undertake this voluntary commitment, which few other companies have done to date. In all cases, the values of the regulated parameters comply with the legal limits and in some cases are well below them.

Implementation of the BATs has significantly improved these parameters. All of our factories have recorded a **reduction in the specific consumption of energy, water and raw materials**. The table below shows the most representative parameters and the values for 2011. These are expressed in kg per load or m3 consumption per unit of production, as is customary in the sector. The unit of production (ADT) is the “air dry” tonne and always refers a dry solids content of 90%.





WOOD CONSUMPTION

The wood we use comes from safe and controlled sources, and is used as efficiently as possible in our processes. By adjusting the processing conditions to each batch of processed wood, and using extended firing at low kappa, we are able to optimise this resource and keep specific consumption at minimum levels.

We maintained our wood consumption in 2011.

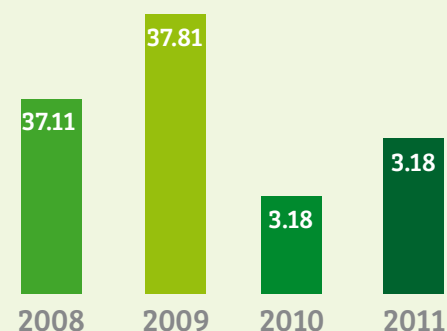


WATER CONSUMPTION

The Ence Group has the authorisations required to withdraw water for use in production and this does not have a significant effect on the environment.

FUEL CONSUMPTION

Another important consumption is the fossil fuel used in furnaces and boilers. Reduced fuel emissions help to mitigate the effect of climate change, reduce economic costs and prevent the emission of sulphur dioxide (SO₂). Our **fuel consumption fell to 51.04 kg/ADT** in 2011, 13.78 kg/ADT less than in 2010.



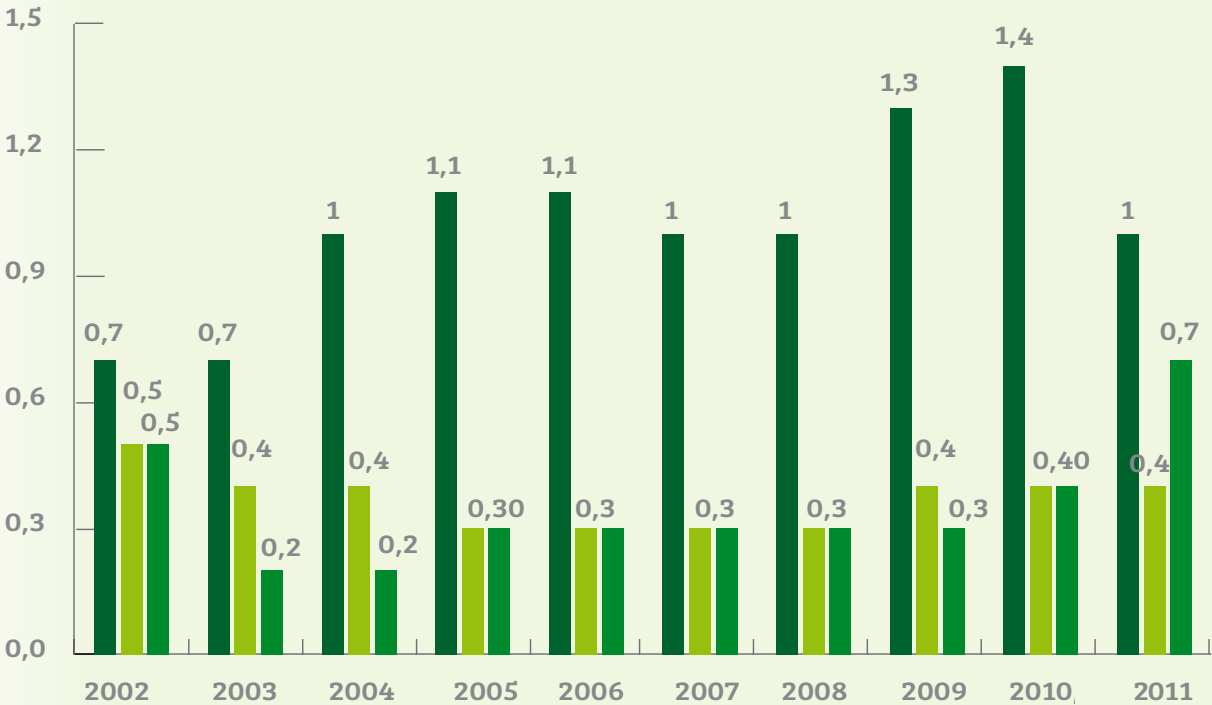
ENERGY PRODUCTION

With regard to energy production and consumption, the factories generate the energy required for operations and export any surplus to the national electricity grid. Energy production per unit of production decreased slightly from 730 kWh/ADT recorded in 2010 to 717 kWh/ADT.



ATMOSPHERIC EMISSIONS

Emissions to air during normal factory operations are within the legally established limits and particle emissions actually decreased during the period covered in this report. **Overall emissions of sulphur** (S, total sulphur, including SO2 and SH2 emissions) and **oxides of nitrogen** such as NO2 are within the **BREF reference values** (0.4 and 1.0 kg/ADT, respectively), and are **below** the **legally** established limits.

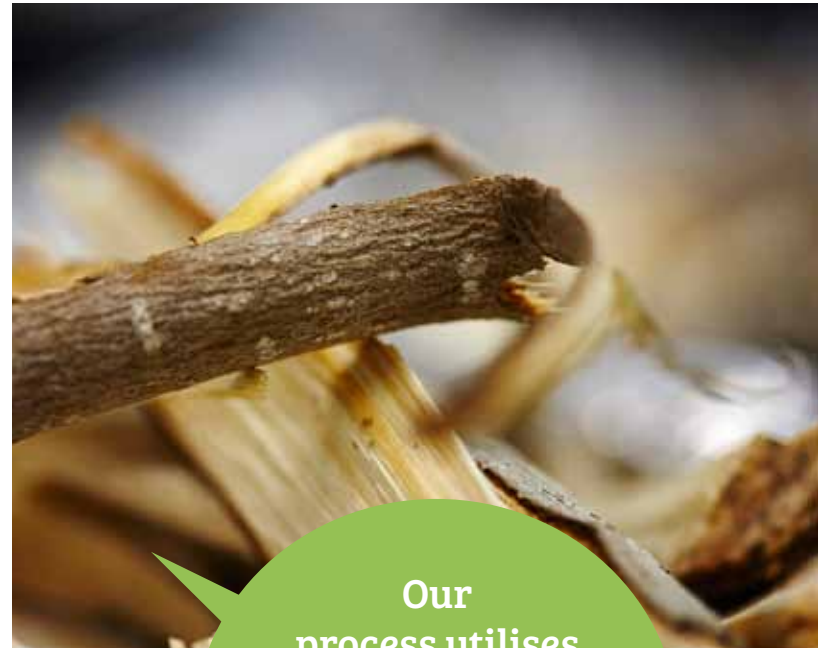


WASTE AND BY-PRODUCT MANAGEMENT

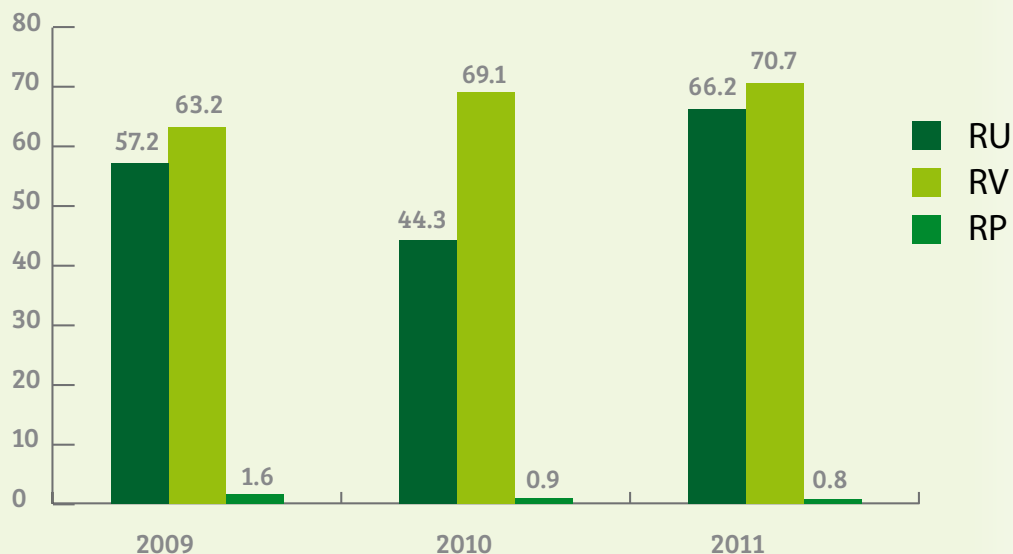
With regard to waste management, **all non-cellulosic biomass is used** for power cogeneration. The process itself does not generate any hazardous waste.

Waste is managed according to the **relevant legal requirements** and waste reduction and recovery programmes are implemented at source. Between 2002 and 2011, we **recovered a considerable amount of waste** (70.7 kg/ADT), which was higher than the amount of waste sent to disposal sites.

Hazardous waste is generated in **maintenance and auxiliary tasks** (basically used oil and absorbent materials) and occasionally by the packaging and remains of equipment that might be contaminated. The amount of hazardous waste per tonne of pulp produced in 2011 was **0.8 kg/ADT, which is less than in 2010**.



Our process utilises all the non-cellulosic biomass. No hazardous waste is generated.



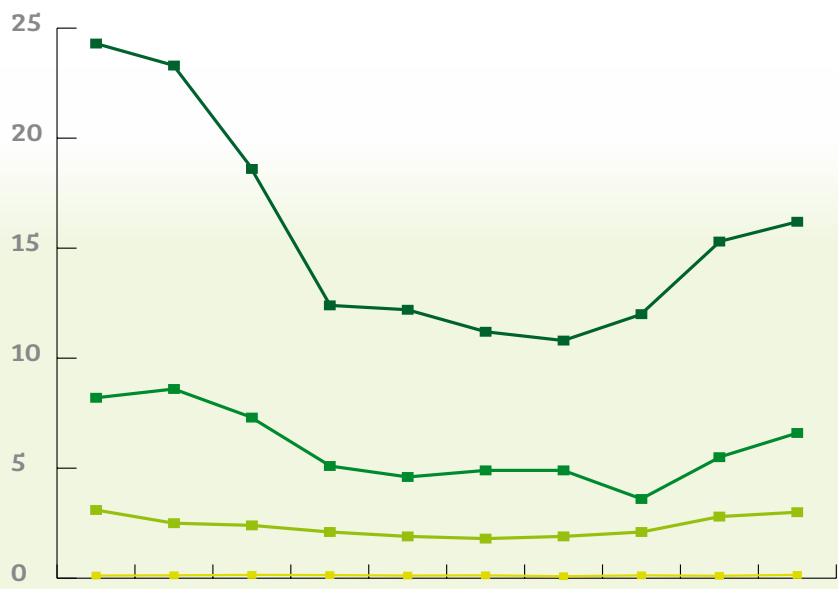
DISCHARGE MANAGEMENT

The most important environmental aspect in pulp production is liquid effluent. To **reduce the final effluent load per unit of production**, the company implemented measures to contain partial discharges, treat and use condensates with a high load and the primary and, when applicable, secondary treatment (activated sludge) of final effluent to sea.

Discharges to the receiving environment at the three factories in Spain are carried out using the appropriate piping and outfall, which facilitates dilution of the effluent and has the least possible impact on the environment. The receiving environment is monitored through programmes carried out by reputable specialised bodies or universities.

Liquid effluent parameters demonstrate substantial improvement in the 2002-11 period, with the **reduction in chemical oxygen demand (COD) over this period being the most significant**. COD is a measure of the polluting potential of an effluent, expressed as the oxygen needed to break down the organic material dissolved in this effluent.

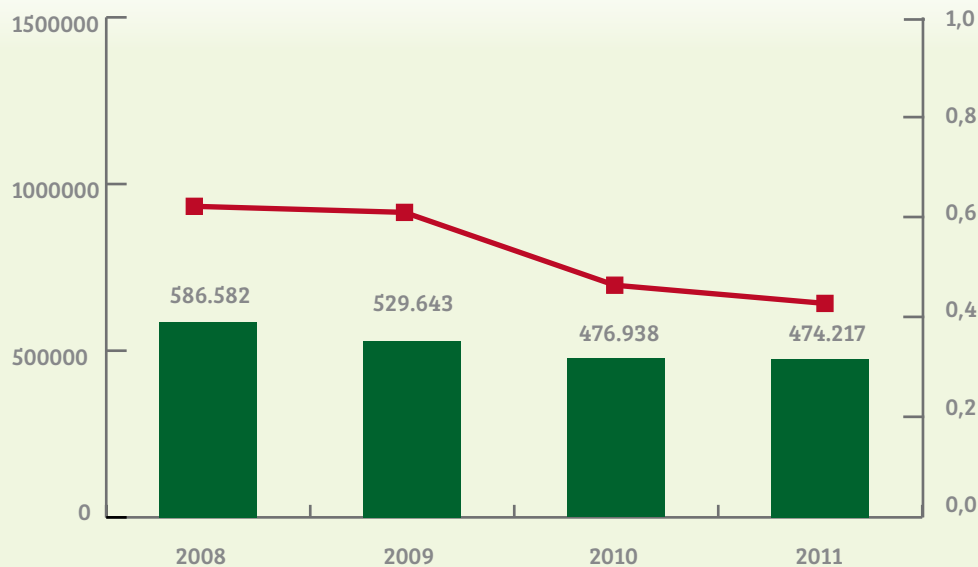
The aforementioned reduction in COD was achieved through the **improvement and optimisation of the treatment plants** between 2002 and 2011. **BOD** (Biochemical Oxygen Demand, indicative of the biodegradability of the effluent) **improved** at the same time. Solids also improved during the same period. This data demonstrates the continuous improvements that have been made to processes in Ence, which have been gradual, steady and sustained over time.



Liquid effluent parameters demonstrate substantial improvement over the 2002-11 period

— DQO
— DBO5
— TSS
— AOX

CO₂ EMISSIONS



The pulp and paper industry is regulated by the European Directive establishing a scheme for greenhouse gas emission allowance trading within the Community. **Ence's three Spanish factories** have therefore been included in the **National Allocation Plan for Emission Allowances** approved by the government of Spain. In compliance with the relevant legislation and the Kyoto Protocol, the Group's three factories have the pertinent Greenhouse Gas Emission Authorisations.

The allowances for 2010 were delivered in 2011 and the period closed with surpluses.

By **optimising the use of biomass and investing** to improve the efficiency of cogeneration, greenhouse gas emissions in the plants subject to the trading scheme decreased between 2002 and 2011. Specific CO₂ emissions per tonne also fell over the same period. In 2011, we emitted 474,217 tonnes of CO₂, which represents a decrease of 19.1% over 2010. The graph shows the evolution of CO₂ emissions from our affected facilities over the period from 2002 to 2011.

CONTROLLED USE OF CHEMICAL PRODUCTS

The Ence Group gives special consideration to the use of **chemical products**. Prior to their use, the company carries out an **assessment of the chemical** from the point of view of the quality of the end product and the safety and environmental implications of its use in our processes. We have procedures in place to regulate the transport, delivery, storage and use of each chemical substance.

We check to ensure that the chemical products we use **comply with** the EU regulation on chemical substances (**REACH**) prior to authorising their use. In addition, we actively participate in different consortia and working groups on this regulation, which helps us to classify the chemical substances and preparations and define the contexts in which they can safely be used.

The Ence Group's industrial production system is underpinned by research, development and innovation.

Our
commitment
to R&D+i.
Pulp
and paper

Research in pulp production focuses on the **continuous improvement of manufacturing processes** and, consequently, the end products and their continuous adaptation to market needs.

In the processing and production area, specifically, R&D+i efforts focus on **improving specific performance** through the introduction and implementation of innovations to **save energy** and **reduce wood consumption in firing** (through the adaptation of new continuous firing systems).

The Ence Group also researches and develops technology for **environmentally-friendly ECF and TCF pulp** in order to enhance the features and quality of the paper and to reduce the use of chemical products.

All of Ence's production plants have a dedicated Research, Development and Innovation unit devoted to the improvement of industrial processes and the development of pulp that meets our customers' needs.

We also have a **Pulp Research Centre** (CIE, at the Pontevedra factory) which has a pilot plant (firing/treatment/bleaching), four laboratories, a sampling warehouse and technical library. In addition, **two auxiliary pilot plants** in Navia (Asturias) simulate the firing/treatment/bleaching and refining of pulp processes and conduct trials on the use of paper for different industrial applications.






3. ENERGY




The Ence Group is the leading producer of renewable biomass energy. We operate 3 industrial plants that are capable of generating enough electric power to supply 540,000 households for one year.

Our management model affords the opportunity to reduce CO2 emissions and fight climate change. It also enables us to create employment in degraded rural areas, boost the countryside and provide a natural and renewable resource.




KEY FIGURES

-  The Ence Group has **230 MW** of installed capacity, making it the largest producer of renewable **biomass** energy in Spain.
-  Electricity production in 2011 was **1,521 GWh**, which represents an increase of **12%** over 2010.
-  Investment/R&D+i

2011 ACHIEVEMENTS

-  We have made new investments to increase installed power by 560,000 MWh/year.
-  Spain's biggest biomass plant, of 50 MW, went into service in September 2012 and construction of a new 20 MW plant in Mérida started in the same month.
-  We implement measures to optimise the use of biomass and invest to improve the efficiency of cogeneration in order to reduce greenhouse gas emissions.

2012 GOALS

-  Increase the production of renewable biomass energy by 160 MW in Spain and internationally, provided that the regulatory framework permits, thus bringing our installed power to 390 MW.
-  Construct 9 biomass electricity generation plants over the next 4 years, which will require investment of approximately € 450 million.
-  Continue to reduce greenhouse gas emissions through the implementation of mitigation measures, effective management and increased efficiency.



ECONOMIC PERFORMANCE

- At Ence, we are promoting renewable energy generation as, being a regulated industry, it provides stability to our operations and brings balance to the Group.
- Our full utilisation of the biomass not used for pulp offers clear economic advantages: we use a non-fossil resource as a fuel source, reducing risks associated with oil price rises.
- Biomass is the most stable renewable energy of all: it can be used to generate electricity 24 hours a day as it does not depend on the wind blowing, the sun shining or water flowing.
- At the Ence Group we contribute considerably to reducing Spain's high dependence on foreign energy sources.

ENVIRONMENTAL PERFORMANCE

- Biomass energy generation is carbon neutral.
- We utilise biomass efficiently.
- The use of biomass for energy generation reduces the uncontrolled dumping and burning of agricultural waste.
- We use the waste left over from energy generation.
- We provide a solution to the accumulation and elimination of waste for which there is no market by closing the forest-industry chain.

SOCIAL PERFORMANCE

- We operate 3 industrial plants that are capable of generating enough electric power to supply around 540,000 households for one year.
- We see power generation as an opportunity for socio-economic development.
- Biomass energy generation creates more employment than any other renewable energy source and gives new life to rural and agricultural areas
- Biomass energy generation has the potential to generate 2,000 million euros of income from employment and more than 80,000 jobs.



The generation of renewable energy from forest biomass is essential for the achievement of the targets set by the European Union in 2009 in the 20/20/20 Plan:

- 🍃 20% of EU energy consumption to come from renewable resources.
- 🍃 A reduction in EU CO₂ emissions of 20%.
- 🍃 A 20% increase in energy efficiency.
- 🍃 At least 10% of transport fuel must be renewable.

This is a marvellous **opportunity for Spain to promote the development of forest biomass** in our country and reap the social, economic and environmental benefits associated with its production and use. Biomass generation can contribute decisively to meeting Spain's targets: biomass could account for up to **70% of Spain's target under the European Directive**. In addition, the 2010-2020 REP sets the goal of 1,350 MW of installed power in solid biomass plants by 2020.

According to data from Spain's Energy Diversification and Saving Institute (IDAE), the country had a total **installed power of 533 MW for biomass** in 2010. Although this figure is positive, it is still far from the target set for 2020. At Ence we see this as an opportunity to grow and position ourselves as leaders in biomass power production in Spain.

The Ence Group has more than **50 years of experience** in the management of sustainable forest production. We operate 3 industrial plants that are capable of generating enough electricity to supply around 540,000 households for one year. This accounts for **more than 40% of the renewable biomass energy** generated in Spain. We **plan to increase biomass energy generation by 160 MW** in Spain and internationally, which would bring our installed capacity to **390 MW**.



Ence
produces more
than 40% of the
renewable bio-
mass energy
generated
in Spain

Our facilities
on the Peninsula
have obtained
Integrated
Environmental
Authorisation

THE HIGH OPPORTUNITY COST OF BIOMASS

Spain currently exports approximately **375,000 tonnes of firewood, sawdust and timber** to third party countries engaged in the generation of biomass energy. As a result, this:

• Reduces the contribution to meeting the **Kyoto and 20/20/20 Plan targets**.

- Spain foregoes the generation of 250-300 GWh of electricity from renewable sources.
- The emission of 105,000 tonnes of CO₂ in Spain cannot be avoided as this is what it takes to generate the equivalent amount of electricity with fossil fuels.

• Lower contribution to the **stability of energy supply**: If the biomass Spain exported had been used domestically, it would have enabled the installation of an additional 37.6 MW of biomass.

• Reduced contribution to **socio-economic development in Spain**:

- The investment required to generate the equivalent amount of biomass energy to exports would be € 98 million.
- The opportunity to create 370 direct jobs and 338 indirect jobs, generating annual income of € 9.5 million and € 8.6 million respectively, is foregone.
- In addition to income from employment, rural areas also forego potential income of €16.6 million per annum.
- If the exported biomass had been used for electricity generation in Spain, the country's balance of trade would have been €12.3 million higher per annum (savings of €10.4 million for not having to import energy and of €1.9 million for requiring fewer CO₂ emission allowances).



BIOMASS AND SUSTAINABLE DEVELOPMENT

ECONOMIC SUSTAINABILITY

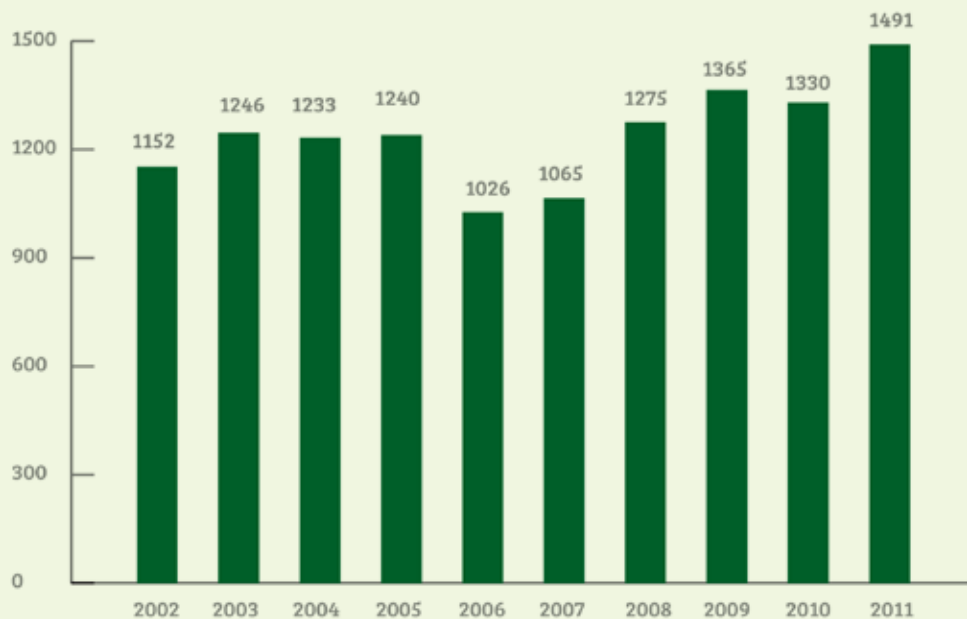
The Ence Group produces most of the electricity and heat it needs in industrial **operations through cogeneration**. This entails the cogeneration of thermal energy and electricity. This production model enables the achievement of **high performance** in fuel utilisation. Greater efficiency in power generation, coupled with a more **efficient use of energy in factories**, leads to **higher energy output to the national grid**. In addition to biomass, the Ence Group also uses natural gas (from the Celulosa Energía cogeneration plant in Huelva) and the fuel required to start the cogeneration units.

The **biomass** used as a raw material in our processes mainly comes from tree bark that is not suitable for the manufacture of pulp (solid biomass) and from the black fluid or residue left over after wood firing, which is comprised of lignin, water and the remains of the chemical products used in firing, which are subsequently recovered and reused in the process.

Ence produces more than 40% of the renewable biomass energy generated in Spain

This **full utilisation of the biomass not used for pulp** offers clear economic advantages: we use a non-fossil resource as a fuel source, reducing risks associated with oil prices.

The surplus energy produced by our plants is placed on the domestic electricity market. The amount of electric power sold to the national grid has increased substantially since 2002. **Electricity sales** in 2011 **exceeded 1.4 million MWh**. Electric power production in the Ence Group in the financial year was 1,490,664 MWh, which represents an **increase of 12%** over 2010.



New **investments** have been made in Ence to **increase installed power**, such as the 50 MW installed power expansion with a new biomass plant in our Huelva industrial complex, which came into service in September this year. Similarly, construction began of a new 20 MW biomass plant in Mérida during September.

In 2009, the Ence Group made the decision to open new biomass plants in various Autonomous Communities in Spain. These projects are currently at the development and contracting phase. The first factory to open will be a 20 MW-plant in Mérida.

In addition to the new Huelva plant and the aforementioned Mérida project, Ence is also developing **new plants** in Castilla y León (Melgar de Fernamental in Burgos and Villaturiel in León) and in Castilla-La Mancha (Ciudad Real). At the same time, the group intends to increase electrical power internationally, for which several projects are already being studied in Europe.

WE HELP TO PRESERVE THE ENVIRONMENT

CLIMATE CHANGE

The Ence Group shares society's concern about climate change. Accordingly, we have undertaken the **commitment to reduce CO2 emissions** from fossil fuels. We have developed policies for increasingly efficient use of energy in industrial processes and set targets to reduce and replace fossil fuels by **optimising the collection and use of biomass**. This renewable energy source is a viable means of reducing our energy dependence on oil and its by-products.

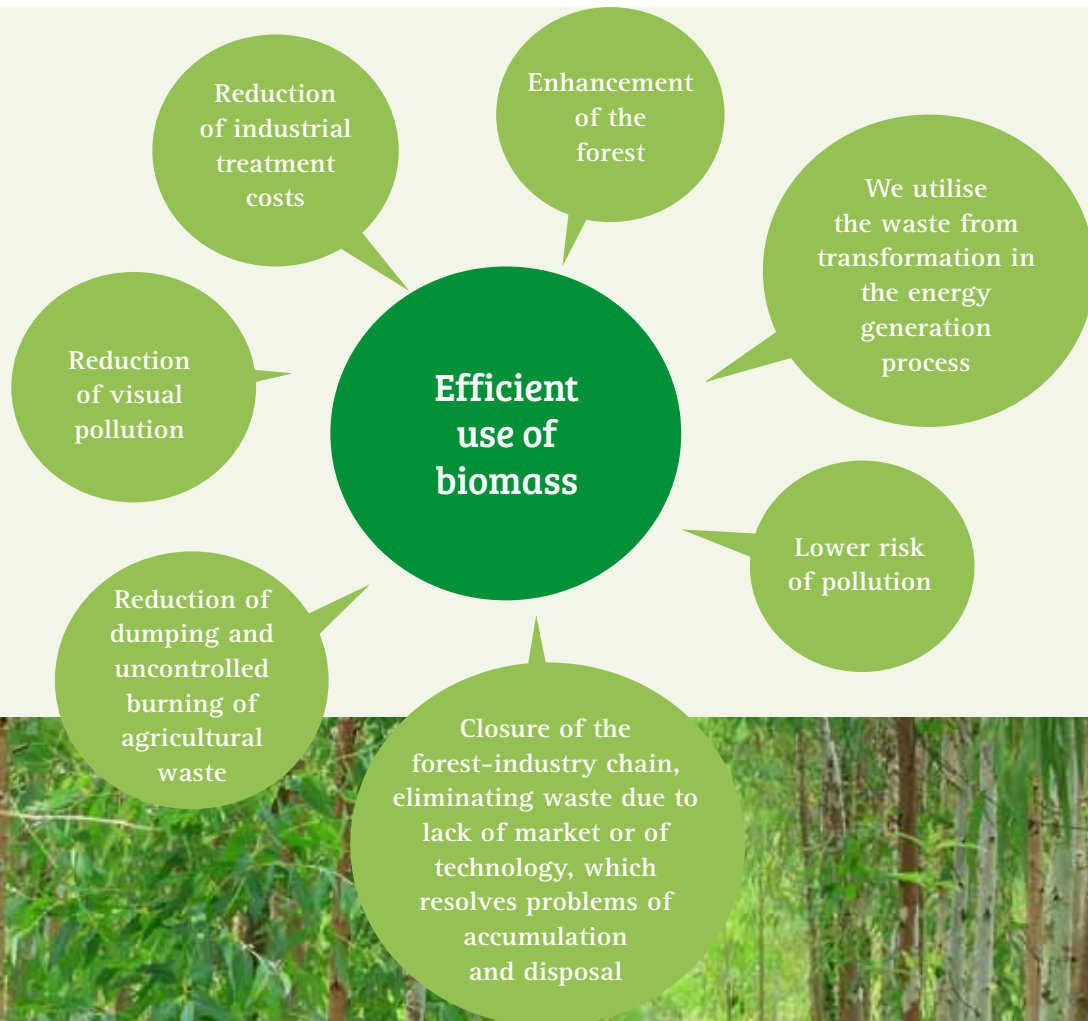
During the first commitment period, in 2008 and 2009 emissions actually increased due to the expansion of the facilities, especially at the plant in Huelva, which gave rise to a **higher demand for fossil fuel**, albeit temporarily. Nevertheless, the increase was significantly lower than



the amount allocated to the whole Group by the National Allocation Plan for Emission Allowances. We were able to **reduce emissions** per unit of production by operating the Navia plant to its full capacity, optimising the use of biomass and implementing energy saving measures in the plants developed since 2009.

REUSE OF FORESTRY, AGRICULTURAL AND INDUSTRIAL WASTE

With regard to the treatment of forestry, industrial, agricultural, farm and livestock and agro-industrial waste, the use of biomass has the following positive environmental effects:



SOCIAL COHESION

Recent studies on the socio-economic impact of the biomass industry in Spain have had surprisingly positive findings:

Biomass energy generation has the potential to generate € 2,000 million of income from employment and more than 80,000 jobs.



This contribution to employment is particularly valuable in the present context, considering that unemployment in Spain is highest in the agricultural sector. The development of biomass creates nine indirect jobs for every MW installed. More than 90% of the jobs created in the development of biomass for electricity generation are in rural and forest areas.

The development of biomass aids the cohesion and development of rural areas.



Subsidies to the rural environment are falling rapidly: European Community funds to support agriculture in Spain decreased by 9.5% between 2005 and 2008 and there is uncertainty about EC aid as of 2013.

This reduction is leading crops to be abandoned. The generation of biomass energy is one way of maintaining agricultural and forestry activity in Spain as it generates income and creates certainty for rural societies. The assets installed ensure the generation of income for more than 25 years. Achieving the installation levels envisaged in the REP would mean an annual profit of € 84 million in rural areas, and potential profits of € 225 million.



Biomass usage could be a key contributor to domestic investment.



Seventy percent of biomass investment is targeted at domestic suppliers. Moreover, unlike wind and solar energy, biomass energy is subject to VAT.

Spain invests 2-4% of GDP in energy imports in the context of a trading balance in deficit.



Biomass has the potential to increase the country's balance of trade by €1,350 million /per annum if its full potential is realised.

The exploitation of forest biomass in Spain has the potential to create approximately 14,500 jobs.



Spain has around 6.5 million tonnes of forest waste that is not being exploited. Furthermore, 350,000 hectares of energy crops could be planted to produce 7 million tonnes of green biomass per year. With all of the above, 1,296 MW of renewable energy capacity could be installed, which would create 14,256 jobs.



The development of forest biomass could help reduce fire-related costs by €104 million/year.



Every year, the Government and Autonomous Regions spend €650 million as a result of forest fires, which incur economic losses of € 900 million each year. The development of forest biomass could help reduce fire-related costs by €104 million/year.





A man in a dark pinstripe suit is seen from behind, reaching up to place puzzle pieces onto a grey concrete wall. The puzzle pieces, when completed, will reveal a vibrant landscape of green grass and a blue sky with white clouds. The man is holding a puzzle piece in his right hand, and another piece is visible in his left hand. The scene is set against a backdrop of a grey concrete wall with several puzzle pieces already in place, showing the progress of the landscape being revealed.

4.

OUR STAKEHOLDERS

OUR STAKEHOLDERS

The basis of Ence Energía y Celulosa’s management strategy is commitment. Already, in its Vision, Ence has defined the concept of commitment as a proactive labour of listening, anticipating and the capacity to be receptive to trends in ideas, the concerns of all those people and groups of people directly or indirectly related to our activity and acting as a result using criteria of sustainability (always with a 360 degree vision), rationality and corporate responsibility.

In this context, Ence considers commitment to be its relationship with the setting and all its stakeholders, commitment forming an essential part of its strategy.

To make further progress with this commitment, Ence Energía y Celulosa has prepared a map of its stakeholders, the interested parties with whom Ence keeps communication channels open permanently.

Ence considers commitment to be its relationship with the setting and all its stakeholders

OUR STAKEHOLDERS

Shareholders. These are Ence Energía y Celulosa’s owners.

They guide the company’s strategy based, as mentioned before, on decision making enabling growth, company sustainability and short-, medium- and long-term results.

Allies and Suppliers. Included as Stakeholders and an essential part of all the company’s management systems (quality, environment, occupational risk prevention, chain of custody, sustainable forest management, etc.).

They guarantee supplies and the optimal operation of activities, in addition to presenting themselves to society as an essential part of sustainable forest management.

Forest Owners. Ence Energía y Celulosa works with forest owners, having a strategy of getting ever closer to them, promoting access, communication and direct liaison with them. They are also included in the company’s management systems.

The owners provide credibility and are a fundamental part of the strategy to reduce timber imports. They are needed to promote a strategy of greater forest certification with sustainability criteria.

Community and Surroundings. The relationship with Ence’s surroundings is essential. Being aware of the interests and concerns of local communities and all the groups representing them is fundamental to sharing in and benefiting from Ence’s good management.

They are fundamental groups and people in the relationship between Ence and its immediate surroundings.

People. The people who make it possible for Ence to improve its activity and, consequently, its results, are the professionals who work in or for the company. Showing faith in and recognition of the people who work in or for the company and their development, and commitment to their professional growth are part of our management strategy.

They are key parts of the company and opinion leaders on our activity and our commitment to sustainability.

Influence Groups (Analysts, the Media, NGOs).

Fundamental in generating reputation and to the change which needs to occur in some places about perceptions held on our environmentally-friendly industrial activity, which generates jobs and wealth.

They are essential formers of opinion on Ence Energía y Celulosa.

Ence Energía y Celulosa's Customers. Generate re-venue. It is vital to supply them with quality products and create a relationship with them based on trust, respect and the guarantee of punctual delivery.

They are essential opinion leaders in the pulp and energy market.

Public Authorities and Regulatory Bodies. Ence works with the public authorities in the identification and defence of industry and private interests, in control tasks, in the promotion of new activities and in carrying out projects. They are essential to Ence's activity and influence market conditions.



ACTIVE PARTICIPATION IN ASSOCIATIONS AND INSTITUTIONS

The Ence Group strengthens engagement with stakeholders through membership of the most representative industry and business institutions and associations of local, regional, national and international scope.

The establishment of frameworks for collaboration and partnerships with governments and institutions has enabled the Group to better reconcile the interests of its stakeholders and to develop an integrated environment. The joining of forces has enabled us to accelerate the changes demanded by today's society and to successfully address the challenges of sustainable development.

We are members of more than 50 associations, foundations and institutions that are benchmarks in their respective fields. The Group's employees actively participate in the working groups, forums, seminars, conferences and public and social initiatives of these associations, thus addressing the demands and concerns of our stakeholders. They also afford the opportunity to participate in joint programmes to turn the challenges of sustainable development into opportunities to develop the business and generate wealth.

We are
members of more
than 50 associations,
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fields



NATIONAL AND INTERNATIONAL ORGANISATIONS WITH WHOM WE WORK

SPANISH ORGANISATIONS

- AAEE (Asociación de Autogeneradores Españoles).
- AAP (Asociación de Aprovechamiento Biomasa).
- ACOGEN (Asociación Española de Cogeneración).
- AEMPE (Asociación Empresarios Pequeña y Mediana Empresa de Pontevedra).
- AERI (Asociación Española de Relaciones con Inversores).
- AFEC (Asociación de Fabricantes Españoles de Celulosa).
- AFLOSUL (Asociación de Propietarios Forestales Algarve).
- AGFR (Asiacao para uma Gestao Florestal Responsavel).
- AIMEN (Asociación de Investigación Metalúrgica de Noroeste).
- AIQB (Asociación de Industrias Químicas Básicas de Huelva).
- AIQPA (Asociación de Industrias Químicas y de procesos de Asturias).
- ANATRANS (Asociación Nacional de Transportistas).
- APD (Asociación para el Progreso de la Dirección).
- APOM (Asociación de Productores Onubenses de Madera).
- APPA (Asociación de Productores de Energías Renovables).
- ASAJA (Asociación Agraria y Ganadera Andalucía).
- Asociación Monte Industria (Galicia).
- Asociación de propietarios Forestales de Asturias.
- Asociación Defensa Forestal.
- ASPAPEL (Asociación Española de Fabricantes de Pasta, Papel y Cartón).
- ASPAFLOBAL (Asociación Propietarios Forestales Barlovento Algarvio).
- Cámara de Comercio Luso-Española.
- Cámara de Comercio de Pontevedra.
- Cámara de Comercio de Huelva.
- CEA (Confederación de Empresarios de Andalucía).
- CEOE (Confederación Española de Organizaciones Empresariales).
- Círculo de Empresarios.
- COAHSIQ (Comisión Autónoma de Seguridad e Higiene en el Trabajo).
- Comunidad de Regantes de Andevalo (Guadiana, Sur y Minero).
- Compromiso Asturias XXI.
- CONFEMADERA (Confederación de Empresas de la Madera).
- Cluster de la Madera de Galicia.
- Confederación de Empresarios de Galicia.
- DIRCOM.
- FADE (Federación Asturiana de Empresarios).
- FAEN (Fundación Asturiana de la Energía).
- FALCOR (Fundación Andaluza del Corcho).
- FAMA (Fundación Asturiana de Medio Ambiente).
- FEUGA (Fundación Empresa Universidad Gallega).
- FOE (Federación Onubense de Empresarios).
- Foro de Bosques y Cambio Climático.
- Forum Florestal (Federación Portuguesa . de Propietarios Forestales).
- Fundación Entorno.
- Fundación Rías do Sur.
- Amigos de la Ría de Navia.

PROMOTION OF R&D+I AND KNOWLEDGE SHARING WITH THE SCIENTIFIC COMMUNITY

The Ence Group recognises the importance of education and research, their contribution to sustainable development and the improvement of business efficiency and strategy. In addition, relations with education centres also promote knowledge exchange and mutual understanding between private enterprise and the scientific community.

SCIENTIFIC BODIES WITH WHICH WE WORK	
UNIVERSITIES <ul style="list-style-type: none">• University of Huelva.• University of Vigo.• University of Santiago de Compostela.• Polytechnic University of Madrid (School of Industry and Forests).• Polytechnic University of Catalonia.• National Technological University, Argentina.• University of Toulouse.• University of Vienna.• University of Aveiro• University of Oviedo	R&D CENTRES <ul style="list-style-type: none">• INIA (Spain).• IRTA (France).• Est. Fitopat. Aveiro.• CNRS (France).• INRA (France) . PAPER TECHNOLOGY CENTRES <ul style="list-style-type: none">• CTP (France).• STFI (Sweden).• TNO (Holland).• KCL (Finland).• AFOCEL (France).

Contemporary society is demanding that greater efforts be made to reconcile relations between universities and enterprise. Therefore, in addition to the company’s scholarship programme, we also have a range of partnership agreements with Spanish and European universities, business schools and professional training colleges. In particular, we have close collaboration and contact with the universities of Oviedo, Vigo, Santiago de Compostela, Cordova, Huelva and the University of the Republic (Uruguay). Many of these agreements focus on R&D+i and we have made research progress above all in the fields of forest crops, biofuels, new technologies and energy solutions for the future.



THE MOST NOTEWORTHY ACTIONS IN 2011 WERE AS FOLLOWS:

THE ENCE CHAIR, THE FIRST ON PONTEVEDRA CAMPUS (UNIVERSITY OF VIGO)

The objective of the chair is to work with the University's School of Forest Engineering on research projects and educational and practical training activities to support the development of new technologies. Three lines of research were opened in 2011 in the Ence Chair: Pest Control, Improved Biomass Utilisation for Energy Generation and Optimisation of Techniques for Forestry Utilisation.

WE ARE COMMITTED TO SUSTAINABLE AGREEMENTS WITH THE UNIVERSITY OF OVIEDO

The Ence Group has several partnership agreements with the University of Oviedo. In 2010, these included the launch of a research project with the School of Mining Engineering to study the feasibility of using ash from the biomass boiler to manufacture cement and bricks, and a project for the optimisation of solar radiation sensors with the School of Industrial Engineering.

We joined forces with the Energy, Environmental and Climate Change Cluster to promote research into the development of technology and innovation in strategic sectors for the region, such as the design and manufacture of capital goods and the use of clean and efficient energy in industry.

We also work with the International Campus of Excellence programme Ad Futurum in "Projecting our Tradition into the Future", a strategic association of institutions striving to find local solutions to global problems. The programme focuses on sustainability and knowledge exchange in relation to energy, the environment and climate change, and biomedicine and health.

WE UNDERTOOK NEW COLLABORATIVE PROJECTS IN 2010

In 2010, the Ence Group undertook the following collaborative projects with other research and education centres:

Specific agreement between the Ence Group and CETEMAS (Forest and Wood Technology Research Centre) for a study to assess the production of biomass from energy crops.

Collaboration with the University of Santiago de Compostela on a R&D project entitled "The productivity and dynamics of organic matter in clonal plantations and Eucalyptus Globulus Labill seedlings".

The Ence Group has a partnership agreement with the University of Orense for the study of biofuels derived from cellulose hydrolysis processes.



FRAMEWORK AGREEMENT WITH THE UNIVERSITY OF HUELVA

In 2011, the University of Huelva and Ence decided to refresh the framework collaboration agreement the two organisations have maintained since 1997 to reinforce the common lines of work between them, committing to designing new R&D+i strategies based on deepening mutual knowledge of each other's interests, specific problems and capabilities.

This redefinition of working methods resulted from the university's interest in efficiently meeting the real needs of the companies around it. In the specific case of Ence and especially as regards everything related to biomass energy recovery, the new approach to relations took on particular importance as the two organisations are pioneers in this research field.

In this new framework, working meetings were planned between University and Ence researchers and the heads of the company's different departments, both in industry and forestry. The aim was to bring the university's research groups closer to Ence's realities to suggest or reorientate the common lines of work or research according to the company's actual needs and to formulate a new Framework Agreement, better suited to current realities.

From the relationship between Ence and the University of Huelva in 2011, the various research tests using the university's central laboratories in the CIDERTA building for elemental biomass characterisation and determination of calorific value are worthy of note. Additionally, the work the various research groups carry out on industrial process optimisation, characterisation of soils in the province of Huelva and other forestry practice studies in collaboration with the university Higher Technical School of Engineering's Agro-Forestry Department should be mentioned.



Diagnostic studies were also started in 2011 to build the collaboration agreement between Ence and the University of Huelva, the objective of which is to make progress on the company's ambitious strategic objective of eliminating the characteristic odours associated with its production operations.



COLLABORATION WITH LOCAL COMMUNITIES

We at the Ence Group feel committed to and collaborate with the communities in which we operate and make every effort to cater for their needs and social demands.

As evidence of our growing efforts to achieve closer contact with local communities, in 2010 our forestry centres and factories were visited by approximately 2,221 people, more than double the number of visitors in 2009. This enables us to acquaint our visitors with our production process and sustainable forest management strategy.

The Ence Group is committed to the communities in which it operates, especially in these times of global economic crisis and shortage of power generation. This commitment was publicly recognised in 2011 in Huelva with the "Employers of the Year" award presented to Ence by the Huelva Employers Federation in the "Quality, Design and Innovation" category.

In its ninth edition, the prize jury recognised Ence's resolute commitment to sustainable development in the province of Huelva, to provide society with two fundamental, everyday products in pulp and its derived products and renewable energy.

Plant Visits	Schools	Specialised Studies	Institutions & Social Groups
Pontevedra	274	278	42
Navia	N/A	N/A	N/A
Huelva	237	202	178
TOTAL	511	480	220



In addition, in 2011 **we sponsored and collaborated in** numerous public, social, cultural and sporting activities in the towns and communities where we operate, the most prominent being:

SCHOOLS AND UNIVERSITIES:

In addition to school visits to the factories throughout the academic year, we also promoted various forest management initiatives with university students, which included visits and field workshops in the forests managed by Ence. We also organised the 6th Forestry Meeting for Interested Parties in the North and, with the University of Huelva, the “Changing Forests” Conference and took part in the Doñana Forum on Sustainable Forest Management with our renewable energy development projects.

DISSEMINATION, SPONSORSHIP AND PATRONAGE ACTIVITIES:

We launched the “We want you to get to know us” forestry and environmental awareness programme.

The company continued to fulfil its commitment to transparency and mass dissemination under this slogan in the Pontevedra area between May and July by communicating its main economic impact environmental indicators. Additionally, for the second consecutive year, it called a press conference with the media from Galicia to inform them of the environmental results from Ence’s Operations Centre in the Rías Baixas region during the previous year.

On the other hand, the company maintained its commitment to support civil society organisations from around its factories. In Navia (Asturias) the neighbouring sports clubs and associations are particularly important to the social fabric. Ence has been supporting these clubs continuously for many years. The company was also a key player in the restoration of the old Talarén School, in the parish in the town of Navia where its factory is located.

Now that the restoration, also supported by the Principality of Asturias and Navia Town Council, is complete, the old School is used by parish citizens as a premises for organising training and leisure events.

The company continued to support various cultural initiatives in Pontevedra, as well as some of those promoted by resident’s associations, both from parishes around the factories and from other parts of the town.

Additionally, Ence sealed an alliance in 2011 with the Galician Amyotrophic Lateral Sclerosis Association (AGAELA) and the Tenlo de Marín Association for a crossing of the estuary by Jaime Caballero, the open water swimmer sponsored by Ence. The purpose of the initiative was to support people suffering from ALS by increasing the visibility of their illness, not simply because they have contracted the disease, but for suffering from a rare pathology.





ACTIVITIES WITH PUBLIC AUTHORITIES, COMPANIES, CMVMC AND NGOS:

Other notable activities carried out by the Ence Group in 2011 include the following: we drove the creation of a working group on eucalyptus management with universities and conservation organisations; we promoted the Manifesto in Recognition of the Andalusian Forestry Sector with all the Huelva's authorities, companies and forestry bodies; we collaborated with the Areeiro Plant Pathology Station for eucalyptus pest and disease control; we participated as founding partners in the Doñana 21 Foundation technology centre for sustainable development; and we promoted sports by supporting sports clubs. The sports sponsorship activity is particularly intensive in Navia (Asturias), a town which won the National Sports Prize in 2011 due sport's importance in the town.

Around other factories, such as the one in Pontevedra, donation or sponsorship activities were held and/or agreements made to support people at risk of social exclusion and/or associations dedicated to activities related to the Pontevedra estuary, such as the Tenlo de Marín Association which organised craft fishing courses for youngsters in the estuary with Ence's backing in summer 2011.





PARTICIPATION IN CONGRESSES, SEMINARS AND TECHNICAL SESSIONS, AS WELL AS OTHER ENVIRONMENTAL TRAINING ACTIONS IN 2010.

The following are noteworthy: we collaborated in the Biomass Congress organised by the Association of Andalusian Forestry Companies and the Government of Andalusia's Ministry of Environment; we participated in the National Congress on the Environment (CONAMA 10), in the Paris Sustainability Forum and the 3rd International Conference on obtaining Energy from Wastes and Biomass; we collaborated in the Responsible Forestry Management and FSC Certification course, etc.

Ence also organised the 7th Forestry Congress for interested parties in Padrón (La Coruña). This congress, which has the objective of becoming a platform for exchanging information and ideas between players in the forestry sector, brought over 100 participants together. Among them were representatives from the Government of Galicia, timber producers' organisations, forestry management certification bodies, researchers and teaching staff from the University of Vigo and, of course, timber producers from the whole Autonomous Region of Galicia.

OUR COMMITMENT TO COMMUNITY ACTION

The Ence Group not only aims to acquaint local communities with its industrial activity; it also has a feeling of involvement with, and feels part of society. It therefore organises programmes to foster the development of disadvantaged communities and strives to promote education and awareness of the values and benefits of nature, particularly eucalyptus.

In 2011 we collaborated with the Huelva Food Bank and local councils in the surrounding area to our forestry activities in the South in backing local events.

IMPLIK2 SCHOOL PROGRAMME

- As patron of the **Pontetec Foundation**, the Ence Group participates in the development of the Implik2 school campaign. The objective of the campaign is to **promote a mindset of respect and a desire to preserve Pontevedra's natural surroundings**. The programme is actually an offshoot of the traditional "From the Forest to Pulp" school programme, under which almost 10,000 schoolchildren have visited the Ence plant in Huelva over the past decade.
- The programme is taught in schools by environmentalists specialised in education, after which the children visit the Ence plant. In this way the **children learn** about the forestry industry and **environmental control and management** tools in their region.

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WE ESTABLISH RELATIONSHIPS WITH OUR CUSTOMERS, SUPPLIERS AND CONTRACTORS

Aware of the importance of compliance with environmental, health and safety requirements in our factories, the Ence Group has a policy of cooperation with its customers, suppliers and contractors as an essential requirement of good business practice. Accordingly, we have established effective relationships that provide reciprocal benefits, facilitate business coordination and help to improve the overall management of activities.

We manufacture our products in accordance with our customers' specifications. In addition, within the scope of our operations and in keeping with this policy, we require that our suppliers and contractors meet the management requirements and criteria defined by Ence in each case.

We have developed systems and procedures for the approval of suppliers of goods and services. These systems include technical product and raw material specifications which are

We evaluate our suppliers on a regular basis to ensure compliance with health, safety and environmental requirements.

defined by the Ence Group plants. Suppliers are evaluated on a regular basis to ensure compliance with health, safety and environmental requirements, as well as fulfilment of delivery deadlines and the furnishing of the pertinent documentation.



With regard to services and the contracting of ancillary companies, in addition to providing them with the documentation indicating the requirements for each activity, we also carry out regular audits and inspections, as well as coordination meetings to facilitate the exchange of information.

In addition, the Ence Group has forestry-grazing agreements with private owners in the areas of Uruguay where we operate. These agreements are part of an initiative we carry out with owners for the establishment of multiple production activities.

Our customers' requirements are sustainable and responsible forest management, chain of custody, traceability of the wood used, and compliance with environmental standards. In return, our customers must certify their management systems or, where applicable, obtain the eco-label for their paper product. The information required by our customers for this purpose is provided through different documents: Certifications, Environmental Statement, Product Environmental Profiles, responses to specific surveys forwarded by our customers or the Annual Report. This information is communicated via the website or through the Group's usual communication channels, i.e., during the course of business or by the sales directors.

TQM MODEL

Ence started to implement a TQM (Total Quality Management) Model during 2011.

Quality, efficiency and people are the three core elements at the heart of our way of working and managing, seeking continuous improvement.

As well as acting as a reference for our internal management, it is our intention to implement and apply the TQM Model in all our businesses and operations centres, as well as in their respective processes and activities.



**Our
customers demand
sustainable and
responsible forest
management**



5.

ABOUT THIS REPORT

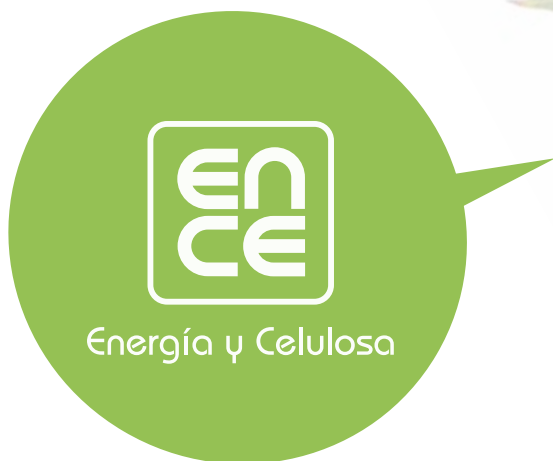


Grupo Ence S.A.'s Sustainability Report reflects its commitment to transparency and communication and provides an accurate account of the plans, results and new challenges posed by sustainable development in the performance of our operations in 2011.

In 1997, the company produced the first Environmental Statements for its factories, which eventually led to the publication of Integrated Environmental Reports. Continuing this process, the Ence Group published its first biennial Sustainability Report in 2004. The 2011 Sustainability Report is the seventh, and fourth biennial report, the Group has published.

It is targeted at, and designed to cater for the interests of customers, shareholders and investors, the financial community, employees, forest owners, suppliers and contractors, the public authorities, non-governmental organisations, the local communities in which we operate and other bodies and specialists in the field of corporate social responsibility.

Ence has been a signatory to the UN Global Compact since 2010, which involves compliance with its ten principles as reflected in this report.



SCOPE OF THE SUSTAINABILITY REPORT

- Geographical scope:** Spain, Portugal and Uruguay.
- Period covered:** 2011 period.
- Activities:** Forestry and manufacturing for the production of pulp and energy.

SCOPE

This report includes data and information on the activities carried out by Ence in the forestry and industrial field to produce pulp and renewable energy in Spain, Portugal and Uruguay in 2011. Limitations to scope, exceptions to the general outline and significant changes with respect to previous periods are specified in the corresponding section of this Sustainability Report.

DATA QUALITY

The data in this Sustainability Report has been taken from the annual financial statements, which were audited by independent bodies; the audited annual environmental statements, and our quality, environmental, chain of custody, health and safety management systems, which have been audited and certified in accordance with standards ISO 9001, ISO 14001, PEFC, FSC OSHAS 18001 and EMAS.



FURTHER INFORMATION AND CONTACT DETAILS

The information in this Sustainability Report is supplemented by the data published in our 2011 Annual Report and on our website. You are welcome to forward any questions or suggestions you might have in relation to the operations of the Ence Group and sustainability, to:

Ence, Energía y Celulosa, S.A.

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We also invite you to follow us via our YouTube channel (www.youtube.es/grupoence) and on Twitter (www.twitter.com/grupo_ence).

SUSTAINABILITY REPORT 2011



Energía y Celulosa