Energía y Celulosa

Quarterly Report
4th Quarter 2011

31 December 2011

CONTENTS

1. EXECUTIVE SUMMARY 2011

figures in €Mn	4Q11	3Q11	%	4Q10	%	2011	2010	%
Pulp sales	140.4	151.8	(8%)	158.5	(11%)	596.9	626.5	(5%)
Electricity sales	50.6	48.5	4%	38.9	30%	184.3	140.2	31%
Forestry sales and others	7.0	7.9	(10%)	25.6	(72%)	44.3	64.0	(31%)
Total sales	**198.0**	**208.1**	(5%)	**223.0**	(11%)	**825.5**	**830.8**	(1%)
EBITDA	**24.4**	**39.5**	(38%)	**28.6**	(15%)	**139.1**	**178.3**	(22%)
Adjusted EBITDA	**21.6**	**40.9**	(47%)	**43.3**	(50%)	**152.1**	**200.2**	(24%)
EBIT	**7.1**	**25.2**	(72%)	**14.7**	(52%)	**80.1**	**117.3**	(32%)
Net profit	**2.9**	**10.7**	(73%)	**10.2**	(72%)	**41.2**	**64.7**	(36%)
Net financial debt [(a)]	**155.6**	**189.2**	(18%)	**172.7**	(10%)	**155.6**	**172.7**	(10%)
Pulp sales (tons)	**332,432**	**317,921**	5%	**292,305**	14%	**1,232,501**	**1,147,043**	7%
Electricity sales (MWh)	**383,495**	**384,713**	(0%)	**356,281**	8%	**1,490,290**	**1,332,316**	12%
Net pulp sale price (€/ton)	**422**	**478**	(12%)	**543**	(22%)	**485**	**546**	(11%)
Average electricity sale price (€/MWh)	**127**	**124**	3%	**111**	14%	**120**	**107**	12%
Cash cost (€/t)	**352**	**361**	(3%)	**393**	(11%)	**366**	**377**	(3%)

(a) additionally, there is € 54.4 M of non-recourse debt linked to the "project finance" of the 50MW biomass plant as of 31/12/11

- ✓ **Solid operating results:** The EBITDA for 2011 stands at +€139M, 34% above the average over the last 10 years, in spite of the correction of the price of pulp in 4Q11, thanks to an increase in volume and a reduction in costs. The net profit stands at €41M, 84% higher than the average for the same period.

- ✓ **Cash from operations stands at €122M, an increase of 19% vs. 2010** thanks to growth in production, cost improvements, the strength of pulp prices and the focus towards reducing working capital.

- ✓ As such, **the company's Board of Director will propose to the Annual Shareholders Meeting the payment of a cash dividend in the amount of €0.07€ per share and a share dividend in the amount of 1 share of the treasury stock for every 26 shares hold by the shareholder.** Both dividends provide a **total dividend yield of 7.4%** at February 28th market close.

- ✓ **Positive evolution of the cash cost, which fell to 352€/t in 4Q11,** 3% and 11% below 3Q11 and 4Q10 respectively, thanks to efforts in reducing the cost of wood and lower the consumption of chemicals and steam, the greater contribution of the electricity business and the dilution of overhead costs due to increased production. As such, the company achieved the cost targeted for 2011.

- ✓ **Strong growth in pulp sales in 2011:** Pulp sales (by ton) saw 7% growth in 2011 vs. 2010, compensating the price correction during the period (-11%).

- ✓ **Growth acceleration in energy sales in 2011:** Energy sales stand at +31% above the 2010 level thanks to +7% growth in pulp production and a +12% increase in the average sale price, which benefited from rate increases last December and a trend towards higher pool prices.

- **Consolidation of financial strength:** The soundness of the generation of cash flow in the pulp and energy business has allowed Ence to reduce the net financial debt to €156M (excluding €54M of non-recourse debt linked to the Huelva biomass plant). These levels are 10% lower than in 2010, even though a €25.8M dividend was paid out in May, €47M in treasury stock were purchased and wood stocks increased due to the implementation of an active price reduction policy. The current net financial debt level is equivalent to 1.1 times the EBITDA for the last twelve months.

- **Establishment of a treasury stock position equivalent to 7.8% of the capital at the close of December.** At December 31st, the treasury stock position reached 20.2 million shares, following the purchase of 3.76% from Atalaya in July and additional purchases in the market. The company is implementing an active policy for the purchase of treasury stock in response to the general weakness of stock markets and to the shrinkage of liquidity, factors that have a negative impact on the value of the share in spite of the company's ability to generate cash flow with the current level of pulp prices and its position as leader in the development of renewable energy with biomass in Spain.

- **Solid operating performance expected for 2012: Significant recovery in prices during the first quarter of 2012 to reach 760$/t at the end of that period.** The company expects to achieve 2% to 5% growth in pulp and electricity production in FY 2012 through continuous improvements in its operations. With regard to costs, the company's goal is to reduce the cash cost by 4% to 6% with respect to the 4Q11 level through reduced expenses in wood logistics, increased contribution of the energy business, a reduction in consumption and a decrease in fixed costs.

2. PULP BUSINESS: KEY INDICATORS

	4Q11	3Q11	%	4Q10	%	2011	2010	%
Huelva	98,727	97,303	1%	87,769	12%	368,048	328,028	12%
Pontevedra	108,328	110,868	(2%)	101,039	7%	416,800	391,327	7%
Navia	120,675	117,372	3%	122,833	(2%)	458,260	437,111	5%
Pulp production (tons)	**327,730**	**325,543**	1%	**311,641**	5%	**1,243,108**	**1,156,466**	7%
Huelva	102,348	89,839	14%	90,116	14%	361,299	332,632	9%
Pontevedra	110,547	105,231	5%	96,121	15%	408,780	388,746	5%
Navia	119,537	122,851	(3%)	106,068	13%	462,422	425,666	9%
Pulp sales (tons)	**332,432**	**317,921**	5%	**292,305**	14%	**1,232,501**	**1,147,043**	7%
BHKP ($/t)	**684**	**816**	(16%)	**864**	(21%)	**799**	**847**	(6%)
Average exchange rate ($/€)	**1.35**	**1.42**	(5%)	**1.36**	(1%)	**1.39**	**1.33**	5%
Net sale price (€/t)	**422**	**478**	(12%)	**543**	(22%)	**485**	**546**	(11%)
Pulp sales (€Mn)	**140.4**	**151.8**	(8%)	**158.5**	(11%)	**596.9**	**626.5**	(5%)

Pulp sales increased by +7% in 2011, with 85,458 more tons sold than in the same period of 2010. This growth is primarily due to the increased stability of the plants, which has made it possible to reach capacity utilization ratios in excess of 95%, or +5% greater than the historical average. The use of a new industrial management model rooted in the ongoing improvement of the facilities (making it possible to take steps towards setting operating standards for equipment operation and maintenance and seeing these through), the identification and use of improved practices in the group and the monitoring of the statistical variables related to the process over the past two years is making it possible to stabilize and optimize production, minimizing investment expenses. As a result, pulp production stood at 1,243,108 tons for the year, representing a +7% YoY increase and with all factories improving their production levels:

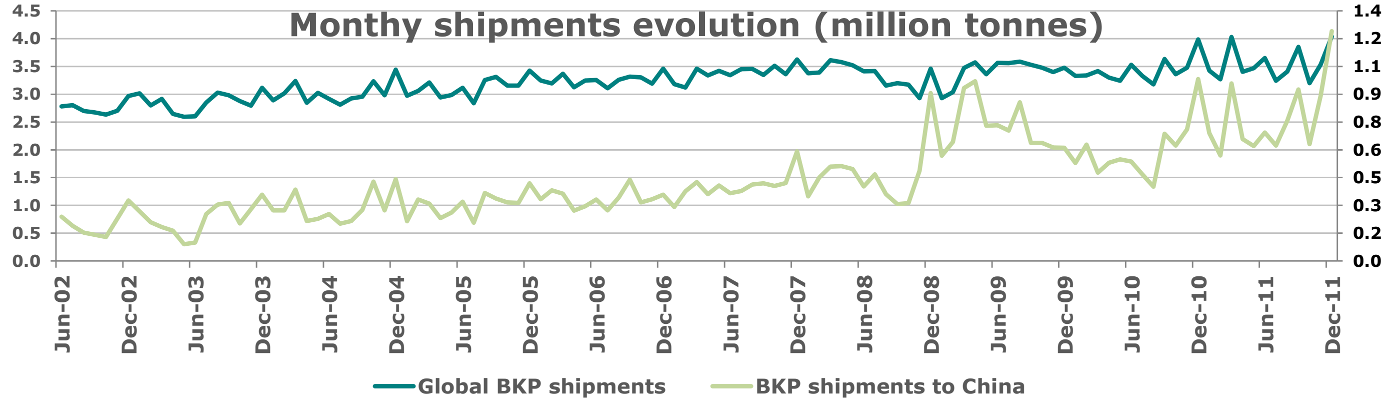
- ✓ In the Huelva plant, production totaled 368,048 tons, a +12% increase over 2010. The plant performed its maintenance shutdown in May (15 days), which at normal production rates implied a loss of 17,040 tons.
- ✓ At the Pontevedra plant, production stood at 416,800 tons, a +7% increase over 2010. The Pontevedra plant performed its maintenance shutdown in 1Q11, which at normal production rates implied a loss of about 12,700 tons.
- ✓ Production at the Navia plant totaled 458,260 tons, an increase of +5% with respect to the 2010 production figure despite the longer duration of the maintenance shutdown in April (17 days vs. 9), which at normal production rates implied a loss of 22,807 tons.

In general, the period has been characterized by continued stability in the production of the plants, adjusted for the impact of the shutdowns.

With respect to the average income per ton, the average net sale price fell to €485/t for the year,-11% below that of 2010, due to the decline in prices in dollars from cycle highs and the appreciation of the euro. This increased weakness in the price was partially compensated by the production increase, allowing Ence to reduce the decline in sales to just -5%, equivalent to total pulp sales revenues of €596.9M.

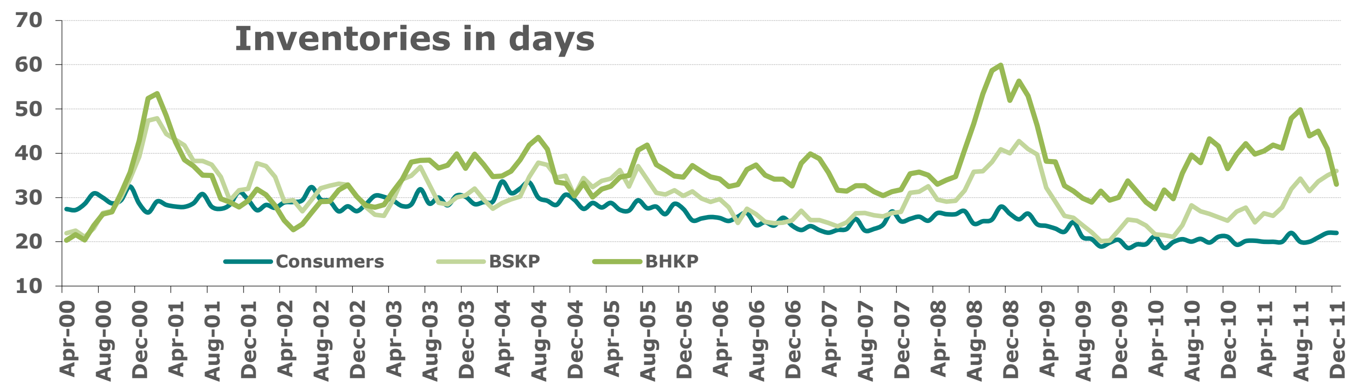
2.1. OVERVIEW OF THE PULP MARKET

Over the course of 2011, the pulp market once again began to show signs of increased volatility, while marking a range of prices that is higher than previous cycles and support current projections of prices above $730/t in the upcoming years. After the strong demand of the first quarter, demand decreased in the second and third quarters, primarily due to a decline in Chinese imports, causing producers to have increased inventory levels. This reduced demand, together with the intensification of the euro crisis and its global implications, resulted in a price correction in the second quarter from an annual high close to $880/t (FOEX) to levels closer to $650/t; these levels for the first time also gave rise to weakening results in traditional low-cost producers. Beginning in October, demand recovered quickly, especially in Asia, resulting in a new record for worldwide pulp demand in December and overcome production capacity in the case of short fiber (the delivery/capacity ratio for eucalyptus reached 115% according to statistics by PPPC).



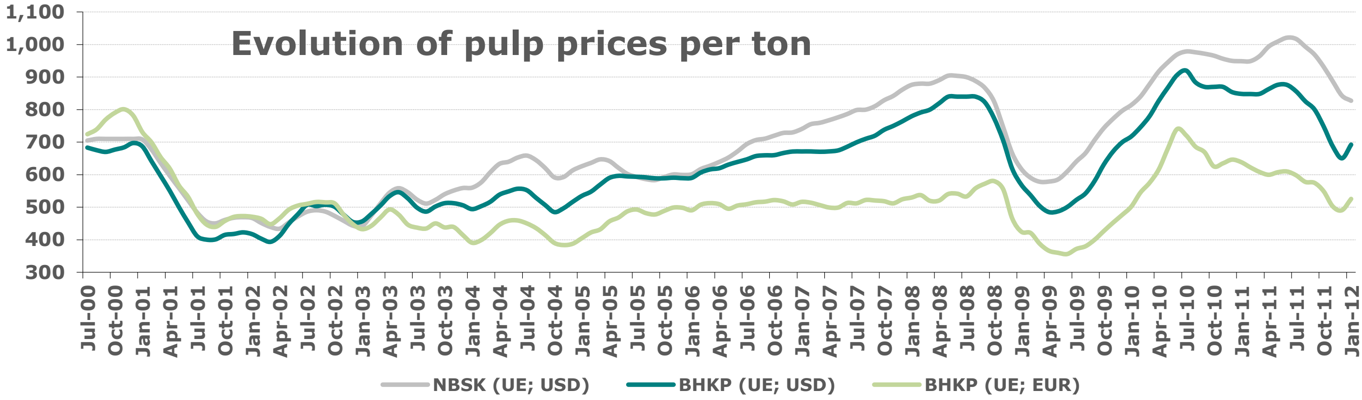
Source: PPPC

Increasingly dynamic demand combined with production levels at operational maximums allowed the sector to reduce year-end inventory levels back down to standard industry levels. In particular, the inventories of short fiber (BHKP) were reduced by 8 days, leaving them at 33 days and eliminating the disparity with long fiber, while the consumer inventories held steady at 22 days.



Source: FOEX

This readjustment between supply and demand laid the groundwork for short fiber pulp prices to set a floor in the month of December at $650/t, shortening the price range of past cycles, at which point the industry announced that the list prices were being raised up to $730/t beginning on January 1st.



Source: Pulpwatch; the data does not include mechanical pulp, BSP and unbleached pulp.

The evolution in prices since the beginning of the year shows the gradual implementation of this announced price increase, expected to be fully in place in February and supporting a new increase to 760$/t from March 1st. The positive evolution in demand in a year with no projected capacity increases and reduced inventories, should maintain price strengh during 2012.

3. ENERGY BUSINESS: KEY INDICATORS

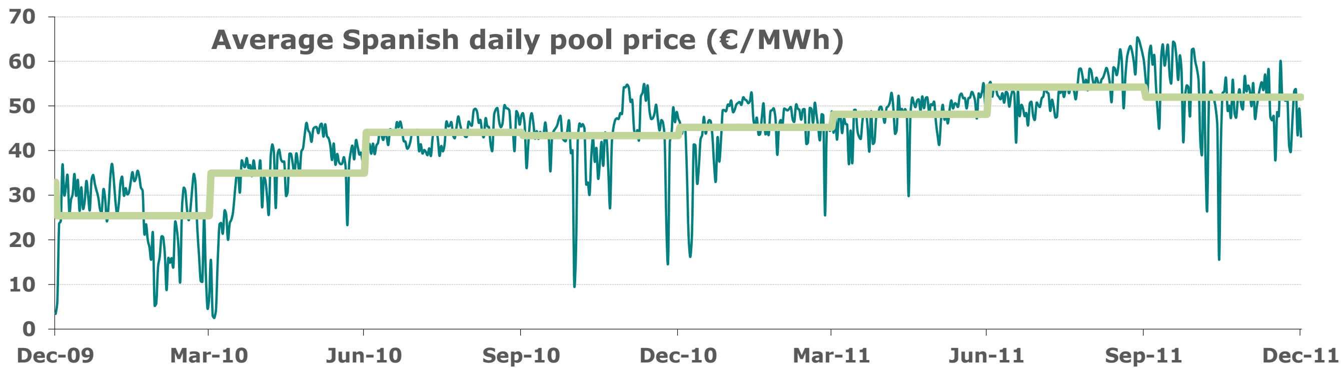
	4Q11	3Q11	%	4Q10	%	2011	2010	%
Huelva	211,737	211,681	0%	188,943	12%	816,790	699,978	17%
Pontevedra	59,979	60,303	(1%)	53,606	12%	221,836	193,181	15%
Navia	119,459	129,299	(8%)	121,265	(1%)	490,069	462,537	6%
Electricity production (MWh)	**391,175**	**401,282**	(3%)	**363,814**	8%	**1,528,695**	**1,355,697**	13%
Huelva	211,648	202,942	4%	188,495	12%	807,466	695,013	16%
Pontevedra	56,935	58,032	(2%)	51,735	10%	213,238	186,671	14%
Navia	114,912	123,739	(7%)	116,051	(1%)	469,585	450,632	4%
Electricity sales (MWh) [a]	**383,495**	**384,713**	(0%)	**356,281**	8%	**1,490,290**	**1,332,316**	12%
Electricity consumption (MWh)	**193,411**	**194,004**	(0%)	**188,235**	3%	**746,103**	**714,984**	4%
Average pool price (€/MWh)	**52**	**54**	(4%)	**43**	20%	**50**	**37**	35%
Average sale price (€/MWh)	**127**	**124**	3%	**111**	14%	**120**	**107**	12%
Electricity sales (€Mn)	**50.6**	**48.5**	4%	**38.9**	30%	**184.3**	**140.2**	31%

(a) adjusted by unbalances

Energy sales increased to €184M in 2011, 31% above the 2010 figures due to greater production, the higher weight of biomass-fueled generation in the production mix, the improvement in pool prices and the 2.1% revision of tariffs and premiums approved at the end of 2010, linked to inflation – factors that have pushed the average sale price to increase 12% to €120/MWh. Likewise, the consumption of electricity produced per ton decreased by 3% thanks to increased production efficiency, boosting the gross margin of energy produced in the plants.

In operating terms, the company produced 1,528,695 MWh in 2011, which is equivalent to a +13% increase vs. 2010. The sale volumes of energy have shown a similar behavior, reaching 1,490,290 MWh. The improvement in production is largely due to the increased production of pulp, which allows the company to increase its energy production due to the increased volume of black liquor from the production process. Two additional factors that help explain the increased power production are the resolution of the turbine operation problems in Pontevedra last year, which were resolved in April 2010, as well as lower production in Huelva last year owing to an additional maintenance shutdown at Cener. Together, the three plants sold nearly 1,159,796 MWh of renewable energy with biomass in 2011, +15% more than in 2010. This means that biomass generation accounts for 76% of the mix.

The trend in electricity market prices has been to steadily increase over the year (except for in 4Q11) due to the strength of the price of crude, which has made it possible to improve the sale price for the turbines that sell at pool price plus premium (78% of the installed capacity).



Source: OMEL

4. FORESTRY ACTIVITY: KEY INDICATORS

	4Q11	3Q11	%	4Q10	%	2011	2010	%
Supply to the industrial process (m^3)	**953,997**	**972,977**	(2%)	**934,776**	2%	**3,699,456**	**3,501,994**	6%
Cost €/m^3	**70.6**	**71.7**	(2%)	**70.6**	(0%)	**71.4**	**68.8**	4%
Own hectares	77,687	77,597	0%	77,604	0%	77,687	77,604	0%
Third party hectares (consortia)	36,847	39,676	(7%)	37,598	(2%)	36,847	37,598	(2%)
Hectares managed by ownership (Ha)	**114,534**	**117,273**	(2%)	**115,202**	(1%)	**114,534**	**115,202**	(1%)
Hectares for pulp	96,960	100,689	(4%)	103,499	(6%)	96,960	103,499	(6%)
Hectares for energy crops	17,574	16,584	6%	11,703	50%	17,574	11,703	50%
Hectares managed by use (Ha)	**114,534**	**117,273**	(2%)	**115,202**	(1%)	**114,534**	**115,202**	(1%)

Over the course of the year, 3,699,456 m³ of wood were supplied to the group's pulp plants. The investment in the management of the company's forestry asset base reached a total of €24.5M. With this investment, the company has planted 2,885 ha and carried out forestry maintenance and management activities on another 42,865 ha. Regarding the energy crops business, the company worked on 16,425 hectares during the period, in line with its strategic objective of creating a regular and competitive biomass supply base to provide stability and guarantee profitability for the future renewable biomass energy generation facilities currently under development, in particular to supply the 50MW plant projected to be completed by 4Q12. Likewise, 388,189 tons of forestry biomass have been marketed, mostly for the supply of the group's energy production.

In 2011, the company actively managed its wood supply sources in order to strengthen its competitive position in this market, diversifying its supply sources as a way of guaranteeing volume availability as well as improving its control over the entire supply chain (from the initial logging to the transport) so as to achieve improved cost efficiency. The major measures implemented over the year are the following:

- Intensifying direct purchases of wood from the forest owners (standing timber purchasing), thus greatly reducing the company's dependence on intermediaries and promoting collaborative relationships with the owners. Direct purchases from forest owners exceeded 600,000 m3 in 2011; this is more than 2.5 times the amount of direct purchases in 2010.

- Balancing out the base of local suppliers, which had made it possible to underpin the price reduction on local market wood.

- Implementing an execution plan, the results of which should bear fruit in 2012, to review and improve the company's logistical processes, including the harvest and forestry activities, with a focus on optimizing costs and improving the safety conditions of forestry operations.

- Promoting the certification of third-party wood as a guarantee of responsible and sustainable management, which has resulted in a 24% increase in purchases of wood with PEFC certification and a 111% increase in purchases of wood with FSC certification.

In order to address these management measures, the company raised the volume of its wood imports by 2011. The price of these imports increased by 9%, primarily due to exchange rate fluctuation, with the corresponding negative impact on the average wood purchase price, which saw a 2% YoY rise.

The company believes that reducing import volumes in 2012 and applying a new procurement model with a greater emphasis on direct wood purchases and small suppliers will facilitate the stabilization and ultimately the reduction of wood supply costs.

5. COMMENT ON 2011 RESULTS

figures in €Mn	4Q11	3Q11	%	4Q10	%	2011	2010	%
Pulp sales	140.4	151.8	(8%)	158.5	(11%)	596.9	626.5	(5%)
Electricity sales	50.6	48.5	4%	38.9	30%	184.3	140.2	31%
Forestry sales and others	7.0	7.9	(10%)	25.6	(72%)	44.3	64.0	(31%)
Total net sales	**198.0**	**208.1**	(5%)	**223.0**	(11%)	**825.5**	**830.8**	(1%)
Cost of goods sold (a)	(101.6)	(94.4)	8%	(106.3)	(4%)	(392.4)	(362.2)	8%
Personnel expenses	(22.6)	(21.2)	7%	(22.2)	2%	(89.4)	(84.3)	6%
Other operating expenses	(49.4)	(53.1)	(7%)	(65.9)	(25%)	(204.4)	(206.0)	(1%)
EBITDA	**24.4**	**39.5**	(38%)	**28.6**	(15%)	**139.1**	**178.3**	(22%)
Forest depletion	(2.2)	(2.4)	(11%)	(0.4)	408%	(8.3)	(10.7)	(22%)
Rest of depreciations	(15.5)	(14.7)	6%	(13.6)	14%	(55.1)	(50.5)	9%
Provisions	0.3	2.8	(88%)	0.2	71%	4.4	0.2	n.s.
EBIT	**7.1**	**25.2**	(72%)	**14.7**	(52%)	**80.1**	**117.3**	(32%)
Financial result	(4.7)	(9.6)	(51%)	(2.7)	71%	(23.1)	(26.9)	(14%)
Profit before taxes	**2.4**	**15.6**	(84%)	**12.0**	(80%)	**57.0**	**90.3**	(37%)
Taxes	0.5	(4.8)	n.s.	(1.7)	n.s.	(15.8)	(25.6)	(38%)
Net profit	**2.9**	**10.7**	(73%)	**10.2**	(72%)	**41.2**	**64.7**	(36%)
Adjusted EBITDA	**21.6**	**40.9**	(47%)	**43.3**	(50%)	**152.1**	**200.2**	(24%)
Cash cost (€/t)	**351.6**	**361.0**	(3%)	**393.0**	(11%)	**365.8**	**377.0**	(3%)

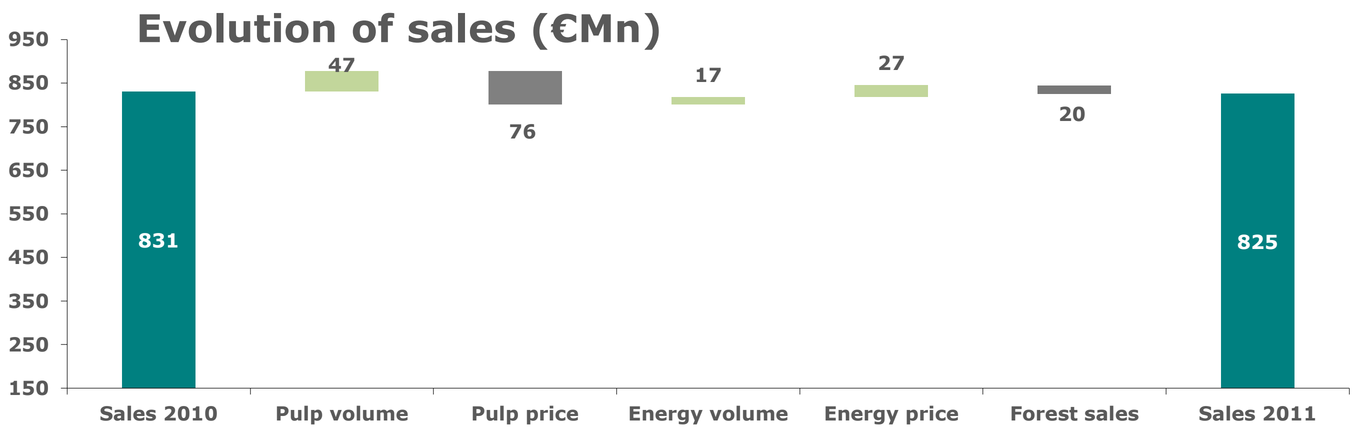
(a) supplies +/- change in stocks

The sales in FY 2011 amounted to €825.5M, a total in line with the 2010 figure thanks to increased pulp and energy production due to increased capacity and efficiency improvements, which helped compensate for lower pulp prices.

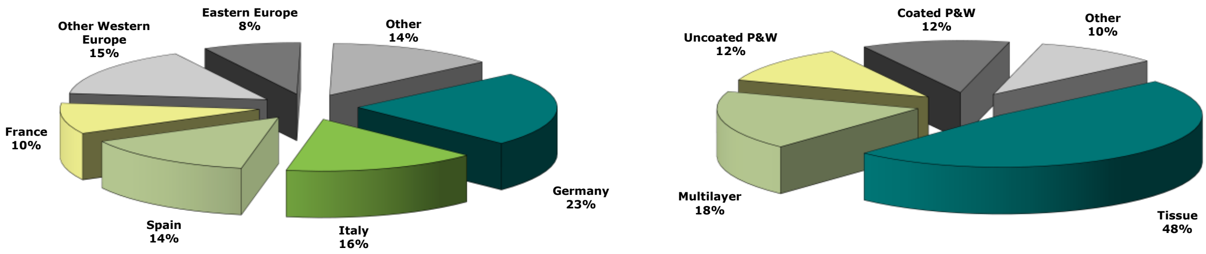
Pulp sales over the 12 months of 2011 amounted to €597M, a number just -5% below the 2010 figure thanks to a +7% increase in sales volumes. This made it possible to offset the -11% decline in prices.

Energy sales amounted to €184M in 2011, +31% more than in 2010, due both to the strength in production (+13% vs. 2010) as well as to the positive trend in prices (+12%), resulting from increases in the pool price (+35%) and the higher rates and premiums approved at the end of last year (+2.1%).

Revenues from the sale of forest products and services amounted to €44M in 2011, a -31% drop compared to 2010 due to fewer wood sales to third parties as well as the decline in forestry consulting activities.



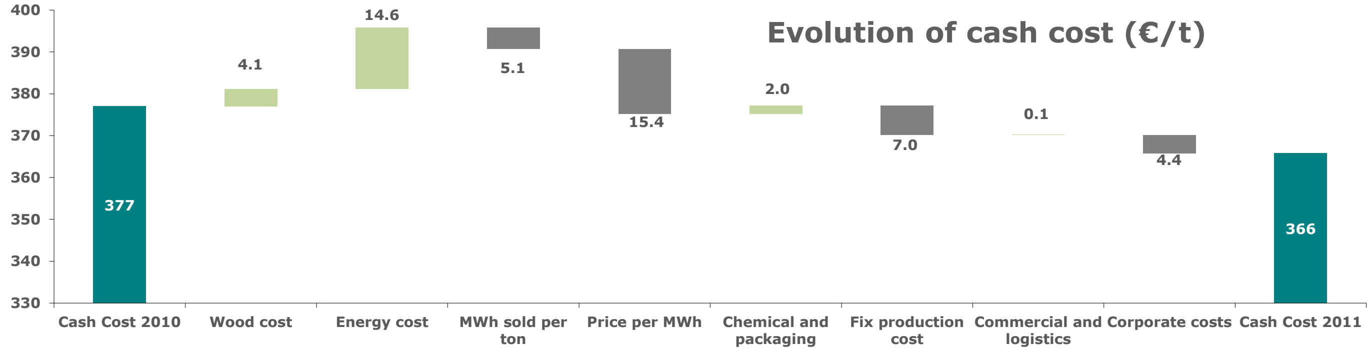
The breakdown of sales by countries and segments in 2011 remained in line with 2010, with market exposure primarily to Europe (to which the company exports 86% of production) and, to a greater extent, the tissue market as the most relevant target paper segment, given the ability to manufacture it completely with eucalyptus fiber and the stability of its growth (above 1% per annum in Europe).



The average cash-cost level decreased by 3% in 2011 compared to the €377/t achieved in 2010, reflecting the downward trend in production and sales costs. This decrease reached a total of 10%, moving from a high of €393/t in 4Q10 to €352/t in 4Q11. This downward movement was possible due to greater efficiency in the industrial process as well as greater control of wood prices, a trend that is expected to continue in 2012. The increased stability of production, allowing for the dilution of fixed costs and greater efficiency in consumptions of wood, chemicals and energy, and an improved energy margin are the two main factors that have made it possible to generate process savings. With regard to the cost of the supply of wood, the positive result of the domestic wood cost reduction strategy is maintained on the basis of three pillars: 1) increasing the number of species used in the industrial process 2) diversifying supply sources, increasing the volume of standing timber purchases through agreements with owners and producer associations (+154% in 2011), and 3) applying price reductions to suppliers in the month of April (€1.5/m3 for domestic wood). However, this effort has been neutralized by the increased cost of imported wood (+9.2% vs. 2010). In December, a new reduction was announced of €3/m3 in the price of wood in the domestic market, which will sustain the cost improvements in 2012 after the correction in international wood since late 2011 (approximately 4% in $/t according to Wood Resources International). Additionally, the company continues focusing its efforts on reducing general and structural costs.

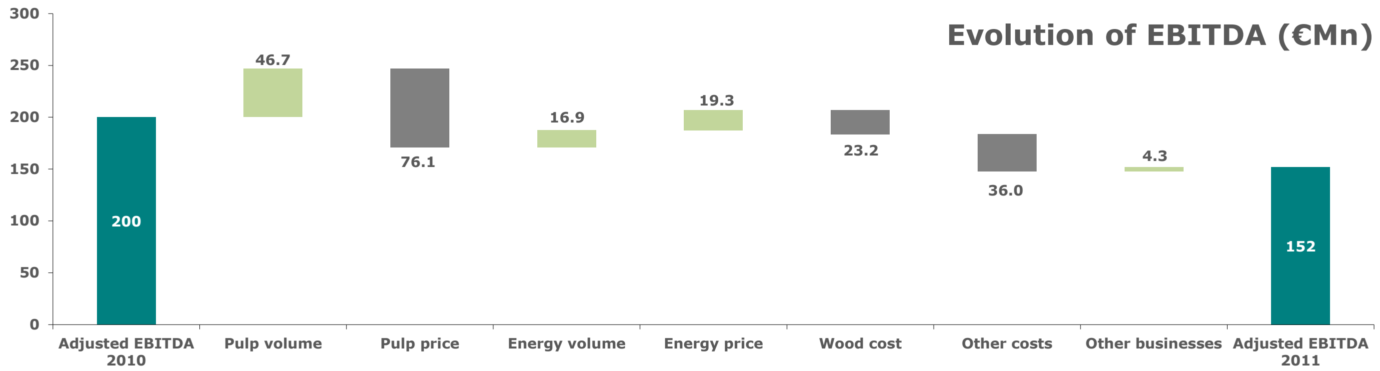
The increased contribution of energy sales, due both to the increased growth in volumes of energy vs. pulp as well as to higher sale prices, was offset to a large degree by the increase in the price of fuels, which reflects on the cost of energy as well as on an increased cost of chemical products (indexed to crude levels) as compared to the previous year.

The implementation of measures to manage wood and industrial operations over the course of FY 2011 made possible to finish the year with a cash cost of close to €350/t, the company's short-term target level. This level lays the groundwork for new improvements in efficiency in 2012 and their reflection in the company results in the next fiscal year, as demonstrated by attainment of €340/t in January.



Consequently, the adjusted EBITDA for 2011 amounted to +€152.1M, -24% lower than those registered in 2010. Net of the impact of hedging, severance payments and provisions, the book EBITDA in 2011 amounted to +€139.1M, -22% lower than 2010. The contained fall in operating profit is proof of the strength of the results, given that 2010 was the most profitable year in the last decade, benefiting from maximum pulp prices, a strong dollar and wood costs that increased gradually during the year.

figures in €Mn	4Q11	3Q11	%	4Q10	%	2011	2010	%
EBITDA	**24.4**	**39.5**	(38%)	**28.6**	(15%)	**139.1**	**178.3**	(22%)
Hedging instruments: pulp and exchange rate	(0.8)	1.5	n.s.	(3.8)	(80%)	10.4	4.9	115%
Severance payments	1.8	0.6	200%	0.9	112%	6.8	1.3	437%
Provisions and others	(4.1)	1.1	n.s.	16.8	n.s.	(1.6)	17.6	n.s.
Other non-recurrent	0.2	(1.8)	n.s.	0.8	(71%)	(2.7)	(1.8)	51%
Adjusted EBITDA	**21.6**	**40.9**	(47%)	**43.3**	(50%)	**152.1**	**200.2**	(24%)



Excluding depreciation, provisions, financial results and taxes, the company reported a net profit of €41.2M in 2011, 36% less than in 2010 due to the fall in pulp prices and in spite of improved financial expenses, but 84% above the average for the last 10 years.

6. FINANCIAL RESULTS

Financial expenses remained stable during the year at approximately €13M. The financial result in 2011 amounted to -€21M, a 21% drop versus the 2010 figure thanks to the impact of the drop in the Euribor curve on the value of the IRS last year, which did not impact cash.

figures in €Mn	4Q11	3Q11	%	4Q10	%	2011	2010	%
Financial income	**3.6**	**0.8**	332%	**0.4**	n.s.	**5.3**	**2.0**	163%
Interest on syndicated loan	(2.8)	(2.7)	1%	(2.2)	27%	(10.5)	(6.1)	71%
Interests on other loans	0.2	(0.1)	n.s.	(0.7)	n.s.	(0.3)	(5.6)	(95%)
Interests on factoring and confirming	(0.6)	(0.5)	35%	(0.6)	9%	(2.0)	(1.7)	18%
Financial expenses	**(3.2)**	**(3.3)**	(5%)	**(3.5)**	(8%)	**(12.7)**	**(13.4)**	(5%)
IRS settlement interest	(2.6)	(2.8)	(6%)	(3.5)	(25%)	(11.7)	(15.1)	(22%)
IRS adjustment in fair value	0.9	(2.1)	n.s.	3.1	(72%)	4.6	2.3	102%
Financial expenses for equity swap	(1.1)	(4.1)	(72%)	(0.4)	201%	(3.3)	(0.4)	n.s.
Result of hedging (IRS and equity swap)	**(2.9)**	**(9.0)**	(68%)	**(0.7)**	294%	**(10.3)**	**(13.2)**	(22%)
Net exchange differences	**1.4**	**3.6**	(62%)	**1.7**	(20%)	**2.1**	**0.1**	n.s.
Other financial expenses	**(2.4)**	**(1.3)**	86%	**(0.7)**	262%	**(5.6)**	**(2.4)**	135%
Financial result	**(3.4)**	**(9.2)**	(63%)	**(2.7)**	25%	**(21.3)**	**(26.9)**	(21%)
Interests on non recourse debt	(1.3)	(0.5)	167%	-	n.s.	(1.7)	-	n.s.
Adjusted financial result	**(4.7)**	**(9.6)**	(51%)	**(2.7)**	71%	**(23.1)**	**(26.9)**	(14%)

(a) following the signing of the new syndicated loan in October 2010, the existing credit lines came to form a part thereof

7. INVESTMENTS AND NET DEBT

Due to the strength of the pulp and energy businesses, operations continued to generate a solid cash flow for the year (+€121.9M in 2011 vs. €102.5M in 2010). This positive performance took place despite the increase in wood inventory volumes and improved payment conditions to wood suppliers consistent with the company's strategy of encouraging wood sales directly with the owner via "standing purchases", a prior essential requirement to implement an active price reduction policy in wood purchases.

In the course of the year, a significant effort was undertaken to improve payment to shareholders with the payment of a dividend in the month of May of €25.8M and the purchase of treasury stock, as well as to streamline investments for expansion in generation with biomass. As a result, there was a +€10.1M increase in cash and banks thanks to the recovery of €20.9M following the signing of the financing agreement for Huelva (previously invested in the project over the amount of own resources required) and the strong generation of cash from operating activities. The comparison with the previous year is distorted by the capital increase performed in March 2010 in an amount of €130M and which was applied in the month of October to the cancellation of debt in the amount of €93M.

figures in €Mn	4Q11	3Q11	%	4Q10	%	2011	2010	%
Cash flow: operating activities	42.1	21.7	94%	23.6	79%	121.9	102.5	19%
Cash flow: investment activities	(17.6)	(35.6)	(51%)	(15.9)	10%	(91.0)	(98.5)	(8%)
Cash flow: financing activities	7.8	(27.8)	n.s.	(104.9)	n.s.	(20.8)	(99.3)	(79%)
Change in cash or cash equivalents	**32.3**	**(41.7)**	n.s.	**(97.3)**	n.s.	**10.1**	**(95.3)**	n.s.
Capital increase	-	-	n.s.	-	n.s.	-	130.0	n.s.
Change in cash after capital increase	**32.3**	**(41.7)**	n.s.	**(97.3)**	n.s.	**10.1**	**34.7**	(71%)

7.1. Investments

Investments in the pulp business (industrial and forestry) made in 2011 amounted to €40.2M, 66% less than in 2010, thanks to the effort made to limit investments to the ongoing maintenance required for optimal operation of the plants and the development of forest assets. On the other hand, the industrial investment linked to the new biomass generation plants showed a strong increase with the signing of the EPC contract for the construction of the 50MW plant in Huelva. Moreover, the investment in energy crops was €10.6M, much higher than previous periods in line with the approach to accelerate the development of energy crops that guarantee supply to the new power plants, in particular to the 50MW plant slated to begin operation in 4Q12.

figures in €Mn	4Q11	3Q11	%	4Q10	%	2011	2010	%
Maintenance	9.4	2.4	295%	3.4	175%	24.1	14.7	64%
Improvements in efficiency/production	0.1	0.1	(30%)	6.8	(99%)	0.6	22.4	(97%)
Environmental	0.5	0.2	135%	1.3	(61%)	1.6	4.1	(60%)
Industrial investment in pulp	**10.0**	**2.7**	271%	**11.5**	(13%)	**26.3**	**41.2**	(36%)
Plantation and maintenance activity	2.4	0.7	228%	6.2	(62%)	11.3	17.0	(33%)
Financial expenses	0.6	0.6	(1%)	0.8	(24%)	2.6	2.6	1%
Forest investment in pulp	**3.0**	**1.4**	122%	**7.1**	(57%)	**13.9**	**19.5**	(29%)
Industrial investment in biomass	**9.4**	**17.8**	(47%)	**0.5**	n.s.	**50.8**	**15.7**	223%
Forest investment in biomass	**0.6**	**2.7**	(79%)	**0.5**	10%	**10.6**	**5.0**	112%
Total investment	**23.0**	**24.6**	(6%)	**19.7**	17%	**101.6**	**81.4**	25%

7.2. Net financial debt

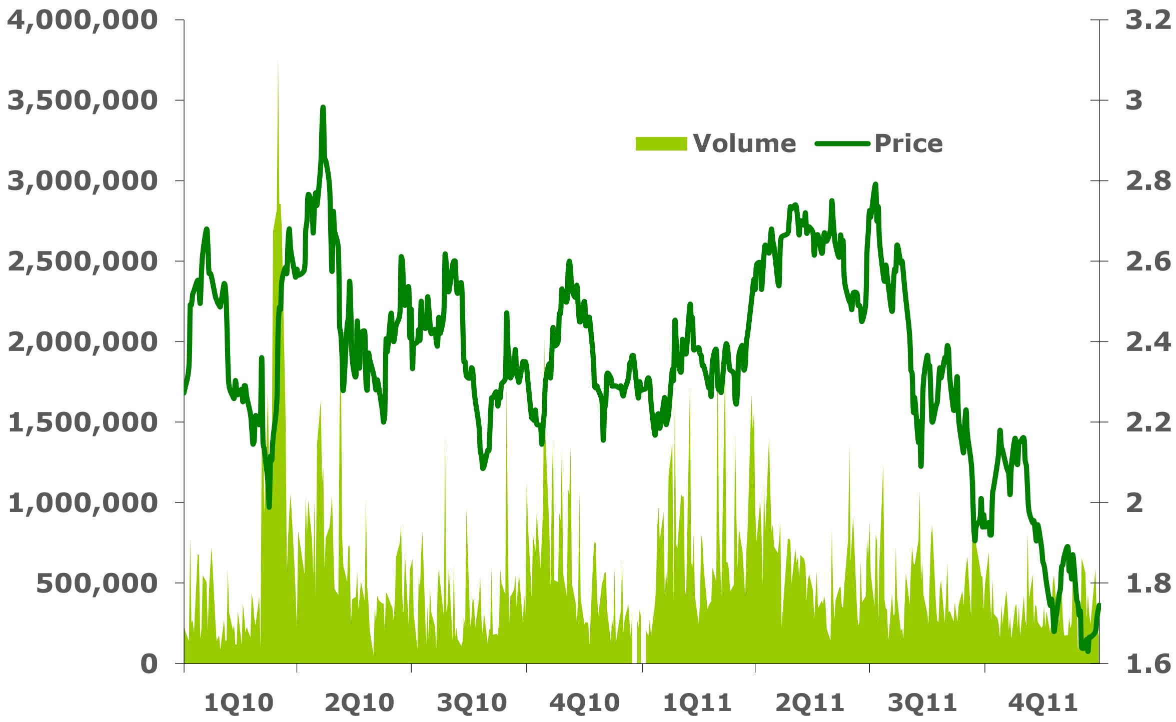
In terms of debt, at the end of December, the net recourse debt amounted to €156M, 10% less than the figure registered at the end of 2010 thanks to the strong generation of operating cash flow, which allowed the company to improve the balance sheet and still pay out a dividend of €25.8M and repurchase treasury stock.

figures in €Mn	4Q11	3Q11	%	4Q10	%	2011	2010	%
LT Debts with credit entities	219.8	225.8	(3%)	243.0	(10%)	219.8	243.0	(10%)
Other long-term financial liabilities	9.2	9.3	(1%)	8.3	10%	9.2	8.3	10%
Long-term debt	**229.0**	**235.0**	(3%)	**251.3**	(9%)	**229.0**	**251.3**	(9%)
ST debts with credit entities	20.5	14.4	42%	6.3	226%	20.5	6.3	226%
Other short-term financial liabilities	0.6	2.6	(78%)	0.7	(18%)	0.6	0.7	(18%)
Short-term debt	**21.0**	**17.0**	24%	**7.0**	201%	**21.0**	**7.0**	201%
Total gross financial debt	**250.0**	**252.0**	(1%)	**258.3**	(3%)	**250.0**	**258.3**	(3%)
Cash	71.6	53.6	34%	71.0	1%	71.6	71.0	1%
Short-term financial investments	22.8	9.1	150%	14.6	56%	22.8	14.6	56%
Net cash	**94.5**	**62.8**	50%	**85.6**	10%	**94.5**	**85.6**	10%
Total net financial debt	**155.6**	**189.2**	(18%)	**172.7**	(10%)	**155.6**	**172.7**	(10%)
Deposits from guarantees	-	1.0	(100%)	0.7	(100%)	-	0.7	(100%)
Deposit for fixed asset suppliers (a)	-	-	n.s.	22.1	(100%)	-	22.1	(100%)
Non recourse debt	54.4	42.3		-	n.s.	54.4	-	n.s.
Total adjusted financial debt	**209.9**	**232.5**	(10%)	**195.5**	7%	**209.9**	**195.5**	7%

(a) Deposit used to pay fixed asset suppliers for projects executed and pending technical verification

8. ENCE ON THE STOCK MARKET

Following good share performance in the first part of the year, the correction in the price of pulp had a clear negative impact in both the intermediated volumes and in the share price, especially in the last quarter of the year.



Source: Thomson Reuters

	2010	2011
Average daily volume (shares)	**595,836**	**546,383**
Ence performance	**0%**	**(23%)**
Ibex 35 performance	**(6%)**	**(13%)**
Eurostoxx performance	**2%**	**(17%)**

Note: the performance of the Ence stock adjusted due to the €0.1/share dividend paid on 9 May

Ence is listed on the IBEX·Medium Cap and the FTSE4Good Ibex indices.

9. HIGHLIGHTS OF 2011

Dividend payment of €0.1/share against 2010 results

On 9 May, Ence paid €0.1/share as a dividend against the results of the 2010 fiscal year, following approval in the general shareholders meeting held on 29 April. The dividend yield at the date of payment amounted to 3.6%.

Promagal Agreement

On 24 May, Ence entered into an agreement with Promagal (Federation of wood producers of Galicia) for the supply of 250,000 tons of wood over a period of 12 months. The agreement promotes sustainable forestry management, incentivizing certification, as well as an increase in transparency and efficiency in the sector with the establishment of explicit and transparent premiums for members.

Closing of the financing agreement for the 50MW biomass plant of Huelva

On 21 June, Ence arranged a Project Finance in the amount of 101 million euros for the construction of the largest biomass renewable energy plant in Spain, located in Huelva. With a total installed capacity of 50 MW, this instalation will generate enough renewable energy to meet the electricity needs of more than 360,000 people. The Project Finance was coordinated by La Caixa and Banesto, with the participation of Santander, BBVA, Bankia, Banco Sabadell and the ICO as well, which came to offer a risk in an amount of 145 million euros; which represents an over-subscription of 44 million euros beyond the 101 million euros sought by Ence for this project. Likewise Ence signed an EPC contract with OHL, which guarantees the execution of this project (which is scheduled to become operational in the fourth quarter of 2012) in terms of cost, quality and time. This is the first financial transaction of these characteristics performed in Spain for the financing of a biomass renewable energy plant.

Purchase of 9,701,770 treasury shares from Atalaya de Inversiones

On 4 July Ence purchased 9,701,770 treasury shares, representing 3.76% of its share capital, from Atalaya de Inversiones, for a total global amount of 26,388,814 euros, equivalent 2.72 euros per share. The company will keep the shares as treasury stock until the Board of Directors decides on the best alternative for their use in order to maximize the creation of value for shareholders.

10. FINANCIAL STATEMENTS

figures in €Mn	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11	2011
Profit and loss account										
Total Net Turnover	**170.2**	**207.9**	**229.7**	**223.0**	**830.8**	**218.4**	**200.9**	**208.1**	**198.0**	**825.5**
Supplies	(79.9)	(87.4)	(89.1)	(110.7)	(367.0)	(106.2)	(93.2)	(96.7)	(94.7)	(390.8)
Change in stocks of finished products	1.2	1.6	(2.3)	4.4	4.8	3.6	(0.6)	2.3	(7.0)	(1.7)
Gross Margin	**91.4**	**122.1**	**138.4**	**116.7**	**468.6**	**115.8**	**107.1**	**113.7**	**96.4**	**433.0**
Works performed by the group on fixed assets	5.4	6.9	6.8	8.8	27.8	7.8	7.5	7.4	4.6	27.2
Other income	3.1	3.2	0.9	3.7	10.8	1.1	3.3	3.4	4.8	12.6
Result from hedging operations	-	(5.6)	(3.0)	3.8	(4.9)	(6.7)	(3.0)	(1.5)	0.8	(10.4)
Personnel	(18.4)	(21.9)	(21.9)	(22.2)	(84.3)	(22.9)	(22.7)	(21.2)	(22.6)	(89.4)
Other operating expenses	(47.8)	(50.1)	(59.8)	(82.1)	(239.7)	(55.8)	(56.2)	(62.3)	(59.5)	(233.9)
EBITDA	**33.7**	**54.5**	**61.5**	**28.6**	**178.3**	**39.3**	**36.0**	**39.5**	**24.4**	**139.1**
EBITDA margin	**19.8%**	**26.2%**	**26.8%**	**12.8%**	**21.5%**	**18.0%**	**17.9%**	**19.0%**	**12.3%**	**16.9%**
Depreciation of fixed assets	(14.1)	(17.4)	(15.7)	(14.1)	(61.2)	(14.8)	(13.9)	(17.1)	(17.7)	(63.5)
Impairment and result from sales of fixed assets	0.5	(0.6)	0.1	0.2	0.2	0.7	0.6	2.8	0.3	4.4
EBIT	**20.1**	**36.5**	**45.9**	**14.7**	**117.3**	**25.1**	**22.7**	**25.2**	**7.1**	**80.1**
EBIT margin	**11.8%**	**17.5%**	**20.0%**	**6.6%**	**14.1%**	**11.5%**	**11.3%**	**12.1%**	**3.6%**	**9.7%**
Financial income	0.1	0.8	0.7	0.4	2.0	0.4	0.4	0.8	3.6	5.3
Financial expenses	(9.2)	(7.4)	(9.2)	(3.1)	(29.0)	(2.7)	(6.9)	(10.5)	(8.3)	(28.4)
Profit before tax	**11.0**	**29.8**	**37.5**	**12.0**	**90.3**	**22.9**	**16.2**	**15.6**	**2.4**	**57.0**
Corporate tax	(4.3)	(10.0)	(9.6)	(1.7)	(25.6)	(6.7)	(4.8)	(4.8)	0.5	(15.8)
Net profit	**6.7**	**19.8**	**27.9**	**10.2**	**64.7**	**16.2**	**11.4**	**10.7**	**2.9**	**41.2**
Balance sheet										
Tangible fixed assets	893.2	906.9	907.6	915.6	915.6	922.3	939.4	952.5	952.9	952.9
Intangible fixed assets	13.4	6.3	6.2	6.5	6.5	15.4	8.8	8.3	8.1	8.1
Long- term financial assets	5.8	8.3	10.4	5.8	5.8	2.7	2.6	3.9	4.1	4.1
Other non-current assets	69.6	64.6	55.2	49.9	49.9	45.0	36.9	45.7	42.7	42.7
Total fixed assets	**982.0**	**986.2**	**979.3**	**977.8**	**977.8**	**985.4**	**987.7**	**1,010.3**	**1,007.8**	**1,007.8**
Inventories	97.1	103.2	106.7	105.9	105.9	105.5	110.6	107.9	112.5	112.5
Trade debtors and other accounts receivable	116.3	125.0	146.7	160.1	160.1	150.7	132.3	129.0	135.8	135.8
Cash and other short-term financial assets	182.2	163.7	182.7	85.6	85.6	102.2	105.8	62.8	94.5	94.5
Other current assets	3.1	11.5	11.1	2.3	2.3	5.6	7.9	3.7	1.8	1.8
Non-Current Assets Classified as kept for Sale							28.7	24.0	16.5	16.5
Total current assets	**398.8**	**403.4**	**447.2**	**353.9**	**353.9**	**364.0**	**385.3**	**327.4**	**361.0**	**361.0**
Total assets	**1,380.8**	**1,389.6**	**1,426.6**	**1,331.7**	**1,331.7**	**1,349.4**	**1,373.0**	**1,337.8**	**1,368.8**	**1,368.8**
Equity	**710.2**	**723.7**	**762.0**	**766.4**	**766.4**	**777.2**	**766.3**	**732.2**	**720.2**	**720.2**
Long- term financial debt	160.1	149.4	143.6	251.3	251.3	251.8	278.3	277.3	283.4	283.4
Long-term provisions	22.4	17.5	19.4	23.8	23.8	24.7	21.2	22.8	23.2	23.2
Financial instruments for long-term hedging	43.7	43.7	40.9	36.6	36.6	28.6	26.9	38.0	25.5	25.5
Other non-current liabilities	39.1	37.8	41.4	33.6	33.6	41.5	38.6	45.2	48.5	48.5
Total non-current liabilities	**265.3**	**248.3**	**245.3**	**345.3**	**345.3**	**346.5**	**365.0**	**383.3**	**380.6**	**380.6**
Short-term financial debt	204.9	212.7	220.5	7.0	7.0	5.7	10.9	17.0	21.0	21.0
Trade creditors	174.2	158.8	168.5	180.7	180.7	180.2	186.5	154.3	165.8	165.8
Short-term provisions	4.5	4.0	4.6	8.1	8.1	8.1	8.1	7.7	7.9	7.9
Financial Instruments for short-term hedging	0.8	13.4	0.0	4.6	4.6	15.8	7.0	10.0	34.6	34.6
Other current liabilities	21.0	28.7	25.7	19.7	19.7	15.8	15.4	21.6	26.4	26.4
Non-Current liabilities classified as kept for Sale							13.7	11.7	12.3	12.3
Total current liabilities	**405.4**	**417.6**	**419.3**	**220.1**	**220.1**	**225.7**	**241.7**	**222.2**	**268.1**	**268.1**
Total liabilities	**1,380.8**	**1,389.6**	**1,426.6**	**1,331.7**	**1,331.7**	**1,349.4**	**1,373.0**	**1,337.8**	**1,368.8**	**1,368.8**
Cash flow statement										
EBITDA (adjusted)	**32.4**	**60.1**	**64.4**	**43.3**	**200.2**	**47.5**	**42.1**	**40.9**	**21.6**	**152.1**
Inventories	(8.3)	(6.3)	(3.7)	(3.8)	(22.0)	0.5	(11.9)	2.8	0.3	(8.3)
Trade debtors and other accounts receivable	(12.4)	(10.7)	(21.3)	(15.6)	(60.0)	6.3	2.4	7.6	11.7	28.0
Other current assets and temporary investments	-	-	0.8	(0.9)	(0.2)	0.8	(1.3)	0.2	0.7	0.4
Other current liabilities	(7.2)	5.1	15.6	3.8	17.2	(5.7)	3.0	(23.0)	17.8	(8.0)
Changes in working capital	(28.0)	(11.9)	(8.5)	(16.6)	(65.0)	1.8	(7.8)	(12.5)	30.4	12.0
Interest payments	(6.2)	(7.1)	(5.2)	(6.3)	(24.7)	(6.0)	(6.3)	(5.6)	(4.8)	(22.7)
Subsidies transferred to P&L	(0.1)	(0.2)	(0.3)	(0.3)	(0.9)	(0.2)	(0.2)	(0.2)	(0.5)	(1.1)
Hedging instruments: pulp and exchange rate	-	(5.6)	(3.0)	3.8	(4.9)	(6.7)	(3.0)	(1.5)	0.8	(10.4)
Corporate tax payment	-	-	-	-	-	-	-	-	(2.9)	(2.9)
Others	1.3	(1.0)	(2.1)	(0.4)	(2.2)	(1.4)	(1.7)	0.6	(2.4)	(5.0)
Cash flow: operating activities	**(0.7)**	**34.2**	**45.4**	**23.6**	**102.5**	**35.0**	**23.1**	**21.7**	**42.1**	**121.9**
Tangible assets	(3.5)	(43.5)	(14.0)	(15.1)	(76.1)	(11.1)	(13.5)	(33.1)	(12.0)	(69.6)
Biological assets	(4.6)	(5.9)	(5.9)	(4.4)	(20.8)	(6.7)	(6.1)	(6.3)	(6.1)	(25.3)
Intangible assets	(0.3)	(0.2)	0.3	(1.4)	(1.6)	(0.2)	(0.3)	0.1	(0.1)	(0.4)
Other financial assets	(0.3)	(2.5)	(2.1)	4.9	-	-	-	-	-	-
Divestments								3.7	0.6	4.3
Cash flow: investment activities	**(8.7)**	**(52.2)**	**(21.7)**	**(15.9)**	**(98.5)**	**(17.9)**	**(19.9)**	**(35.6)**	**(17.6)**	**(91.0)**
Collections and payments from equity instruments	125.0	0.4	(1.9)	(0.3)	123.2	(0.2)	(29.0)	(37.2)	(5.9)	(72.3)
Collection and payments from financial liability instruments	15.5	(2.1)	(1.4)	(104.6)	(92.5)	(3.3)	31.7	9.4	13.7	51.6
Cash flow: financing activities	**140.6**	**(1.7)**	**(3.3)**	**(104.9)**	**30.7**	**(3.5)**	**2.7**	**(27.8)**	**7.8**	**(20.8)**
Increase (decrease) in cash and cash equivalents	**131.5**	**(17.1)**	**20.4**	**(97.3)**	**34.7**	**13.6**	**5.9**	**(41.7)**	**32.3**	**10.1**

Energía y Celulosa