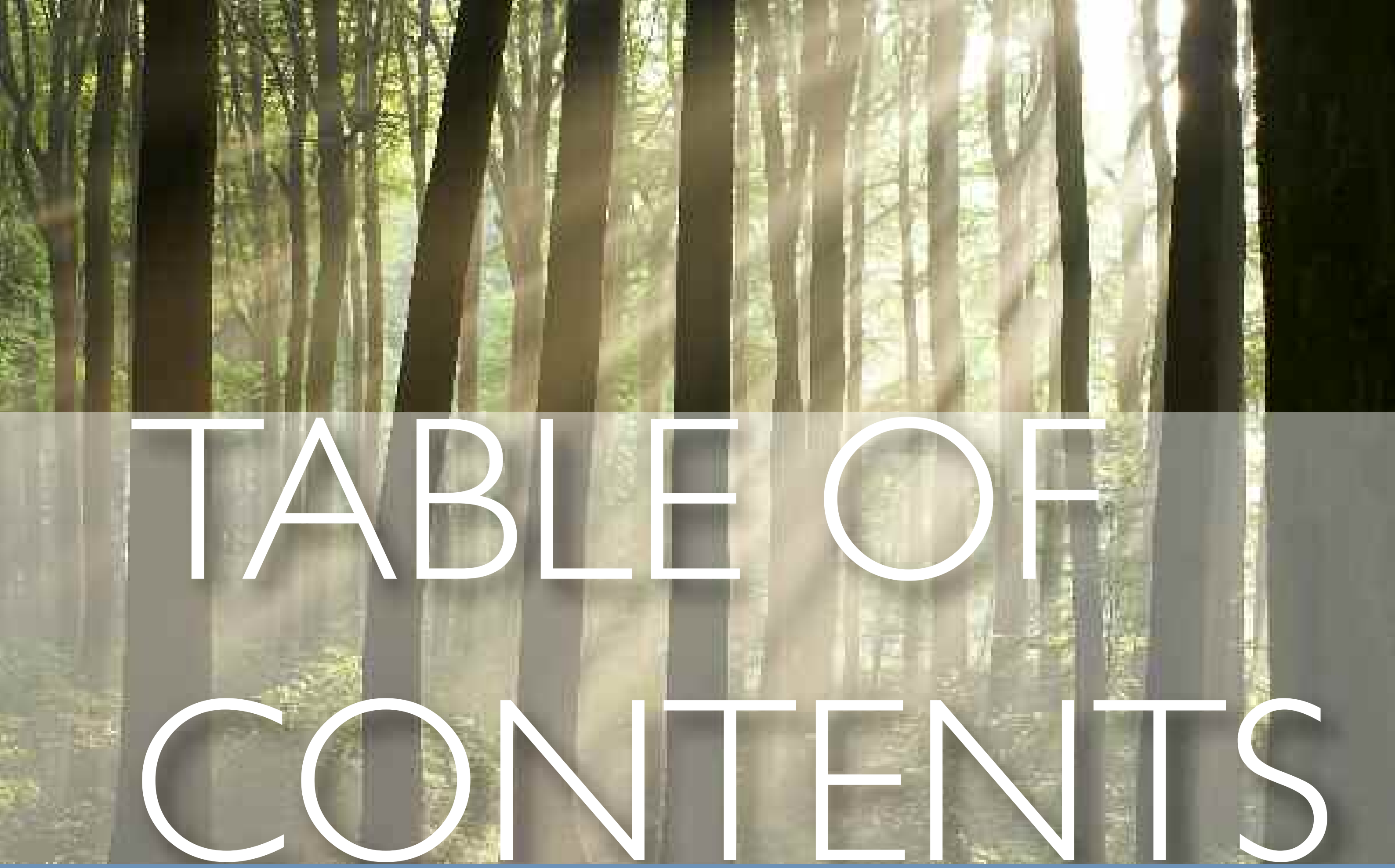
Annual Report

2011

Energía y Celulosa



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ENCE GROUP INCOME STATEMENT (I.F.R.S.)

	Thousands of Euros		
	2011	2010	% variación
Sales	825.451	830.758	- 0,6%
EBITDA (1)	139.147	178.260	- 21,9%%
EBIT (1)	80.079	117.276	- 31,7%
% over sales	10%	14%	-
% over non current assets	8%	12%	-
EBITDA Recurrente (2)	152.067	200.164	-24,0%
Diferencias de cambio	2.085	62	n.s.
Other financials	-25.150	-27.003	-6,9%
NET FINANCIAL ITEMS	-23.065	-26.941	-14,4%
CORPORATION TAX & MINORITIES	-15.822	-25.624	-38,3%
NET PROFIT AFTER TAX	41.192	64.711	-36,3%
% over equities	5,7%	8,4%	-
NET EARNINGS PER SHARE (3)	0,16	0,27	-40,9%
Dividend paid per share (3)	0,10	0,00	n.s.
INVESTMENT	101.611	81.442	+ 24,8%

(1) EBITDA and EBIT acc. To I.F.R.S.including the hedging.

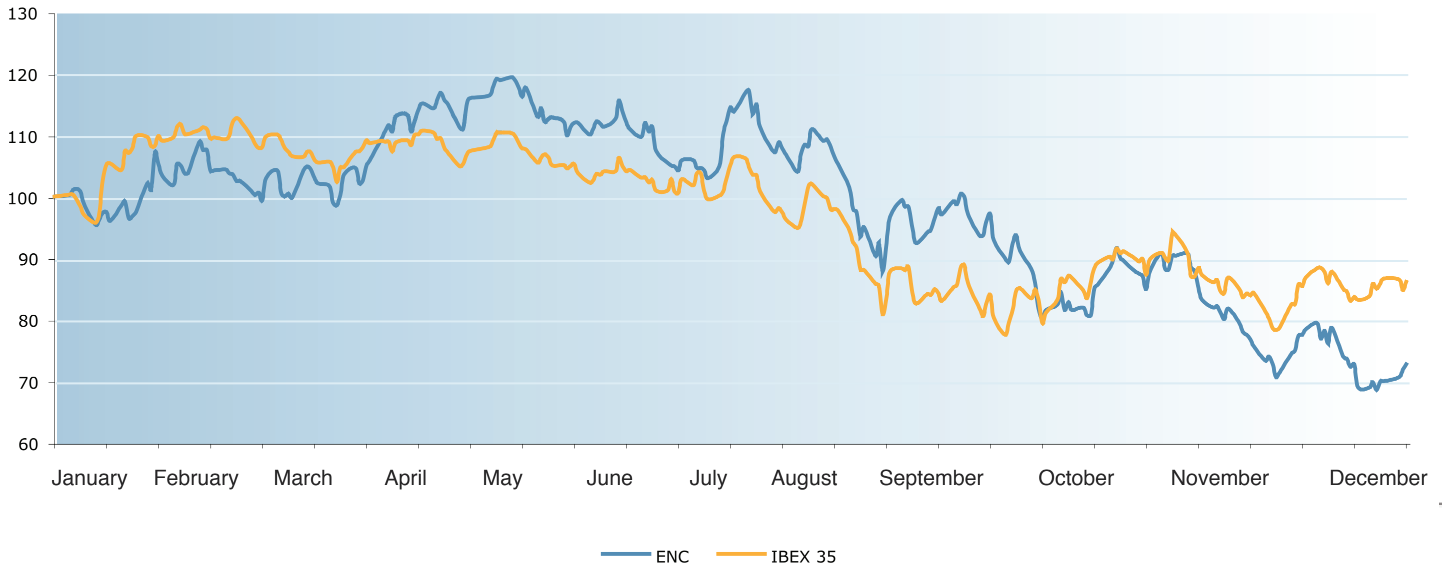
(2) Recurring EBITDA and EBIT-not including extraordinary.

(3) Capital increase from 174.900.000 to 258.012.890 shares since 3/3/2010. Avg Nº of shares 2010: 237.519.301

TOTAL AVERAGE WORKFORCE (FULL-TIME & PART-TIME)	2011	2010	2009
Forestry	462	741	876
Industrial	831	786	836
Headquarters	172	144	142
Energy	23	21	8
TOTAL	**1.488**	**1.692**	**1.862**

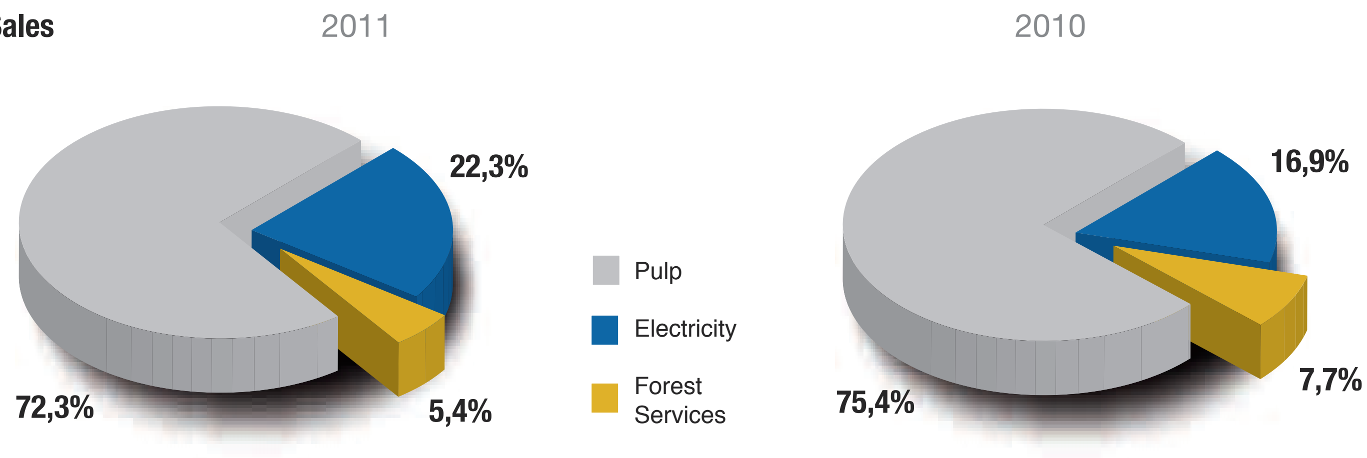
TOTAL WORKFORCE AT PERIOD-END (FULL-TIME & PART-TIME)	2011	2010	2009
Forestry	311	677	691
Industrial	910	804	798
Headquarters	153	160	152
Energy	32	22	13
TOTAL	**1.406**	**1.663**	**1.654**

Stock Market performance Ence vs IBEX35 2011



Euros	Value	Date
Share price (beginning of year)	2,38	30/12/10
Share price (year-end)	1,73	29/12/11
Average share price	2,33	-
Maximum annual share price	2,84	2/5/11
Minimum annual share price	1,63	21/12/11
Average annual volume (shares)	546.856	-
Maximum volumen	1.984.517	1/3/11

Sales



Letter from the chairman

Dear Shareholder,

This annual report outlines the 2011 results, a year in which, despite the major global economic crisis, our company has achieved solid cash generation and profits making it possible to distribute a 0.07 euro dividend per share in cash and one share for every twenty-six shares that each shareholder owns, representing an improvement of 45% on the dividend for 2010.

In a thorough analysis of the year and context, it has been a historic year, one in which our company has demonstrated strong financial muscle, posting very positive results, driving investments (especially for energy production from biomass), showing a strong increase in productivity in the manufacture of pulp and significant debt reduction.

In relation to our forestry business, we should point out the progress made in competitiveness as a result of the policy pursued in diversification, promoting the producer owner and the direct relationship with the latter as well as improving the logistics processes. In addition, our commitment to forest certification has resulted in an increase of 111% FSC® certified wood and 24% of PEFC certified timber.

Greater efficiency in the industrial process resulted in a 10% reduction in the cost of pulp. Pulp production during the year exceeded 1,243,000 tons of pulp, representing a year-on-year increase of 7%, showing improvements in production in all company plants.

The quality of our product and customer focus has meant we have been able to consolidate our position as the market leader in short-fibre pulp in Europe, one of the most demanding world markets and one of the most committed to the environment. Thus, pulp sales recorded an increase of 7% during the year, reaching a volume of 1,232,000 tons, which helped offset the sharp 11% fall in prices during the year.

It should be noted that Ence exported 86% of its production to Europe, where it has a market share of close to 15% for eucalyptus pulp. Our company's large export capacity and the broad diversification of countries where it sells its products means it can bolster its defences, leaving the company with solid protection against the crisis in the domestic market.

Additionally, the evolution of the energy business and its contribution to profit confirms the strategic decision taken by the company in its commitment to biomass energy, as evidenced by the excellent performance of energy sales totalling EUR1 84 million, representing an increase of 31% compared to 2010.

Thus, operational improvements in the company and progress made in management and export capacity have contributed to posting a net profit of EUR 41.2 million, while cash generated from operations rose to EUR 121 million, 19% more than in 2010, despite the troubled economic climate.

We should also point out that the company is continuing to make progress in developing a strategy to promote its financial robustness. Additionally, net debt was reduced by 10%, thereby establishing Ence as an industry leader in financial ratios, as the net-debt-to-EBITDA ratio stands at 1.1 times. In short, the development of our company in 2011 confirms Ence's financial strength, cash generation capacity and solvency in order to support the company's growth in the energy sector.

You are part of Ence-Energy and Pulp, a company that generates renewable energy from biomass (which is environmentally sound and a key driver in employment) and manufactures high quality pulp, designed with the utmost respect for the environment. With our two products and through third parties, we make it possible for millions of people to be able to avail of products essential to the quality of daily life: electricity and paper. We should be proud of our contribution to society, especially when we achieve this by using a natural raw material, eucalyptus, which is renewable, recyclable and capable of generating much more energy and better pulp, while using fewer resources than other commodities.

At the same time, none of this would be possible if the sustainability of our company were not guaranteed, something we work at every day. I have always defended, defend and will defend a global vision of economic, environmental and social sustainability. Economic, because without positive results it would be impossible to ensure the sustainability of our company. No profit means no business. Hence, our starting premise is to post operating results to ensure the continuity of the company and to uphold the confidence that investors and shareholders have placed in us.

But I would also like to emphasize the need for commitment to social sustainability, primarily through generating employment and contributing to the social environment most closely linked to our business as well as contributing to environmental sustainability, because a company that does not comply with the environmental standards and does not intend to continuously improve their impact on the environment is a company with no future and doomed to failure.

This vision of promoting 360-degree sustainability, along with a change in our culture, aimed at ensuring the full utilisation of the tree is the essence of our management; a day to day management that is focused on total quality, to improve the performance of our facilities, increase productivity and involve employees at the core of the company. In short, we want to make it possible to achieve more and better results using fewer resources.

Dear shareholder, I think we should be proud to be part of Ence's business project, because it is a project with a great future that will continue to be a benchmark for growth and job creation, a project that is an example of management and environmental soundness. In summary, this is a project on which we will continue to move forward sustaining a sound and profitable business.

Thank you very much

Juan Luis Arregui Ciarsolo
Chairman of Ence-Energy and Pulp

The Ence group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The Ence Group

Ence, Energy and Pulp is the leading company in Europe in eucalyptus pulp production and is Spain's leading company in biomass-fuelled renewable energy generation. Firmly committed to sustainability, the company is also a leader in the management of forest areas and crops for the production of natural materials (wood and cultivated biomass) which is necessary for the development of their business.

Ence Group in Spain generates over 11,000 direct and indirect jobs, of which about 60% are related to forest management while supporting employment in rural areas. Therefore, Ence provides an important structuring effect to the region, contributing to the creation of guaranteed income and preventing populations from emigrating to urban areas.

The company produces the raw materials needed, managing their forestry resources and adheres to the most stringent and internationally recognised standards and guidelines on corporate responsibility and sustainability. In doing so, Ence has pioneered certification projects undertaken in Spain, not only in their own forest and tree cover, but extending this policy to their immediate environment to promote the certification of areas of their partners and collaborators.

In addition, Ence makes every effort to promote and encourage forest owners to engage in forest management by transferring knowledge and expertise, by contributing to improved plant at competitive prices as well as through training and information and developing environmental awareness programmes.

Ence produces more of 1,240,000 tons of high quality eucalyptus pulp at its plants in Navia (Asturias), Pontevedra and Huelva, where it implements technologies that protect the environment and continuous improvement processes to strengthen its competitive advantage and standard of quality provided. This has enabled the group to export over 85% of its pulp production, using an advanced logistics system, to Europe where the most demanding world market customers are found.

Today, Ence is Spain's leading company in using forest biomass for renewable energy production with an installed biomass power capacity of 180 MW and another 49 MW in gas cogeneration. Good performance in electricity production, which exceeded 1,490 million kWh in 2011, confirms its leadership and consolidates its growth in the energy sector, a key to its growth strategy through to 2015.

To this end, Ence has undertaken major research efforts to develop energy crops using high efficiency, rapid-growth plant clones, enabling adaptation to different climates and terrains. The company has also developed automated growing and harvesting techniques ensuring optimisation of investments and reducing operating costs.

As a result of continuous efforts in R&D and the experience gained in the effective use of biomass, Ence has managed to develop 100% Spanish technology creating a situation where the group could lead a global project in the field of utilisation of biomass for energy production.

In this regard, greater emphasis should be placed on the benefits of electricity production from harvesting and processing biomass, given that renewable energy creates more jobs, is most stable in its production, without having to depend on variable factors such as the sun or wind, and it is the energy that has a better overall balance of CO_2 emissions, helping to protect and improve forest covers.

But in addition to these challenges, the company continues to make strides in developing a strategy to build on its financial strength and increase cost efficiency thereby strengthening competitive advantage. To this end, the company ensures and enforces strict financial discipline, ranking it as the industry leader in financial ratios, focusing on programmes of rigorous cost reduction and continuous improvement in all processes.

This has enabled Ence Group to deliver solid results during 2011 and post a 7% increase in pulp production along with a 13% increase in sales of electricity and a net profit of €41.2 million, allowing it to offer a total dividend yield of 7.4% to shareholders.

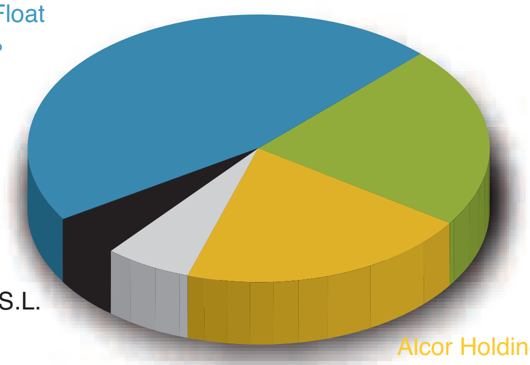
Job security, environmental protection and responsibility to the social environment are also basic principles contained in Ence's management model, representing a solid commitment to improving the safety of people, the environmental performance of its forestry centres and integration in the communities where the company operates.

In addition, Ence has proved itself capable of combining experience with innovation and technological development, evolving and adapting to meet increasingly stringent economic, environmental and social requirements.

Ence, Energy and Pulp is committed to developing a model of accountability, one that offers solutions to some of the greatest challenges facing our society today, helping to reduce the effects of global warming, helping to develop more environmentally friendly energy models supporting energy independence, promoting and generating economic alternatives in the rural areas and creating stable, quality jobs in areas most in need. ■

Shareholders

Distribution of shareholding at 31 December 2011



*Liberbank's shareholding is indirect via Cantábrica de Inversiones de Cartera, S.L., Norteña Patrimonial, S.L. and Banco de Castilla – La Mancha, S.A.

Administration and management bodies

BOARD OF DIRECTORS

Chairman
Mr. Juan Luis Arregui Ciarsolo
Executive Director

CEO
Mr. Ignacio Colmenares y Brunet
Executive Director

Directors
Mr. Pedro Barato Triguero
(External Independent Director)

Mr. José Guillermo Zubía Guinea
(External Independent Director)

Mr. Gustavo Matías Clavero
(External Independent Director)

Mr. José Manuel Serra Peris
(External Independent Director)

Mr. José Carlos del Álamo Jiménez
(External Independent Director)

RETOS OPERATIVOS XXI, S.L.
Represented by
Mr. Javier Arregui Abendivar
(External Proprietary Director)

NORTEÑA PATRIMONIAL, S.L.
Represented
Mr. Jesús Ruano Mochales
(External Director)

Mr. Pascual Fernández Martínez
(External Proprietary Director)

Mr. Javier Echenique Landiríbar
(External Proprietary Director)

Mr. Pedro José López Jiménez
(External Proprietary Director)

Mr. Fernando Abril-Martorell Hernández
(Other External Directors)

Mr. José Antonio Escalona de Molina
Secretary to the Board (Non-Director)

MANAGEMENT COMMITTEE

Mr. Ignacio Colmenares y Brunet
CEO

Jose Manuel Zarandona de la Torre
General Manager Pulp Business Unit

Jacinto Lobo Morán
General Manager Energy Business Unit

María José Zueras Saludas
General Manager - Human Capital

Diego Maus Lizariturry
Chief Financial Officer

Manuel Ángel Sempere Luján*
General Manager - Communications

Guillermo Medina Ors
General Secretary

* Since January 2012, Luis Carlos Martínez Martín

Ence Group Management Policy

Ence is an industrial group dedicated to efficient energy and pulp production, specialising in managing environmental assets, with a strong and permanent presence in rural environments and industrial implementation,

Ence carries out its forest, industrial and energy activities in accordance with sustainability principles and criteria. A priority for the company is the appropriate management of its resources and responsible consumption of wood, water and energy, in order to ensure that its undertakings towards shareholders, employees, customers, the environment, and other stakeholders are fully satisfied.

Ence adopts management by processes, integrating at all levels, the prevention of risks and the protection of people and the environment, efficiency and quality in production, and sustainable forest management and certification principles, including the wood chain of custody,
Consequently, the Management of Ence will equip the organisation with the necessary resources and principles in order to comply with the following commitments, geared towards achieving business excellence.

1. Visible commitment of direction, managers and employees
Those of us who work in Ence are responsible for visibly showing our commitment towards this Policy and any documents which might implement or supplement it, and ensure that it is effectively implemented, with the drive and example of Management, Technicians and Officers.

As a priority, in order to achieve an effective prevention of the risks affecting personal safety and health, all of us employees shall maintain an attitude of zero tolerance in the event of breaches, so as to achieve the target of Zero accidents.

2. Staff training and participation
We shall actively promote the raising of awareness and continuing training of each person, in order to provide him or her with the knowledge, procedures and resources necessary for them to properly carry out their activities, and so achieve efficient work of quality, carried out in a safe and environmentally-friendly way.

We shall promote the active participation of people so that their skills, knowledge and experience can be conveyed, with the support and cooperation of Technicians and Officers, so benefiting the entire organisation.

3. Communication with stakeholders
We shall maintain an attitude of transparency and fluid communication with shareholders, employees, local communities, public administrations, customers, suppliers, contractors and other stakeholders, establishing vias which could enable their needs and expectations to be known and understood, providing them with relevant and pertinent information regarding our economic, social and environmental behaviour.

4. **Sustainability, compliance with regulations and other requirements**

Sustainability in our actions is a basic and inescapable principle, focused on maintaining long term resources and biodiversity, multi-functionality in our territorial activities and the durability of the environmental, economic and social assets which we manage, seeking to improve them.

Ence, and by extension, every one of those of us who are a part of the organisation, undertakes to establish and strictly abide by the guidelines necessary in order to comply with regulations, applicable laws and other requirements subscribed by the organisation, verifying the aforesaid compliance through inspections and audits.

5. **Prevention of risks, planning and continuous improvement**

Through the proper identification, assessment and planning of all management factors, we shall be able to achieve an efficient prevention of risks, accidents and impacts affecting the people, assets and the environment (including control of serious accidents). This will guarantee a high level of security, and will help towards achieving the improvement targets set, reviewed and assessed regularly by Ence, in accordance with the commitments set out in this Policy.

We are committed to innovation and continuous improvement of efficiency and quality of processes and products, the environmental behaviour of the organisation, and employees' healthy and safety conditions, encouraging safe personal habits and behaviour.

6. **Cooperación con nuestros clientes, proveedores y contratistas**

We shall carry out our products complying with the specifications demanded by customers. Furthermore, in the field of our activities, we shall encourage our suppliers and contractors to assume the management criteria and requirements which shall be in keeping with this Policy, and shall be defined by Ence in each case.

We shall cooperate with customers, suppliers and contractors, establishing efficient relationships providing mutual value, encouraging business coordination and helping to improve the global management of our activities. ■

Capital and human resources

The Ence Group employs a workforce of 1,406 (average figure for 2011) distributed as follows: 22.12% in the Forest Area, 64.74% in the Industrial Area, 10.88% in the Central Services Area and 2.28% in the Energy Area.

Ence Group workforce at 31 December

Total workforce at period-end (full-time & part-time)	2011	2010	2009
Forestry	311	677	691
Industrial	910	804	798
Headquarters	153	160	152
Energy	32	22	13
TOTAL	**1.406**	**1.663**	**1.654**

Ence Group average workforce at 31 December

Total average workforce (full-time & part-time)	2011	2010	2009
Forestry	462	741	876
Industrial	831	786	836
Headquarters	172	144	142
Energy	23	21	8
TOTAL	**1.488**	**1.692**	**1.862**

Strategy and policies in relation to people

We at the Ence Group work towards creating value in all areas of the company's business activity on the basis of showing trust and recognition towards people, developing the employees' potential and the commitment of the shareholders and employees with a sustainable growth of the organisation and all this, with the goal of making Ence Group an increasingly competitive and efficient company.

To achieve this, Ence has identified and is working on four priority areas for action in managing and developing their staff:

- Developing a new framework of values and culture for the Group, in which management are primarily responsible for incorporating the values and culture of trust, performance, responsibility and leadership in the management of each area.

- Strengthening the capacity to manage, develop and retain talent to ensure that Ence attracts, develops and retains the very best professionals in order to create a sustainable, competitive advantage.

- Development of an industrial relations framework to address the needs of the company and its employees representing a broad-based, long-term vision.

- Health and safety in the workplace. Ence is committed to developing its operations within a business and organisational framework that promotes a safe and healthy environment.

Ence Group has developed four policies that develop specific action plans:

1) Policies on joining the company, whose aim is 'to attract the best'. The Management and Support Structure Recruitment Plan contained herein, is mainly based on recruiting candidates from within the organisation, based on market criteria. Ence Group promotes local recruitment whenever possible, while at all times respecting equal opportunities and promoting efficiency.

In addition, the company has an Induction & Training Programme, including specific training for six months, periodic reports on the level of progress in the training received by the new recruits, employee performance appraisal six months after joining the company and complementary training focusing on areas considered essential for further professional development.

2) Development policies that respond to how to "motivate, retain and engage employees" and includes basic tools in Ence's Human Resources Strategic Plan such as:

- **The performance appraisal system** designed to measure employee efficiency, conduct and attitudes, criteria which is directly related to the company's remuneration and internal promotion policy.

- **The management by objectives system** which allows direct management throughout the organisation towards the objectives defined in the overall strategy, coordinating efforts between employees, while managing resources efficiently and establishing priorities.

- **The remuneration policy** that rewards employees with a comprehensive remuneration package, including cash and non-cash items and serves as a communication tool for organisational purposes, business objectives and organisational culture.

  In Ence, the basic salary earned by men compared to that earned by women holding positions of equal responsibility is the same.

- **Ence's Training and Development Plan** reflects the significant effort made to expand the professional skills of company employees. The aim is to promote the professional and personal development of all company employees at all levels as a basis for improving their integration therein and their commitment to company objectives.

In 2011 Ence continued their comprehensive leadership development programme aimed at all managers within the company and amounting to some 220 employees. The programme was designed to provide the necessary tools required for managing people and promoting employee development as well as improving communication between managers and their teams. These programmes were complemented by a series of workshops on Emotional Intelligence and business coaching processes.

In terms of Occupational Risk Management (ORM), specialised risk management courses were given and participants were awarded formal qualifications including basic, intermediate and advanced levels (ORM Technician) and ORM Auditors.

More specific courses were also held, related to particular jobs, including courses for chainsaw operators and forestry machinery operators.

Training Ratios

	2011	2010	2009
Courses	141	156	159
Participants	1.529	2.140	2.835
Training Hours	5.049	19.975	18.728
External Cost (€)	278.600	22.271	244.639

3) Policies related to health and safety of employees.

This section includes the following systems:

- **Occupational Risk Management:** ORM in the Ence Group forms part of the company's MBO system and is incorporated as an essential aspect in daily work at all levels.

The objectives of risk management are:

1. To introduce a deep cultural change in our habits relating to occupational health and safety.

2. To manage risk homogenously across all companies in the ENCE Group.

3. To comply with the provisions of applicable labour standards.

The ultimate goal is zero accidents so the company will continue to take a zero tolerance approach to any breaches of health and safety regulations.

- The prevention system chosen by Ence for safety management is the **Health & Safety Joint Prevention Service** (Servicio de Prevención Mancomunado). Roles and responsibilities at all hierarchical levels within the company on matters relating to Occupational Risk Management are clearly defined in the Joint Prevention Service, which means there is greater integration of health and safety in all tasks and decisions are carried out by Ence and the system is extended to activities and work conducted by contractors and suppliers to ensure compliance with established standards.

The Joint Prevention Service adequately covers all four preventative specialties: Workplace safety, industrial hygiene, ergonomics and applied psychosociology, and health monitoring.

- **Occupational Risk Management System Certification.**

Currently all company sites, facilities and workplaces are certified in line with international OHSAS 18001:2007 specification, which among other things ensures that the Occupational Risk Management System complies with current legal requirements and is compatible with other relevant management systems and certifications.

2011 saw improvements introduced during the previous year consolidated. These improvements include reporting, analysis and implementation of preventive and corrective measures relating to all accidents and incidents, detection and correction of potentially unsafe behaviour through using the preventive safety observation tool, the establishment of corporate guidelines and procedures for security management, improving communication on issues related to safety and health of workers, assessment of safety performance as a relevant aspect of the contracted service, and specific actions taken to reinforce the safety of the facilities or carrying out exhaustive frequent inspections.

The Ence Group's Health and Safety Committees are made up of 50% of company management and workers' representatives.

4) Labour policies, that integrate the relations with social partners, co-management of the company's social provision, standards and procedures with regard to people.

Ence Group in America

Ence's policy in America, with regard to Human Resource Management, is regulated by the same basis as contained in the Ence Group's General Policy, where employee commitment and recognition are deemed important, above all with the objective of making ENCE more competitive and efficient in America. ■

Communication with stakeholders

In 2011, Ence made substantial progress in the process of opening the company up to a much greater extent; a process which got underway in 2010. The company worked to strengthen relations with its stakeholders and to assess and use the information and views they contribute. A decision was made to further increase transparency through the company's own communication channels, means of communication and direct dialogue with its stakeholders.

The company reinforced its commitment to the direct communication model via the internet. In 2010, Ence set about making improvements to its website, so it would continue to be a major source of information. Setting up a shareholders forum on the website or the decision to publish reference rates on the purchase and sale of timber, making them public via the website, were some of the major developments to be introduced on the company's corporate website.

In addition, Ence began boosting direct relationships with its stakeholders through social network sites and created channels on Twitter, YouTube, LinkedIn and Flickr.

The company continued to promote visits to Ence's facilities in Navia, Huelva and Pontevedra, and relationships with the stakeholders closest to the factories. All this without neglecting the work of managing relationships with local and regional authorities, with advisor groups within the sector (environmentalists, social, cultural, educational and scientific groups), with investors and analysts and naturally with the company's employees ■


Forestry Activity

"A transparent, efficient and sustainable forest management".

The wood market

Efficient management

In early 2011, the Iberian Peninsula showed an increase in pulp production capacity and a good price in the market for paper pulp, yet it started to fall from the second half of the year.

Consistent with that forecast, Ence developed an active policy on reducing prices in the Iberian eucalyptus wood market in the second quarter of 2011. As additional leverage for necessary cost reduction, the company has continued to mitigate the effect of increasing wood prices experienced in late 2010 and early this year by diversifying its supply sources and through more dynamic management of the logistics chain. This major effort minimised the greater impacts associated with the higher costs of wood imports.

As part of this more flexible management policy, Ence signed an agreement with Promagal on 24 May (federation of wood production in Galicia) for the supply of 250,000 tons of wood for a period of 12 months. The agreement promoted sustainable forest management leading to certification as well as promoting increased transparency and efficiency in the sector, setting explicit and transparent premiums for associates.

In addition, the company maintains its long-term investment in R&D+i and innovation programmes applying advanced silvicultural techniques as a means of improving productivity in the forests we manage.

This has involved the procurement and planting of new areas, both for the production of wood for pulp and biomass production in energy crops destined for the energy generation plants using this renewable energy source, in line with the company's strategy of ensuring production volumes are kept at competitive and sustainable costs.

Sustainable management

Ence continues its commitment to Forest Certification and Sustainable Forest Management. In line with this, the group is working with various forestry associations to promote efficient and certifiable management under the two internationally recognised certification schemes, the PEFC (Programme for the Endorsement of Forest Certification schemes) and FSC (Forest Stewardship Council).

To this end, agreements relating to plant quality, pest management, management techniques and forest certification are boosted and they also promote owners' associations. This process of management and coordination is carried out by working with all the stakeholders involved: accreditation and certification bodies, consultants, associations and public authorities.

In line with this company proposal, assets managed by Ence's forestry subsidiary in Uruguay, Sierras Calmas, already have been awarded FSC certification. In 2011 it was the first company in the Latin American country to be granted PEFC Certification (Forest Stewardship and Chain of Custody). Las Pléyades S.A., the company that buys and sells wood outside Uruguay was certified in the Chain of Custody in accordance with the PEFC scheme.

The company is also making major efforts to promote the direct relationship with forest owners and with auxiliary forestry service companies as the pillar of its strategy to reduce inefficiencies in the logging and transport of timber, as well as to bring transparency to the market, improving the mobilisation of wood at a competitive cost.

As part of this strategy, the aforementioned purchase agreement was signed with Promagal, the federation of wood producers in Galicia, (Federación de Productores de Madera de Galicia) and working groups have been set up with ASEFOGA (UPA-Unions Agrarias) and SILVANUS (Xovenes Agricultores-ASAJA Galicia). These forums aim to seek solutions to reinforce the role of forestry owners and small and medium-sized enterprises in the forestry sector, to improve the quality and competitiveness of the supply and to enable the transfer of income directly to owners.

Such efforts have meant supply of wood purchased from forest owners increased by +130% during 2011.

With this same objective, Ence entered into a collaboration agreement with the Junta de Andalucía to drive a set of institutional and business initiatives in forest management, wood and biomass production and the promotion of renewable energy.

Implementing these initiatives at state level will facilitate the consolidation of the work carried out, lead to improved forest management and increased industrial and rural employment. ■

Supply of wood and biomass

In 2011 a total of 3,768,000 m3 of wood was supplied to the mills, which represented an increase of approximately 5.4% compared to 2010, at a cost of 271 million euro.

The mix of supply sources led to a 12.3% increase in the uptake of domestic timber, standing at a volume of 2,274,000 m_. Wood from Portugal, totalling a volume of 684,000 m_, also experienced an increase of 7%. This represented a significant decrease in imported timber standing at a volume of 810,000 m_, 11 % less than in 2010.

The volume of imports in 2011 was 610,990 m3 from Uruguay, 88,200 m3 from Republic of the Congo and 39,860 m3 from Chile.

In 2011 wood derived from Ence's forest assets amounted to 173,000 m3 in the Iberian Peninsula, representing 4.6% of the total consumption.

In the area of forest management, Ence logged 936,893 m3 in the Iberian Peninsula during the past year.

In 2011, the company consumed 763,000 m3 of wood acquired from standing timber, 130% more than in 2010, and 1,473,000 m3 of wood from domestic suppliers. Additionally, 394,000 m3 was supplied to third parties for the sum of 30.7 million euro.

Biomass supplied for electrical generation at facilities amounted to a total of 354,500 tons, at a cost of 18.9 million euro ■

Forestation and forestry assets

In 2011 Ence planted a total of 6,315 ha, 3,301 hectares of which were energy crops and 3,014 hectares of wood for pulp production.

Planted area in Ha

Company	Energy Crops	Pulp
Ence-Norte	43	618
Ence-Huelva	1.937	1.050
Ence-Portugal	0	148,60
Ence-Energía	1.321	0
Ence-Uruguay	0	1.197
TOTAL	**3.301**	**3.014**

ENCE currently manages about 113,348 hectares, 28,158 ha of which are in Uruguay. Of the area managed on the Iberian peninsula, 16,396 hectares are used to produce biomass for power generation.

Managed area (Ha)

Company	BIOMASS	PULP	PROTECTION	THIRD PARTIES	Total
Ence - Energía	4.562,74	0	107,27	0	4.669,27
Ence - Huelva	11.381,59	35.836,26	15.654,57	0,00	62.872,42
Ence - Norte	451,79	10.577,47	1.650,20	428,69	13.108,15
Ence - Portugal	0	3.910,40	508,13	120,43	4.538,96
Ence - Uruguay	0	16.268,00	11.804,43	86,48	28.158,71
TOTAL	16.396,12	66.592,13	29.724,6	635,6	113.348

68% of the total surface area managed by the Group is self owned and the rest is leased or held on a consortium basis with third parties.

Area managed by Ence (ha)

Company	Leased	Consortium	Owned	Total
Ence-Energía	4.670,02	0	0	4.670,02
Ence-Huelva	23.567,24	1.813,36	37.491,82	62.872,42
Ence-Norte	4.176,44	6.002	2.929,71	13.108,15
Ence-Portugal	1.697,86	226,76	2.614,34	4.538,96
Ence-Uruguay	1.959,15	385,59	25.813,97	28.158,71
TOTAL	**36.070,71**	**8.427,71**	**68.849,84**	**113.348**

Ence Forestry is certified in accordance with Quality Management (UNE-EN-ISO 9001:2008) and Environmental Management (UNE-EN-ISO 14001:2004) standards, covering in both cases all forestry work. In relation to forest surface area, 76% of the forest assets managed in Spain by the group's subsidiaries are certified under the PEFC scheme (Programme for the Endorsement of Forest Certification), and about 24,000 hectares are certified under the FSC (Forest Stewardship Council) scheme, both promoting Sustainable Forest Management.

Certified area (Ha)

Company	Total Area (ha)	PEFC	% PEFC	FSC	% FSC
Ence-Energía	4.670,02	0,00	0%	0	0%
Ence-Huelva	62.872,42	50.158	80%	20.173,46	32,09%
Ence-Norte	13.108,15	11.793,12	90%	3.699,38	28%
Ence-Portugal	4.538,96	0,00	0%	0	0%
Ence-Uruguay	28.158,71	27.818,69	99%	27.818,69	99%
TOTAL	**113.348**	**89.770**	**79%**	**51.691,53**	**46%**

The Chain of Custody (CoC) certification ensures the traceability of all certified wood on the Iberian Peninsula.

The whole forest area in Uruguay is currently certified under the FSC and PEFC schemes, both in terms of forest management, as well as traceability of wood also known as the Chain of Custody.

26% of the area managed by Ence, about 29,300 hectares, is devoted exclusively to conservation and habitat restoration, not used for productive purposes. And the total asset area, 5,668 hectares are verified high conservation value forest.

In addition, 17,725 hectares are in protected natural areas, officially designated as such by the various competent authorities.

In Uruguay, of the area managed by Sierras Calmas, 1,575 hectares cover native forests, which are protected by Forestry Law No. 15,939.

This data provides clear evidence of the company's commitment for the care and improvement of the natural environment in which it works ■

Managed area (Ha)

Company	Total Area	Area Conservation	%
Ence-Energía	4.670,02	107,28	2%
Ence-Huelva	62.872,42	15.654,57	25%
Ence-Norte	13.108,15	1.650,20	12%
Ence-Portugal	4.538,96	508,13	11%
Ence-Uruguay	28.157,46	11.426,61	41%
TOTAL	**113.348**	**29.346,79**	**26%**

Managed area (Ha)

Company	Total Area	MAVC	%
Ence-Energía	4.670,02	0	0%
Ence-Huelva	62.872,42	5.448	9%
Ence-Norte	13.108,15	220	2%
Ence-Portugal	4.538,96	0	0%
Ence-Uruguay	28.157,46	0	0%
TOTAL	**113.348**	**5.668**	**5%**

Managed area (Ha)

Company	Total Area	Area Protection	%
Ence-Energía	4.670,02	361	8%
Ence-Huelva	62.872,42	11.661	19%
Ence-Norte	13.108,15	596	5%
Ence-Portugal	4.538,96	3.532	78%
Ence-Uruguay	28.157,46	1.575,58	6%
TOTAL	**113.348**	**17.725,58**	**16%**

Forest R&D+I

The R&D+i and innovation undertaken by Ence Group's forestry business during 2011 was focused primarily on projects related to energy production from harvesting and processing energy crops and biomass.

These developments are key to the company's business strategy, which relies on energy production from renewable sources as its main commitment to growth in the coming years.

In this regard, Ence has undertaken pioneering research efforts in each of the various geographical areas to carry out industrial projects initiated by the company. The results over the past year could be described as significant as they have led to the identification of species in each geographic area at the same time as clonal selection and propagation. As such, we can state the projects are primed for success as a result of the experimental results obtained in this area during 2011, when we consider the importance of such experiments and how efficiently they were implemented.

The improvement and sustainability of the woody biomass crop is being addressed as a priority in forest management. In this regard, the company has made great strides in nutrient optimisation of plantations and in defining parameters and monitoring biomass crop key indicators.

The company has continued to maintain its core area of genetic and silvicultural breeding of the Eucalyptus species, which is really the basis of their potential for improvement and innovation in producing renewable raw material for energy and pulp production.

This field of work is carried out on a large population of improved plant materials related to different species of Eucalyptus, in addition to other work conducted in recent years on collections of other plant materials for the purposes of biomass production, such as the Populus species.

Operating and managing these breeding populations during 2011 has meant new Eucalyptus globulus clones were selected and have already been incorporated into the plant populations reproduced commercially by the company. Similarly, the crosses obtained from the various species of eucalyptus have resulted in hybrids, the aim of which is to obtain genetically improved material by combining inherent properties in certain species.

In relation to genetic improvements, the company focuses on continuous improvement in the area of silviculture and forestry operations. By undertaking all this work progress has been made in improving the management of genetically improved stands through soil preparation, fertilisation, integrated pest management and silvicultural treatments.

During 2011, Ence introduced a new industrial management model based on total quality helping to standardise and optimise forestry operations related to the business. The main objectives of this initiative are aimed at increasing the efficiency of harvesting work and reducing accident rates ■

Forestry Investments

During 2011 total investment in Iberian forestry amounted to 23.9 million euro. 55% of this was invested in forest assets, with 97% allocated to forestry and conservation, and the remaining 3% to the acquisition of new estates.

45% of investments were allocated to introducing energy crops, mainly acquisition of land and management.

In 2011 forestry investments made by the subsidiary in Uruguay amounted to 1.99 million USD for new plantations, reforestation and maintenance of plantations ■

Pulp

The pulp market

During 2010, the world economy once again faced difficult times, a period in which the slow economic recovery caused by governments' emergency plans and the gradual adjustments in financial entities gave way to public debt crises in developed countries.

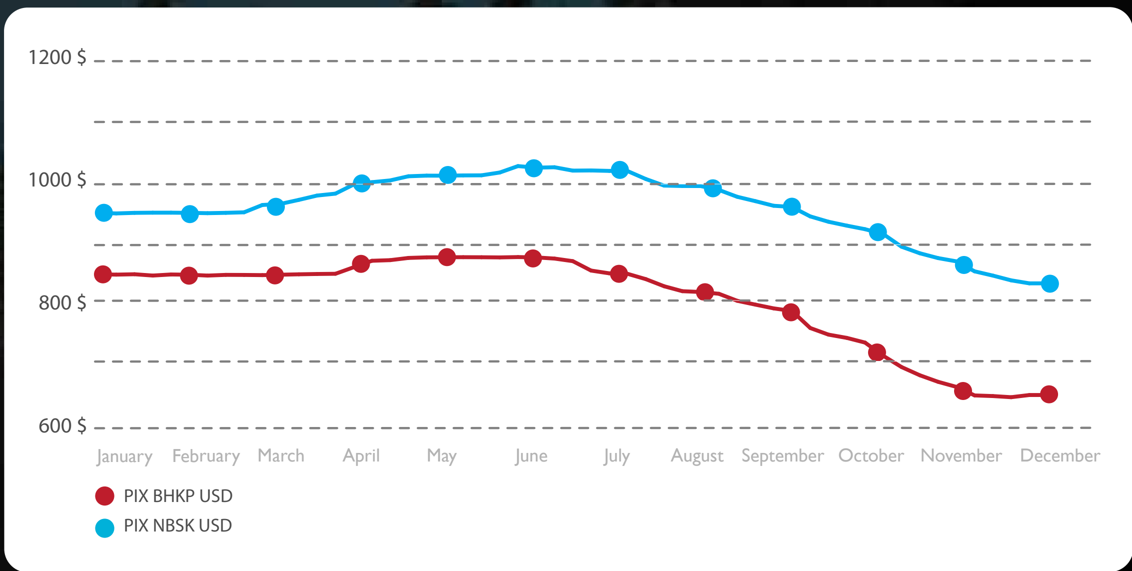
In this context, the paper and cardboard industry has reported a good performance, as a result of capacity adjustments undertaken in 2008 and 2009, the correction of inventory levels to all-time lows, the increased demand in mature markets and the recovery of demand in China, where high level of imports have been maintained, arising from significant increases in paper production capacity.

The 2010 upward trend continued during the first half of the year, enabling monthly increases to be made in the eucalyptus pulp price up to May's price of $880/t.

Nonetheless, since the month of June, the market price began to show signs of weakness given the lower level of Chinese imports and the general drop in demand in Europe and North America, which led to a gradual increase in the level of stocks of pulp due also to the recovery of some of the idle capacity experienced in recent years, given the substantial improvement in operating margins in 2010 and early 2011.

As a result, the second half of 2011 has seen a fall of $230 US/t from the yearly high reached in May until reaching $650 US/t in December, a level that has not been seen since November 2009 ■

2011 Weekly Pix Foex



Average Pix Price

	2011	2010	DIF. %
NBSK US$	961	932	3%
BEKP US$	810	844	-4%
BEKP €	581	639	-9%

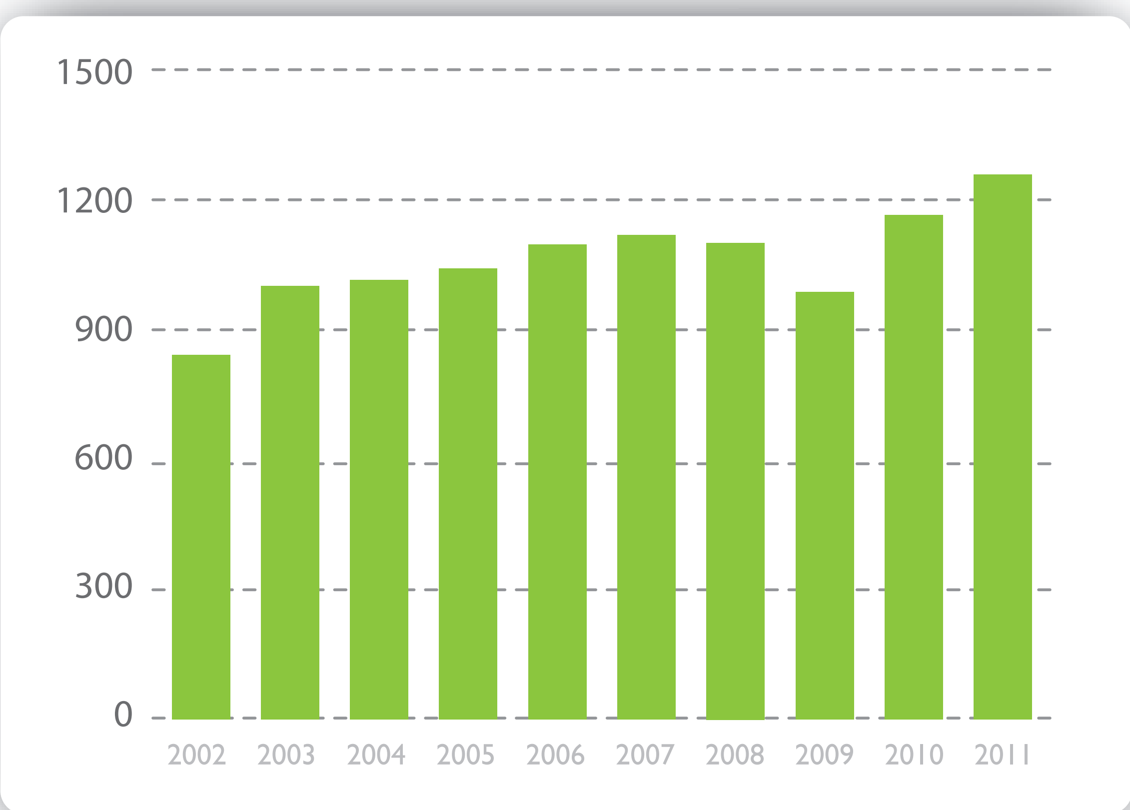
Pulp production

In 2011, pulp production amounted to 1,243,108 tons, an all-time production record for Ence, and 7% higher than that reached in 2010, largely due to the increased production at the Navia plant following expansion and implementation of its learning curve.

Development in production for each of the company's production plants is as follows:

- Production reached 368,048 tons at the Huelva plant, 12% higher than the 2010 figure.
- The Pontevedra plant reported production of 416,800 tons, 7% down on the previous year.
- Production at the Navia plant stood at 458,260 tons, representing an increase of 5% on 2010, a sign of the gradual consolidation of daily production rates at the facility following expansion ■

Pulp production (thousand tons)



"In 2011, Ence reported an all-time production record, totalling 1.24 million tons of paper pulp"

Pulp sales

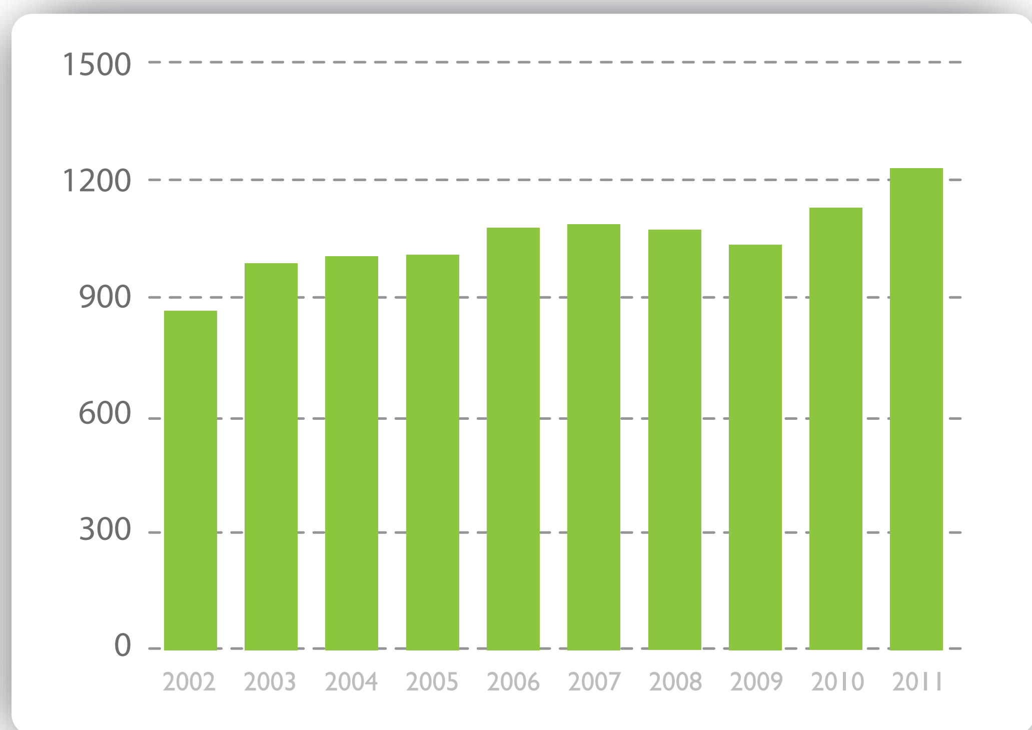
Pulp sales in 2011 amounted to 1,232,501 tons, within a context of crisis arising from the bail-outs of financial entities, an overall drop in the demand for pulp in developed countries, particularly in the second half of the year.

Despite this global situation, the Ence Group has maintained its position as a strategic supplier of eucalyptus pulp in the paper industry in Europe, the largest global pulp market, and its market leadership within the printing and writing, tissue and specialities segments, where the company maintains a balanced presence, having strengthened its position among the main manufacturers.

Pulp Sales

PERCENTAGE	COUNTRY
Germany	23%
Italy	16%
Spain	15%
France	10%
Rest of Europe	22%
Other Markets	14%
total	100%

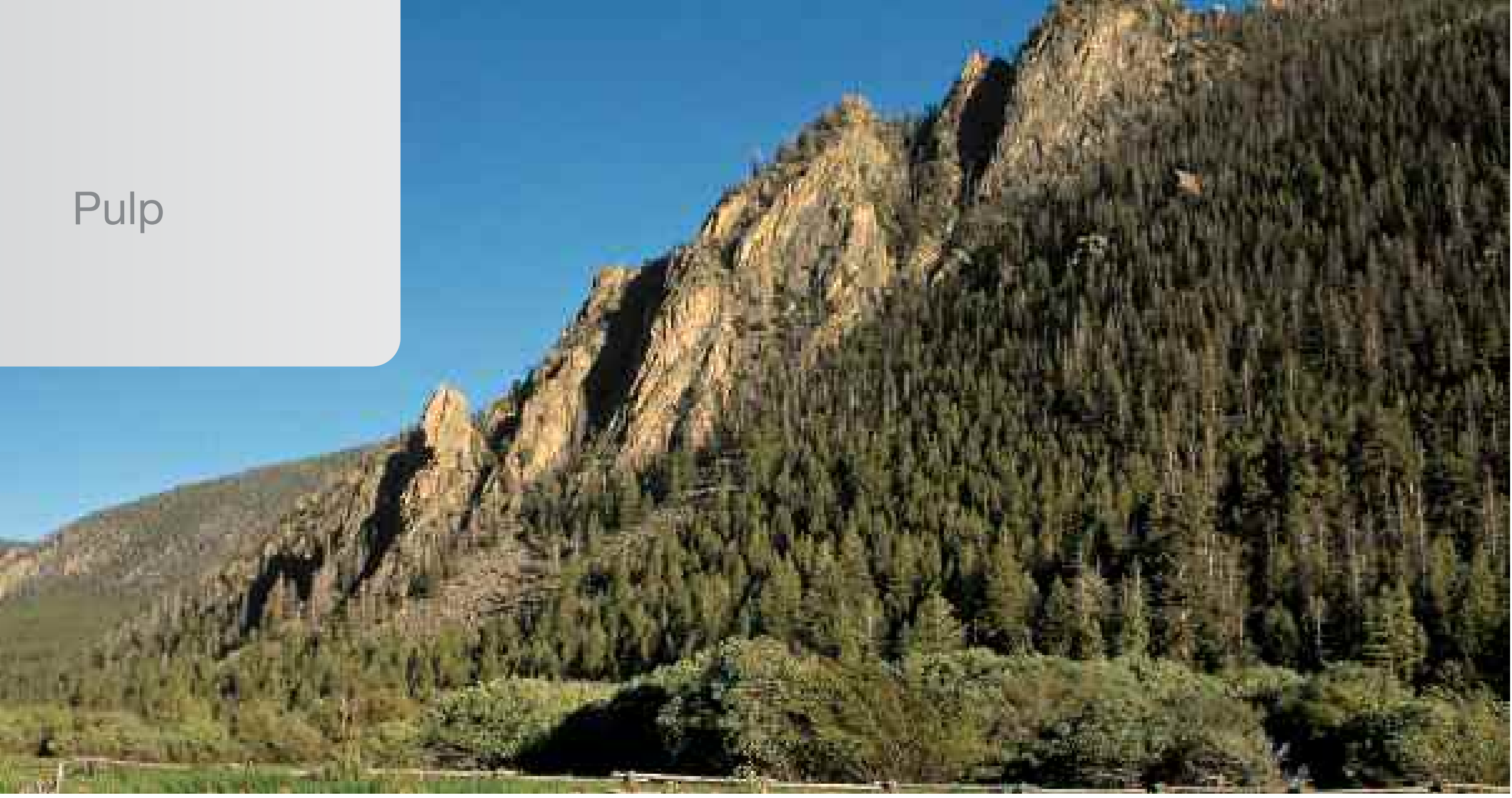
Pulp Sales (thousand tons)



The company has not only increased its sales in the former Eastern Europe and in Mediterranean countries but also in Asia, in particular in China, thus responding to lesser demand in the European market in the second half of the year and to the demand arising from the establishment of new paper production in emerging markets, showing short to medium-term growth potential.

Pulp sales amounted to €597 million in 2011, Germany being the number one destination for production (23%), followed by Italy (16%), Spain and Portugal (15%) and France (9.6%). The remaining production is destined for other markets in Europe, the Middle East and Asia. As a result of higher sales volumes of +7% and a diversified customer and market profile, pulp sales revenue in 2011 stood at €597 million, -5% down on 2010 in a year where the average price fell by -11% over the previous year.

In this regard, the distribution of sales by country and segments in 2011 was in line with 2010, with exposure primarily in Europe (destination to which 86% of production is exported) and those paper market segments with a greater capacity to produce using eucalyptus fibre and showing stable growth. ■



Environmental management

Ence Group plants located in Pontevedra, Huelva and Navia hold the appropriate Integrated Environmental Authorisations required for industrial work to be carried out at the plants.

Also, in accordance with the Kyoto Protocol, they have the Greenhouse Gas Emissions (CO2) Authorisation, whose verified emissions in 2011 did not exceed the allocated rights, having generated a surplus.

Ence processes are carried out in line with the principles of management policy established by the company and in accordance with a sustainability and continuous improvement strategy, therefore implementation of the management system is carried out through a process-based approach that seamlessly addresses the issues of quality and efficiency, safety and health of employees, with respect to the environment and pollution prevention.

The environmental management of the plants is certified by accredited bodies in accordance with the UNE-EN-ISO 14001:2004 standard. Similarly, the register is maintained in line with the Eco-Management and Audit System (EMAS) pursuant to Regulation 1221/2009 of the European Union having been the first to undertake this voluntary commitment of such magnitude in their respective autonomous communities, which even today only has a small number of participating companies.

Continuous improvement of environmental performance

Regular analytical checks of all parameters on waste and atmospheric emissions, noise and waste generated and management thereof are carried out at the plants. A sign of the effectiveness of this management system is the continuous improvement of environmental performance, the results of which have been endorsed annually by the Environmental Statements of each and are validated in accordance with the requirements of the EMAS regulation.

These results are due to the implementation of Best Available Techniques (BAT) and Best Environmental Practices (BEP) defined in the EU's reference document BREF (Best Available Techniques in the Pulp and Paper Industry 2001).

The implementation of BAT and BEP, together with the optimisation of processes has resulted in great water and energy savings over the years as well as a significant reduction in emissions, liquid effluent and waste generated during the pulp production process.

In this regard, all data on the 2011 environmental control parameters comply with the applicable legal limits set out in the relevant Integrated Environmental Authorisations, improving in some cases the benchmarks set in the BREF for the sector.

Investment effort

In relation to environmental investments, as odour is one of the most obvious issues, the odour elimination plan has been extended to all plants throughout 2011. Ence is set to allocate an investment of more than 9 million euro which will bring about an end to the odour impact in 2014.

The Huelva plant has further advanced based on the schedule established, implementing the project to generate 50 MW from biomass, which includes a boiler, turbine and pre-treatment plant for the biomass. This project seeks an energetic use of biomass thereby reducing fossil fuel consumption.

Work has also been undertaken on boilers, aimed at improving air emissions. Work has also been carried out aimed at improving the quality of the effluent. In this regard, following the implementation of various initiatives, water consumption was reduced by 11% in the second half of the year when compared to the beginning of the year.

The most significant environmental investments at the Navia plant relate to the optimisation of the gas treatment system in order to reduce the facility's odour impact as well as measuring devices that allow control of the immissions in the environment.

Ongoing improvements of the installations has been carried out throughout 2011. Improvements have been made in relation to liquid effluent, with work having been carried out on the internal pipeline systems for water effluent and storm water, incorporating internal current recirculation systems during the digestion and washing stages, resulting in better on-site use of the organic matter while reducing the amount of final effluent.

Finally, with regard to environmental investments in Pontevedra, as part of the project developed in collaboration with the University of Santiago de Compostela, proposals planned for reducing the odour impact have been implemented.

Investments have been made which are aimed at reducing air emissions by overhauling the electrostatic filters in the recovery boiler. Investments aimed at reducing fossil fuel consumption have also been made by implementing better monitoring of forest biomass and increased hydrogen burning in the lime kilns.

Finally, water consumption has been reduced by undertaking a series of work on the water supply pipe to the plant and by replacing parts in the closed circuit cooling towers.

Operating costs and environmental management in the three plants, including self-monitoring of gaseous emissions, calibration of monitoring equipment, monitoring programme and control of waste, control and prevention of Legionellosis, waste management, operating costs of environmental control facilities and enforcement of REACH regulations amount to €4.0 million ■

Energy

Renewable energy

As part of its ongoing commitment towards renewable energies, ENCE has maintained the sales of green energy as the basis for its business growth.

Ence is a leader in renewable energy production using biomass waste and energy crops in Spain; a technology using a non-fossil fuel to reduce the risks linked to rising oil prices and which is a carbon-neutral energy source.

Ence co-generates the electricity and heat required for its industrial operations and sells its surplus production to the national grid. For this purpose, Ence uses biomass from three main sources as its raw material:

- Lignin (also known as black liquor). It is the waste product resulting from a delignification process where wood fibres are separated through a cooking process, which forms part of the pulp production process. The black liquor is used as fuel in recovery boilers generating steam for electricity generation. Additionally, during combustion, the cooking chemicals are recovered for reuse during the production process, thereby contributing to an elimination of waste generation for the environment and increased efficiency in the pulp production process.

- Wood bark (solid biomass). Use of biomass disposed during preparation for wood chipping in the pulp manufacturing process, being used by combustion to generate steam for electricity, leading to increased efficiency of the process and the elimination of waste into the environment and "green" electric power generation without CO2 emissions.

- Biomass from energy crops and forest residues. It provides the rural sector with new alternatives for long-term viable and stable crops, i.e., it creates economic and environmental development in the affected areas since large areas are cultivated to promote energy crops (countryside management) and forests are cleaned to collect forest residue (eliminating fire hazards). All this work is aimed at generating "green" energy so it is not only the economic engine in these remote areas, but it means fossil fuel imports are not necessary, thereby improving the country's energy independence while emitting less CO2 into the atmosphere.

Ence has an installed capacity of 229MW of operating power, 180MW of which are exclusively from biomass and 49MW from cogeneration with gas. All the Group's generating and cogeneration groups are recorded in the register of producers of electrical energy through the special "feed-in" system, regulated by Royal Decree 661/2007 of 25 May.

Ence is committed to gradually increasing its production capacity of renewable energy in the coming years, maintaining its position as a leader in power generation from forest biomass and energy crops.

In order to achieve this commitment, Ence developed a strategic plan that is beginning to bear fruit, including the following milestones achieved during the year:

- Funding of the biomass plant in Huelva:

  In June 2011 funding was secured for the Huelva biomass plant, which will have an installed capacity of 50 MW. This is particularly important milestone and an industry benchmark as it is the largest biomass plant in Spain and it is also the first plant of its kind to have received funding via "Project Finance". According to the agreed schedule, it will be operational and therefore produce electricity in the second half of 2012. The fuel used at this plant will be the energy crop developed in the region where it is located and forest biomass.

- Registration of the biomass plant in Merida in Spain's Pre-allocation Register:

  In October 2011 the biomass plant in Merida was entered into Spain's Pre-allocation Register. With an installed capacity of 20 MW, financing will be finalised in the first half of 2012 in order to begin construction. Pre-registration ensures the premiums, fixed tariffs and cap & floor limits established by Royal Decree 661/2007 of 25 May on the regulation of electricity production through a special "feed-in" system (régimen especial). Like the Huelva plant, fuel used in the plant will be the forest biomass energy crop which is being developed in the region of Mérida

Category A: Cogeneration €/MWh

Group	Fuel	Premium (1)	Rate (1)	Premium (2)	Rate (2)	Premium (3)	Rate (3)	Premium (4)	Rate (4)
a.1	a.1.1	28,8080	84,3580	29,0460	85,0560	31,1600	91,2470	33,6070	98,4120
a.1.3	b.6.1	113,8850	158,3130						
	b.6.3	83,3330	127,7540						
	b.8.2	37,2020	77,0530						
	b.8.3	58,3980	100,4370						

Category B: Biomass €/Mwh

Group	Rate (1)	Benchmark premium (1)	FLOOR (1)	CAP (1)
ab.6.1	158,313	113,885	162,967	154,111
b.6.3	127,754	83,333	132,404	123,548
b.8.2	70,284	25,856	74,95	66,094
b.8.3	86,397	39,621	97,197	80,998

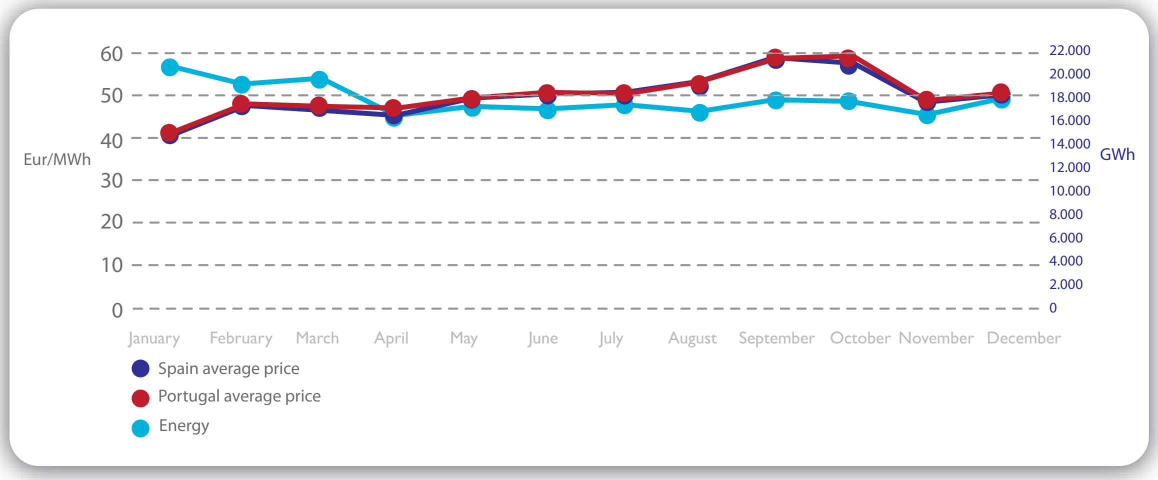
Energy management

In line with its firm commitment to establish itself in the renewable energy sector, Ence directs a multidisciplinary team that manages all tasks related to the sector without having to refer to third party businesses:

- Purchase and sale of electricity (front office, middle office and back office)
- Planning and control of the energy business.
- Operation and management of plants.
- Energy Regulation Advisory.
- Development and implementation of new projects.
- Management of CO_2 emission rights.

The company participates in the daily power market via its own energy control centre, which makes daily and intraday bids for the purchase and sale of electrical energy to the Market Operator (OMIE, which assumes the management of the bid system), and business operations with the Red Eléctrica de España (REE, Electrical Grid in Spain), the National Energy Commission (CNE), the Ministry of Industry and other industry bodies.

Pool price developments in Spain

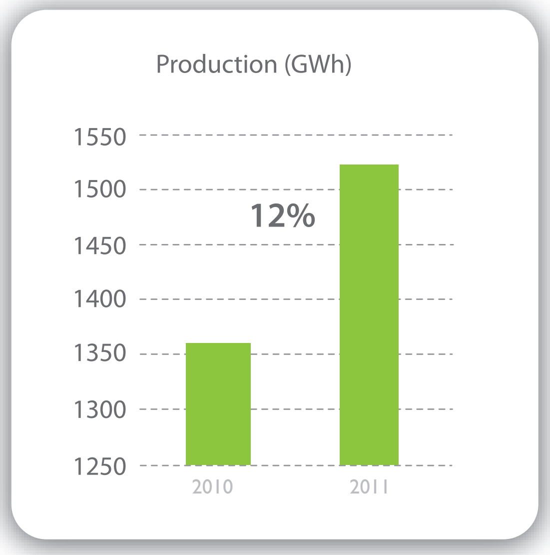


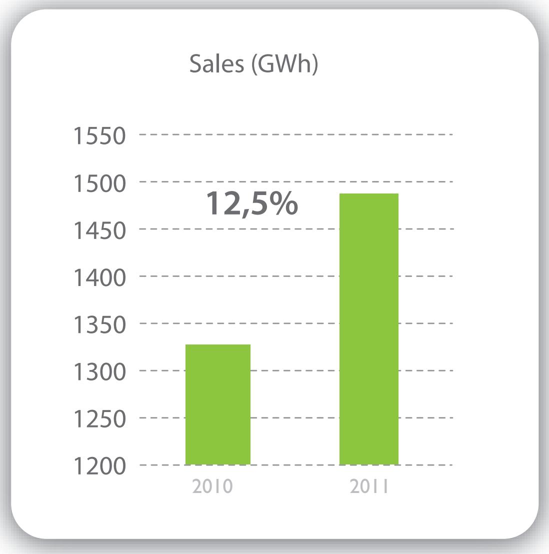
2011-Mínimo, medio y máximo. Precio de la casación del mercado diario. Sistema: Mibel.

However, the premiums, fixed tariffs and cap & floor limits for electricity production are established by Royal Decree 661/2007 of 25 May on the regulation of electricity production through a special "feed-in" system. As a result, as our company is not exposed to the fluctuating pool price of electricity, thereby offering a fixed return for our energy business, and this, in turn, provides financial stability to our company.

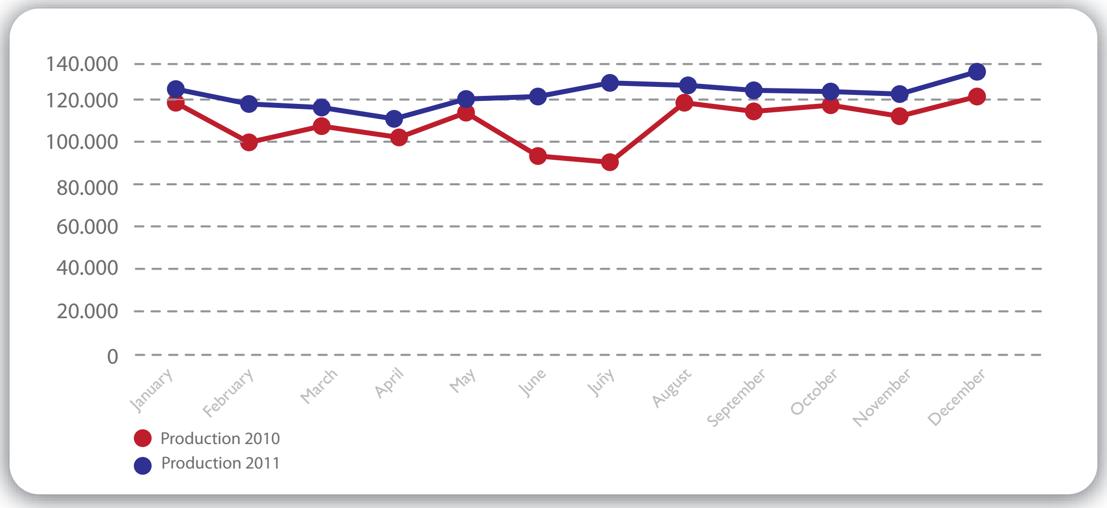
Due to continued improvements in efficiency in the managing and operating our plants, electricity production in 2011 amounted to 1,521 GWh, representing an increase of 12% over the previous year. Likewise, this meant that sales of electricity would reach 1,491 GWh (12.5% higher than 2010), thereby exceeding the record levels achieved by the company in the previous year and setting a new record. This trend will continue over the coming years due to the increase in installed capacity following the launch of the projects currently under development.

Production comparison graph (2011 vs. 2010)





Monthly production comparison graph (2011 vs. 2010)



Appendix
Addresses

Addresses

HEADQUARTERS
Paseo de la Castellana 35
28046 Madrid España
Tel: +34 91 337 85 00
Fax: +34 91 337 85 56

HUELVA MILL
Ctra., A – 5000, Km. 7,5
21007 Huelva
Apartado 223
21080 Huelva
ESPAÑA
Tel.: + 34 959 36 77 00
Fax : + 34 959 36 76 28

PONTEVEDRA MILL
Marisma de Lourizán, s/n
36153 Pontevedra
Apartado 157
36080 Pontevedra
ESPAÑA
Tel.: + 34 986 85 60 00
Fax : + 34 986 84 77 74

NAVIA MILL
Armental, s/n
Apartado 39
33710 Navia – Asturias
ESPAÑA
Tel.: + 34 985 63 02 00
Fax : + 34 985 63 06 86

CELULOSA ENERGÍA, S.L
Ctra., A – 5000, Km. 7,5
21007 Huelva
Apartado 223
21080 Huelva
ESPAÑA
Tel.: + 34 959 36 77 00
Fax : + 34 959 36 76 28

NORFOR (Norte Forestal, S.A.)
Marisma de Lourizán, s/n
36153 Pontevedra
Apartado 157
36080 Pontevedra
ESPAÑA
Tel.: + 34 986 85 60 00
Fax : + 34 986 84 08 44

SILVASUR AGROFORESTAL
Ctra., A – 5000, Km. 7,5
21007 Huelva
ESPAÑA
Apartado 223
21080 Huelva
Tel.: + 34 959 36 77 00
Fax: + 34 959 36 76 28

IBERFLORESTAL E IBERSILVA
Avda. Antonio Augusto de Aguiar, nº 130-2º
1050-020 Lisboa
PORTUGAL
Tel.: + 351 217 800 269
Fax: + 351 217 800 270
aoliveros@ence.es

SIERRAS CALMAS
Mariscal Estigarribia, 928
11300 Montevideo
URUGUAY
Tel.: +598 2 710 92 56
Fax: +598 2 711 93 89
info@ence.com.uy
MASERLIT
info@maserlit.com.uy

SALES OFFICES

SPAIN
Pº de la Castellana, 35
28046 Madrid
Tel.: +34 91 337 85 00
Fax : + 34 91 337 85 56
ence@ence.es

GERMANY
CONRAD JACOBSON GMBH
Oberbaumbrücke, 1
D-20457 Hamburgo
GERMANY
Tel.: + 49 40 33 40 31 57
Fax : + 49 40 33 40 31 82
llarson@conradjacobson.com

ITALY
IBERPULP Srl
Viale delle Margherite, 36
20070 Dresano (MI)
Italy
Tel.: + 39 02 9887 1221
Fax : + 39 02 9887 0842
umberto.grazzini@iberpulp.eu

TURQUIA
Cumhuriyet Cad 89 – 91/21
80230 Elmadag
Estambul
TURQUÍA
Tel.: + 90 21 22 30 12 52
Fax : + 90 21 22 32 62 65
t.gumus@unirep.com

ISRAEL
INDUSTRIA LTD.
POB 16152
42/6 Levi Eshkol St.
69361 Tel Aviv
ISRAEL
Tel.: +972 3 699 70 41
Fax : +972 3 699 70 42
M.: +972 5 444 21187
ishai.paas@panor.co.il

NURSERIES

NORFOR
Vivero Norfor Figueirido
LG Croas, 15
Figueirido Vilaboa
36140 Pontevedra
ESPAÑA
Tel.: +34 986 71 52 64
Fax : + 34 986 70 82 99

NORFOR – NAVIA
Armental, s/n
33710 Navia (Astúrias)
ESPAÑA
Tel.: +34 985 47 34 50
Fax : + 34 985 47 35 75

SALES REPRESENTATIVES OF IBERSILVA

HUELVA OFFICE
Pol.Ind.Marisma del Polvorín, C/B, Nº 11
21002 HUELVA
ESPAÑA
Tel.: +34 959 540 809
+34 959 540 437
Fax : +34 959 249 274

Financial Report

pwc

AUDITOR'S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

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

To the shareholders of Grupo Empresarial ENCE, S.A.:

We have audited the consolidated annual accounts of Grupo Empresarial ENCE, S.A. (the "Company") and its subsidiaries (the "Group"), consisting of the consolidated balance sheet at 31 December 2011, the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes to the consolidated annual accounts for the year then ended. As explained in Note 3.1, the Directors of the Company are responsible for the preparation of these consolidated annual accounts in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work performed in accordance with the legislation governing the audit practice in Spain, which requires the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of whether their overall presentation, the accounting principles and criteria applied and the estimates made are in accordance with the applicable financial reporting framework.

In our opinion, the accompanying consolidated annual accounts for 2011 present fairly, in all material respects, the consolidated financial position of Grupo Empresarial ENCE, S.A. and its subsidiaries at 31 December 2011 and the consolidated results of its operations and the consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union, and other provisions of the applicable financial reporting framework.

The accompanying consolidated Directors' Report for 2011 contains the explanations which the Directors of Grupo Empresarial ENCE, S.A. consider appropriate regarding the Group's situation, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the consolidated Directors' Report is in agreement with that of the consolidated annual accounts for 2011. Our work as auditors is limited to checking the consolidated Directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from the accounting records of Grupo Empresarial ENCE, S.A. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

Mar Gallardo
Partner

29 February 2012

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 913 083 566, www.pwc.es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
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Consolidated balance sheets at 31 december 2011 and 2010

Thousands of Euros	Note	31/12/2011	31/12/2010
NON-CURRENT ASSETS			
Intangible assets	6	8.127	6.534
Property, plant and equipment	7	770.142	747.140
Investment property	4.c	2.190	2.302
Biological assets	8	180.586	166.187
Other financial assets	16	4.065	5.788
Deferred tax assets	18	42.653	49.881
		1.007.763	**977.832**
CURRENT ASSETS			
Non-current assets classified as held for sale	20	16.544	-
Inventories	11	112.462	105.911
Trade and other receivables	12	122.789	139.953
Receivable from Public Authorities	18	13.005	20.119
Current financial assets-			
Derivatives	10	867	786
Other financial assets	16	22.824	14.586
Cash and cash equivalents	16	71.629	70.983
Other current assets		911	1.535
		361.031	**353.873**
TOTAL ASSETS		**1.368.764**	**1.331.705**
EQUITY	13		
Share capital		232.212	232.212
Share premium		254.328	254.328
Parent Company reserves		106.630	48.470
Reserves in fully consolidated companies		102.454	121.536
Valuation adjustments		33.155	47.533
Profit for the year attributed to the Parent Company		41.192	64.711
Translation differences		(591)	-
Treasury shares		(49.217)	(2.434)
Equity attributable to shareholders of the Parent Company		**720.163**	**766.356**
TOTAL EQUITY		**720.163**	**766.356**

Thousands of Euros	Note	31/12/2011	31/12/2010
NON-CURRENT LIABILITIES			
Provisions	15	23.185	23.833
Financial debt	16	274.186	242.962
Grants	14	20.244	9.960
Derivatives	10	25.466	36.562
Other financial liabilities	17	9.183	8.321
Deferred tax liabilities	18	28.289	23.649
		380.553	**345.287**
CURRENT LIABILITIES			
Liabilities associated with non-current assets			
classified as held for sale	20	12.322	-
Financial debt	16	20.452	6.277
Derivatives	10	34.610	4.591
Other financial liabilities	17	574	704
Trade and other payables	12	181.964	201.063
Corporate Income Tax payable	18	365	2.188
Other accounts payable to Public Authorities	18	17.655	4.893
Other current liabilities		136	346
		268.078	**220.062**
TOTAL EQUITY AND LIABILITIES		**1.368.794**	**1.331.705**

The accompanying Notes 1 to 25 are an integral part of the consolidated balance sheet at 31 December 2011.

Consolidated income statements for 2011 y 2010

Thousands of Euros	Note	2011	2010
Continuing operations:			
Revenue	19.a	825.451	830.758
Gains or losses on hedging operations	10	(10.434)	(4.852)
Changes in inventories of finished goods and work in progress		(1.688)	4.840
Procurements	19.b	(390.759)	(367.034)
GROSS MARGIN		**422.570**	**463.712**
Group work on non-current assets	8	27.236	27.814
Other operating income		5.173	3.549
Capital grants transferred to profit and loss	14	7.431	7.247
Staff costs	19.c	(89.413)	(84.317)
Depreciation and amortisation charge	6, 7 y 8	(63.460)	(61.206)
Impairment and gains or losses on disposals of non-current assets	7	4.392	222
Other operating expenses	19.e	(233.850)	(239.744)
PROFIT FROM OPERATIONS		**80.079**	**117.277**
Finance income		5.296	2.016
Change in fair value of financial instruments	10	1.554	2.463
Finance costs	19.f	(32.000)	(31.482)
Exchange differences		2.085	62
FINANCIAL LOSS		**(23.065)**	**(26.941)**
PROFIT BEFORE TAX		**57.014**	**90.336**
Income tax	18	(15.822)	(25.625)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**41.192**	**64.711**
PROFIT FOR THE YEAR	**19.g**	**41.192**	**64.711**
Earnings per share:			
Basic	13	0,16	0,27
Diluted	13	0,16	0,27

The accompanying Notes 1 to 25 are an integral part of the consolidated statement of income for the year ended 31 December 2011.

Consolidated statement of recognised income and expense for 2011 y 2010

Thousands of Euros	Note	2011	2010
PROFIT PER CONSOLIDATED INCOME STATEMENT (I)	**13**	**41.192**	**64.711**
Income and expenses recognised directly in equity			
Cash flow hedges		(34.608)	(7.892)
Conversion differences		(591)	-
Tax effect		10.382	2.367
TOTAL INCOME AND EXPENSES RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY (II)	**13**	**(24.817)**	**(5.525)**
Transfers to consolidated profit or loss			
Arising from cash flow hedges		14.068	8.014
Tax effect		(4.220)	(2.404)
TOTAL TRANSFERS TO CONSOLIDATED PROFIT AND LOSS (III)	**13**	**9.848**	**5.610**
TOTAL CONSOLIDATED RECOGNISED CONSOLIDADOS (I+II+III)		**26.223**	**64.796**

The accompanying Notes 1 to 25 are an integral part of the consolidated statement of recognised income and expense for 2011.

Consolidated statements of changes in equity for 2011 y 2010
Statement of changes in total consolidated equity

2011 - Thousands of Euros	Note	Balance at 1/1/2011	Recognised Income / (Expense)	Capital Increase
Share capital		232.212	-	-
Share premium		254.328	-	-
Legal reserve		31.482	-	-
Other Parent Company reserves		150.341	-	-
Reserves in fully consolidated companies		120.583	-	-
Prior years' losses		(132.400)	-	-
Translation differences		-	(591)	-
Treasury shares		(2.434)	-	-
Valuation adjustments		47.533	(14.378)	-
Profit for the year attributed to the Parent Company		64.711	41.192	-
		766.356	**26.223**	**-**

The accompanying Notes 1 to 25 are an integral part of the statement of changes in consolidated equity for 2011.

2010 - Thousands of Euros	Note	Balance at 1/1/2010	Recognised Income / (Expense)	Capital Increase
Share capital		157.410	-	74.802
Share premium		199.058	-	55.270
Legal reserve		31.482	-	-
Other Parent Company reserves		153.751	-	(3.608)
Reserves in fully consolidated companies		147.469	-	-
Prior years' losses		(4.715)	-	-
Translation differences		-	-	-
Treasury shares		(435)	-	-
Valuation adjustments		47.448	85	-
Profit for the year attributed to the Parent Company		(154.571)	64.711	-
		576.897	**64.796**	**126.464**

The accompanying Notes 1 to 25 are an integral part of the statement of changes in consolidated equity for 2011.

Distribution of Prior Year's Profit	Distribution of Dividends	Treasury Shares Transactions	Transfers	Balance at 31-12-2011
-	-	-	-	232.212
-	-	-	-	254.328
8.284	-	-	-	39.766
74.556	(25.801)	168	(132.400)	66.864
(18.129)	-	-	-	102.454
-	-	-	132.400	-
-	-	-	-	(591)
-	-	(46.783)	-	(49.217)
-	-	-	-	33.155
(64.711)	-	-	-	41.192
-	**(25.801)**	**(46.615)**	**-**	**720.163**

Distribution of Prior Year's Profit	Distribution of Dividends	Treasury Shares Transactions	Transfers	Balance at 31-12-2010
-	-	-	-	232.212
-	-	-	-	254.328
-	-	-	-	31.482
-	-	198	-	150.341
(26.886)	-	-	-	120.583
(127.685)	-	-	-	(132.400)
-	-	-	-	-
-	-	(1.999)	-	(2.434)
-	-	-	-	47.533
154.571	-	-	-	64.711
-	**-**	**(1.801)**	**-**	**766.356**

Consolidated statements of cash flows for 2011 y 2010

Thousands of Euros	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated profit for the year before tax	57.014	90.336
Adjustments for-		
Depreciation and amortisation charge	53.736	49.158
Exhaustion of forestry reserve	8.455	10.671
Amortisation of intangible assets	1.269	1.377
Changes in provisions and other deferred expenses (net)	(3.565)	10.562
Gains/Losses on disposal of non-current assets	(4.224)	(750)
Finance income	(5.296)	(2.016)
Finance costs	29.291	28.956
Grants and subsidies transferred to profit and loss	(1.124)	(887)
	78.542	**187.407**
Changes in working capital		
Trade and other receivables	27.953	(60.004)
Current financial and other assets	(10.823)	(12.663)
Current liabilities	(7.974)	25.728
Inventories	(8.332)	(22.031)
	824	**(68.970)**
Other cash flows from operating activities		
Interest paid	(28.036)	(30.290)
Interest received	5.296	1.848
Income tax recovered (paid)	(2.907)	-
	(25.647)	**(28.442)**
Net cash flows from operating activities (I)	**110.733**	**89.995**

The accompanying Notes 1 to 25 are an integral part of the consolidated statement of cash flows for 2011.

Consolidated statements of cash flows for 2011 y 2010

Thousands of Euros	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments:		
Property, plant and equipment	(94.895)	(96.918)
Intangible assets	(447)	(1.614)
Other financial assets	-	(294)
	(95.342)	**(98.826)**
Disposals:		
Property, plant and equipment	4.338	-
Other financial assets	1.682	-
	6.020	**-**
Net cash flows from investing activities (II)	**(89.322)**	**(98.826)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds and payments relating to equity instruments:		
Proceeds from issue of equity instruments, net of share issue costs	-	124.920
Purchase of treasury shares	(53.708)	(11.753)
Disposal of treasury shares	7.164	10.038
	(46.544)	**123.205**
Proceeds and payments relating to financial liability instruments:		
Increase / (decrease) in bank borrowings, net of loan arrangement costs	43.057	(94.233)
Grants and subsidies received	8.523	1.710
	51.580	**(92.523)**
Dividends and returns on other equity instruments paid		
Dividends	(25.801)	-
	(25.801)	**-**
Net cash flows from financing activities (III)	**(20.765)**	**30.682**
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III)	**646**	**21.851**
Cash and cash equivalents at beginning of year	70.983	49.132
Cash and cash equivalents at end of year	71.629	70.983

1. Activity of the Group and Strategic Plan

Grupo Empresarial ENCE, S.A. (hereinafter "ENCE" or the "Parent Company") was incorporated in 1968 under the name Empresa Nacional de Celulosas, S.A. It has its registered offices at Paseo de la Castellana 35, Madrid. The corporate purpose established in the by-laws consists of:

a) Manufacture of cellulose pulp and related by-products, obtaining necessary products and items, and exploitation of any sub-products arising from the aforementioned activities.

b) Generation by any means, sale and usage of electricity and of other energy sources, and of the raw materials and primary energy sources required for generating, in accordance with the provisions of prevailing legislation; and marketing, sale and supply of power in any way permitted by law. The Company may not conduct any of the aforementioned activities where prevailing legislation establishes special requirements or limitations, unless it complies with such conditions.

c) Cultivation, exploitation and use of forests and timberland, forest plantation work and specialist forestry work and services. Preparation and transformation of forestry products. Commercial use, exploitation and marketing of forest products of all kinds (including biomass and forest energy crops), and their derivatives and by-products. Forestry studies and projects.

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

The Group's principal activity BEKP (Bleached Eucalyptus Kraft Pulp) cellulose pulp production with ECF (elemental chlorine free) and TCF (totally chlorine free) bleaching based on eucalyptus. In order to carry out its activities, the Group operates three mills in Spain, located in the provinces of Asturias, Pontevedra and Huelva, which have combined production capacity of approximately 1.3 million metric tons per year.

In addition to its cellulose pulp production, the Group also generates electricity from biomass and bio-fuels obtained from the pulp production process (mainly lignin), and to a lesser extent using gas and fuel oil. The generating capacity currently in use totals approximately 230 megawatts per year from 6 power plants. A further two plants with a combined capacity of 70 megawatts are currently under construction.

In order to assure supplies of timber supplies for the paper pulp manufacturing process and meet the power plants' demand for biomass, the Group has 114,534 hectares of managed forest land, of which it owns 77,687 hectares.

The Parent Company's shares are listed on the Madrid Stock Exchange.

2. Group Companies

The following subsidiaries in which the Parent Company directly or indirectly owns 100% of share capital were fully consolidated in the consolidated financial statements for 2011:

2011

Company	Registered Office	Activity	Thousands of Euros – Equity of the Investee Company		
			Share Capital	Reserves	Profit / (Loss) for the year
Subsidiaries-					
Celulosa Energía, S.L.U. (a)	Ctra Madrid-Huelva Km. 630.) (Huelva)	Electricity generating and sale of power	3.756	26.609	7.319
Celulosas de Asturias, S.A.U.(a)	Armental s/n Navia (Asturias)	Production and sale of paper, pulp, electricity generating and sale of power	37.863	23.896	25.348
Silvasur Agroforestal, S.A.U. (a)	Avda de Andalucía s/n. (Huelva)	Forest management	39.666	7.409	(7.228)
Ibersilva, S.A.U. (a)	Avda de Alemania, 9 (Huelva)	Forestry services	10.000	(7.101)	(11.298)
Norte Forestal, S.A.U. (a)	Marisma del Lourizán s/n (Pontevedra)	Forest management	2.464	17.630	3.741
Norfor Maderas, S.A.U. (a)	Marisma del Lourizán s/n (Pontevedra)	Forest management	601	449	30
Eucalipto de Pontevedra, S.A.U. (a)	Pontecaldelas (Pontevedra)	Lease of properties	1208	(653)	(11)
Iberflorestal, S.A.U. (a)	Lisboa (Portugal)	Purchase and sale of wood	55	1.943	262
Las Pléyades, S.A. (SAFI) (b) (a)	Montevideo (Uruguay)	Export of wood	2	2.412	327
Maderas Aserradas del Litoral,. S.A (a) (b)	Montevideo (Uruguay)	Dormant	5.661	(1.970)	(1.950)
Sierras Calmas, S.A. (a) (b)	Montevideo (Uruguay)	Forest management	1.569	7.529	3.785
Ence Energía S.L.U.	Paseo de la Castellana, 35 (Madrid)	Electricity generating and sale of power	6.774	26.595	(383)
Ence Energía Huelva, S.L.U. (a)	Paseo de la Castellana, 35 (Madrid)	Electricity generating and sale of power	6.757	27.016	(658)

(a) Financial statements audited by PwC.
(b) Euro value translated at the year-end rate of exchange.

2010

Company Office	Registered	Activity	Thousands of Euros — Equity of the Investee Company: Share Capital	Reserves	Profit / (Loss) for the year
Subsidiaries-					
Celulosa Energía, S.L.U. (a)	Ctra Madrid-Huelva Km. 630. (Huelva)	Electricity generating and sale of power	3.756	21.467	5.143
Celulosas de Asturias, S.A.U.(a)	Armental s/n Navia (Asturias)	Production and sale of paper pulp, electricity generating and sale of power	37.863	9.951	38.945
Silvasur Agroforestal, S.A.U. (a)	Avda de Andalucía s/n. (Huelva)	Forest management	39.666	6.890	519
Ibersilva, S.A.U. (a)	Avda de Alemania, 9 (Huelva)	Forestry services	10.000	(988)	(6.121)
Norte Forestal, S.A.U. (a)	Marisma del Lourizán s/n (Pontevedra)	Forest management	2.464	8.050	10.539
Norfor Maderas, S.A.U. (a)	Marisma del Lourizán s/n (Pontevedra)	Forest management	601	447	1
Eucalipto de Pontevedra, S.A.U. (a)	Pontecaldelas (Pontevedra)	Lease of properties	1208	46	(700)
Iberflorestal, S.A.U. (a)	Lisboa (Portugal)	Purchase and sale of wood	55	1.699	244
Las Pléyades, S.A. (SAFI) (b)	Montevideo (Uruguay)	Export of wood	2	745	1.591
Maderas Aserradas del Litoral, S.A. (a) (b)	Montevideo (Uruguay)	Sawmill	5.481	(1.477)	(431)
Sierras Calmas, S.A. (a) (b)	Montevideo (Uruguay)	Forest management	1.519	(591)	6.125
Ence Energía S.L.U.	Paseo de la Castellana, 35 (Madrid)	Electricity generating and sale of power	20	(1)	(419)

(a) Financial statements audited by Deloitte.
(b) Euro value translated at the year-end rate of exchange.

The Group also includes the following dormant companies, all of which are 100% owned by the Parent Company: Electricidad de Navia, S.L.U, Tisú de Lourizán, S.L.U, Ibercel Celulosa, S.L.U., Celulosas de M´Bopicuá, S.A., Las Pléyades Argentina, S.A., Las Pléyades Uruguay, S.A., and Zona Franca M´Bopicuá, S.A.

The Group holds minority shareholdings in certain other companies which were not consolidated because the effect would not have been material. These are: Transporte de Celulosa y Madera, S.A., in which the Group holds a 40% ownership interest; Imacel, A.E.I.E., a dormant entity in which the Group holds a 50% ownership interest; Sociedad Andaluza de Valorización de la Biomasa, S.L. (6% ownership interest); and Electroquímica de Hernani, S.A., (5% ownership interest).

3. Bases of presentation of the consolidated financial statements

3.1 Basis of presentation

The consolidated financial statements for 2011 were obtained from the accounting records and individual financial statements of the Parent Company and the Group companies.

The consolidated financial statements were prepared in accordance with the applicable regulatory framework for financial reporting and, in particular, in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union pursuant to Regulation (EU) 1606/2002 of the European Parliament and Spanish Law 62/2003, of 30 December establishing tax, administrative and social measures and, accordingly, they present fairly the Group's equity and financial position at 31 December 2011 and the consolidated results of its operations, changes in equity and cash flows for the year then ended.

The main standards and measurement bases applied in the preparation of the Group's consolidated financial statements in accordance with EU-IFRS at 31 December 2011 may differ from the policies applied by some of the Group companies (local accounting standards). Where this was the case, the necessary adjustments and reclassifications were made in the consolidated process to harmonise the local accounting standards with EU-IFRS.

These consolidated financial statements, which were formally prepared by the Parent Company's directors, will be submitted for approval by the shareholders at the Annual General Meeting. It is considered that they will be approved without any changes. The Group's consolidated financial statements for 2010 were approved by the shareholders at the Annual General Meeting of the Parent Company held on 29 April 2011.

3.2 Key decisions in relation to IFRS

The Group adopted the following key decisions in relation to the presentation of the consolidated financial statements and the additional information disclosed in the notes thereto:

a. The euro is the Group's functional currency, and the consolidated financial statements are therefore expressed in euros.

b. The assets and liabilities recognised in the accompanying consolidated balance sheet are classified as current (short term) and non-current (long term). The items in the accompanying consolidated income statement are presented according to their nature.

c. The Group has opted to present the consolidated cash flow statement using the indirect method.

3.2.1 Standards and interpretations taking effect in the current year

The following new standards, amendments and interpretations entered into force on 1 January 2011:

Standard	Contents	Mandatory application in years commencing as of
Amendment of IAS 32 – Financial instruments: Presentation – Classification of rights over shares	Amends the accounting treatment of rights, options and warrants denominated in a currency other than the functional currency	Annual periods commencing as of 1 February 2010
Revision of IAS 24 – Related-party disclosures	Amends the definition of a “related party” and reduces disclosure requirements in the case of entities under a relationship of control, joint control or significant influence over governance	Annual periods commencing as of 1 January 2011
Improvements to IFRS (published in May 2010)	Amendments to a series of standards	The majority are mandatory for periods commencing as of 1 January 2011
Amendment of IFRIC 14 – Prepayments of a minimum funding requirement	Prepayment of contributions under minimum funding requirements can give rise to an assetd	Annual periods commencing as of 1 January 2011
IFRIC 19 Extinguishing financial liabilities with equity instruments	Treatment of the extinction of financial liabilities through the issue of shares	Annual periods commencing as of 1 July 2010

3.2.2 Standards and interpretations issued but not yet in force

At the date of preparation of these consolidated financial statements, the main standards and interpretations published by the IASB but not yet adopted by the European Union and, therefore, not in force were:

Standard	Contents	Mandatory application in years commencing as of
IFRS 9 Financial instruments: Classification and measurement	Replaces the classification and measurement requirements established by IAS 39 for financial assets and liabilities	Annual periods commencing as of 1 January 2013
Amendment of IAS 12 – Income tax – deferred taxes related to investment property	Calculation of deferred taxes related to investment property based on the fair value model contained in IAS 40	Annual periods commencing as of 1 January 2012
IFRS 10 Consolidated financial statements (published in May 2011)	Replaces the current consolidation requirements established in IAS 27	Annual periods commencing as of 1 January 2013
IFRS 11 Joint arrangements (published in May 2011)	Replaces the current IAS 31 on interests in joint ventures	Annual periods commencing as of 1 January 2013
IFRS 12 Disclosure of interests in other entities (published in May 2011)	Separate standard establishing disclosure requirements for ownership interests in subsidiaries, associates, jointly controlled entities and non-consolidated entities	Annual periods commencing as of 1 January 2013
IFRS 13 Fair value measurement (publishing in May 2011)	Establishes the framework for fair value measurement	Annual periods commencing as of 1 January 2013
IAS 27 (Revised) Separate financial statements (published in May 2011)	Revision of the standard, which will henceforth comprise only an entity's separate financial statements following the issuance of IFRS 10	Annual periods commencing as of 1 January 2013
IAS 23 (Revised) Investments in associates and joint ventures (published in May 2011)	Parallel review in relation to the issue of IFRS 11- Joint ventures	Annual periods commencing as of 1 January 2013
Amendment of IAS 1 – Presentation of Other Comprehensive Income (published in June 2011)	Minor amendment in relation to the presentation of Other Comprehensive Income	Annual periods commencing as of 1 January 2013
Amendment of IAS 19 Employee benefits (published in June 2011)	Amendments basically affect defined benefits plans, as one of the key changes is the elimination of the "fluctuation corridor"	Annual periods commencing as of 1 January 2013

Standard	Contents	Mandatory application in years commencing as of
Amendment of IFRS 9 and IFRS 7 Effective date and transition disclosures (published in December 2011)	Postponement of the effective date of IFRS 9 and changes to transition requirements and disclosures	N/A
IFRIC 20: Stripping costs in the production phase of a surface mine (published in October 2011)	The International Financial Reporting Interpretations Committee addresses the accounting treatment of the cost of eliminating waste materials in surface mines	Annual periods commencing as of 1 January 2013

3.3 Responsibility for information and estimates made

Certain estimates were made in preparing the consolidated financial statements for 2011, in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The assessment of possible impairment losses on certain assets.
- The useful life of property, plant and equipment and intangible assets.
- The fair values of certain assets, basically comprising financial instruments.
- The assumptions employed in the calculation of certain commitments with employees.
- Calculation of the provisions necessary to cover the risks related with ongoing litigation and insolvencies.
- The recoverability of deferred tax assets.

These estimates were made on the basis of the best information available at 31 December 2011 and 2010. However, events that take place in the future might make it necessary to change them. Any such changes in accounting estimates would be applied prospectively in accordance with IAS 8.

3.4 Consolidated principles

3.4.1 Subsidiaries

"Subsidiaries" are defined as companies over which the Parent Company has the capacity to exercise effective control; control is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when, for example, there are agreements with other shareholders of the investee that give the Parent control. Control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

The financial statements of the subsidiaries are fully consolidated with those of the Parent Company. Accordingly, all material balances and effects of the transactions between consolidated companies are eliminated on consolidation.

3.4.2 Associates

Associates are companies over which the Parent Company is in a position to exercise significant influence, but not control or joint control. The capacity to exercise significant influence usually exists because the Parent Company directly or indirectly holds 20% or more of the voting power of the investee.

3.4.3 Changes in the scope of consolidation and percentage ownership interests

2011

Ence Energía Huelva, S.L.U. was consolidated for the first time in 2011. This Company was incorporated in 2009, and in 2011 it acquired the project for the construction of an electricity generating plant with installed capacity of 50 megawatts.

2010

There were no significant changes in the scope of consolidation in 2010.

3.5. Comparative information

The information contained in these notes to the 2011 financial statements is presented together with comparative figures for 2010.

3.6. Seasonality of the Group's transactions

Given the activities conducted by the Group companies, transactions are not affected by cyclical or seasonal factors. Accordingly, these notes to the consolidated financial statements do not include any specific disclosures in this regard.

Nevertheless, the production of wood pulp requires stoppages in the production process for period of between 10 and 15 days to undertake maintenance work. All of the Group's three pulp plants made their annual stoppage in the first half of 2011.

3.7. Events after the end of the reporting period

No significant events occurred between 31 December 2011 and the date of preparation of these consolidated financial statements that are not referred to herein, and no specific disclosures are therefore presented in this regard.

4. Accounting policies

The principle accounting standards and measurement bases employed to prepare the consolidated financial statements of the Group in accordance with IFRS prevailing at the reporting date were as follows:

a) Intangible assets

Intangible assets are initially recognised at cost of acquisition or production. After initial recognition, these assets are carried at cost less the amount of accumulated amortisation and any impairment losses incurred.

The Group's intangible assets are considered to have finite useful lives and are amortised on the straight-line basis over the period representing the best estimate of the said useful lives.

Development costs

Development costs are capitalised annually providing the amounts concerned are separately identified for each project, and there are sound reasons to expect projects to succeed technically and generate financial returns. These costs are amortised on the straight-line basis over 5 years.

Computer software

The Group recognises the costs incurred in the acquisition of computer software and software licences under this caption. Computer software maintenance costs are recognised with a charge to the consolidated income statement for the year in which they are incurred.

Computer software is amortised on a straight-line basis over 5 years.

The greenhouse gas emission rights, obtained free of charge by the Group under the Spanish National Allocation Plan pursuant to Law 1/2005 governing the trade in emission rights are recognised upon allocation under "Intangible assets – Greenhouse gas emission rights" at their residual value, and a non-repayable capital grant is simultaneously recognised for the same amount.

After initial recognition, emission rights are carried at cost less the amount of any cumulative impairment losses recognised, but they are not amortised.

The costs associated with the greenhouse gases consumed in the period are recognised with a charge to "Other operating expenses" under "Non-current provisions" in the accompanying consolidated balance sheet at the amount for which any available emission rights were granted, or as measured based on best estimates of the possible cost it would be necessary to incur to cover any shortfall in the said rights.

The provision made and the intangible asset recognised when the emission rights were received will be cancelled upon redemption of the rights.

The non-repayable grants associated with the emission rights acquired free of charge are recognised under "Capital grants transferred to profit and loss" in the accompanying consolidated income statement in line with the recognition of expenses associated with emissions of the gases related with the subsidised emission rights.

b) Property, plant and equipment

Property, plant and equipment are initially recognised at acquisition or production cost, and are subsequently presented net of accumulated depreciation and any impairment losses incurred, where appropriate, in accordance with the criteria described in this Note 4.b.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency, or to a lengthening of the useful lives of the assets are capitalised.

Upkeep and maintenance expenses are recognised in the consolidated income statement for the year in which they are incurred.

For non-current assets that necessarily take a period of more than one year to get ready for their intended use, the capitalised costs include such borrowing costs as might have been incurred before the assets are ready to enter service and were charged by the supplier or relate to loans or other specific-purpose or general-purpose borrowings directly attributable to the acquisition or production of the assets.

Group work on non-current assets is measured at accumulated cost, which is calculated as external costs plus in-house costs, determined on the basis of in-house warehouse materials consumption, and manufacturing costs allocated using hourly absorption rates similar to those used for the measurement of inventories. The Group capitalised finance costs totalling EUR 2,678 thousand incurred in 2011, basically in respect of project finance indebtedness (EUR 1,148 thousand at 31 December 2010).

The Group companies depreciated their property, plant and equipment by the straight-line basis method at annual rates based on the years of estimated useful life of the assets (land is understood to have an indefinite useful life and is therefore not depreciated), as follows:

	Estimated Years of Useful Life
Buildings	20-40
Plant and machinery	11-16
Other fixtures, tools and furniture	11
Other items of property, plant and equipment	11

Investments made in buildings constructed on land granted under administrative concessions are recognised under "Buildings". This cost, and the cost of any other permanent fixtures located on concession land, is depreciated over the shorter of the asset's useful life or the term of the concession.

Impairment of intangible assets and property, plant and equipment

Whenever there are indications of impairment, the Group tests tangible and intangible assets for impairment to determine whether the recoverable amount of the assets has been reduced to below their carrying amount. Recoverable amount is the higher of fair value less costs to sell and value in use.

The directors of the Parent Company perform impairment tests as follows:

The recoverable amounts are calculated for each cash-generating unit, which comprise the plants operated by the Group.

Each year, the Group prepares a business plan for each cash-generating unit, generally covering a period of three years. The business plans consists of financial projects prepared on the basis of past experience and the best available estimates of earnings, investments and working capital. The business plans prepared are reviewed by the Parent Company's Board of Directors.

In order to calculate value in use, the cash flows so estimated are discounted applying a discount rate representing the cost of capital, taking into account the cost of borrowing and business risks.

Where it is estimated that the recoverable amount of an asset is less than its carrying amount, the latter is written down to the recoverable amount and an impairment loss is recognised in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the cash-generating unit is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal for an impairment loss is recognised as income.

The directors of the Parent Company consider that the carrying amounts of assets do not exceed their recoverable amounts calculated based on the procedure described in this section.

c) Investment property

In accordance with IAS 40, "Investment property" reflects the values of the land and buildings leased by the Group, which are measured at acquisition cost, less the appropriate accumulated depreciation.

d) Biological assets

A part of the Group's activity involves the cultivation of various species of trees for use as raw material in the production of wood pulp and energy. At 31 December 2011, the Group had various forests and timberland areas used in this activity. Standing timber is treated as a biological asset. Forest land is measured in accordance with IAS 16 "Property, plant and equipment" and is recognised under "Property, plant and equipment" in the consolidated balance sheet (see Note 7).

There are currently no active markets for the tree species grown in Spain and Uruguay, the markets of origin, and it is not possible to determine their fair value. Also, standing timber matures in an average period of up to 40 years including between 2 and 4 cycles, and a range of other variables may affect valuation using the discounted cash flows measurement, so that it is not possible to calculate fair value reliably using this method. As a consequence of the foregoing, the Group has opted to recognise standing timber at historic cost (i.e. cost less accumulated depreciation, less any accumulated impairment losses). Also, sensitivity analyses are performed to test the value of these assets based on certain indicators. The results of these analyses confirm the measurement criteria currently applied. Therefore, investments in forestry assets are measured by allocating all costs directly incurred in the acquisition and development of the assets, including leases, clearing and preparation of land, planting, fertilisers, care and upkeep.

Furthermore, a variable and individualised percentage of the carrying amount of standing timber is capitalised as interest up to the limit of its estimated realizable value. A total of EUR 2,575 thousand was capitalised in this respect in 2011 (EUR 2,552 thousand in 2010). This amount was included under "Group work on non-current assets".

The cost allocation method applied to felled timber is based on the total costs incurred to the date of felling and the residual value of the plantation. Timber disposals from the Group's forestry assets totalled EUR 8,635 thousand in 2011 (EUR 10,671 thousand in 2010). These amounts are included under "Depreciation and amortisation – Depletion of forestry reserves" in the accompanying consolidated income statement (see Note 8).

e) Leases

The Group leases certain assets. All of the leases concluded by the Group have been classified as operating leases based on the substance of the contracts, which under no circumstances transfer ownership of the leased assets or any of the rights and risks inherent therein.

Expenses from operating leases are recognised in the consolidated income statement in the year in which they are accrued.

f) Financial instruments

f.1) Financial assets:

The financial assets held by the Group are classified into the following categories:

- Loans and receivables: trade receivables and financial assets with fixed or determinable payments arising from non-trade operations arising on the sale or goods or the provision of services.

- Available-for-sale financial assets: these include debt securities and equity instruments of other companies that are not classified in any other category.

Initial recognition

Financial assets are initially recognised at the fair value of the consideration given plus any directly attributable transaction costs.

Subsequent measurement

Loans and receivables are measured at amortised cost. The Group also recognises impairment losses in the consolidated income statement where it considers that the financial assets affected present recoverability risks.

Available-for-sale financial assets are measured at fair value, and the gains and losses arising from changes in fair value are recognised in consolidated equity until the asset is disposed of or it is determined that it has become (permanently) impaired, at which time the cumulative gains or losses previously recognised are taken to the net consolidated profit or loss for the year.

Derecognition

The Group derecognises a financial asset when it expires or when the rights to the cash flows from the financial asset have been transferred and substantially all the risks and rewards of ownership have been transferred.

However, the Group does not derecognise financial assets, and recognises a financial liability for an amount equal to the consideration received, in transfers of financial assets in which substantially all the risks and rewards of ownership are retained.

f.2) Financial liabilities:

Financial liabilities include accounts payable by the Group that have arisen from the purchase of goods and services in the normal course of its business, and those which, not having commercial substance, cannot be classed as derivative financial instruments.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

The Group derecognises financial liabilities when the obligations giving rise to them cease to exist.

f.3) Derivative financial instruments and hedge accounting:

The Group's activities expose it mainly to financial and market risks arising from changes in the US dollar/euro exchange rate, which mainly affect its sales because the price of pulp is quoted in US dollars in the international market, and exchange rate fluctuations affecting sales made in foreign currency, as well as changes in the prices of fuel oil, gas and electricity, as these are necessary inputs for the production process. The Group is also exposed to the impact of variations in interest rates on its financial liabilities. The Group uses financial derivative instruments to hedge these exposures.

These financial instruments are initially recognised at their cost of acquisition and the necessary valuation adjustments are subsequently made to reflect their fair value at any given time. Write-downs are recognised under "Derivatives" in the consolidated balance sheet, and any eventual write-backs are recognised in "Financial assets – Derivatives". The gains or losses on these changes in value are recognised in the consolidated income statement, unless the derivative has been designated as a hedging instrument, in which case it is recognised as follows:

1. Fair value hedges: both the hedged item and the hedging instrument are measured at fair value, and any changes in the value of either are recognised in the consolidated income statement. Effects are offset in the same caption of the consolidated income statement.

2. Cash flow hedges: Changes in the fair value of financial derivatives are recognised in "Equity – Valuation adjustments". The cumulative loss or gain recognised under this heading is transferred to the consolidated income statement to the extent the underlying has an impact on the consolidated income statement, so that both effects are offset.

In order for these financial instruments to qualify for hedge accounting, they are initially designated as such and the hedging relationship is documented. The Group also verifies, both at inception and periodically over the term of the hedge, that the hedging relationship is effective, i.e. that it is prospectively foreseeable that changes in the fair value or cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument, and that, retrospectively, the gain or loss on the hedge was within a range of 80-125% of the gain or loss on the hedged item. The part of the hedging instrument that is determined to be ineffective is immediately recognised through the consolidated income statement.

The fair values of the different financial derivative instruments is calculated by discounting expected cash flows based on conditions in both spot and futures markets at the calculation date. All of the methods used are generally accepted by financial instrument analysts.

Hedge accounting is discontinued when the hedge is no longer highly effective. In this case, the cumulative gain or loss arising on the hedging instrument that was recognised directly in equity is maintained until the expected commitment or transaction materialises, when it is transferred to the consolidated income statement. Where the commitment or transaction envisaged is not expected to occur, any accumulated gain or loss previously recognised in equity is taken to the consolidated income statement.

Estimation of fair value

The fair value of financial instruments of this kind which are not traded on an active market is calculated applying measurement techniques that maximise the use of observable market data, and to a lesser extent estimates. On this basis, the measurement techniques applied to derivative financial instruments are, in general, second level methods, as the key data employed to calculate fair value (interest rate curves and the cellulose pulp price curve) are observable (see Note 10).

f.4) Equity instruments

An equity instrument represents a residual ownership interest in the equity of the Parent Company once all of its liabilities have been deducted.

The equity instruments issued by the Parent Company are recognised in equity for the amount of the proceeds received, net of issue costs.

Treasury shares acquired by the Parent Company are recognised at the value of the consideration paid and are presented as a reduction in equity. The gain or loss arising on the purchase, sale, issue or redemption of treasury shares are recognised directly in equity. No amounts are recognised in the income statement in this respect.

g) Inventories

Stocks of raw materials, finished products and work in progress are measured at the lower of cost of acquisition, production cost or market value.

Production costs is determined by including the cost of materials, labour, and direct and indirect manufacturing overheads.

The Group uses the weighted average cost method to assign value to its inventories.

Net realizable value is the estimated selling price less the estimated costs of completion and costs to be incurred in marketing, selling and distribution. The Group recognises the appropriate write-downs as an expense in the consolidated income statement when the net realizable value of the inventories is lower than acquisition (or production) cost thereof.

h) Cash and cash equivalents

Cash comprises both cash and demand bank deposits. Cash equivalents are highly liquid, short-term investments that are easily converted into cash, have an original maturity of no more than three months and are not subject to any significant risk of change in value.

i) Income tax

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

The current income tax expense is the amount payable by the Group as a result of income tax settlements for a given year. Tax credits and other tax benefits, excluding tax withholdings and pre-payments, and tax loss carryforwards from prior years effectively offset in the current year reduce the current income tax expense.

The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled.

Deferred tax liabilities are recognised for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that is not a business combination and affects neither accounting profit (loss) nor taxable profit (tax loss).

Deferred tax assets are recognised to the extent that it is considered probable that the Group will have taxable profits in the future against which the deferred tax assets can be utilised.

Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognised in equity.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that they will be recovered through future taxable profits.

The Parent Company and the rest of its subsidiaries registered in Spain in which the Parent owns interests in share capital equal to or exceeding 75% file consolidated tax returns under the regime established in Chapter VII, Title VIII of the Spanish Corporate Income Tax Law.

j) Income and expenses

Income is measured at the fair value of the consideration received or receivable and is recognised when the Group is likely to receive the economic benefits of the transaction and the amount thereof can be reliably measured. Sales are recorded net of VAT and discounts.

Revenues from the sale of goods is recognised when the goods are delivered and all of the risks and rewards inherent in ownership have been transferred.

Dividend income is recognised when the shareholder's right to receive payment is established.

Expenses are recognised in the consolidated income statement when there is a decrease in future economic benefits relating to a reduction in an asset or an increase in a liability which can be reliably measured. This implies that an expense is recognised at the same time as an increase in a liability or a reduction in an asset.

Expenses derived from the receipt of goods or services are recognised at the moment in which they are received.

An expense is recognised immediately when a payment does not generate future economic benefits, or when it does not meet the requirements for recognition as an asset.

k) Provisions and contingencies

The consolidated financial statements include all provisions with respect to which it is considered likely that an obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements but rather are disclosed in the accompanying notes, unless the possibility of an outflow in settlement is not considered remote.

Provisions, including variable employee remuneration, are measured based on the present value of the best estimate possible of the sum necessary to cancel or transfer the obligation, taking into account the information available on the event and its consequences. Adjustments to provisions are recognised as finance costs as they are accrued.

At 31 December 2011, various legal actions and claims were in progress against the Group. Both the Parent Company's legal advisers and its directors consider that the conclusion of these proceedings and claims will not have a material effect on these consolidated financial statements.

l) Termination benefits

Under current legislation, the Group is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken.

The Group recognised an allowance of EUR 251 thousand for this item under "Trade and other payables – payable to employees" in the consolidated balance sheet at 31 December 2011 (EUR 2,270 thousand at 31 December 2010) in order to cover incentivised terminations expected at the end of the reporting period.

At 31 December 2011 the directors of the Parent Company do not foresee any terminations might require the recognition of provisions in addition to those recorded in these consolidated financial statements..

m) Environmental assets and liabilities

Environmental assets are deemed to be assets used on a lasting basis in the Group's operations whose main purpose is to minimise environmental impact and protect and improve the environment, including the reduction or elimination of future pollution.

Environmental expenses

Environmental expenses comprise amounts incurred in the management of the environmental effects of the Group's operations, and those arising from existing environmental commitments. These include expenses arising from the prevention of pollution, treatment of waste and discharges, decontamination, restoration, environmental management and environmental audits (see Note 27).

Provisions relating to probable or certain environmental responsibilities, litigation and compensation or obligations payable for indeterminate amounts that are not covered by the insurance policies arranged are set aside, where appropriate, at the time the responsibility or obligation determining compensation or payment arises..

Environmental assets

Items included in the Group's assets for permanent use in its operations, the purpose of which is to minimise environmental impacts or to protect and improve the environment, including the reduction or elimination of future pollution, are recognised under "Property, plant and equipment" in the accompanying consolidated balance sheet.

For these purposes, the assets are recognised, the cost of acquisition or production is determined and the depreciation and impairment criteria are established in accordance with the policies described in Notes 4.a) and 4.b) above.

n) Pension obligations

Certain group companies have established the following commitments for retirement, widows, orphans and ancestors pensions, to supplement the Social Security benefits due to employees and members of their families:

1. Current employees

   Commitment to current employees at 31 December 2011 whereby the Company and the employee concerned contribute a pre-established percentage of salary for pension purposes to the Ence Group's "Joint Promotion Pension Plan" promoted in accordance with article 40.d) of the Pension Plans and Funds Regulations (defined contributions). This pension plan is included in the SERVIRENTA II F.P. Pension Fund.

2. Retired employees

   In December 1997 the Parent Company arranged a single premium insurance policy with an insurance company to guarantee the contingencies covered by the aforementioned fund.

   Payments made by the insurance company constitute a tax deductible expense when they are settled.

o) Share-based payments

On 30 March 2007 the Annual General Meeting of the Parent Company approved a "Special Variable Executive Compensation Plan for 2007-2011". This Plan refers to persons who perform executive functions and report directly to the Board of Directors or the Chief Executive Officer of the Parent Company, including the CEO himself.

The Parent Company's Annual General Meeting held on 22 June 2010 resolved to modify the aforementioned plan, and to delegate its development and implementation to the Board of Directors. This change was approved on 30 November 2010 and was included in the "Grupo Empresarial ENCE, S.A. Long-Term Incentive Plan for 2010-2015" (the Plan).

The Plan is designed to incentivise the achievement of the objectives established by the Board of Directors for 2010, 2011 and 2012 through the benefits offered. The maximum amount of stock options eligible for distribution is 3,850,000 shares, representing 1.49% of share capital. At 31 December 2011, a total of 539,079 had been granted. These options may be exercised two years after they are granted, provided that:

1. The beneficiary continues to serve Ence under an employment or commercial relationship, unless service was discontinued as a consequence of unfair dismissal; and

2. The Parent Company has specified a regular dividend policy at the time the options are exercised.

At the Annual General Meeting held on 29 April 2011, the shareholders resolved to extend the term of the aforementioned Grupo Empresarial ENCE, S.A. Long-Term Incentive Plan for 2010-2015 for the Chief Executive Officer, to allow him to be assigned the unallocated options under the Plan in 2013 up to the maximum number of options authorised for the CEO.

The strike price of the options assigned prior to 31 March 2011 is EUR 2.44 per share. The strike price for the allocations made in the second and third periods will be equal to the average closing price for the shares in the first 20 days of March 2012 and 2013, respectively.

The stock options will be settled in cash. Consequently, a liability is recognised in this respect at the date of each consolidated balance sheet equal to the portion of services received at the current fair value thereof.

The fair value of the Special Variable Executive Compensation Plan has been determined using the Black-Scholes method, which is generally accepted for financial instruments of this type. Following this valuation method, the expense incurred in this respect in 2011 and 2010 was nil.

On 25 October 2007, the Parent Company arranged an equity swap with Bankia, as one of the requirements established in the terms and conditions of the Special Variable Executive Compensation Plan made on that date. This equity swap was renewed on 18 June 2008 by terminating the initial contract and entering into a new one based on the Parent Company's listed share price at that date. The equity swap was renewed for a second time on 14 October 2010 to bring it into line with the modification made to the Long-Term Incentives Plan. The aforementioned equity swap was contracted for a total of 5,100,000 shares of the Parent Company at a base price of EUR 4.11 per share. The benchmark interest rate for this investment is Euribor at 12 months plus an additional spread of 0.05%, settled annually. Initial maturity is scheduled for 30 June 2012. The Special Variable Compensation Plan does not include any share buy-back agreement and expressly mentions that the shares will not return to the Group. Any shares remaining at the end of the 5-year period will be placed directly in the market by Bankia, thereby ensuring that they do not have to be recognised as treasury shares.

This instrument does not meet the criteria to qualify as a hedging instrument, and changes in fair value must therefore be recognised in the consolidated income statement as they occur. The fair value of the equity swap is calculated based on the discounted cash flows of the share component (present value of dividends plus the final share price, less EUR 4.11) and the discounted cash flows generated by the accrual of interest.

The fair value of this instrument was negative by EUR 12,386 thousand at 31 December 2011 (EUR 9,444 thousand at 31 December 2010). This amount and has been recognised as a current liability under "Derivatives" in the accompanying consolidated balance sheet (see Note 10)..

p) Grants

The Group accounts for grants received as follows:

a) Non-refundable capital grants: these are measured at the fair value of the amount or the asset received, based on whether or not they are monetary grants, and they are taken to income in proportion to the period depreciation taken on the assets for which the grants were received or, where appropriate, on disposal of the asset or on the recognition of an impairment loss.

b) Grants related to income: these are charged to the consolidated income statement when they are awarded, unless the award is made to finance specific expenses, in which case the grant is recognised in line with the accrual of the subsidised expenses.

q) Consolidated cash flow statement

The following terms are used in the consolidated cash flow statements (prepared using the indirect method) with the meanings specified::

1. Cash flows: inflows and outflows of cash and cash equivalents, the latter being understood as highly liquid current financial instruments with a low risk of fluctuations in value.

2. Operating activities: the principal revenue-producing activities of the entities forming the consolidated Group and other activities that are not investing or financing activities.

3. Investing activities: activities involving the acquisition, sale or disposal in any other way of non-current assets or other investments not included in cash and cash equivalents.

4. Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Group companies that are not operating activities..

r) Related party transactions

The Group performs all transactions with related parties on an arm's length basis.

s) Balances and transactions in currencies other than the euro.

The consolidated financial statements are presented in euros, which the Group's functional and presentation currency.

Translation of transactions and balances

The Group converts balances receivable and payable expressed in currencies other than the euro applying the exchange rates ruling at the transaction date. Receivables and balances are measured at this exchange rate until they are settled. Exchange gains or losses arising on the collection of receivables and payment of liabilities in currencies other than the euro, and differences arising from year-end measurement of non-euro receivables and payables at the exchange rates ruling at the end of the reporting period, are recognised in the consolidated income statement in which they arise.

Translation of the financial statements of Group companies

The earnings and financial position of all Group companies using a presentation currency other than the euro (none of which is the currency of a hyperinflationary economy) are translated to euros as follows: assets and liabilities are converted at the year-end rate ruling at the reporting date; equity is translated at historic rates of exchange; and revenues and expenses are converted at the average rate for the period. All exchange differences arising are recognised in equity.

Long-term loans granted by the Parent Company to consolidated establishments and companies using a functional currency other than that of the Group are treated as net financial assets held abroad. All resulting exchange differences arising are recognised in equity.

t) Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets earmarked for disposal is classified as a held-for-sale asset where its value will be recovered basically as a result of sale, providing the sale is considered highly likely. These assets are measured at the loser of the carrying amount and fair value less costs to sell.

The captions "Non-current assets held for sale" and "Liabilities associated with non-current assets held for sale" comprise the assets and liabilities of Ibersilva, S.A.U., the activity of which consists of landscape gardening, forestry and development projects and services (see Note 20).

A discontinued operation is any component of the Group which has been sold or otherwise disposed of, or which has been classified as held for sale and, among other conditions, represents a line of business or a significant area which may be regarded as separate from the rest.

For these types of operations, the Group includes both the after-tax profit or loss from discontinued operations and the after-tax profit or loss recognised on measurement at fair value less costs to sell, or on the disposal of the assets comprising the discontinued activity in a separate line of the consolidated income statement under the caption "Profit or loss for the year from discontinued operations net of tax".

When operations are classified as discontinued, the Group presents the prior year's amount in respect of the discontinued operations at the reporting date for the year to which the consolidated financial statements refer in the aforementioned caption..

5. Exposure to risk

Assisted by senior management, the Board of Directors defines the Group's risk management criteria and approves the specific policies applied to manage exchange rate, interest rate, credit and liquidity risks, and to the use of derivative financial instruments for risk management purposes.

The internal audit department assures appropriate implementation of the risk management criteria and policies established by the Board of Directors.

The main financial risks affecting the Group and the policies and controls adopted to mitigate them are as follows:

Market risk

Pulp price

The price of BEKP cellulose pulp is established in an active market, the evolution of which significantly conditions the volume of the Group's revenues and its earnings. Changes in cellulose pulp prices modify the cash flows obtained from sales.

Cellulose pulp price display a marked cyclical nature, and there has been considerable price volatility in recent years. The behaviour of the price is associated basically with changes in volumes or the conditions dictating supply and demand, as well as the financial situation of firms operating in the market.

In order to mitigate this risk, the Group has made significant investments in recent years to raise productivity and improve the quality of the product it markets. It also continually assesses the possibility of hedging pulp prices for future sales (see Note 10).

A 5% increase in the international pulp price in euros would increase the Group's revenues by approximately 3.9%.

Timber supplies

Eucalyptus timber is the main input for the production of cellulose pulp, and its price is subject to fluctuations due to regional changes in the balance of supply and demand and the need to access markets in other regions, resulting in the consequent logistics overheads, when more local supplies are insufficient to meet demand.

Furthermore, the Group maximises the value added in its products inter alia by increasing its use of certified timber, which is more costly.

A 5% increase in the price per cubic metre of eucalyptus timber used in the production process would reduce the operating margin by approximately 15%.

Regulation

Environmental regulation in the European Union has raised restrictions on the emission of effluents, CO_2, etc. Future regulatory changes could increase the costs necessary to comply with environmental requirements.

Electricity generating operations have become increasingly important to the Group in recent years, as this business complements cellulose pulp production by using biomass as an input for some plants, while the stability of electricity prices allows effective management of the intrinsic cyclicality of the pulp business. Future regulatory changes could therefore affect revenues. A 5% increase in the prices determining revenues from electricity generating operations would raise the Group's total revenues by approximately 1%.

On 27 January 2012, the Spanish Council of Ministers approved Royal Decree Law 1/2012, temporarily suspending the procedures for pre-allocation of remuneration and removing financial incentives for new power plants using cogeneration, renewable energy sources and waste. However, this legislation also allows the Government to regulate specific financial regimes covering certain special regime power plants, and it also establishes the right of cogeneration plants and other power plants using primary energy sources, non-consumable and non-hydraulic renewable energy, biomass, bio-fuels and agricultural waste to receive remuneration under a specific financial regime.

This legislation confirms that current electricity price levels will be maintained for the generating and cogeneration plants currently operated by Grupo Ence, and others like the two which the Group has under construction, which had already been included in the pre-allocation register when the Royal Decree came into force. However, it introduces uncertainty with regard to the development of new plants, as the suspension period is open-ended.

Exchange rate

While the majority of the Group's sales are made in the European market, revenues from sales of cellulose pulp are affected by the USD/Euro exchange rate, because the benchmark sale price on the international market is in USD per ton. Insofar as the Group's cost structure is mainly in euros, changes in the dollar exchange rate can have a significant impact on earnings volatility.

In order to mitigate this risk, the Group's policy is to lock in the exchange rate in parallel with its management of the risks inherent in the evolution of cellulose pulp prices. Accordingly, it continuously assesses the possibility of using exchange rate hedges for foreseeable future sales (see Note 10).

A 5% increase in the dollar would increase the Group's revenues by approximately 4%.

Credit risk

The Group is exposed to credit risk in respect of outstanding balances receivable from customers. This risk is mitigated mainly by arranging credit insurance policies, which assign credit limits based on credit quality as determined by the insurer and provide cover for between 75% and 90% of trade receivables associated with sales of cellulose pulp.

Provision is made for overdue balances where there is evidence of impairment, and for all receivables overdue by more than 12 months that are not covered by credit insurance policies.

Revenues associated with the electricity generating business are obtained from the electricity system, which is backed by the Spanish state

Interest rate risk

This risk arises from exposure to changes in the interest rates of the Company's financial assets and liabilities, which can have an adverse impact on the income statement and on cash flows.

The objective of interest rate risk management is to achieve a balance in the debt structure to minimise the cost of debt over a time horizon of several years with low volatility in the consolidated income statement. The hedging instruments contracted are assigned to specific financial operations, and the derivatives are appropriately aligned with the timing and amount of the financing concerned.

At 31 December 2011 the Group held hedging instruments covering all financial debt contracted at floating rates of interest.

Liquidity - Asset Management Risk

Exposure to adverse situations in the debt and capital markets can hinder or prevent the Group from covering financial needs related with operations and the future Business Plan.

This is one of the risks that is most closely tracked by the Ence Group, and a series of key objectives has been established: 1) to assure the continuity of operations and the capacity for growth of the businesses conducted by maintaining a sound capital structure; and 2) to keep net indebtedness at levels that do not exceed the gross operating profit generated by more than 2.5 – 3 times, based on the average cellulose pulp price for the cycle.

Management of this risk includes detailed monitoring of the maturities of bank borrowings; proactive management and continuance of credit facilities and other sources of finance to cover forecast cash requirements; determination of the dividends to be distributed; and the issue of new shares, where appropriate.

The information necessary for analysis of the maturities of the financial liabilities referred to in IFRS 7 is provided in Notes 10 and 16 below.

6. Intangible assets

Changes in intangible assets and the related accumulated amortization in 2011 and 2010 were as follows:

	Thousands of Euros						
2011	Balance at 01/01/2011	Additions or Charge for the year	Retirements or disposals	Transfers (Note 7)	Exchange differences	Transfers to held-for-sale assets (Note 20)	Balance at 31/12/2011
Computer software	14.329	144	-	-	(2)	(110)	14.361
Emission rights	2.544	9.099	(6.390)	-	-	-	5.253
Other intangible assets (*)	11.867	291	(16)	(317)	-	(1.420)	10.405
Total cost	**28.740**	**9.534**	**(6.406)**	**(317)**	**(2)**	**(1.530)**	**30.019**
Computer software	(13.532)	(319)	-	-	(3)	110	(13.744)
Other intangible assets (*)	(8.674)	(941)	15	101	-	1.351	(8.148)
Total amortisation	**(22.206)**	**(1.260)**	**15**	**101**	**(3)**	**1.461**	**(21.892)**
Total	**6.534**						**8.127**

(*) Mainly comprising development costs

2010	Balance at 01/01/2011	Additions or Charge for the year	Retirements or disposals	Transfers (Note 7)	Balance at 31/12/2011
	Thousands of Euros				
Computer software	14.271	19	(200)	239	14.329
Emission rights	1.053	8.421	(6.930)	-	2.544
Other intangible assets (*)	11.003	1.111	(247)	-	11.867
Cost	**26.327**	**9.551**	**(7.377)**	**239**	**28.740**
Computer software	(13.339)	(393)	200	-	(13.532)
Other intangible assets (*)	(7.937)	(984)	247	-	(8.674)
Amortisation	**(21.276)**	**(1.377)**	**447**	**-**	**(22.206)**
Provisions	**(79)**	**-**	**79**	**-**	**-**
Total	**4.972**				**6.534**

Additions and disposals

The main additions in 2011 and 2010 comprised capitalised development costs related with forest projects carried out internally in Spain, as well as emission rights received.

On 3 June 2008 the Group concluded an agreement to sell greenhouse gas emission rights equal to 657,970 tons of CO2 received free of charge in 2008 at a price of 25.4 euros per ton. On the same date, the Group entered into an emission rights purchase commitment for a total of 506,202 tons of CO2 at an average price of EUR 24.65 per right, representing the Group's forecast consumption for 2012. As the purpose of the purchase undertaking is to meet the rights consumption requirements arising from the production process in 2012, the impact on the consolidated income statement will be recognised in that year.

In 2011 the Group used 278,121 tons of CO2 assigned for 2011 to redeem rights consumed in 2010.The remaining 379,849 tons of CO2 for 2011 were recognised in "Emission rights" for a total of EUR 5,253 thousand.

The Group has also arranged various emission rights purchase commitments for a total of 601,000 tons of CO2 at an average price of EUR 14.85, maturing in 2012, to cover a part of expected consumption as from 2013, the year in which the current National Allocation Plan ends.

Non-current provisions in the accompanying consolidated balance sheet include EUR 5,845 thousand in respect of the liability represented by the consumption of 470,120 tons of CO2 in 2011 (see Note 15)

Fully amortised intangible assets

At 31 December 2011, fully amortised intangible assets, mainly consisting of development costs and computer software, totalled EUR 15,659 thousand (EUR 16,275 thousand at 31 December 2010).

7. Property, plant and equipment

Changes in the property, plant and equipment carried in the consolidated balance sheet and the related accumulated depreciation in 2011 and 2010 were as follows:

(*) Incluye principalmente gastos de desarrollo

2011	Balance at 01/01/2011	Additions or Charge for the year	Retirements or disposals	Transfers (Note 6)	Exchange differences	Transfers to held-for-sale assets (Note 20)	Balance at 31/12/2011
	Thousands of Euros						
Forest land	153.516	477	-	-	324	-	154.317
Other land	7.598	-	(1.212)	-	(9)	-	6.377
Buildings	145.081	448	(8.283)	1.793	(34)	(28)	138.977
Plant and machinery	1.001.898	7.512	(2.363)	18.609	109	(5.468)	1.020.297
Other items of property, plant and equipment	28.989	1.659	(1.498)	2.643	(2)	(1.139)	30.652
Advances and non-current assets under construction	80.320	66.059	(263)	(22.728)	(5)	(3)	123.380
Cost	**1.417.402**	**76.155**	**(13.619)**	**317**	**383**	**(6.638)**	**1.474.000**
Buildings	(74.080)	(4.442)	660	1	(11)	18	(77.854)
Plant and machinery	(548.988)	(48.090)	(2.860)	(60)	(55)	3.776	(596.277)
Other items of property, plant and equipment	(22.510)	(1.144)	4.236	(41)	(2)	891	(18.570)
Depreciation	**(645.578)**	**(53.676)**	**2.036**	**(100)**	**(68)**	**4.685**	**(692.701)**
Land and buildings	(13.289)	-	8.305	-	-	-	(4.984)
Plant and machinery	(11.395)	(819)	4.509	(1)	-	1.533	(6.173)
Other items of property, plant and equipment	-	-	-	-	-	-	-
Impairments	**(24.684)**	**(819)**	**12.814**	**(1)**	**-**	**1.533**	**(11.157)**
Total	**747.140**						**770.142**

	Thousands of Euros				
2010	Balance at 01/01/2011	Additions or Charge for the year	Retirements or disposals	Transfers (Note 6)	Balance at 31/12/2011
Forest land	153.463	65	(12)	-	153.516
Other land	8.958	-	(210)	(1.150)	7.598
Buildings	139.404	2.277	(25)	3.425	145.081
Plant and machinery	940.470	17.317	(5.455)	49.566	1.001.898
Other items of property, plant and equipment	26.821	1.368	(548)	1.348	28.989
Advances and non-current assets under construction	98.407	36.326	(985)	(53.428)	80.320
Cost	**1.367.523**	**57.353**	**(7.235)**	**(239)**	**1.417.402**
Buildings	(70.265)	(3.882)	67	-	(74.080)
Plant and machinery	(510.883)	(42.704)	3.869	730	(548.988)
Other items of property, plant and equipment	(22.271)	(1.461)	1.222	-	(22.510)
Depreciation	**(603.419)**	**(48.047)**	**5.158**	**730**	**(645.578)**
Land and buildings	(13.289)	-	-	-	(13.289)
Plant and machinery	(12.804)	(224)	2.363	(730)	(11.395)
Other items of property, plant and equipment	(204)	-	204	-	-
Impairments	**(26.297)**	**(224)**	**2.567**	**(730)**	**(24.684)**
Total	**737.807**				**747.140**

Additions

The Group has made investments at all of its facilities to improve the efficiency of the paper pulp production process, optimise electricity generating and improve environmental protection. Details by plant are as follows:

	Thousands of Euros	
	31/12/2011	31/12/2010
Navia	11.321	19.236
Huelva (*)	51.389	22.479
Pontevedra	6.224	7.310
Otros (**)	7.221	8.328
	76.155	**57.353**

(*) Includes investment in a 50 megawatt generating plant.

(**) Includes mainly investments in irrigation equipment for plantations of energy crops and capitalised costs incurred in the development of energy projects.

On 21 June 2011, the Ence Group concluded a turn-key construction contract for a biomass renewable energy generating plant with install capacity of 50 megawatts via the subsidiary, Ence Energía Huelva, S.A.U. This plant will be located on site at the Group's facility in Huelva, and it is scheduled to enter service in the last quarter of 2012. The total planned investment in this project is EUR 135 million, of which EUR 101.3 million will be financed by a syndicate of banks via "Project Finance" arrangements (see Note 16). The cumulative investment made at 31 December 2011 was EUR 99.5 million, of which EUR 42.6 million were invested in 2011.

Retirements and disposals

On 11 September 2011 the Group sold certain land in Uruguay owned by Sociedad Zona Franca de M'-Bopicúa, S.A. for a total of USD 5,000 thousand (EUR 3,741 thousand). This transaction generated a profit of EUR 2,690 thousand, which was recognised in the accompanying consolidated income statement under "Impairment and gains or losses on disposals of non-current assets".

Fully depreciated property, plant and equipment

At 31 December 2011 and 2010 the Group had fully depreciated items of property, plant and equipment still in use as follows:

	Thousands of Euros	
	2011	2010
Buildings	41.945	41.829
Machinery	374.196	356.940
Equipment and tools	473	467
Furniture	2.251	1.001
Other	10.197	10.063
Total	**429.062**	**410.300**

Grant of public land

The maritime-terrestrial public concession relating to the land on which the Pontevedra factory is sited was awarded to the Parent Company under a Ministerial Order issued on 13 June 1958. The concession deed did not specify any fixed term, but article 66 of the subsequent Coasts Act, 1988, established a maximum term of 30 years for maritime-terrestrial public concessions. In accordance with Transitional Provision 14.3 of the Coasts Regulations, moreover, the holders of concessions granted prior to the entry into force of the Coasts Act (as in the present case) should understand that the same "are granted for a maximum period of thirty years as from the entry into force of the Co-

asts Act", whatever the term established in the concession deed (the Act came into force on 29 July 1988, and the concession will therefore expire on 29 July 2018). The carrying amount of all assets associated with land at 31 December 2011 was EUR 80,073 thousand (EUR 87,073 thousand at 31 December 2010).

On 19 May 2011, the Administrative Disputes bench of the Spanish High Court issued a ruling on the appeal filed by the Association, "Salvemos Pontevedra". This judgment did not enter into the merits of the case, and it therefore did not find that ENCE had breached any of the terms of the concession, as the claimant Association had sought. Rather, the Court confined itself to ordering the Administration to open proceedings in connection with the expiration of the concession and the adoption of legal measures to halt activity and the use and operation of the facility. This judgment does not prejudge the outcome of these proceedings which would, where applicable, be conducted as a full administrative process leading to a final decision that would be open to appeal in the administrative disputes jurisdiction. Both the Administration and ENCE have appealed against the judgment, which is not enforceable while the appeal proceedings continue.

Revaluations

As of 1 January 2004, the date of transition to EU-IFRS, forest land was revalued at fair value. The fair value was determined by specialist independent appraisers and is considered to be a reference historical cost as permitted by International Accounting Standards. The revaluation surplus of EUR 54,920 thousand, net of deferred tax liabilities totalling EUR 23,718 thousand, was recognised in equity under "Valuation adjustments". This market value is treated as the historical cost reference at subsequent dates.

Insurance and other matters

The Group arranges insurance policies to cover the possible risks to which its property, plant and equipment are exposed. The Parent Company's directors consider that the insurance cover for these risks is adequate at 31 December 2011.

Assets located outside Spain, mainly in Uruguay, amounted to EUR 37,928 thousand at 31 December 2011 (EUR 38,836 at 31 December 2010).

8. Biological assets

Biological assets comprise basically the Group's standing timber (forest land owned by the Group is presented in "Property, plant and equipment – forest land"), as follows:

	Thousands of Euros	
	31/12/2011	31/12/2010
Standing timber- Iberian Peninsula	160.520	143.895
Standing timber- Uruguay	19.294	21.572
Other standing crops- Iberian Peninsula	772	720
	180.586	**166.187**

2011	Balance at 01/01/2011	Additions or Allowances	Exchange differences	Balance at 31/12/2011
				Thousands of Euros
Biological assets:				
Forest land	249.651	24.921	(1.185)	273.387
Forestry reserve depletion	(82.937)	(8.635)	(132)	(91.704)
Impairments	(527)	(570)	-	(1.097)
	166.187	**15.716**	**(1.317)**	**180.586**

2010	Balance at 01/01/2011	Additions or Allowances	Exchange differences	Balance at 31/12/2011
				Thousands of Euros
Biological assets:				
Forest land	227.412	22.959	(720)	249.651
Forestry reserve depletion	(72.174)	(10.671)	(92)	(82.937)
Impairments	-	(527)	-	(527)
	155.238	**11.761**	**(812)**	**166.187**

The Group planted 6,664 hectares in 2011 (5,109 ha. in 2010), and it carried out conservation and forestry work on a further 55,481 ha. (58,183 ha. in 2010).

Details of standing timber at 31 December 2011 and 2010 are as follows:

2011	Iberian Peninsula Hectares Productive land (Ha.)	Iberian Peninsula Thousands of Euros Carrying Amount	Uruguay Hectares Productive land (Ha.)	Uruguay Thousands of Euros Carrying Amount
> 17	1.062	1.598	180	288
16	255	339	-	-
15	83	60	5	9
14	365	1.534	51	74
13	863	2.582	98	147
12	2.707	7.384	69	105
11	2.109	7.184	324	456
10	3.053	9.815	1.390	1.967
9	2.918	6.407	537	686
8	2.750	6.028	201	324
7	4.773	14.177	654	1.068
6	7.494	23.305	1.662	1.827
5	7.045	20.073	2.410	3.153
4	5.021	10.792	2.027	2.560
3	5.927	12.661	844	1.097
2	6.641	12.964	1.353	2.194
1	7.833	13.704	1.622	1.551
0	7.805	7.636	3.009	1.788
Deferred	-	2.277	-	-
	68.704	**160.520**	**16.436**	**19.294**

2010	Iberian Peninsula Hectares Productive land (Ha.)	Iberian Peninsula Thousands of Euros Carrying Amount	Uruguay Hectares Productive land (Ha.)	Uruguay Thousands of Euros Carrying Amount
> 17	1.266	2.160	223	119
16	154	732	402	742
15	441	769	-	-
14	186	507	414	170
13	327	1.274	1.654	1.420
12	965	2.114	865	567
11	1.901	6.276	152	260
10	3.964	10.796	403	666
9	3.270	10.125	2.161	3.232
8	3.265	6.235	572	787
7	2.754	5.546	206	325
6	3.151	8.955	654	1.398
5	8.383	24.535	1.662	1.875
4	6.491	16.669	2.394	3.644
3	6.579	14.145	2.027	2.639
2	6.032	10.037	841	1.338
1	6.166	16.770	1.414	1.794
0	7.263	6.250	496	596
	62.558	**143.895**	**16.540**	**21.572**

9. Leases

At 31 December 2011 the Group had contracted the following lease instalments with certain lessors under leases currently in force, not including common expenses, future increases for inflation or future contractual rent rises:

	Thousands of Euros	
Less than one year	3.545	3.783
Between one and five years	8.690	14.208
Over five years	22.301	17.925
Total	**34.536**	**35.916**

EThe Group leased 28,419 hectares of forest land in 2011 (30,441 ha. in 2010) for the cultivation of standing timber. These leases have an average term of 30 years.

10. Derivative financial instruments

In accordance with the risk management policy described in Note 26, the Group contracts derivatives to hedge risks arising from changes in interest rates, exchange rates, cellulose pulp prices, and the prices of gas, fuel oil and electricity used in the production process.

The most commonly used derivatives are interest rate swaps. The exchange rate derivatives and instruments contracted to hedge fluctuations in the prices of cellulose pulp and energy products consist mainly of swaps and futures.

The Group classifies derivatives in three categories:

1. Derivatives designated as cash flow hedges: these are used mainly to hedge cash flows, interest payments, collections and payments in foreign currencies, etc.

2. Derivatives designated as fair value hedges: these are used to hedge the fair values of assets and liabilities carried in the consolidated balance sheet.

3. Other derivatives: these comprise instruments that are not designated hedges or that do not meet the requirements establis-

hed by the appropriate accounting standards to qualify for hedge accounting.

All financial instruments were measured after initial recognition with reference to observable market data, whether directly (i.e. via prices) or indirectly (i.e. via price derivatives).

Details of the derivatives carried in the consolidated balance sheet at 31 December 2011 and 2010 are as follows:

	Thousands of Euros					
	Current Assets		Non-Current Liabilities		Current Liabilities	
Liability / Asset	2011	2010	2011	2010	2011	2010
IR Swap – Corporate borrowings	-	-	18.851	27.118	-	-
IR Swap - Project finance, 50 megawatts	-	-	6.615	-	-	-
Equity Swap	-	-	-	9.444	12.386	-
Exchange rate hedges	-	-	-	-	22.224	2.014
Pulp price hedges	867	-	-	-	-	2.577
Other	-	786	-	-	-	-
Total	**867**	**786**	**25.466**	**36.562**	**34.610**	**4.591**

Exchange rate hedges

In order to hedge the risks to which the Group is exposed due to fluctuations in the USD/Euro exchange rate, which can have a material impact on the sale price of cellulose pulp and on a significant part of purchases, the Parent Company proceeded to make forward sales of US dollars to hedge future revenues. The notional amount of these hedges was USD 516 million at 31 December 2010 (USD 143 million in 2010). These contracts meet the requirements established in the relevant accounting standards to qualify as effective hedges.

The market value of these instruments at 31 December 2011 was negative by EUR 22,224 thousand, which was recognised in the accompanying consolidated balance sheet under "Current liabilities – Derivatives" with an equivalent entry, net of the tax effect, in "Equity – Valuation adjustments".

"Gains or losses on hedging operations" in the accompanying consolidated income statement for 2011 includes a gain of EUR 465 thousand in respect of hedges settled during the reporting period.

Based on the contractual terms and conditions prevailing at 31 December 2011, a 5% appreciation in the euro would have a positive impact of EUR 18,725 thousand on consolidated earnings for 2012. In contrast, a 5% depreciation in the euro would have a negative impact of EUR 20,691 thousand on consolidated earnings for 2012. .

Pulp price hedges

In order to hedge the risks to which the Group is exposed due to fluctuations in BHKP pulp prices, which have a significant impact on the amount of sales, the Parent Company arranged BHKP pulp price swaps in 2011 maturing in 2012 in order to hedge sales revenues. The notional amount of these hedges was 48,000 tons of cellulose pulp at 31 December 2011 (333,300 tons in 2010). These contracts meet the requirements established in the relevant accounting standards to qualify as effective hedges.

These instruments were recognised at fair value in the accompanying consolidated balance sheet. The fair value of these financial assets at 31 December 2011 was positive by EUR 867 thousand, which was recognised in the accompanying consolidated balance sheet under "Current assets – Derivatives" with an equivalent entry, net of the tax effect, in "Equity – Valuation adjustments".

"Gains or losses on hedging operations" in the accompanying consolidated income statement for 2011 includes a loss of EUR 10,899 thousand in respect of hedges settled during the reporting period.

Based on the contractual terms and conditions prevailing at 31 December 2011 and the portfolio of hedging derivatives existing at that date, a 5% increase in the pulp price curve would have a negative impact of EUR 1,285 thousand on earnings for 2012. In contrast, a 5% decline in the pulp price curve would have a positive impact of EUR 1,286 thousand on earnings for 2012.

Other hedges

The Group is exposed to fluctuations in the prices of certain energy products consumed in the production process, which can significantly affect production costs. This risk is partially hedged using commodity swaps, which comply with hedge accounting requirements.

At 31 December 2011 and 2010, the Group had no contracts in force to hedge the price of electricity or fuel oil. The Group contracted electricity and fuel oil commodity swaps in 2010

Interest Rate Swap

The Group hedges the interest rate risk inherent in euro-denominated long-term floating rate financial liabilities using interest rate swaps.

The purpose of these hedges is to neutralise fluctuations in cash outflows associated with floating interest rates (Euribor) on the Group's borrowings.

The Group uses the discounted cash flows method to determine the fair value of interest rate derivatives (fixed rate swaps and options structures), based on implicit values determined by the Euribor interest rate curve according to market conditions at the measurement date. In the case of options, the Group also uses implicit market volatility as an input to determine fair value, applying Black-Scholes valuation techniques and variations applied to underlying interest rates.

The interest rate derivatives contracted by the Group outstanding at 31 December 2011 and 2010 and their negative fair values at the reporting dates were as follows:

	Thousands of Euros								
	Fair	Notional amount at the end of							
2011	value	2012	2013	2014	2015	2016	2017	2018	2019
IR Swap - Corporate borrowings	18.851	232.298	194.498	-	-	-	-	-	-
IR Swap - Project finance, 50 megawatts	6.615	47.641	75.982	74.874	69.933	63.997	57.502	50.584	43.563

	Thousands of Euros			
	Fair	Notional amount at the end of		
2010	value	2011	2012	2013
IR Swap - Corporate borrowings	27.118	270.105	232.298	194.498

An analysis of the Group's liquidity for interest rate derivatives prepared at 31 December 2011 on the basis of undiscounted net cash flows is as follows:

	Thousands of Euros				
	Less than 1 Month	1-3 Months	3 Months - 1 Year	1 – 5 Years	Over 5 years
IR Swap - Corporate borrowings	-	2.571	7.772	8.711	-
IR Swap - Project finance, 50 megawatts	-	-	847	5.268	819

On 29 May 2008 the Parent Company contracted an interest rate swap to hedge approximately 60% of its bank debt. This debt changed substantially in 2009, with the result that the interest rate swap ceased to qualify for hedge accounting on 16 October 2009. Since that date, changes in the value of this instrument have been recognised through the consolidated income statement for the year. A gain of EUR 8,267 thousand was recognised in the consolidated income statement for 2011 under "Changes in fair value of financial instruments" in respect of the change in the value of the interest rate swap (EUR 6,227 thousand in 2010).

The part of the value of the hedging instrument associated with the hedged item, which was recognised in consolidated equity for a total of EUR 3,120 thousand before the tax effect (EUR 6,748 thousand in 2010), will be recognised prospectively through the consolidated income statement until 2013, the period in which the hedged item will affect the Group's results, as follows:

	Thousands of Euros	
	2011	2010
2011	-	3.628
2012	2.045	2.045
2013	1.075	1.075
Total	**3.120**	**6.748**

The IRS associated with the financing arranged for the 50-megawatt power project meets the requirements to qualify as an effective hedge.

Based on the contractual terms and conditions prevailing at 31 December 2011, a 5% increase in the Euribor interest rate curve would have a positive impact of EUR 647 thousand on consolidated earnings for 2012. In contrast, a 5% decline in the Euribor interest rate curve would have a negative impact of EUR 651 thousand on consolidated earnings for 2012.

Equity swap

The Parent Company arranged an equity swap at the end of 2007 to hedge the impact on the consolidated income statement of the Grupo Empresarial ENCE, S.A. 2008-2011 Special Variable Income Plan. This was initially recognised as an asset at its fair value of EUR 14,429 thousand with an equivalent entry in the "Share premium" account in consolidated equity (see Note 4.o).

The fair value of the equity swap was negative by EUR

12,386 thousand at 31 December 2011 (EUR 9,444 thousand at 31 December 2010). This amount has been recognised as a current liability under "Derivatives" in the accompanying consolidated balance sheet.

A 10% rise in the Parent Company's share price would have a positive impact of EUR 890 thousand on consolidated earnings for 2012. In contrast, a 10% fall in the Parent Company's share price would have a negative impact for the same amount on consolidated earnings for 2012.

11. Inventories

The detail of the Group's inventories at 31 December 2011 and 2010 is as follows:

	Thousands of Eurosz	
	31/12/2011	31/12/2010
Wood	70.759	61.214
Other raw materials	4.921	6.917
Spare parts	22.889	21.070
Work in progress	-	8.107
Products in progress	441	441
Finished goods	17.601	16.094
Advances to suppliers	3.396	3.369
Impairments (*)	(7.545)	(11.301)
	112.462	**105.911**

(*) Mainly related to spare parts.

There no restrictions on the disposability of inventories. The Group arranges insurance policies to cover the possible risks to which its inventories are exposed. The directors consider that the cover arranged for these risks is adequate at 31 December 2011 and 2010.

12. Trade and other accounts receivable / payable

"Trade and other receivables" carried in the consolidated balance sheet at 31 December 2011 and 2010 were as follows:

	Thousands of Euros	
	31/12/2011	31/12/2010
Trade receivables for sales	120.471	141.337
Sundry accounts receivable	5.392	3.531
Employee receivables l	256	183
Impairments	(3.330)	(5.098)
	122.789	**139.953**

The average collection period on sales of cellulose pulp is between 65 and 75 days.

"Trade and other payables" carried in the consolidated balance sheet at 31 December 2011 and 2010 were as follows:

	Miles de Euros	
	31/12/2011	31/12/2010
Trade payables	162.144	182.450
Suppliers of non-current assets	12.408	8.211
Remuneration payable	7.412	10.402
	181.964	**201.063**

The average payment period for purchases of goods and services is between 65 and 75 days.The fair value of accounts receivable and payable does not differ materially from their carrying amounts.

The Group has entered into various no-recourse confirming arrangements with an available limit of EUR 73,700 thousand at 31 December 2011, of which EUR 54,239 thousand had been utilised (limit of EUR

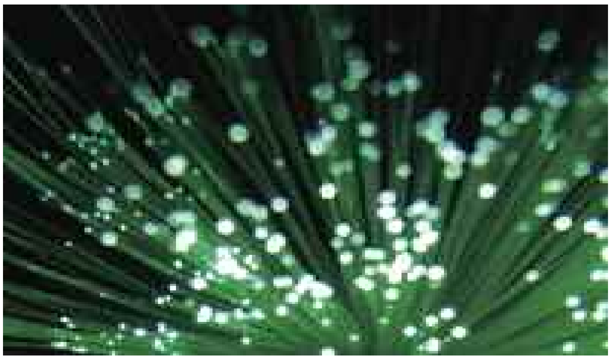
69,900 thousand at 31 December 2010, of which EUR 50,876 thousand had been utilised).

Law 15/2010, of 5 July, on measures to combat default in commercial transactions, establishes certain disclosure requirements with regard to the operations carried out by companies. In this regard, payments made in respect of commercial transactions in 2011 and balances outstanding at the end of the reporting period were as follows:

	Thousands of Euros	%
Payments made within the maximum period permitted by law	559.315	94%
Other	32.841	6%
Total payments made in the year	**592.156**	**100%**
Weighted average past due payments (days)	23,98	-
Deferrals beyond the maximum legal period at the year-end (*)	7.298	-

(*) Deferrals totalled EUR 8,680 thousand at 31 December 2010.

13. Equity



Share capital

The share capital of Grupo Empresarial ENCE, S.A. at 31 December 2011 was represented by 258,012,890 fully subscribed and paid bearer shares with a par value of EUR 0.9 each. The shareholders at 31 December 2011 and 2010 were as follows:

	31/12/2011	31/12/2010
Retos Operativos XXI, S.L.	22,2	22,2
Alcor Holding, S.A.	20,4	20,4
Atalaya de Inversiones, S.R.L.	-	5,0
Liberbank, S.A. (*)	6,3	5,0
Fidalser, S.L.	5,0	5,0
Treasury shares	7,8	0,4
Free Float	38,3	42,0
Total	**100,0**	**100,0**

(*) Ownership interest held by Caja de Ahorros de Asturias in 2010.

The Parent Company's shares are listed on the Madrid Stock Exchange. All shares have the same voting and profit-sharing rights.

Legal reserve

In accordance with the Amended Spanish Limited Liability Companies Act, 10% of net profit for each year must be transferred to the legal reserve until the balance thereon reaches at least 20% of share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

Share premium

The Amended Limited Liability Companies Act expressly allows use of the balance on the share premium account to increase share capital, and it does not establish any specific restrictions on disposal.

Reserves in fully consolidated companies

A breakdown of "Equity – Reserves in fully consolidated companies" by companies at 31 December 2011 and 2010 is as follows:

	Thousands of Euros	
	31/12/2011	31/12/2010
Celulosas de Asturias, S.A.U.	45.079	41.134
Celulosa Energía, S.L.U.	36.560	31.417
Norte Forestal, S.A.U.	13.314	27.774
Silvasur Agroforestal, S.A.U.	7.809	16.214
Iberflorestal, S.A.U.	1.941	1.698
Ibersilva, S.A.U.	(7.028)	(907)
Norfor Maderas, S.A.U.	450	448
Eucalipto de Pontevedra, S.A.U.	(1.976)	(1.276)
Electricidad de Navia Asturias, S.L.U.	2.845	2.868
Maderas Aserradas del Litoral, S.A.	(927)	(672)
Celulosas de M'Bopicuá, S.A.	(73)	(27)
Zona Franca M'Bopicuá, S.A.	72	184
Las Pléyades de Uruguay, S.A.	(83)	(11)
Las Pléyades, S.A. (SAFI)	1.742	97
Las Pléyades Argentina	(93)	(85)
Sierras Calmas, S.A.	1.428	(566)
Ence Energia, S.L.U.	(420)	(1)
Ajustes de consolidación	1.814	3.247
	102.454	121.536

Restricted reserves in consolidated companies totalled EUR 14,599 thousand at 31 December 2011 (EUR 12,216 thousand at 31 December 2011), basically comprising the legal reserves of the Group companies..

Dividends

Con fecha 29 de abril de 2011 La Junta General Ordinaria de Accionistas de Grupo Empresarial ENCE S.A. acordó el reparto de un dividendo con cargo a

At the Annual General Meeting of Grupo Empresarial ENCE, S.A. held on 29 April 2011 the shareholders approved the distribution of dividends totalling EUR 25,801,289, representing a gross EUR 0.10 per share, out of the profit for 2010. The dividend was paid on 9 May 2011.

The calculation of basic and diluted consolidated earnings per share at 31 December 2011 and 2010 is as follows:

Net Earnings per Share	2011	2010
Consolidated net profit for the year attributed to ordinary shares (thousands of euros)	41.192	64.711
Ordinary shares in circulation at 1 January	258.012.890	174.900.000
Number of ordinary shares at 31 December	258.012.890	258.012.890
Weighted average number of ordinary shares	258.012.890	237.519.301
Basic earnings per share (euros)	**0,16**	**0,27**
Diluted earnings per share (euros)	**0,16**	**0,27**

Treasury shares

Changes in the treasury shares carried in the accompanying consolidated balance sheet in 2011 and 2010 were as follows:

	2011		2010	
	Number of Shares	Thousands of Euros	Number of Shares	Thousands of Euros
At beginning of year	995.000	2.434	159.879	435
Additions	22.067.678	53.777	4.806.457	11.753
Disposals	(2.851.678)	(6.994)	(3.971.336)	(9.754)
At end of year	**20.211.000**	**49.217**	**995.000**	**2.434**

The Parent Company shares held as treasury stock at 31 December 2011 represented 7.8% of share capital (0.4% at 31 December 2010) with a total par value of EUR 18,190 thousand (EUR 896 thousand at 31 December 2010). The average purchase price was EUR 2.435 per share.

The Parent Company held are used for trading in the market.

Valuation adjustments

"Valuation adjustments" carried in consolidated equity comprise changes in the fair value of hedging operations (see Note 10) and the reserve generated on the recognition of forest land at fair value at 1 January 2004 (see Note 7). This reserve is unrestricted.

Changes in the fair value of derivative hedging instruments in 2011 and 2010 were as follows:

	Thousands of Euros		
2011	Fair value	Tax effect	Valuation adjustment
IR Swap – corporate borrowings (Note 10)			
Balance at 1/01/2011	(6.748)	(2.024)	(4.724)
Transfers to income statement	3.628	1.088	2.541
Other changes in value	-	-	-
Balance at 31/12/2011	(3.120)	(936)	(2.183)
IR Swap – Project Finance 50 Megawatts (Note 10)			
Balance at 1/01/2011	-	-	-
Transfers to income statement	307	92	215
Other changes in value	(6.922)	(2.076)	(4.845)
Balance at 31/12/2011	(6.615)	(1.984)	(4.630)
Exchange rate hedges (Note 10)			
Balance at 1/01/2011	(2.014)	(604)	(1.410)
Transfers to income statement	(465)	(139)	(326)
Other changes in value	(19.747)	(5.924)	(13.823)
Balance at 31/12/2011	(22.226)	(6.667)	(15.559)
Pulp price hedges (Note 10)			
Balance at 1/01/2011	(2.577)	(773)	(1.804)
Transfers to income statement	11.071	3.321	7.750
Other changes in value	(7.627)	(2.288)	(5.339)
Balance at 31/12/2011	867	260	607
Energy price hedges (Note 10)			
Balance at 1/01/2011	786	235	551
Transfers to income statement	(473)	(142)	(331)
Other changes in value	(314)	(94)	(220)
Balance at 31/12/2011	-	-	-
	(31.093)	**(9.328)**	**(21.765)**

2010	Thousands of Euros Fair value	Tax effect	Valuation adjustment
IR Swap – corporate borrowings (Note 10)			
Balance at 1/01/2010	(10.675)	(3.202)	(7.473)
Transfers to income statement	3.927	1.178	2.749
Other changes in value	-	-	-
Balance at 31/12/2010	(6.748)	(2.024)	(4.724)
Exchange rate hedges (Note 10)			
Balance at 1/01/2010	-	-	-
Transfers to income statement	5.276	1.583	3.693
Other changes in value	(7.290)	(2.187)	(5.103)
Balance at 31/12/2010	(2.014)	(604)	(1.410)
Pulp price hedges (Note 10)			
Balance at 1/01/2010	-	-	-
Transfers to income statement	-	-	-
Other changes in value	(2.577)	(773)	(1.804)
Balance at 31/12/2010	(2.577)	(773)	(1.804)
Energy price hedges (Note 10)			
Balance at 1/01/2010	-	-	-
Transfers to income statement	(1.189)	(357)	(832)
Other changes in value	1.975	592	1.383
Balance at 31/12/2010	786	235	551
	(10.553)	**(3.166)**	**(7.387)**

14. Grants

Changes in "Grants" in 2011 and 2010 were as follows:

	Thousands of Euros		
	Grants	Emission rights	Total
Balance at 1-1-2010	5.135	1.941	7.076
Increase due to new grants	1.710	-	1.710
2010 Emission rights (Notes 6 and 15)	-	8.421	8.421
Transfer to consolidated profit and loss	(887)	(6.360)	(7.247)
Balance at 31-12-2010	**5.958**	**4.002**	**9.960**
Increase due to new grants	8.615	-	8.615
2011 Emission rights (Notes 6 and 15)	-	9.100	9.100
Transfer to consolidated profit and loss	(1.124)	(6.307)	(7.431)
Balance at 31-12-2011	**13.449**	**6.795**	**20.244**

The Group has been awarded two non-refundable grants associated with the modernization plan for its mill in Navia (Asturias) under the measures established to correct regional economic imbalances established by the Spanish Regional Incentives Act (Law 50/1985, of 27 December). The total obtained net of expenses incurred to apply for the grants was EUR 8,882 thousand.

The Group has also obtained soft loans from various public entities. These loans bear interest at below-market rates and mature in periods of up to ten years. The outstanding principal at 31 December 2011 was EUR 11,367 thousand (EUR 10,989 thousand at 31 December 2010) (see Note 17). These loans were granted subject to certain undertakings in relation to jobs and investment.

15. Non-current provisions

Changes in non-current provisions in 2011 and 2010 were as follows:

	Thousands of Euros			
	Liabilities	Emission Rights (Note 6)	Other	Total
Balance at 1/1/2010	12.595	6.641	1.145	20.381
Charge for the year	4.076	6.676	-	10.752
Amounts used	(602)	(6.698)	-	(7.300)
Balance at 31/12/2010	**16.069**	**6.619**	**1.145**	**23.833**
Charge for the year	1.517	5.614	-	7.131
Amounts used	(1.251)	(6.388)	(140)	(7.779)
Balance at 31/12/2011	**16.335**	**5.845**	**1.005**	**23.185**

A detail of the provision for liabilities at 31 December 2011 and 2010 is as follows:

	Thousands of Euros	
	2011	2010
Provision for liabilities:		
Sewage Agreement, Galicia	5.357	5.357
Ría de Pontevedra Discharge Royalty	6.565	6.439
VAT inspection, Germany, 2002-2008	2.898	2.500
Other	1.515	1.773
	16.335	**16.069**

The Parent Company has provided for outstanding discharge royalties associated with its operations at the Pontevedra plant.

In 2011 the German tax authorities completed their audit of the Ence Group's treatment of Value Added Tax (VAT) charged on commercial transactions in Germany in 2002 and 2008. As a result of the inspection, the tax authorities raised additional tax assessments totalling EUR 12,692 thousand and arrears interest of EUR 2,829 thousand.

Based on the analyses carried out together with the customers concerned in the transactions adjusted by the German tax authorities in their reports, the Parent Company considers that the taxes paid will not have a negative impact on the Group's financial statements, as they are recoverable by the customers.

Emission rights comprise the expenses associated with greenhouse gas emissions during the reporting period, which are charged to "Other operating expenses" (see Note 19.e)..

16. Bank borrowings, cash and cash equivalents

Details of the Group's bank borrowings at 31 December 2011 and 2010 are as follows:

	Thousands of Euros	
	2011	**2010**
Long-term		
Loans and credit facilities	224.169	249.465
Project Finance-50 Megawatts	57.256	-
Interest and other payables	-	186
Opening fee	(7.239)	(6.689)
Total long-term borrowings	**274.186**	**242.962**
Loans and credit facilities	19.346	5.608
Interest and other payables	1.106	669
Total, short-term borrowings	**20.452**	**6.277**
Total	**294.638**	**249.239**

Bank borrowings at 31 December 2011 and 2010 comprise loans, overdraft facilities and discounting facilities. A breakdown classified by maturity is as follows:

Thousands of Euros							
2011				2010			
Maturity	Loans and credit facilities	Project Finance	Total	Maturity	Loans and credit facilities	Other	Total
Available limit				**Available limit**			
Total	304.314	101.309	405.623	Total	315.124	-	315.124
Principal				**Principal**			
2012	19.346	-	19.346	2011	5.608	129	5.737
2013	24.520	1.477	25.997	2012	18.897	115	19.012
2014	197.451	6.588	204.039	2013	24.520	37	24.557
2015	624	7.914	8.538	2014	197.451	34	197.485
Subsequent years	1.574	41.277	42.851	Subsequent years	8.597	-	8.597
Interest				**Interest**			
2012	623	483	1.106	2011	540	-	540
Opening fee	(4.354)	(2.885)	(7.239)	**Opening fee**	(6.689)	-	(6.689)
	239.784	**54.854**	**294.638**		**248.924**	**315**	**249.239**

The average interest charged on credit facilities and loans (except the syndicated loan) in 2011 was 4.78% (3.82% in 2010).

Syndicated loan

On 2 April 2008m, the Parent Company arranged a syndicated loan structured in three tranches to fund the construction of a cellulose and generating plant in Punta Pereira (Uruguay), as well as certain investments included in the 2007-2011 Investment Plan and the reimbursement, repayment and cancellation of financing agreements arranged by the Parent Company with several financial institutions.

This loan was modified on 5 February 2009 and 16 October 2009 as a consequence of the decision to sell and the subsequent sale of the "Uruguay" project. These modifications significantly lowered the available limits and required application of the proceeds from the sale of the project, which totalled EUR 179,360 thousand, to repayment of the loan.

One of the strategic objectives pursued by the Group in 2010 was to improve its financial position by substantially reducing its indebtedness as a basic measure to protect itself against business cycle contractions, and as a basis for investment projects designed to enhance industrial efficiency and expand biomass generating operations. In this context, the Company arranged a syndicated loan for a maximum total of EUR 176,393 thousand after the cancellation of bilateral financing on 14 October 2010, and at the same time it renewed and amended the terms of the existing syndicated loan to establish a limit for drawings of EUR 121,229 thousand.

The syndicated loan is structured in three tranches: tranche A, which had an initial limit of EUR 112,255 thousand (the current limit is EUR 61,817 thousand), to finance the repayment and cancellation of the bilateral loans arranged by the Group with various financial institutions; tranche B, which has a limit of EUR 56,928 thousand, to cover the Group's working capital requirements in addition to the amount granted under tranche A; and tranche C, which is in turn structured in two parts, the first with a limit of EUR 28,464 thousand to cover the Group's working capital needs, and the second with a limit of EUR 29,183 thousand that will become available for utilization to finance biomass generating projects only where the first part is fully drawn down.

Both syndicated loans bear interest at floating rates linked to Euribor plus a spread of 300 basis points, allow a grace period of eighteen months and mature on 14 January 2014. The fees paid on this refinancing process in 2010 totalled EUR 3,723 thousand.

The main collateral for the syndicated loan agreement renewed in 2010 is a pledge over the shares of Silvasur Agroforestal, S.A.U., Norte Forestal, S.A.U., and Iberflorestal Comercio e Serviços Florestais, S.A.U. The main guarantees for the new syndicated loan consist of a second order pledge over the shares of the aforementioned companies, the personal guarantee of the subsidiary Celulosas de Asturias, S.A. and a mortgage on the Celulosas de Asturias, S.A. production plant sited in Navia (Asturias), subject to the condition that the "Financial Debt / EBITDA" ratio does not exceed a specified limit. This guarantee is subordinate to the others.

Both syndicated loans include certain covenants relating basically to compliance with certain economic and financial ratios associated with the consolidated financial statements of the Ence Group, with which the Group is in compliance at 31 December 2011, and prepayment of 25% of the free cash flow generated each year in which net indebtedness with financial institutions is more than EUR 265 million. The loan agreements also establish certain restrictions, mainly related with guarantees granted to third parties, acquisition of treasury shares, realization of recurring investments, financing of future biomass generating projects and asset disposals.

Project finance, 50 megawatts

On 21 June 2011 the Group arranged syndicated "Project Finance" with seven financial entities to fund a biomass electricity generating plant (see Note 7). The available amount of this financing was EUR 101,309 thousand and repayment will commence on 22 June 2013 with final maturity on 22 December 2022. This loan bears floating rate interest linked to Euribor with a spread of between 3.25 and 3.75% depending on the amount of repayment instalments. The fees paid on to arrange this financing in 2011 totalled EUR 3,483 thousand.

This loan is backed principally by a pledge on the shares of Ence Energía Huelva, S.L.U. and current and future receivables. Grupo Empresarial ENCE, S.A. has also given undertakings in relation to crops and stocks for the future supply of the plant, the date it will enter service and the price applicable to the power produced when generating operations commence, as well as the functioning and availability of the plant. These undertakings are partially covered by warranties given to Grupo Empresarial ENCE, S.A. by the builder of the plant.

This loan also includes certain covenants related basically with the provision of certain operational and financial information, compliance with economic and financial rations associated with the financial statements of Ence Energía Huelva, S.L.U., holding of a given volume of standing and cut biomass, prepayment of 50% of surplus cash until 50% of the principal is repaid, and prepayment of 25% of surplus cash until 65% of the principal is repaid. The loan agreement also establishes certain restrictions, mainly in relation to the distribution of dividends and the arrangement of new borrowings.

In order to hedge the risk arising as a result of the arrangement of this loan at a floating rate of interest, the Group has entered into interest rate hedges with six of the lenders financing the project, the notional amount on which is equal to 75% of the estimated drawings over the term of the loan (Note 10).

Cash and cash equivalents

"Cash and cash equivalents" include cash balances held by the Group and short-term deposits at banks with initial maturity of three months or less. The carrying amount of these assets approximates to their fair value, and the average return is 2.35%.

Other financial assets

Other financial assets basically comprise deposits made to guarantee the obligations assumed under certain financial derivative contracts (see Note 10) and in the commitments entered into for future purchases of CO2 (see Note 6).

No-recourse factoring

The Group has entered into various no-recourse confirming arrangements, under which all risks are transferred to the factor, with an available limit of EUR 51,000 thousand at 31 December 2011, of which EUR 35,072 thousand had been utilised (limit of EUR 64,000 thousand at 31 December 2010, of which EUR 45,781 thousand had been utilised). The financial cost associated with the receivables transferred is Euribor at 3 months plus a spread of 1-1.65%.

17. Other financial liabilities

Other financial liabilities recognised in the accompanying consolidated balance sheet consist basically of repayable advances received from the Spanish Ministry of Industry, Tourism and Trade, normally at below-market interest rates or even interest free, by way of aid for projects undertaken by the Group to extend and increase the production capacity of its Huelva, Pontevedra and Navia plants, optimise its technologies and make environmental improvements.

Maturities at 31 December 2011 and 2010 were as follows:

	Thousands of Euros	
	2011	2010
2011	-	704
2012	574	777
2013	1.536	1.445
2014	1.423	1.349
2015	1.169	1.049
2016 and thereafter	6.703	5.663
Financial discount (Note 14)	(1.648)	(2.007)
	9.757	**9.025**

These loans were measured at fair value at the time they were awarded, and the difference between the amount of the award and fair value was recognised as a grant and is transferred to the consolidated income statement in line with the depreciation of the fixed assets for which the financial aid was granted. The amount of the grant pending recognition through the consolidated income statement at 31 December 2011 was EUR 1,648 thousand (EUR 2,007 thousand at 31 December 2010).

18. Tax matters

Current tax receivables and payables

Tax receivables and balances at 31 December 2011 and 2010 were as follows:

	Thousands of Euros			
	31 December 2011		31 December 2010	
	Receivables	Payables	Receivables	Payables
Non-current items				
Deferred tax assets	42.653	-	49.881	-
Deferred tax liabilities	-	28.289	-	23.649
Total	**42.653**	**28.289**	**49.881**	**23.649**
Current items				
VAT balances receivable and payable	9.840	14.796	17.893	221
Current income tax	1.687	365	-	2.188
Other tax receivables and payables	1.478	2.859	2.226	4.672
Total	**13.005**	**18.020**	**20.119**	**7.081**

Reconciliation of accounting profit to the taxable profit

Group companies resident in Spain for tax purposes

The Parent Company files consolidated income tax returns in accordance with Chapter VII, Title VIII of the Amended Spanish Corporate Income Tax Act as the parent of Group No. 149/02, which was formed in the year ended 31 December 2002. This special tax regime is applicable for an indefinite period of time until it is expressly discontinued, and it entails that the entities forming part of the tax group do not file individual income tax returns. These entities are as follows:

- Celulosas de Asturias, S.A.U.
- Eucaliptos de Pontevedra, S.A.U.
- Celulosa Energía, S.L.U.
- Electricidad de Navia Asturias, S.L.U.
- Silvasur Agroforestal, S.A.
- Ibercel Celulosa, S.L.U.

- Norte Forestal, S.A.
- Enersilva, S.L.U.
- Ibersilva, S.A.U.
- Ence Energía, S.L.U. y sus filiales
- Norfor Maderas S.A.U.

The nominal rate of corporate income tax is 30%.

Group companies resident in Uruguay for tax purposes

The Group companies resident in Uruguay file their tax returns under the Uruguayan general Economic Activity Income regime (IRAE). The nominal tax rate is 25%, adjusted for tax purposes in accordance with applicable legislation. As an exception, Las Pléyades, S.A. which is taxed under the special regime for Financial Investment Corporations (SAFI) at a rate of 0.3% of equity.

Group companies resident in Portugal for tax purposes

Iberflorestal, S.A. files corporate tax returns in Portugal

under the general corporate tax regime. The nominal rate of the Imposto sobre o Rendimiento das Pessoas Colectias is 25%.

Taxable income is not determined on the basis of consolidated book earnings but of the separate taxable income generated by the companies forming the Group, determined in accordance with the applicable individual tax regimes. For these purposes, the individual tax bases of the companies resident in Spain for tax purpose are included in the taxable income of Consolidated Tax Group No. 149/02, which cannot be offset by tax losses incurred by non-resident companies.

A reconciliation of accounting profit and taxable income at 31 December 2011 and 2010 is as follows:

Permanent differences arising in profit and loss

Permanent differences arising in profit and loss consist of expenses incurred that are not allowable for tax

	Thousands of Euros	
	2011	2010
Accounting profit before tax (*)	57.015	90.336
Permanent differences		
Arising in profit and loss	1.215	1.786
Arising in equity	-	(5.151)
Temporary differences		
Arising in the year	8.818	14.936
Arising in prior years	(37.099)	(11.385)
Arising in transfers from equity	(161)	-
Consolidation adjustments	(6.027)	1.002
Tax losses offset	(12.742)	(86.405)
Taxable income	**11.019**	**5.119**
Gross tax charge	**3.233**	**1.721**
Credits, withholdings and other amounts	(4.555)	467
Tax payable / (recoverable)	**(1.322)**	**2.188**

(*) Generated from continuing operations in its entirety.

purposes. This heading includes fines and administrative sanctions, as well as the provision for impairment made for certain financial holdings.

Temporary differences

Temporary differences arise from divergences in the timing of revenue and expense recognition under accounting and tax rules for the calculation of book earnings and taxable income for the year, which will revert in future tax periods.

Reconciliation of accounting profit to the income tax expense

A reconciliation of accounting profit and taxable income at 31 December 2011 and 2010 is as follows:

A breakdown of the corporate income tax expense for 2011 and 2010 is as follows:

Deferred tax assets and liabilities recognised

	Thousands of Euros	
	2011	2010
Accounting profit before tax	**57.015**	**90.336**
Permanent differences arising in profit and loss	1.215	1.786
Elimination of accounting profit / loss of non-resident companies	(4.646)	(5.085)
Eliminations / inclusions on consolidation	(6.025)	1.002
Taxable income	**47.559**	**88.039**
Tax charge	**14.268**	**26.412**
Deductions and adjustment for prior years' tax effect	897	(661)
Adjustment for tax effect of non-resident companies	657	(126)
Corporate income tax expense / (rebate)	**15.822**	**25.625**

Changes in deferred tax assets and liabilities in 2011 were as follows:

	Thousands of Euros	
	2011	2010
Current tax expense	17.105	27.101
Deferred tax expense	(2.837)	(689)
Adjustments for prior years and deductions	897	(661)
Other movements	657	(126)
Taxable income	15.822	25.625

The deferred tax assets were recognised in the consolidated balance sheet because the directors of the Group companies understand, on the basis of best estimates of the future earnings of the entities forming the consolidated Tax Group,

	Thousands of Euros			
	Balance at 01/01/2011	Increases	Decreases	Balance at 31/12/2011
Deferred tax assets recognised in income				
Depreciation and amortisation of non-current assets	782	-	(321)	461
Impairment of non-current assets	4.236	714	(4.627)	323
Provisions	6.935	2.064	(4.540)	4.459
Impairment of current assets	2.480	1.375	(2.480)	1.375
Non-resident companies	2.489	379	(654)	2.214
Consolidation adjustments	1.031	18	(991)	58
Tax loss carryforwards	27.761	2.478	(2.868)	27.371
Tax credits	1.001	547	(1.548)	-
	46.715	7.575	(18.029)	36.261
Deferred tax assets recognised in equity				
Hedging instruments	3.166	6.162	-	9.328
Total (*)	**49.881**	**13.737**	**(18.029)**	**45.589**

(*) Includes EUR 2,935 thousand classified as available-for-sale assets (see Note 20).

that it is highly likely that the assets will be recovered within the period established by prevailing tax legislation.

The tax loss carryforwards recognised were generated in 2009. In accordance with Spanish legislation, the tax losses generated in a given year may be carried forward to be offset against the future profits obtained by consolidated Tax Group No. 149/02 in the eighteen annual tax periods immediately succeeding the year in which the loss was incurred.

Deferred tax liabilities recognised:

	Thousands of Euros			
	Balance at 01/01/2011	Increases	Decreases	Balance at 31/12/2011
Deferred tax liabilities recognised in income				
Accelerated depreciation	-	3.106	-	3.106
Other	-	2.100	-	2.100
	-	**5.206**	**-**	**5.206**
Deferred tax liabilities recognised in equity				
Revaluation of forest land (Note 13)	23.515	-	(6)	23.509
Consolidation adjustments and other itemss	134	-	(560)	(426)
Total	**23.649**	**5.206**	**(566)**	**28.289**

Unrecognised deferred tax assets.

The Group has not recognised certain deferred tax assets in the accompanying consolidated balance sheet. Unrecognised deferred tax assets at 31 December 2011 and 2010 were as follows:

Unrecognised Deferred Tax Assets	Thousands of Euros 2011	Thousands of Euros 2010
Property, plant and equipment and intangible assets	2.921	2.108
Tax loss carryforwards	2.880	4.257
Total at end of reporting period	**5.801**	**6.365**

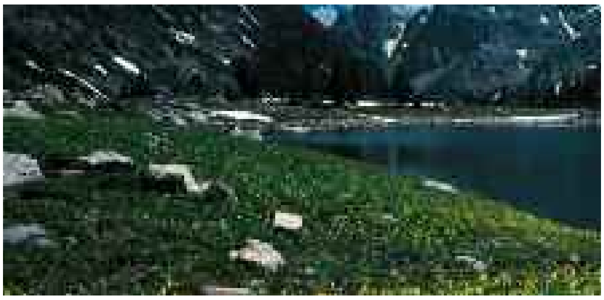
All of the tax loss carryforwards relate to Group companies resident for tax purposes in Uruguay. In accordance with Uruguayan corporate income tax (IRAE) regulations, tax loss carryforwards generated after 31

December 2007 expire in five years. The amount of tax loss carryforwards is revised each year based on the change in the Uruguayan National Products Price Index (IPPN).

Years open for review and tax audits

The Spanish tax authorities are currently conducting an inspection of the Electricity Tax returns filed by various Group companies in 2008 and subsequent years. In accordance with prevailing tax legislation, tax returns cannot be considered definitive until they have been inspected by the tax authorities or the prescription period established in each tax jurisdiction has expired (four years in Spain and Portugal, and five years in Uruguay). The Parent Company's directors consider that no significant contingencies exist that could give rise to liabilities as a result of the inspection proceedings in progress or of a tax audit of the years open.

19. Income and expenses



a) Sales

The Group's net ordinary sales for 2011 and 2010 were distributed as follows:

	Thousands of Euros	
	2011	2010
Pulp sales	596.895	626.521
Electricity sales	184.304	140.194
Wood and forestry services	44.252	64.043
	825.451	**830.758**

Practically all sales of electricity were made in Spain.

The distribution by geographical market of revenues from pulp sales was as follows:

Geographical Market	Percentage of sales 2011	Percentage of sales 2010
Germany	23,1	21,9
Italy	16,4	16,4
Spain	14,6	19,1
France	10,1	9,3
China	6,5	-
Austria	4,8	5,8
Poland	4,5	5,3
Slovenia	2,8	3,2
Turkey	2,8	0,4
Switzerland	2,5	3,8
Sweden	2,1	2,4
United Kingdom	2,0	6,2
Netherlands	1,9	2,3
Other	5,9	3,9
	100	**100**

b) Procurements

The detail of raw and other materials consumed is as follows:

	Thousands of Euros	
	2011	2010
Purchases	358.274	354.849
Changes in inventories of raw materials, other materials and merchandise	(10.914)	(22.409)
Other external expenses	43.399	34.594
	390.759	**367.034**

Procurements basically comprise the cost of timber, chemicals, fuel and other variable costs incurred in the cellulose pulp manufacturing process.

c) Employees

The detail of "Staff costs" incurred in 2011 and 2010 is as follows:

	Thousands of Euros 2011	Thousands of Euros 2010
Wages and salaries	63.638	64.093
Social security taxes	15.211	15.370
Pension contributions and other employee benefit costs	3.755	3.586
	82.604	**83.049**
Termination benefits	6.809	1.268
Total	**89.413**	**84.317**

The average headcounts for 2011 and 2010 were as follows:

	Average Headcount					
	2011			2010		
Professional Category	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Executives	6	1	7	6	1	7
Employees with individual contracts	187	52	239	191	49	240
Employees subject to collective labour agreement	792	134	926	833	154	987
Temporary employees	371	32	403	361	96	457
	1.356	**219**	**1.575**	**1.391**	**300**	**1.691**

At 31 December 2011 the Group had 19 disabled employees (23 disabled employees at 31 December 2010).

The distribution of employees by gender at 31 December 2011 and 2010, classified by professional category, was as follows:

	Final Headcount					
	2011			2010		
Professional Category	Men	Women	Total	Men	Women	Total
Executives	6	1	7	6	1	7
Employees with individual contracts	181	47	228	184	51	235
Employees subject to collective labour agreement	738	118	856	891	159	1.050
Temporary employees	211	21	232	321	50	371
	1.136	**187**	**1.323**	**1.402**	**261**	**1.663**

At 31 December 2011, the Board of Directors was composed of thirteen directors, all of whom were men (14 directors at 31 December 2010).

d) Transactions in currencies other than the euro

The Group companies made sales totalling EUR 187,027 thousand in non-euro currencies, principally US dollars (EUR 170,978 thousand in 2010).

e) Other operating expenses

Details of other operating expenses in 2011 and 2010 are as follows:

	Thousands of Euros	
	2011	2010
Outside services	214.732	215.580
Emission rights used (Note 15)	5.614	6.912
Other taxes and operating expenses	4.969	4.138
Change in operating provisions	8.535	13.114
Total	**233.850**	**239.744**

Details of "Outside services" in the consolidated income statements for 2011 and 2010 are as follows:

	Thousands of Euros	
	2011	2010
Transport, freight and marketing costs	87.844	82.205
Utilities	64.392	52.310
Repairs and maintenance	18.734	18.902
Leases and royalties	8.577	8.572
Insurance premiums	6.131	7.065
Independent professional services	5.769	7.134
Banking and similar services	2.475	2.652
Advertising, publicity and public relations	817	1.627
Research and development expenses	98	352
Other services	19.895	34.761
Total	**214.372**	**215.580**

f) Finance costs

Finance costs in 2011 and 2010 were as follows:

	Thousands of Euros	
	2011	2010
Syndicated loan	10.478	6.139
Project finance, 50 megawatts	1.426	-
Overdraft, factoring and confirming facilities	2.562	7.258
Commissions charged to income	4.335	1.975
Settlement of IR Swap – Corporate borrowings	11.708	15.088
Settlement of Equity Swap	332	436
Other	1.159	586
	32.000	**31.482**

g) Other disclosures

The fees for financial audit and other services provided by the Group's auditor or by a firm related to the auditors by control, common ownership or management in 2011 and 2010 were as follows:

	Thousands of Euros	
	2011	2010
Audit services	197	256
Total audit and related services	**197**	**256**
Tax advisory services	-	129
Other services	30	416
Total professional servicess	**30**	**545**

g) Profit or loss by company

The contributions made by each of the consolidated companies to Group profit for 2011 and 2010 were as follows:

	Thousands of Euros	
	2011	2010
Grupo Empresarial Ence, S.A.	35.472	12.362
Norte Forestal, S.A.U.	3.741	10.538
Silvasur Agroforestal, S.A.U.	707	1.596
Electricidad de Navia Asturias, S.L.	(5)	(23)
Celulosa Energía, S.L.	7.319	5.143
Iberflorestal , S.A.U.	262	244
Celulosas de Asturias, S.A.U.	348	38.945
Ibersilva, S.A.U.	(11.031)	(6.121)
Norfor Maderas, S.A.U.	30	1
Eucalipto de Pontevedra, S.A.U.	(Grupo 11)	(700)
Maderas Aserradas del Litoral, S.A.	(1.794)	(256)
Celulosas de M'Bopicuá, S.A.	(55)	(46)
Zona Franca M'Bopicuá, S.A.	2.823	(111)
Las Pléyades Uruguay, S.A.	24	(72)
Las Pléyades S.A.F.I.	285	1.644
Las Pléyades Argentina	(82)	(8)
Sierras Calmas, S.A.	4.199	1.994
Ence Energía, S.L.U	(383)	(419)
Ence Energía Huelva, S.L.U	(657)	-
Total	**41.192**	**64.711**

20. Non-current assets held for sale

The captions "Non-current assets held for sale" and "Liabilities associated with non-current assets held for sale" comprise the assets and liabilities of Ibersilva, S.A.U., the activity of which consists of landscape gardening, forestry and development projects and services. The directors have adopted the decision to sell the ownership interest held in this company.

A detail of the assets and liabilities contributed by Ibersilva, S.A.U. to the Group at 31 December 2011 is as follows:

	Thousands of Euros		Thousands of Euros
NON-CURRENT LIABILITIES	**3.467**	**NON-CURRENT LIABILITIES**	**91**
CURRENT ASSETS	**13.076**	**CURRENT LIABILITIES**	**12.232**
Inventories	876	Bank borrowings	257
Trade and other receivables	9.265	Trade and other payables	11.104
Current financial assets	817	Payable to public authorities and other payables	871
Cash and cash equivalents	2.118		
TOTAL ASSETS	**16.544**	**TOTAL LIABILITIES**	**12.322**

21. Operating segments

The manufacture of cellulose pulp is closely tied to electricity generating operations using waste generated from the pulp production process as fuel. Furthermore, the Group has plants that are specifically designed to generate power using biomass and other fuels, and it also owns forests and timber land providing the raw material for the production of paper pulp and electricity. In this context, the results of the activities conducted by the cellulose pulp manufacturing and electricity generating business units are analysed jointly by the Management Committee, and the financial information produced only distinguishes between the revenues earned. The Committee also analyses forest management activities separately, as well as the investments currently in progress in electricity generating plants located outside pulp manufacturing facilities (see Note 7) and other minor activities.

Segment information for 2011 and 2010 based on the regular management information produced by the Group is as follows:

2011

Balance Sheet	Pulp and Power	Forest management	Forestry and other services	Total	Consolidation adjustments between Segments	Total (a)
	Thousands of Euros					
Assets						
Non-current	934.636	348.050	8.539	1.291.225	(326.115)	965.110
Current	269.022	141.567	25.831	436.420	(75.389)	361.031
Total assets (a)	**1.203.658**	**489.617**	**34.370**	**1.727.645**	**(401.504)**	**1.326.141**
Liabilities:						
Non-current	387.647	179.866	23.345	590.858	(238.594)	352.264
Current	212.390	114.119	16.958	343.467	(75.389)	268.078
Total consolidated liabilities (a)	**600.037**	**293.985**	**40.303**	**934.325**	**(313.983)**	**620.342**

(a) Not including equity or deferred tax assets and liabilities.

	Thousands of Euros					
Income Statement	**Pulp and Power**	**Forest management**	**Forestry and other services**	**Sub-total**	**Consolidation adjustments between Segments**	**Total (a)**
Revenue:						
External	781.199	23.865	20.387	825.451	-	825.451
Inter-segment	-	307.277	9.165	316.442	(316.442)	-
Total revenue:	**781.199**	**331.142**	**29.552**	**1.141.893**	**(316.442)**	**825.451**
Profit / Loss:						
Profit / (loss) from operations	78.073	18.199	(16.193)	80.079	-	80.079
Finance income	20.912	4.134	65	25.111	(19.815)	5.296
Finance costs	(38.211)	(10.454)	(1.596)	(50.261)	19.815	(30.446)
Exchange differences	2.798	(774)	61	2.085	-	2.085
Taxes	(20.033)	(379)	4.590	(15.822)	-	(15.822)
Profit / (loss) for the year	**43.539**	**10.726**	**(13.073)**	**41.192**	**-**	**41.192**
Other information:						
Investment (*)	71.369	30.079	62	101.510	-	101.510
Depreciation and amortization charge	(52.466)	(9.703)	(1.291)	(63.460)	-	(63.460)
Accumulated depreciation and provisions	(709.969)	(104.968)	(5.300)	(820.237)	-	(820.237)

(*) Not including emission rights.

2010

	Thousands of Euros					
Balance Sheet	**Pulp and Power**	**Forest management**	**Forestry and other services**	**Total**	**Consolidation adjustments between Segments**	**Total (a)**
Assets:						
Non-current	642.869	341.879	7.720	992.468	(64.517)	927.951
Current	892.298	121.815	36.741	1.050.854	(696.981)	353.873
Total assets (a)	**1.535.167**	**463.694**	**44.461**	**2.043.322**	**(761.498)**	**1.281.824**
Liabilities:						
Non-current	317.697	3.239	702	321.638	-	321.638
Current	586.477	291.954	38.612	917.043	(696.981)	220.062
Total consolidated liabilities (a)	904.174	295.193	39.314	1.239.041	(696.981)	541.700

(a) Not including equity or deferred tax assets and liabilities.

Income Statement	Thousands of Euros					
	Pulp and Power	Forest management	Forestry and other services	Sub-total	Consolidation adjustments between Segments	Total (a)
Revenue:						
External	761.863	38.230	25.813	825.906	-	825.906
Inter-segment	232	376.189	10.822	387.243	(387.243)	-
Total revenue:	**762.095**	**414.419**	**36.635**	**1.213.149**	**(387.243)**	**825.906**
Profit / Loss:						
Profit / (loss) from operations	101.648	25.185	(9.556)	117.277	-	117.277
Finance income	5.279	443	71	5.793	(3.777)	2.016
Finance costs	(27.800)	(4.504)	(492)	(32.796)	3.777	(29.019)
Exchange differences	(979)	849	191	61	-	61
Taxes	(22.947)	(5.409)	2.732	(25.624)	-	(25.624)
Profit / (loss) for the year	**55.201**	**16.564**	**(7.054)**	**64.711**	**-**	**64.711**
Other information:						
Investment (*)	54.625	26.258	560	81.443	-	81.443
Depreciation and amortization charge	46.904	12.103	2.199	61.206	-	61.206
Accumulated depreciation and provisions	(666.218)	(99.996)	(11.293)	(777.507)	-	(777.507)

(*) Not including emission rights.

No customers account for more than 10% of the Group's revenues.

22. Guarantee commitments to third parties and other contingent liabilities

At 31 December 2011 various financial institutions had extended guarantees, mainly relating to commercial operations, to various Group companies for a total of EUR 56,209 thousand (EUR 60,700 thousand at 31 December 2010). The directors do not expect that the guaranteed amounts or the guarantees given will give rise to significant liabilities.

The Parent Company and its subsidiaries have arranged civil liability insurance. The directors consider that this policy reasonably covers the related contingencies.

23. Remuneration and other benefits paid to directors and senior executives of the Parent Company, and other information

In 2011 and 2010 the directors of the Parent Company earned the following amounts in respect of the discharge of their duties as members of the Board of Directors:

		Thousands of Euros		
2011 – Director	**Type**	**Fixed Remuneration**	**Attendance Fees**	**Total**
D. Juan Luis Arregui Ciarsolo	Executive	113	72	185
Retos Operativos XXI, S.L.	Nominee	31	28	59
D. José Manuel Serra Peris	Independent	31	37	68
D. Pedro Barato Triguero	Independent	28	26	54
D. Fernando Abril-Martorell Hernández	External	31	42	73
D. Gustavo Matías Clavero	Independent	31	30	61
D. Jose Guillermo Zubía Guinea	Independent	31	71	102
Atalaya de Inversiones, S.R.L. (a)	Nominee	14	16	30
Norteña Patrimonial, S.L.	Nominee	31	26	57
D. Pedro José López Jiménez	Nominee	31	26	57
D. José Carlos de Álamo Jiménez	Independent	31	26	57
D. Pascual Fernández Martínez	Nominee	31	30	61
D. Javier Echenique Landiribar (b)	Nominee	31	42	73
		465	**472**	**937**

(a) Directors standing down in 2011.
(b) Also in receipt of prior years' remuneration amounting to EUR 10 thousand.

2010 – Director	Type	Thousands of Euros: Fixed Remuneration	Attendance Fees	Total
D. Juan Luis Arregui Ciarsolo (c)	Executive	80	69	149
D. Antonio Palacios Esteban (a)	Executive	-	-	-
D. Ignacio de Colmenares y Brunet (b)	Executive	-	-	-
Retos Operativos XXI, S.L.	Nominee	22	46	68
D. José Manuel Serra Peris	Independent	22	34	56
D. Pedro Barato Triguero	Independent	22	28	50
D. Fernando Abril-Martorell Hernández	External	22	79	101
D. Gustavo Matías Clavero	Independent	22	50	72
D. Jose Guillermo Zubía Guinea	Independent	22	51	73
Atalaya de Inversiones, S.R.L.	Nominee	22	38	60
Norteña Patrimonial, S.L.	Nominee	22	20	42
D. Fabio E. López Cerón (a)	Nominee	4	4	8
D. Pedro José López Jiménez (b)	Nominee	18	24	42
D. José Carlos de Álamo Jiménez	Independent	22	28	50
D. Pascual Fernández Martínez	Nominee	22	51	73
D. Javier Echenique Landiribar	Nominee	22	30	52
		344	552	896

(a) Directors standing down in 2010.
(b) Directors appointed in 2010.
(c) Also in receipt of prior years' remuneration amounting to EUR 332 thousand.

n 2011 the members of the Parent Company's Management Committee earned total remuneration of EUR 3,676 thousand (EUR 5,484 thousand in 2010) in respect of all items, including the duties of the Chief Executive Officer by way of services provided and termination benefits.

No advances or loans have been granted to the directors of the Parent Company.

The Parent Company has not contracted any pension or alternative life insurance obligations with its directors in their capacity as such. However, the Chief Executive Officer receives certain social benefits under his service agreement, which are included in the pertinent pensions contributions and payments.

Pursuant to Article 229 of the Limited Liability Companies Act and in order to reinforce the transparency of public limited companies, it is hereby expressly stated that the directors did not hold any ownership interests at 31 December 2011 in the share capital of companies engaging in an activity that is identical, similar or complementary to that which constitutes the Company's object. Furthermore, they did not and do not currently perform any activities, as independent professionals or employees, that are identical, similar or complementary to the activity that constitutes the company object of the Parent Company, Except for Messrs. Arregui Ciarsolo and Abril-Martorell Hernández, who indirectly own 90% and 10% respectively of Foresta Capital, S.L. Mr. Arregui Ciarsolo also holds a 0.577% ownership interest in the share capital of Iberdrola, S.A.

24. Transactions with related parties

At 31 December 2011 and 2010 the Group companies had granted certain loans and overdraft or other credit facilities to related parties, as follows:

Year	Carrying Amount	Currency	Interest Rate	Maturity
2011	5.452	EURO	Euribor + 3%	2014
2010	11.852	EURO	Euribor + 3%	2014

The Group companies carried out the following transactions with related parties in 2011 and 2010:

		Thousands of Euros	
Related Party	Transaction	2011	2010
Liberbank, S.A.	Interest and banking fees	481	676
Atalaya Inversiones, S.R.L.	Purchase of shares	26.389	-

25. Environment

The Ence Industrial Group has three plants located in Huelva, Navia and Pontevedra, each of which has the pertinent Integrated Environmental Authorization to conduct its industrial activities and to generate electricity using biomass.

In accordance with prevailing regulations, the Pulp Business Unit's mills have also obtained Greenhouse Gas Emission Authorization (CO2) and have been allocated a total of 657,970 annual emission rights for the period 2008-2012. The emissions generated in 2011 did not exceed the rights allocated and a surplus was generated. Also, the pertinent audits were performed by an authorised entity in connection with the emission rights application for the period 2013-2020, and the reports were presented to the competent authorities.

Ence carries out its processes in accordance with the principles enshrined in the Management Policy established by the Company following a strategy of sustainability and continuous improvement. Consequently, the management system has been implemented taking a process-based approach which addresses quality and efficiency and health and safety issues, as well as respect for the environment and the prevention of pollution, from an integrated standpoint.

The environmental management system at the plants is certified by accredited entities in accordance with the UNE-EN-ISO 14001:2004 Standard. The plants also keep records in conformity with the Eco-Management and Auditing Scheme (EMAS) as required by Regulation 1221/2009 of the European Union, and they were first in each of their respective Autonomous Communities to adhere to this demanding voluntary regime, which even today has been joined by relatively few firms.

Regular analytic controls are carried out at the plants covering all discharge parameters, as well as atmospheric emissions, noise levels and the waste generated and managed. The effectiveness of the management system is reflected in the continuous improvement of the plants' environmental performance, and the results achieved are confirmed annually in the Environmental Returns filed, which are validated in accordance with the EMAS regulations.

These results are a consequence of the implementation of the best available techniques (BAT) and best environmental practices (BEP) defined in the sector BREF (Best Available Techniques in the Pulp and Paper Industry, 2001). Ence also participates actively in the revision and updating of the BREF via ASPAPEL.

In 2011 the Huelva mill progressed as planned with the 50 MW biomass generating project, which involves a boiler, a turbine and a biomass treatment plant. This project seeks to extract energy from biomass, thereby reducing the amount of fossil fuels burnt. Following the implementation of various measures, an 11% reduction in the water consumed by the plant was achieved in the second half of the year compared to the beginning of the year.

An amendment of the Integrated Environmental Authorization was obtained in September in relation with the management of waste. This involved reclassification of certain waste products from the process (grit and ash from the biomass boiler, and ash from the recovery boiler) as by-products or secondary raw materials. This amendment opens the door to management procedures designed to extract value rather than dumping the waste produced.

The majority of the most significant environmental investments made at the Huelva plant in 2011 comprise work carried out on the biomass boiler and the recovery boiler in order to improve emissions. Next in importance were investments made to improve effluent quality. The remaining investments were aimed at achieving energy efficiency gains and reducing the consumption of water. The total investments made amounted to EUR 1.7 million.

In June 2011 the Navia mill obtained a revision of the Integrated Environmental Authorization for the facility, including a plan to reduce the liquid effluent associated with the extension of the current effluents treatment plant. This project will be carried out in 2012 and the extension is expected to enter service in 2013.

The plant consolidated its pulp and energy output in 2011, optimising facilities and energy efficiency while reducing smells, noise and water consumption, and introducing improvements for the control of liquid effluent.

The most significant environmental investments made at the Navia Plant consist of the optimization of the diluted smelly gases treatment system in order to reduce the olfactory impact of operations, and measurement instruments allowing control of immission in the environs of the Navia facility. In the area of improvements to liquid effluent, work was carried out this year to upgrade the internal effluent and rainwater channelling system and include systems to re-circulate internal flows in the digestion and washing stages in order to enhance internal use of organic materials and reduce their content in the final effluent.

A system has also been put in place to recover digestion nodules and sand from the biomass boiler, allowing reuse of these materials in the production process and reducing levels of waste.

The plan to soundproof sources of noise continued apace and was applied to the refrigeration and vacuum pumps in 2011. The total cost of all of these investments was EUR 0.82 million.

The Integrated Environmental Authorization application process was undertaken at the Pontevedra plant. Authorization was obtained in December 2011. The plant achieved record average daily output of cellulose pulp and electricity generating using renewable sources in 2011 while maintaining its commitment to act as an environmental benchmark for the industry.

It also continued to improve the efficiency of resource use, cutting water consumption, specific wood consumption and fuel consumption.

Environmental investments in Pontevedra were made within the framework of the plan drawn up in collaboration with the University of Santiago de Compostela to eliminate the impact from bad smells. The planned proposals implemented included a gas washing tower and the biological system for the removal and elimination of smells from the pressing shop at the effluent treatment plant, which will enter service in February 2012.

Investments were also made to improve atmospheric emissions by renewing electrofilters in the recovery boiler. Water consumption was reduced by the execution of phase II of the plant water supply pipes repair plan and replacement of certain items in the evaporator circuit refrigeration towers.

Investments were also made to cut the use of fossil fuels, including improvements to the control of forest biomass used as fuel and the increased burning of hydrogen in lime kilns.

Other investments include the replacement of equipment forming part of the Ence Pontevedra air quality control network and the installation of new immission monitors and data collection and transmission equipment. The total investments made at the Pontevedra plant in 2011 amounted to EUR 1.06 million.

Operating and environmental management expenses incurred at the three plants totalled EUR 4.0 million, including auto-control of gaseous emissions, calibration of control equipment, the discharge monitoring and control program, Legionnaire's disease control and prevention measures, waste management, expenses incurred in the operation of environmental control installations and compliance with REACH.

In January 2010 the Group completed the audit required to maintain the wood Chain of Custody management certificate, which covers the phase between delivery of the certified timber to the mills and delivery of certified pulp to customers under the FSC® standard. After the official audit carried out by Bureau Veritas at the Pontevedra and Navia Mills, and the Head and Sales Office in Madrid, compliance with all technical and documentary requirements demanded by the FSC® Forestry Certification System. The certificate covers the period from April 2010 until April 2015.

The Group has continued with its forestry activities in 2011, making investments to maintain and expand forest assets. In environmental terms, the conservation and development of forest implies upkeep of biodiversity, improvements in the conservation of land and a global effect in the mitigation of climate change given the capacity of woodland to fix carbon. As part of their efforts to protect the environment, the Group companies that are primarily engaged in forestry activities have obtained and maintained certificates issued by duly authorised firms demonstrating the sustainable and responsible use of forests, boosting confidence in the consumption of forest products.

Silvasur Agroforestal, Norte Forestal and Ibersilva have maintained their Management System certification under the UNE-EN-ISO 14001:2004 Standard. Norte Forestal and Silvasur Agroforestal were the first forest managers in the Iberian Peninsula to obtain PEFC (Programme for the Endorsement of Forest Certification Schemes) sustainable forest management certification, and they have also obtained certification for their chain of custody, ensuring the traceability of timber througthout the process and guaranteeing that it does not come from conflictive sources. The Sustainable Forest Management certificate and the two subsidiaries' chain of custody were unified under a single certificate issued in the name of Ence – Forest Management Unit.

Norte Forestal maintained its prevailing certification under the FSC® forest management standard in 2011, which was extended with the certification obtained by Silvasur Agroforestal.

Las Pléyades (Uruguay), Sierras Calmas (Uruguay) and Iberflorestal (Portugal) maintained certification for their management of the Chain of Custody of wood under the FSC®. Meanwhile, Las Pléyades (Uruguay) and Sierras Calmas (Uruguay) also obtained PEFC chain of custody certification in 2011.

Grupo Empresarial ENCE, S.A. Subsidiaries

Consolidated Directors' Report
for the year ended
31 December 2011

Economic background and outlook

Hopes for an improvement in the economy in 2011 were dashed by the worsening of the euro crisis. High levels of indebtedness in the European economies, the continued absence of any signs of economic recovery and governments' inability to apply monetary policy tools resulted in the approval of tough fiscal adjustment measures in the economies of southern Europe in order to cut the level of debt and lower public deficits. Indeed, the deficit problem was further aggravated by the impact of fiscal adjustment policies on growth, the rising cost of debt given the markets' concerns about governments' ability to implement their polices successfully, which significantly widened spreads, especially in the second half of the year. The difficulty of coordinating governments and the negative social response to the policy measures required meant that decisions were put off and implementation was delayed.

Further adjustment is also needed in the financial sector, which continues to suffer the negative consequences of the property and derivatives bubbles that burst in 2008. Concerns about the viability of some institutions and doubts over the transparency of their accounts, regulators' demands for banks to hold more capital and the exposure of their portfolios to the bonds of the peripheral nations have increased financing difficulties in the interbank and money markets as the rating agencies cut their credit scores. This situation means that the process of adjustment in the financial sector will have to continue with new mergers and the restructuring of balance sheets before credit can flow again between banks and into the wider market.

The IMF's outlook for 2012 is for global GDP growth of +3.3%, slightly below the rate achieved in 2011 (+3.8%, again less than the 5.2% growth seen in 2010), although the trend is positive throughout the year. The forecast was reduced from the September estimate of 3.8%, mainly because of adverse developments in the Eurozone due to the negative impact of deleveraging in the financial sector and fiscal consolidation. The emerging economies will also see a certain slowdown (forecast GDP growth for 2012 is +6.2% compared to +7.3% in 2011) due to lower demand for their exports and domestic deceleration. A worldwide recovery to levels of +3.9% is expected for 2013.

In this scenario, demand in the pulp market remained strong at the beginning of the year, allowing the absorption of additional capacity reopened in both Latin America and Indonesia, and the application of price rises of $30/t for short-fibre pulp (to $880/t) and $60/t for long-fibre pulp in April. However, Chinese buyers reduced their imports beginning in the second quarter in an effort to put downward pressure on prices, encouraged by the more restrictive monetary policies implemented by the Chinese government. This resulted in an increase in the volume of producers' inventories to levels above the average for the cycle and a general contraction in demand in other areas given the expectation of falling prices and the opportunity to make savings by delaying purchases. Prices duly fell by $30/t in July, followed by a rapid contraction from September onwards coinciding with the worsening of the euro crisis and increasing instability in the financial system.

Prices remained stable at the level of $650/t in the last part of the year, establishing a slightly higher floor than in earlier cycles. The announcement of price rises by numerous producers in January for both short- and long-fibre pulp combined with the absence of new expected capacity for 2012 and the correction of inventories at the end of 2011 provide a framework capable of supporting a recovery in prices at the beginning of the year.

In the medium term, no new capacity is expected to come on stream until 2013 given the time necessary to develop and build new plants, and the time it takes to stabilise their operations. Meanwhile, the difficulty of obtaining financing for major projects in the current economic climate and the significant leverage of the main pulp producers have resulted in delays in the industry's project portfolios. In this light, the outlook for the coming years remains positive.

Businesses and earnings performance

The Ence Group had a good year in 2011 both from the standpoint of operations and in the pulp market, although prices were lower than in 2010, which saw record highs for short-fibre pulp (in $/t). Overall, the Group's sales remained at very similar levels to 2010 with revenues of EUR 825 million.

Sales of pulp totalled EUR 597 million in 2011, 5% less than 2010 despite volume growth of 7%, setting a new annual output record of 1,243,108 million tons of eucalyptus pulp. The average pulp price for the year was $799/t, 6% less than in 2010 against the backdrop of a 5% appreciation in the euro against the US dollar. The result was an 11% fall in net sales prices compared to 2010.

Electricity sales also set record highs, in terms of both volumes and prices. Sales of power grew by 12% to 1,490,290 MWh as a result of upgrades made to generating turbines at the Pontevedra plant and increased production of pulp. This meant that the volume of power generated from renewable roses to 1,159,796 MWh representing 76% of the Group's total output. Prices per MWh grew by 12% compared to 2010 as pool prices held up strongly and the majority of the Group's plants qualify for premium prices. In accounting terms, electricity sales grew by 31% to EUR 184 million.

Forestry and consulting sales shrank to EUR 44 million, a fall of 31% compared to 2010, due to the contraction of both businesses, which are the most severely affected by the current economic crisis and are the most dependent on government contracts.

Operating profit (EBIT) was EUR 80 million, 32% less than in 2010 due to the fall in pulp prices from the record highs seen in the prior year. Falling prices were partially offset by efficiency gains, which allowed the Group not only to ramp up production but also to cut production costs per ton by an average of 3% in 2011. This reduction was achieved progressively over the course of the year, so that the Group will operate in 2012 with a more efficient cost structure than in the preceding years. A major effort has been made to increase the percentage of wood supplies through standing timber purchases by entering into agreements with forest proprietors' associations. The benefits of these measures will crystallise over the coming years, allowing the Group to reduce its dependence on imported timber to supply rising consumption by its plants and to cut exploitation and transport costs through enhanced control and the modernization of this part of the supply chain.

Investments in 2011 amounted to EUR 111 million. Close to 25% of this investment was made in biological assets, including both reforestation and forest improvement work in step with the growth in pulp output, and the development of energy crops to feed the new electricity generating plants. Industrial investments totalled EUR 76 million, more than 60% of which were applied to the projects related with the expansion of biomass electricity generating, principally the construction of the 50 MW plant in Huelva, and to a lesser extent to the development of new projects and to irrigation systems for plantations of energy crops.

Consolidated equity was EUR 720 million at 30 June 2011 (EUR 766 million at 31 December 2010), equal to 53% of total assets. The fall in equity was due mainly to the recommencement of dividend payments in 2011 out of the profit earned in 2010. The objective of this measure was to ensure appropriate remuneration of the Group's shareholders at the same time as reducing leverage while ensuring that investment needs related with the new generating plants are met in a financial scenario of tight credit, and acquiring treasury shares.

Ongoing Research, Innovation and Technology activities focused on the continuation of programmes aimed at achieving the genetic and silvicultural improvement of the eucalyptus tree, innovation and improvement of pulp processes, mechanical transformation of timber and the engineering of new projects, as described in the section "Intangible Assets" in the notes to the consolidated financial statements.

Environment

See Note 25 to the accompanying consolidated financial statements.

Risk factors associated with the group's activity

The risk factors identified affecting the ENCE Group and its activity are:

1. Cyclical nature of pulp sales

In addition to the sale of eucalyptus pulp to third parties, the Group's activity also encompasses electricity generating and sales. Pulp sales, the Group's traditional activity, account for the majority of sales (72% of sales in 2011), and earnings are therefore highly sensitive to changes in the price of cellulose pulp.

The price of BEKP cellulose pulp is established in an active market, the evolution of which significantly conditions the volume of the Group's revenues and its earnings.

Cellulose pulp price display a marked cyclical nature, and there has been considerable price volatility in recent years. The behaviour of the price is associated basically with changes in volumes or the conditions dictating supply and demand, as well as the financial situation of firms operating in the market.

In order to mitigate this risk, the Group has made significant investments in recent years to raise productivity and improve the quality of the product it markets. It also continually assesses the possibility of hedging pulp prices for future sales.

Leaving aside the cyclical nature of the pulp market, the pulp production and sale business conducted by the Group is subject to the industrial and commercial risks proper to the sector, and to the term of the concession for the site of the Pontevedra mill.

2. Currency risk

While the majority of the Group's sales are made in the European market, revenues from sales of cellulose pulp are affected by the USD/Euro exchange rate, because the benchmark sale price on the international market is in USD per ton. Insofar as the Group's cost structure is mainly in euros, changes in the dollar exchange rate can have a significant impact on earnings volatility.

In order to mitigate this risk, the Group's policy is to lock in a part of the exchange rate in parallel with its management of the risks inherent in the evolution of cellulose pulp prices. Accordingly, it continuously assesses the possibility of using exchange rate hedges for foreseeable future sales.

3. Risks arising from the supply and cost of wood

Eucalyptus timber is the main input for the production of cellulose pulp, and its price is subject to fluctuations due to changes in the balance of supply and demand in the market where the plants are located and the need to access other markets, resulting in the consequent logistics overheads, when supplies in more local markets are insufficient to meet demand.

Furthermore, the Group seeks to maximise the value added in its products basically by increasing its use of certified timber, which is more costly.

The forest subsidiaries have a broad network for the procurement of wood from third parties on top of their own production, ensuring that the relevant quantities of raw materials are available to meet pulp manufacturing needs, given that the prices of these purchases are affected by the laws of supply and demand in the different local markets

4. Environmental risks

The ENCE Group's plants are built and operate to the environmental standards applicable in each case in all relevant respects. These legal requirements are established by the European Union, the Spanish State, the Autonomous Communities and local authorities and they are applicable to all environmental impact vectors, such as liquid effluents, atmospheric emissions, waste and noise.

Each plant has its own system for daily control and evaluation of environmental parameters for liquid effluents, atmospheric emissions, noise levels, waste, etc., as established and set out in the different procedures, instructions and standards comprising their Environmental Management System, which in all three cases is registered in the European Eco-Management and Audit Scheme (EMAS). This continuous control ensures that environmental risks are kept to a minimum.

5. Regulated electricity market

Electricity generating operations have become increasingly important to the Group in recent years, as this business complements cellulose pulp production by using biomass as an input for some plants, while the stability of electricity prices allows effective management of the intrinsic cyclicality of the pulp business. Future regulatory changes could therefore affect revenues.

On 27 January 2012, the Spanish Council of Ministers approved Royal Decree Law 1/2012, temporarily suspending the procedures for pre-allocation of remuneration and removing financial incentives for new power plants using cogeneration, renewable energy sources and waste. However, this legislation also allows the Government to regulate specific financial regimes covering certain special regime power plants, and it also establishes the right of cogeneration plants and other power plants using primary energy sources, non-consumable and non-hydraulic renewable energy, biomass, bio-fuels and agricultural waste to receive remuneration under a specific financial regime.

This legislation confirms that current electricity price levels will be maintained for the generating plants currently operated by Grupo Ence, and others like the two which the Group has under construction, which had already been included in the pre-allocation register when the Royal Decree came into force. However, it introduces uncertainty with regard to the development of new plants, as the suspension period is open-ended.

Transactions with treasury shares

The Parent Company carried out certain transactions with treasury shares in 2011. The Parent Company shares held as treasury stock at 31 December 2011 represented 7.8% of share capital (0.4% at 31 December 2010) with a total par value of EUR 18,190 thousand (EUR 896 thousand at 31 December 2010). The average purchase price was EUR 2.435 per share.

Events after the reporting period

No significant events occurred after the end of the reporting period.

Corporate governance

Annex I to this directors' report contains all documentation relating to the ENCE Group's annual Corporate Governance Report, prepared in accordance with the Spanish Transparency Act, ORDER ECO/3722/2003, of 26 December, concerning the annual corporate governance report and other reporting instruments of listed companies and other entities.

The consolidated financial statements and directors' report of Grupo Empresarial ENCE and subsidiaries prepared in accordance with IFRS as adopted by the European Union were formally prepared by the directors of the Parent Company on 28 February 2012. The financial and accompanying notes are set forth on 66 sheets of ordinary paper (numbered from 1 to 5 in the case of the consolidated financial statements, and from 1 to 61 in the case of the explanatory notes), the directors' report on 4 sheets (numbered from 1 to 4), and in addition, the annual corporate governance report as an annex to the directors' report. All of the aforementioned sheets of ordinary paper have been signed by the Secretary to the Board of Directors, and all of the directors have signed the present sheet:

- D. Juan Luis Arregui Ciarsolo
- D. Ignacio de Colmenares y Brunet
- D. Javier Echenique Landiribar
- D. José Carlos del Álamo Jiménez
- D. José Guillermo Zubia Guinea
- D. Gustavo Matías Clavero
- D. Pascual Fernández Martínez
- D. Pedro Barato Triguero
- D. José Manuel Serra Peris
- D. Fernando Abril-Martorell Hernández
- RETOS OPERATIVOS XXI, S.A., Represented by D. Javier Arregui Abendivar
- NORTEÑA PATRIMONIAL, S.L., Represented by D. Jesús Ruano Mochales
- D. Pedro José López Jiménez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