# Quarterly Report
## 2nd Quarter 2012

June 30th, 2012

# CONTENTS

# 1. EXECUTIVE SUMMARY 2Q12

| figures in €M | 2Q12 | 1Q12 | % | 2Q11 | % | 1H12 | 1H11 | % |
|---|---|---|---|---|---|---|---|---|
| Pulp sales | 137.4 | 143.1 | (4%) | 145.5 | (6%) | 280.5 | 304.7 | (8%) |
| Electricity sales | 46.6 | 50.1 | (7%) | 42.3 | 10% | 96.7 | 85.3 | 13% |
| Forestry sales and others | 7.2 | 8.3 | (14%) | 13.0 | (45%) | 15.5 | 29.4 | (47%) |
| **Total sales** | **191.2** | **201.5** | (5%) | **200.9** | (5%) | **392.6** | **419.3** | (6%) |
| **Adjusted EBITDA** | **42.8** | **35.6** | 20% | **42.1** | 2% | **78.3** | **89.5** | (13%) |
| **EBITDA** | **33.7** | **30.7** | 10% | **36.0** | (6%) | **64.4** | **75.2** | (14%) |
| **EBIT** | **19.9** | **15.8** | 26% | **22.7** | (12%) | **35.7** | **47.8** | (25%) |
| **Net profit** | **9.4** | **6.6** | 43% | **11.4** | (18%) | **16.0** | **27.6** | (42%) |
| **Net financial debt** [(a)] | **165.1** | **173.0** | (5%) | **151.4** | 9% | **165.1** | **151.4** | 9% |
| **Pulp sales (tons)** | **279,812** | **320,963** | (13%) | **282,126** | (1%) | **600,775** | **582,147** | 3% |
| **Electricity sales (MWh)** | **364,304** | **396,314** | (8%) | **357,604** | 2% | **760,618** | **722,082** | 5% |
| **Net pulp sale price (€/ton)** | **492** | **446** | 11% | **516** | (5%) | **467** | **524** | (11%) |
| **Average electricity sale price (€/MWh)** | **126** | **126** | (0%) | **116** | 9% | **126** | **114** | 10% |
| **Cash cost (€/t)** | **343** | **338** | 1% | **372** | (8%) | **340** | **376** | (10%) |

(a) additionally, there are € 56.6 M of non-recourse debt linked to the "project finance" of the 50MW biomass plant as of 30/06/12

- ✓ **Strong cash flow generation**: operations continued to generate a solid cash flow over the half year (+€47M in 1H12, generated primarily in 2Q12) in a context of higher prices and recovery of the investment in current assets. The price recovery and the expected reduction in costs will further improve the generation of cash in 2H12.

- ✓ **Solid operating results:** The adjusted EBITDA for 2Q12 stands at +€42.8M, 20% higher than in 1Q12, perpetuating the recovery in operating results that began last quarter thanks to the increase in the price of pulp and the efforts to reduce costs despite the impact of the maintenance shutdowns in Navia and Huelva. The cumulative figure for the year is 13% below the first half of 2011 due to the fact that pulp prices are 11% lower than last year. The net profit for the first half of the year stands at +€16.0M.

- ✓ **Sustained growth in pulp and energy sales:** Pulp sales in tons saw +3% growth in the first half of 2012 vs. the first half of 2011, which partially offset the YoY price correction of -11%. Growth was achieved despite the difficulties, since resolved, in starting up the Huelva mill after its maintenance shutdown, which resulted in an additional 16 days of shutdown. Without this, the group's production growth would have been 4% in comparison the first half of 2011. With regard to the energy business, electricity sales in MWh amounted to +5% above the level in the first half of 2011 in line with the increased pulp production. Energy sales grew 13% thanks to an increase in the average sale price, which benefited from a price-index rate increase last December and a better generation mix.

- ✓ **Continued positive evolution of the cash cost, which fell to €340/t in the first half of 2012, -**10% below the amount registered in the first half of 2011, thanks to efforts in reducing the cost of wood, to improvements in consumption of raw materials, in particular of chemicals, to the greater contribution of the electricity business and to the reduction in overhead costs due to the implementation of policies to reduce those costs and the dilution effect from increased production. Comparison with 1Q12 is penalized by the problems at Huelva mill after its maintenance stop. In the month of June, with an already standardized production, cash cost at the group level stood at 333 €/t.

- ✓ **Continued financial strength:** The net financial debt amounted to €165M (excluding €57M of non-recourse debt related to the biomass plant in Huelva). This level is +9% above the level registered at the end of the first half of 2011, though it is -5% below the level registered at the end of March. The operating cash flow over the past 12 months has made it possible to maintain debt containment levels in the framework of implementation of more active policy of remuneration to shareholders and share support (payment of the €16.5M dividend in May 2012 and treasury stock purchases of €50M). The current net financial debt levels are equivalent to 1.3 times the EBITDA for the past 12 months, a benchmark level in the industry.

- ✓ **Recovery of pulp prices, with an aggregate increase of $140/t over the first half of the year to reach a total of $790/t.** The global demand for pulp grew 2.5% in the first five months of the year. This, combined with reduced inventory levels (consumer stocks are close to historical minimum values), has made it possible to implement successive price increases to $790/t in June.

# 2. PULP BUSINESS: KEY INDICATORS

| | 2Q12 | 1Q12 | % | 2Q11 | % | 1H12 | 1H11 | % |
|---|---|---|---|---|---|---|---|---|
| Huelva | 64,266 | 99,249 | (35%) | 74,352 | (14%) | 163,515 | 172,018 | (5%) |
| Pontevedra | 108,731 | 91,595 | 19% | 106,497 | 2% | 200,326 | 197,604 | 1% |
| Navia | 109,342 | 125,065 | (13%) | 99,279 | 10% | 234,408 | 220,213 | 6% |
| **Pulp production (tons)** | **282,339** | **315,910** | (11%) | **280,127** | 1% | **598,248** | **589,835** | 1% |
| Huelva | 70,091 | 95,933 | (27%) | 76,496 | (8%) | 166,024 | 169,112 | (2%) |
| Pontevedra | 104,388 | 94,066 | 11% | 105,263 | (1%) | 198,454 | 193,001 | 3% |
| Navia | 105,333 | 130,965 | (20%) | 100,367 | 5% | 236,298 | 220,034 | 7% |
| **Pulp sales (tons)** | **279,812** | **320,963** | (13%) | **282,126** | (1%) | **600,775** | **582,147** | 3% |
| **BHKP ($/t)** | **772** | **703** | 10% | **868** | (11%) | **737** | **860** | (14%) |
| **Average exchange rate ($/€)** | **1.28** | **1.31** | (2%) | **1.44** | (11%) | **0.00** | **1.39** | (100%) |
| **Net sale price (€/t)** | **492** | **446** | 11% | **516** | (5%) | **467** | **524** | (11%) |
| **Pulp sales (€M)** | **137.4** | **143.1** | (4%) | **145.5** | (6%) | **280.5** | **304.7** | (8%) |

Pulp sales increased by +3% in 1H12, with 18,628 more tons sold than in the same period of 2011. This growth is due to the commercial strength of the company, which allowed it to sell the increased production (+1% vs. 1H11) and reduce inventories. The increased stability of the plants has made it possible to reach capacity utilisation ratios in excess of 96% in spite of the difficulties in restarting the Huelva mill after its maintenance shutdown. The use of a new industrial management model rooted in the continuous improvement of the facilities, the identification and use of improved practices in the group and the monitoring of the statistical variables related to the process is making it possible to optimise production, while containing investment. As a result, pulp production stood at 598,248 tons for the period, which represents a +1.4% year-on-year increase:

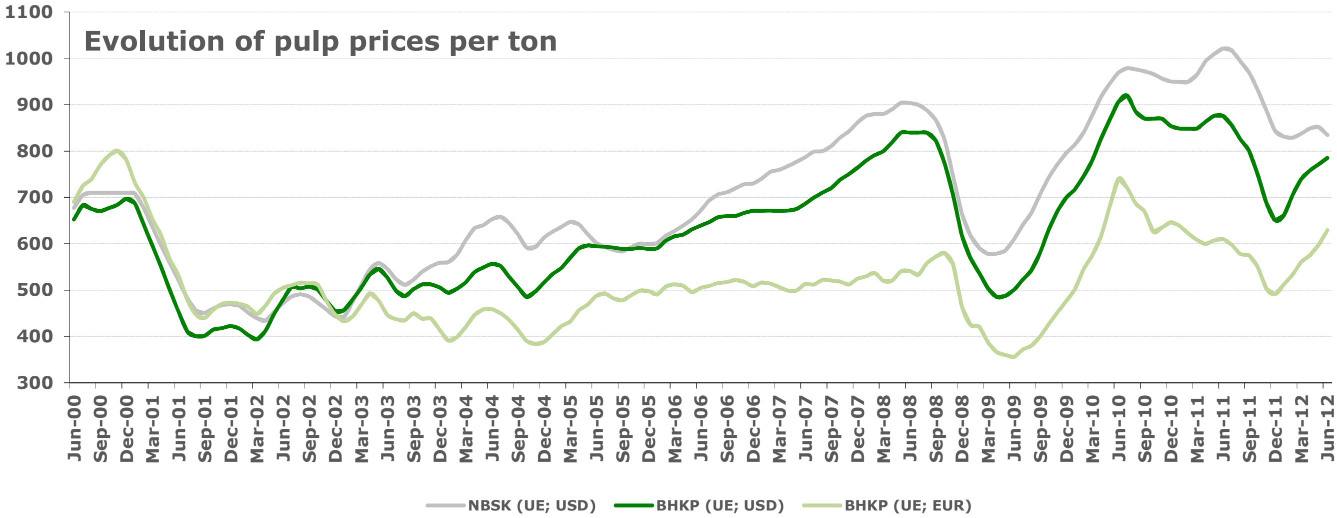
- ✓ In the Huelva plant, production totalled 163,515 tons, a -5% decrease over 1H11. The difficulties in the restart of the mill following maintenance in May caused a total shutdown of 26 days versus the 10 days initially projected, resulting in a loss of 27,252 tons at current production rates. Net of the effect of the shutdown, the plant’s daily production stood at +1% above the figure for the first half of 2011.
- ✓ At the Pontevedra plant, production stood at 200,326 tons, a +1% increase over 1H11. Pontevedra shut down for maintenance for 10 days in March, which at current production rates implied a loss of nearly 11,647 tons.
- ✓ Production at the Navia plant totalled 234,408 tons, a +6% increase over 1H11. The plant shutdown for maintenance for 12 days in March, which at current product rates implied a loss of nearly 16,546 tons.

With the exception of the Huelva plant due to the problems mentioned above, the production levels for the first half of the year are in line with the target that the company has set for the year, with the joint production of Navia and Pontevedra growing 4% over the period.

With respect to the average income per ton, the average net sale price amounted to €467/t in the first half of the year, -11% below the average price for the first half of 2011 due to the decline in prices in dollars from the highs for the cycle, though it has begun recovery from the 16% decline seen in 1Q11. That notwithstanding, the intensification of the sales activities in a context of stable demand has allowed the company to register a 3% increase in sales thanks to reduced inventories, offsetting the lower average price levels to the point of limiting the decline of sales to -8%, which is equivalent to generating total pulp sales revenues of €280.5M in the first half of the year. It is necessary to point out the recovery of the market price from the low of $650/t reached last December, allowing the average sale price to improve by+11% vs. 1Q12 and 17% when compared against 4Q11.

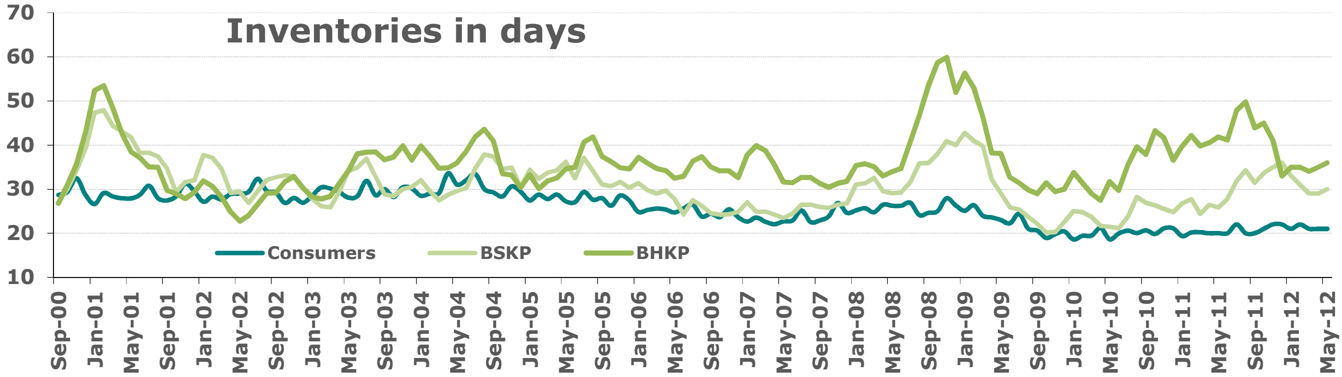
## 2.1. OVERVIEW OF THE PULP MARKET

The pulp market continued the upward trend seen in 1Q12, reaching levels close to $790/t. The decline in demand in the second half of 2011 gave way to a significant correction in inventory levels (especially in the European market), which, together with a greater adjustment in supply in the latter part of the year and continued high levels of Chinese imports, has brought about strong recovery in prices since January. This increase is especially significant given the appreciation of the dollar against the euro, which has caused euro-denominated prices to increase by 22% since late 2011 (vs. 17% in dollars).



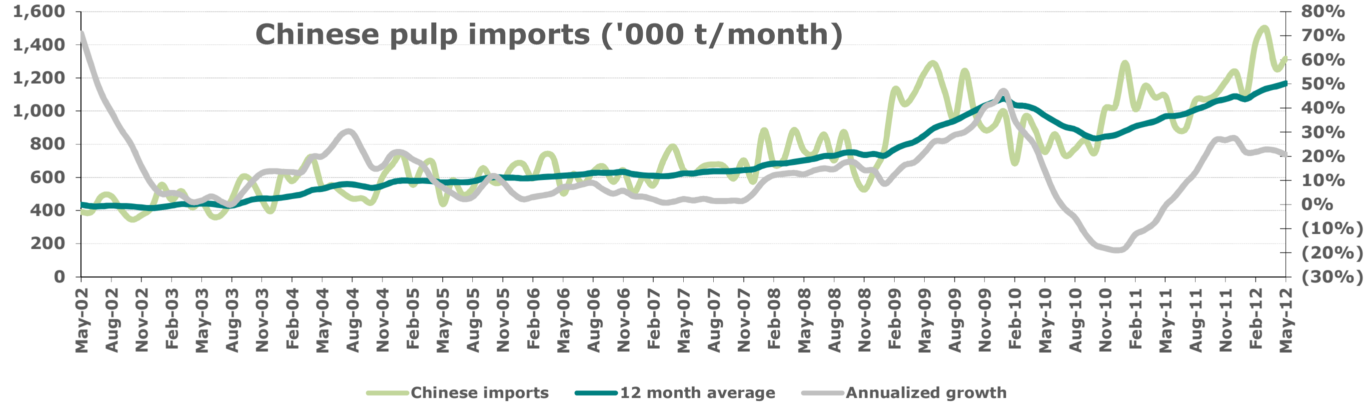

Source: FOEX

Global producer inventories are holding steady at the standard level of around 33 days with a mild increase from 31 days over the past two months due to less activity in the Chinese market. Consumer inventories are holding steady at 21 days, close to historical minimums. The situation is even more positive in Europe, where consumer inventories are holding at historical minimums of 20 days, whereas port inventories have continued to decline through the year, dropping by 26% since the end of last year.



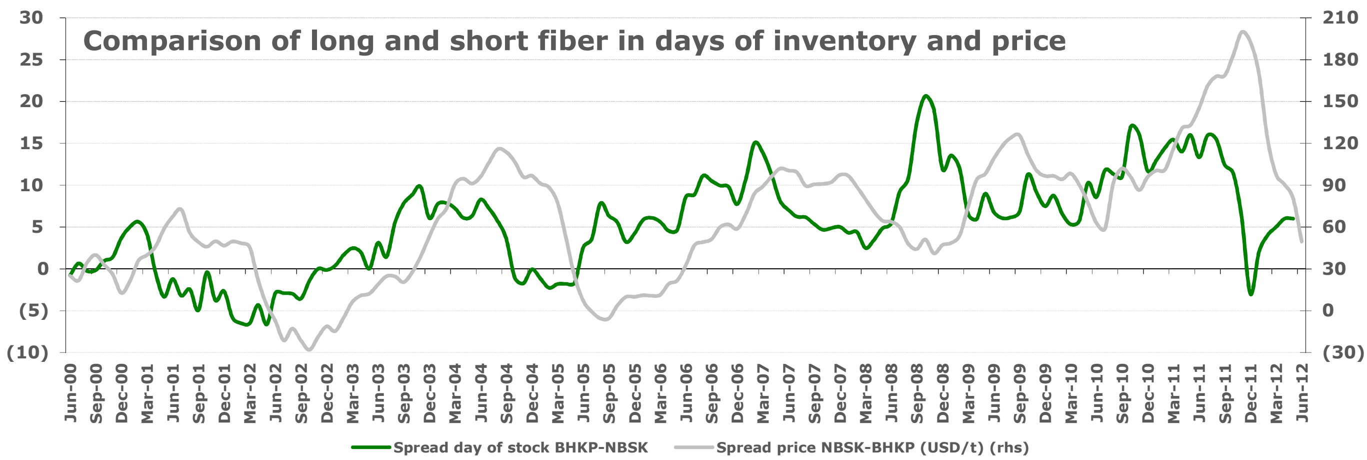

Source: PPPC; global statistics

Global demand has continued to show a positive trend throughout the year, with growth of 2.5% up to May due to strong demand from China with a cumulative increase of 17% this year. Imports fell slightly in April and May, but they still remain at levels higher than those of 2011 thanks to growth in the Chinese economy, the implementation of new non-integrated paper production facilities and the gradual substitution of local fibre with imports due to the higher cost and negative environmental impact of the former. As an additional element, the upward trend in the price of imported wood puts integrated Chinese plants at a disadvantage when competing with non-integrated plants that are supplied with imported pulp.




Source: PPPC

Compared with long fibre, short fibre (primarily eucalyptus) has shown signs of increased strength over the first half of the year, correcting the divergence between the price spread and inventory levels witnessed in the second half of last year. The normalisation of short fibre inventories in late 2011 has allowed for strong recovery in prices in the first half of this year, whereas long fibre prices have held steady despite attempts to implement price increases. As a result, the price spread between both fibres amounted to $47/t at the end of June, around the average of its historical range.




Source: PPPC; FOEX

The perspectives for the upcoming months continue to be positive given the stability of inventories, the strength in demand and the lack of capacity increases until early 2013.

# 3. ENERGY BUSINESS: KEY INDICATORS

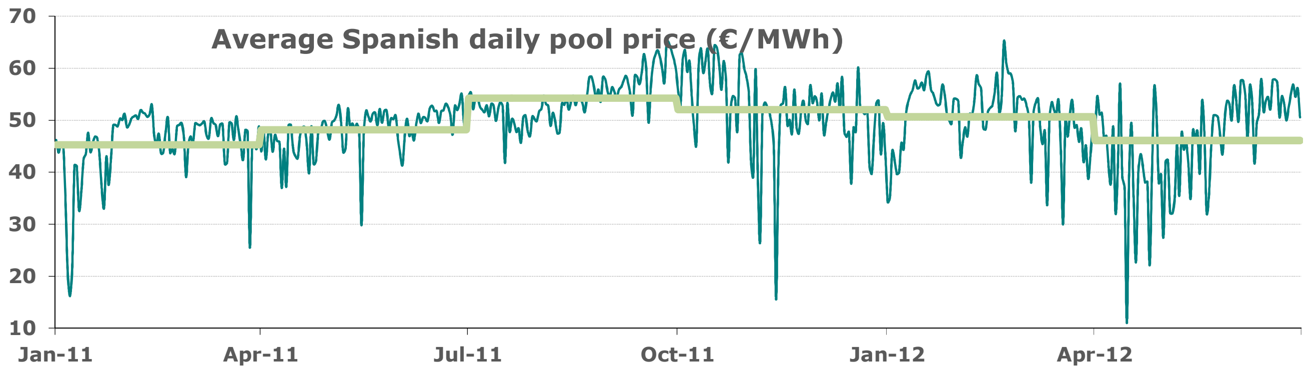
| | 2Q12 | 1Q12 | % | 2Q11 | % | 1H12 | 1H11 | % |
|---|---|---|---|---|---|---|---|---|
| Huelva | 190,048 | 213,814 | (11%) | 194,609 | (2%) | 403,862 | 393,372 | 3% |
| Pontevedra | 59,509 | 51,691 | 15% | 55,114 | 8% | 111,200 | 101,555 | 9% |
| Navia | 119,058 | 134,357 | (11%) | 114,758 | 4% | 253,416 | 241,311 | 5% |
| **Electricity production (MWh)** | **368,616** | **399,862** | (8%) | **364,481** | 1% | **768,477** | **736,238** | 4% |
| Huelva | 189,307 | 213,347 | (11%) | 194,590 | (3%) | 402,654 | 392,876 | 2% |
| Pontevedra | 56,511 | 49,670 | 14% | 53,190 | 6% | 106,180 | 98,271 | 8% |
| Navia | 118,486 | 133,297 | (11%) | 109,824 | 8% | 251,784 | 230,934 | 9% |
| **Electricity sales (MWh)** [(a)] | **364,304** | **396,314** | (8%) | **357,604** | 2% | **760,618** | **722,082** | 5% |
| **Electricity consumption (MWh)** | **166,658** | **187,341** | (11%) | **176,380** | (6%) | **353,999** | **358,688** | (1%) |
| **Average pool price (€/MWh)** | **46** | **51** | (9%) | **48** | (4%) | **48** | **47** | 4% |
| **Average sale price (€/MWh)** | **126** | **126** | (0%) | **116** | 9% | **126** | **114** | 10% |
| **Electricity sales (€M)** | **46.6** | **50.1** | (7%) | **42.3** | 10% | **96.7** | **85.3** | 13% |

(a) adjusted by unbalances

Energy sales increased to €97M in 1H12, +13% above 1H11 due to the increase in volume (+5%), the higher weighting of biomass-fuelled generation in the production mix, the improvement in pool prices and the +2.76% revision of tariffs and premiums approved at the end of 2011, linked to inflation; factors that have pushed the average sale price to increase by +10% to €126/MWh.

In operating terms, the company produced 768,477 MWh in 1H12, a +4% increase compared to the MWh produced in 1H11 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) and efficiencies in steam consumption throughout the production process. This significant growth (in line with the company's targets) was achieved despite reduced production from the Navia biomass plant because of repairs in its boiler in April and the reduced production of pulp in Huelva in May. With regard to renewable energy, the three plants together sold nearly 582,968 MWh of energy with biomass in the first half of 2012, a +6% increase over sales in the first half of 2011. With this, biomass generation accounts for 76% of the mix.

Prices in the electricity market have moved slightly above the average for 1H11 thanks to increased hydrocarbon prices in spite of the weak macroeconomic climate, benefiting the sale price for turbines that sell at pool price plus premium (78% of the installed capacity). The average sale prices are in line with 1Q12 and are 10% higher than the prices in 1H11 thanks to the annual rate revision in December.




Source: OMEL

# 4. FORESTRY ACTIVITY: KEY INDICATORS

| | 2Q12 | 1Q12 | % | 2Q11 | % | 1H12 | 1H11 | % |
|---|---|---|---|---|---|---|---|---|
| **Supply to the industrial process ($m^3$)** | **819,680** | **913,795** | (10%) | **841,919** | (3%) | **1,733,475** | **1,772,482** | (2%) |
| **Cost €/$m^3$** | **68.5** | **71.8** | (4%) | **69.9** | (2%) | **70.2** | **71.8** | (2%) |
| Own hectares | 77,669 | 77,351 | 0% | 77,548 | 0% | 77,669 | 77,548 | 0% |
| Third party hectares (consortia) | 37,653 | 36,806 | 2% | 39,772 | (5%) | 37,653 | 39,772 | (5%) |
| **Hectares managed by ownership (Ha)** | **115,322** | **114,157** | 1% | **117,320** | (2%) | **115,322** | **117,320** | (2%) |
| Hectares for pulp | 97,305 | 96,584 | 1% | 98,495 | (1%) | 97,305 | 98,495 | (1%) |
| Hectares for energy crops | 18,017 | 17,573 | 3% | 18,825 | (4%) | 18,017 | 18,825 | (4%) |
| **Hectares managed by use (Ha)** | **115,322** | **114,157** | 1% | **117,320** | (2%) | **115,322** | **117,320** | (2%) |

In terms of forestry activity, in the first half of the year, 1,733,475 m³ of wood were supplied to the group's pulp mills, -2% less than the amount consumed over the same period last year in spite of increased pulp production as a result of improvements in the industrial performance of processed wood (reduction in specific consumption of -4%, falling to 2.9 m3 for each ton of pulp produced). The investment in the management of the company's forestry asset base reached a total of €6.5M. With this investment, the company has planted 457 hectares and carried out forestry maintenance and management activities on another 17,781 hectares. Regarding the energy crops business, the company worked on 8,698 hectares during the period for a total investment of €8.9M, 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, 202,258 tons of forestry biomass have been marketed, mostly for the supply of the group's energy production.

The company has continued to actively manage its wood supply sources in 1H12 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 harvesting to the transport) so as to achieve improved cost efficiency. The major measures implemented are the following:

- Intensifying direct purchases of wood from the forest owners (site purchasing), thus greatly reducing the company's dependence on intermediaries and promoting collaborative relationships with the owners. Direct contact also allows the company to support the owner in the proper management of the plantations, including better forestry practices, which will result in improved productivity of the plantations in the future as well as increased prevalence of forestry certification in the country. As a result of the significant advances achieved, direct purchases exceeded 209,627 m3 over the half-year period (24% of the group's needs), doubling the amounts registered in 1H11.

- Balancing out the base of local suppliers, which has made it possible to reduce the price of local market wood by -7% with respect to 1H11.

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

- Sponsoring the certification of third-party wood as a guarantee of responsible and sustainable management, which has allowed the company to purchase nearly 482,000 m3 of certified wood (PEFC /FSC).

The progressive implementation of the foregoing measures has allowed the company to reduce the weighting of imports in 1H12 by -49% as compared with 1H11. This reduction, together with the lower cost of local wood, has facilitated a reduction in the average purchase price of -3%. This improvement will be directly reflected in the operating results during 2H12 as the stocks of international wood stockpiled over the course of fiscal year 2011 as part of the change in the company's wood procurement model are consumed.

# 5. COMMENT ON 2Q12 RESULTS

| figures in €M | 2Q12 | 1Q12 | % | 2Q11 | % | 1H12 | 1H11 | % |
|---|---|---|---|---|---|---|---|---|
| Pulp sales | 137.4 | 143.1 | (4%) | 145.5 | (6%) | 280.5 | 304.7 | (8%) |
| Electricity sales | 46.6 | 50.1 | (7%) | 42.3 | 10% | 96.7 | 85.3 | 13% |
| Forestry sales and others | 7.2 | 8.3 | (14%) | 13.0 | (45%) | 15.5 | 29.4 | (47%) |
| **Total net sales** | **191.2** | **201.5** | (5%) | **200.9** | (5%) | **392.6** | **419.3** | (6%) |
| Cost of goods sold [(a)] | (95.4) | (103.9) | (8%) | (93.8) | 2% | (199.4) | (196.4) | 1% |
| Personnel expenses | (19.9) | (18.9) | 5% | (22.7) | (13%) | (38.8) | (45.7) | (15%) |
| Other operating expenses | (42.2) | (48.0) | (12%) | (48.4) | (13%) | (90.1) | (102.0) | (12%) |
| **EBITDA** | **33.7** | **30.7** | 10% | **36.0** | (6%) | **64.4** | **75.2** | (14%) |
| Forest depletion | (1.8) | (2.2) | (17%) | (1.5) | 16% | (1.8) | (1.5) | 16% |
| Rest of depreciations | (12.8) | (13.3) | (4%) | (12.3) | 4% | (28.3) | (27.1) | 4% |
| Provisions | 0.8 | 0.5 | 42% | 0.6 | 39% | 1.3 | 1.2 | 9% |
| **EBIT** | **19.9** | **15.8** | 26% | **22.7** | (12%) | **35.7** | **47.8** | (25%) |
| Financial result | (6.0) | (5.8) | 4% | (6.5) | (8%) | (11.7) | (8.8) | 34% |
| **Profit before taxes** | **13.9** | **10.0** | 39% | **16.2** | (14%) | **23.9** | **39.0** | (39%) |
| Taxes | (4.5) | (3.4) | 32% | (4.8) | (5%) | (8.0) | (11.4) | (30%) |
| **Net profit** | **9.4** | **6.6** | 43% | **11.4** | (18%) | **16.0** | **27.6** | (42%) |
| **Adjusted EBITDA** | **42.8** | **35.6** | 20% | **42.1** | 2% | **78.3** | **89.5** | (13%) |
| **Cash cost (€/t)** | **342.7** | **338.0** | 1% | **371.7** | (8%) | **340.2** | **376.3** | (10%) |

(a) supplies +/- change in stocks

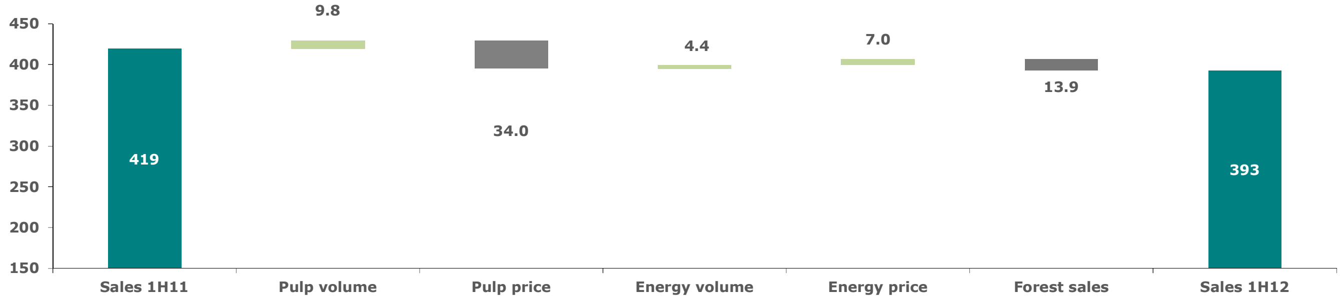
The sales in 1H12 amounted to €392.6M, or -6% less than in 1H11 due solely to the decline in the price of pulp and the reduction of wood sales to third parties, partially compensated by increased production of pulp and energy in the quarter following efficiency and performance improvements.

Pulp sales in the period amounted to €280M, a number that is -8% below the figure for the same period in 2011 due to the fact that the average price came in at $737/t in the first quarter, or -14% less than the first half of 2011 and -6% less than $781/t, the prevailing price level at the end of June. Much of the decline in price was offset by the +3% increase in sales volumes.

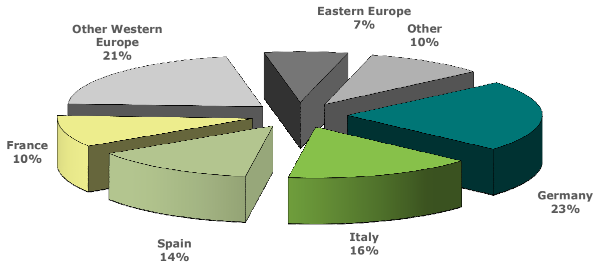
Energy sales amounted to €96.7M in the first half of 2012, +13% more than in the same period of 2011, due both to the strength in production (+4% vs. the first half of 2011) and the positive trend in prices (+10%), resulting from increases in the pool price (+4%) and the rate revision approved at the end of last year (+2.8%).

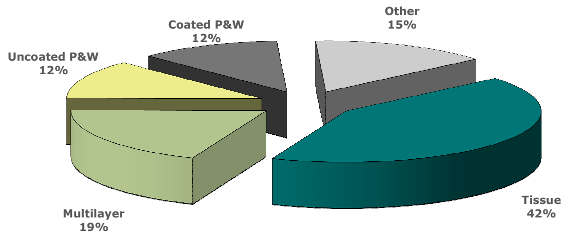
Forestry sales amounted to €15.5M (-47% against 1H11) due to fewer wood sales to third parties following the accumulation of wood from Uruguay as part of the inventory increase required to implement the change in the wood supply strategy.

**Evolution of sales (M€)**



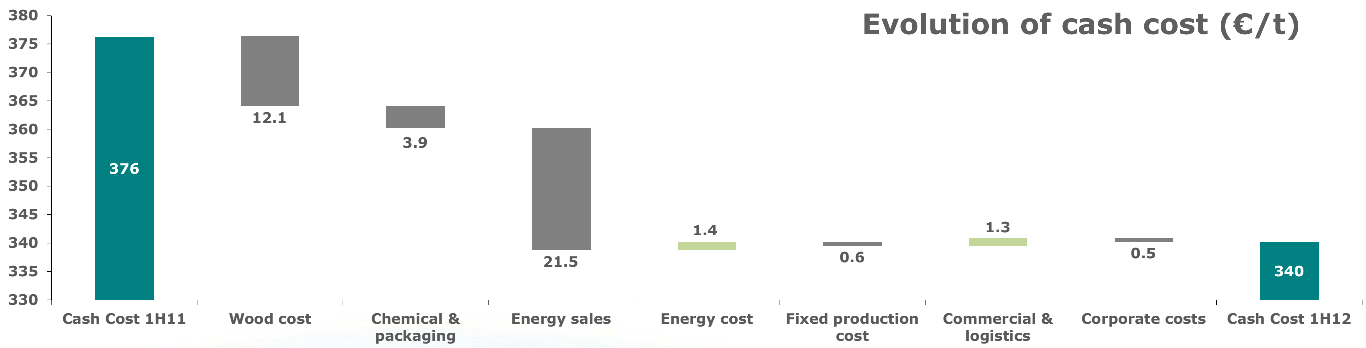

The breakdown of sales by countries and segments remained in line with 2011, with the tissue market as the most relevant target paper segment, given the ability to manufacture it completely with eucalyptus fibre and the stability of its growth (above 1% per annum in Europe, even in areas of reduced economic activity). Geographically speaking, the amount of shipping outside of Europe decreased to 10% (primarily due to a decline in exports to China), though sales in Spain held steady at 14%.




The cash-cost level decreased by -10% to €340/t in 1H12 compared to the €376/t achieved in the same period last year, reflecting the downward trend in production and sales costs. This decrease reached a total of -16%, dropping from a high of €393/t in 4Q10. Difficulties in the restart of Huelva mill after its maintenance suthdown have had a negative impact on the costs per ton in 2Q12. The cash cost for the month of June, with stabilized production in three plants, stood at 333€/t.

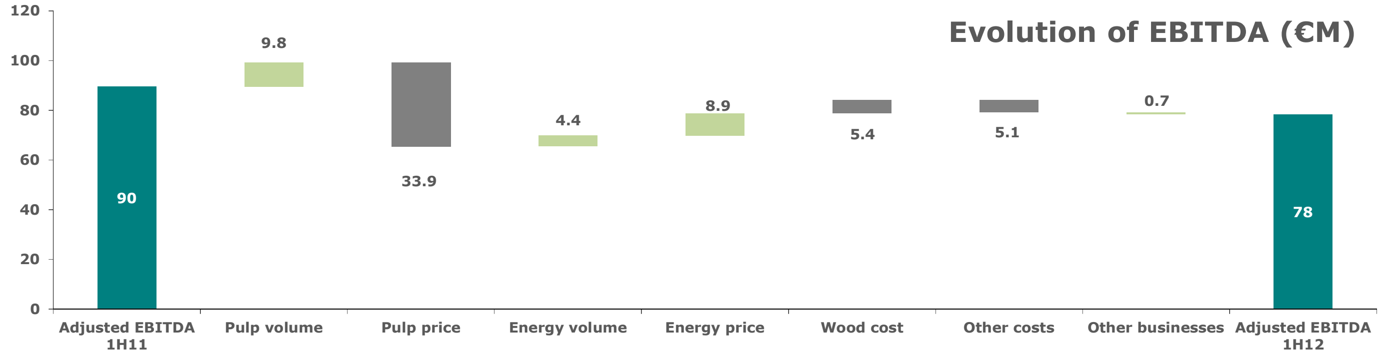
This downward movement was possible due to greater efficiency in the industrial process as well as greater control of wood prices, a trend that is expected to continue in 2012 as the weight of imported wood in the consumption mix is reduced and new cost efficiencies are achieved in supply. The increased 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 (+98% vs. the first half of 2011), and 3) applying price reductions to suppliers in the months of April and December 2011 (€1.5/m3 and €3/m3 for domestic wood, respectively). As a result, the cost per m3 is down 3% vs. 1H11 in spite of the increased cost of imported wood (+11%) due to a strengthening of the USD. Additionally, the company continues to focus its efforts on reducing general and structural costs.



The cash cost of €340/t in 1H12 consolidates the trend in cost reduction over the last year and represents a decrease of -10% versus the average production unit cost of €376/t in 1H11. This is fully in line with the objective of a 4% to 6% cut set for all of FY 2012.

Consequently, the adjusted EBITDA for 1H12 amounted to +€78.3M, -13% lower than the amount registered in the same period of 2011. Net of the impact of hedging, severance payments and provisions, the reported EBITDA in 1H12 amounted to +€64.4M€, -14% lower than in 1H11. Even though the comparison with 1H11 is not favourable due to higher prices for pulp in early 2011, a comparison with 1Q12 shows a 20% increase in the adjusted EBITDA, which only partially reflects the upward trend in prices during 1H12, which will give way to increased growth in operating profits in the upcoming quarters.

| figures in €M | 2Q12 | 1Q12 | % | 2Q11 | % | 1H12 | 1H11 | % |
|---|---|---|---|---|---|---|---|---|
| **EBITDA** | **33.7** | **30.7** | 10% | **36.0** | (6%) | **64.4** | **75.2** | (14%) |
| Hedging instruments: pulp and exchange rate | 7.5 | 5.0 | 49% | 3.0 | 153% | 12.6 | 9.7 | 30% |
| Severance payments | 0.7 | 0.5 | 48% | 2.6 | (71%) | 1.2 | 4.4 | (72%) |
| Provisions and others | (0.4) | (1.1) | (67%) | 1.4 | n.s. | (1.5) | 1.4 | n.s. |
| Other non-recurrent | 1.2 | 0.4 | 168% | (0.8) | n.s. | 1.6 | (1.2) | n.s. |
| **Adjusted EBITDA** | **42.8** | **35.6** | 20% | **42.1** | 2% | **78.3** | **89.5** | (13%) |




Excluding depreciation, provisions, financial results and taxes, the company reported a net profit of €16.0M in the first half of 2012, with the net profits in 2Q12 increasing 43% vs. el 1Q12.

# 6. FINANCIAL RESULTS

Financial expenses in the first half fell by -59% as capitalization of financial expenses will be accounted within the "Financial results" since 2012, instead of an operational item included in "Other income", as it had been done previously. The financial result in the first half of 2012 amounted to -€9.9M, €1.1M higher than in the first half of 2011 due 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 €M | 2Q12 | 1Q12 | % | 2Q11 | % | 1H12 | 1H11 | % |
|---|---|---|---|---|---|---|---|---|
| **Financial income** | **0.2** | **0.2** | (32%) | **0.4** | (59%) | **0.4** | **0.8** | (50%) |
| Interest on syndicated loan | (2.2) | (2.6) | (16%) | (2.6) | (15%) | (4.8) | (5.0) | (4%) |
| Interests on other loans | (0.1) | (0.1) | (18%) | (0.2) | (72%) | (0.1) | (0.3) | (65%) |
| Interests on factoring and confirming | (0.4) | (0.4) | 1% | (0.5) | (28%) | (0.7) | (0.9) | (19%) |
| Capitalization of financial expenses [(a)] | 1.8 | 1.3 | 35% | - | n.s. | 3.1 | - | n.s. |
| **Financial expenses** | **(0.8)** | **(1.7)** | (52%) | **(3.2)** | (74%) | **(2.6)** | **(6.2)** | (59%) |
| IRS settlement interest | (2.8) | (2.6) | 9% | (3.1) | (9%) | (5.4) | (6.3) | (15%) |
| IRS adjustment in fair value | 1.6 | 1.3 | 28% | (0.0) | n.s. | 2.9 | 5.9 | (51%) |
| Financial expenses for equity swap | (2.6) | 0.5 | n.s. | 0.7 | n.s. | (2.2) | 1.9 | n.s. |
| **Result of hedging (IRS and equity swap)** | **(3.8)** | **(0.8)** | 360% | **(2.4)** | 62% | **(4.7)** | **1.5** | n.s. |
| **Net exchange differences** | **0.5** | **(1.3)** | n.s. | **(0.2)** | n.s. | **(0.8)** | **(2.9)** | (71%) |
| **Other financial expenses** | **(0.8)** | **(1.4)** | (42%) | **(1.1)** | (24%) | **(2.2)** | **(2.0)** | 11% |
| **Financial result** | **(4.8)** | **(5.0)** | (5%) | **(6.5)** | (26%) | **(9.9)** | **(8.8)** | 13% |
| Interests on non recourse debt | (1.2) | (0.7) | 61% | - | n.s. | (1.9) | - | n.s. |
| **Adjusted financial result** | **(6.0)** | **(5.8)** | 4% | **(6.5)** | (8%) | **(11.7)** | **(8.8)** | 34% |

(a) from 2012, capitalization of financial expenses is included in "Financial result" instead of "Other income"

# 7. INVESTMENTS AND NET DEBT

Due to the strength of the pulp and energy businesses, operations continued to generate a solid cash flow over the half year (+€47M in 1H12, generated primarily in 2Q12) in a context of higher prices and recovery of the investment in current assets in 1Q12 by the anticipated VAT payments in the German market. The price recovery and the expected reduction in costs will further improve the generation of cash in 2H12. This positive performance is taking place in spite of the improved payment conditions to wood suppliers consistent with the company's strategy of encouraging wood sales directly with the owner via "direct purchases," a prior essential requirement to implementation of an active price reduction policy in wood purchases.

| figures in €M | 2Q12 | 1Q12 | % | 2Q11 | % | 1H12 | 1H11 | % |
|---|---|---|---|---|---|---|---|---|
| Operating activities | 42.6 | 4.3 | n.s. | 23.1 | 85% | 46.9 | 58.1 | (19%) |
| Investment activities | (19.0) | (17.3) | 10% | (19.9) | (4%) | (36.3) | (37.8) | (4%) |
| Financing activities | (32.6) | (3.6) | n.s. | 2.7 | n.s. | (36.2) | (0.7) | n.s. |
| **Change in cash or cash equivalents** | **(9.0)** | **(16.6)** | (46%) | **5.9** | n.s. | **(25.6)** | **19.5** | n.s. |

## 7.1. Investments

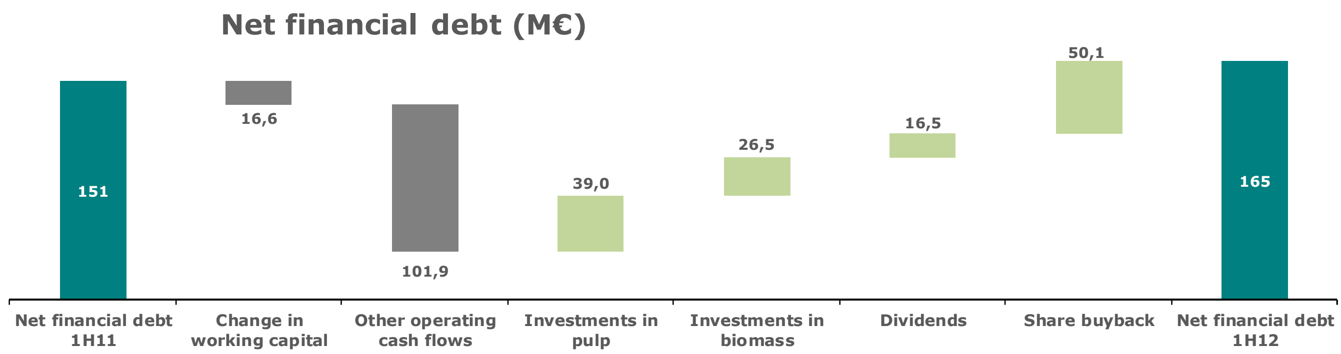
Investments in the pulp business (industrial and forestry) made in 1H12 amounted to €14.5M, -37% less than in 1H11, thanks to the effort made to limit investments to the on-going maintenance required for optimal operation of the plants and the development of forest assets. Investments in biomass amounted to €20.7M, below 1H11 due to the lower total amount of payments related to the construction of the plant in Huelva, which is expected to begin operations in late 2012. The investment in energy crops, on the other hand, moved up by +15% compared to 1H11, which is in line with the approach to accelerate the development of energy crop volumes that guarantee supply to the company's biomass projects.

| figures in €M | 2Q12 | 1Q12 | % | 2Q11 | % | 1H12 | 1H11 | % |
|---|---|---|---|---|---|---|---|---|
| Maintenance | 3.2 | 3.2 | 1% | 10.6 | (70%) | 6.4 | 12.3 | (48%) |
| Improvements in efficiency/production | 1.1 | 0.0 | n.s. | 0.2 | 373% | 1.1 | 0.4 | 155% |
| Environmental | 0.1 | 0.4 | (60%) | 0.5 | (73%) | 0.5 | 0.9 | (42%) |
| **Industrial investment in pulp** | **4.5** | **3.6** | 25% | **11.4** | (61%) | **8.0** | **13.6** | (41%) |
| Plantation and maintenance activity | 3.5 | 2.3 | 56% | 4.4 | (20%) | 5.8 | 8.2 | (29%) |
| Financial expenses | 0.3 | 0.4 | (25%) | 0.7 | (55%) | 0.7 | 1.3 | (44%) |
| **Forest investment in pulp** | **3.8** | **2.7** | 43% | **5.1** | (25%) | **6.5** | **9.5** | (31%) |
| **Industrial investment in biomass** | **8.9** | **3.4** | 160% | **21.3** | (58%) | **12.3** | **23.6** | (48%) |
| **Forest investment in biomass** | **5.3** | **3.2** | 66% | **7.1** | (26%) | **8.4** | **7.3** | 15% |
| **Total investment** | **22.4** | **12.8** | 75% | **44.8** | (50%) | **35.2** | **54.0** | (35%) |

## 7.2. Net financial debt

In terms of debt, at the end of June, the net debt with recourse amounted to €165M, +9% more than the figure registered last year due to the increase in share buybacks and 5% less than at the end of 1Q12. Net of the impact of dividend payments and the increase in treasury stock, the net financial debt would have dropped €67M since the end of June last year, leaving it around the €98M mark. In spite of the effort to remunerate the shareholders, the company continues to be a benchmark of financial discipline in the industry, closing out the quarter with a net financial debt/EBITDA ratio of 1.3x.

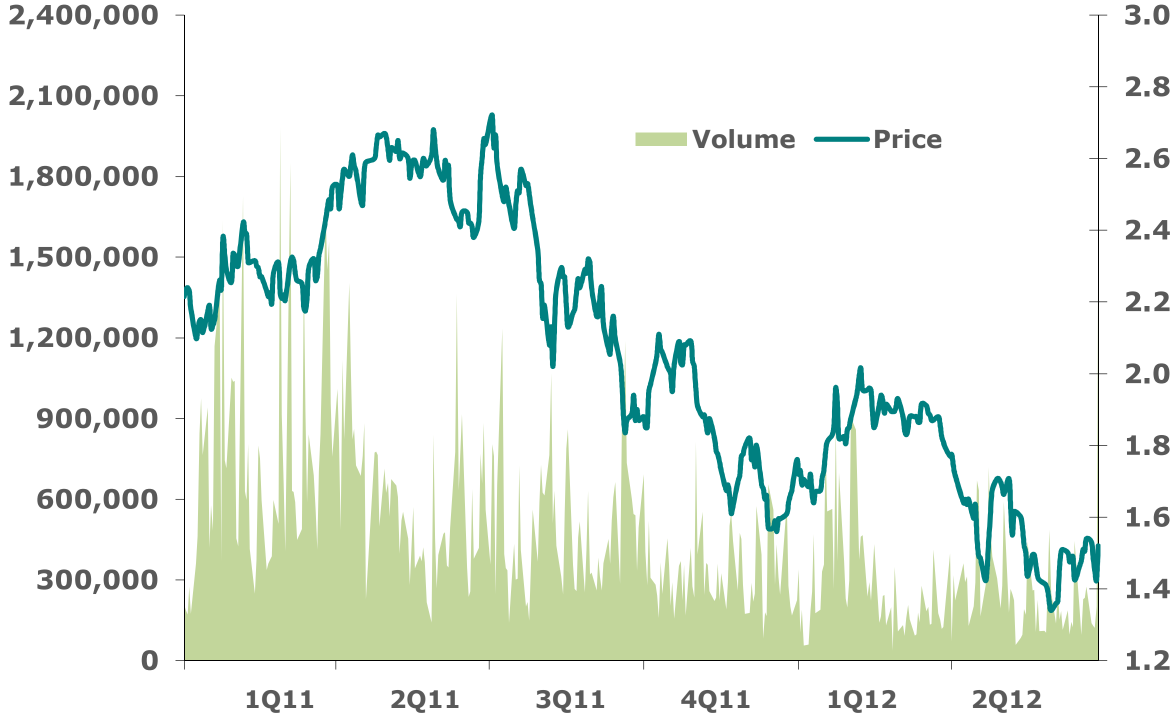
| figures in €M | 2Q12 | 1Q12 | % | 2Q11 | % | 1H12 | 1H11 | % |
|---|---|---|---|---|---|---|---|---|
| LT Debts with credit entities | 217.2 | 213.4 | 2% | 237.6 | (9%) | 217.2 | 237.6 | (9%) |
| Other long-term financial liabilities | 9.1 | 9.1 | (0%) | 8.7 | 5% | 9.1 | 8.7 | 5% |
| **Long-term debt** | **226.3** | **222.5** | 2% | **246.3** | (8%) | **226.3** | **246.3** | (8%) |
| ST debts with credit entities | 26.2 | 27.0 | (3%) | 8.3 | 214% | 26.2 | 8.3 | 214% |
| Other short-term financial liabilities | 0.5 | 0.7 | (26%) | 2.6 | (81%) | 0.5 | 2.6 | (81%) |
| **Short-term debt** | **26.7** | **27.6** | (3%) | **10.9** | 144% | **26.7** | **10.9** | 144% |
| **Total gross financial debt** | **253.0** | **250.2** | 1% | **257.2** | (2%) | **253.0** | **257.2** | (2%) |
| Cash | 65.5 | 62.5 | 5% | 97.1 | (33%) | 65.5 | 97.1 | (33%) |
| Short-term financial investments | 22.4 | 14.6 | 53% | 8.7 | 157% | 22.4 | 8.7 | 157% |
| **Net cash** | **87.9** | **77.1** | 14% | **105.8** | (17%) | **87.9** | **105.8** | (17%) |
| **Total net financial debt** | **165.1** | **173.0** | (5%) | **151.4** | 9% | **165.1** | **151.4** | 9% |
| Deposits from guarantees | - | 1.0 | (100%) | 0.7 | (100%) | - | 0.7 | (100%) |
| Non recourse debt | 56.6 | 55.4 | 2% | 32.0 | 77% | 56.6 | 32.0 | 77% |
| **Total adjusted financial debt** | **221.7** | **229.4** | (3%) | **184.1** | 20% | **221.7** | **184.1** | 20% |




Existing activities in Uruguay have been classified as available-for-sale at the end of the period.

# 8. ENCE ON THE STOCK MARKET

In the period, the share price fell less than the Spanish stock exchange as a whole, thus avoiding the negative impact that the public debt crisis has had on the Spanish stock market during the quarter.




Source: Thomson Reuters

| | 2011 | 1H12 |
|---|---|---|
| **Average daily volume (shares)** | **546,383** | **278,836** |
| **Ence performance** | **(24%)** | **(9%)** |
| **Ibex 35 performance** | **(13%)** | **(17%)** |
| **Eurostoxx performance** | **(17%)** | **(2%)** |

Note: the performance of the Ence stock adjusted due to the €0.1/share dividend paid on 9 May 2011 and €0.07/share dividend paid on 8 may 2012; it has not been adjusted for the delivery of treasury stock on 8 May 2012 as dividend in kind, which amounts to a dividend yield of 3.5%

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

# 9. HIGHLIGHTS OF 2Q12

**Proposed dividend of €0.07/share and one treasury share for every 26 held**

On 28 February, the board of directors resolved to propose to the Annual General Shareholders Meeting the payment of a cash dividend of €0.07 per share against the 2011 operating results as well as the distribution of a dividend in-kind equivalent to one treasury share for each 26 shares that the shareholder currently owns. At the date of approval, both dividends amounted to a dividend yield of 7.4%.

**Proposal to cancel 3% of the shares in circulation and a dividend in kind of one treasury share for every 37 held**

On 21 June, the board of directors resolved to propose the cancellation of 7,740,390 treasury shares (3% of the total shares issued) and the distribution of a stock dividend in treasury shares drawn down from the share premium in the proportion of one treasury share for each 37 shares that the shareholder currently owns at the extraordinary general shareholders' meeting to be held on 24 June 2012. This dividend amounts to a dividend yield of 2.7%, which when added to the prior dividend approved in April gives a total yield of 10.1% per shareholder, without taking into consideration the positive impact on the shares of the retired shares.

# 10. FINANCIAL STATEMENTS

| figures in €M | 1Q11 | 2Q11 | 3Q11 | 4Q11 | 2011 | 1Q12 | 2Q12 |
|---|---|---|---|---|---|---|---|
| **Profit and loss account** | | | | | | | |
| **Total Net Turnover** | **218.4** | **200.9** | **208.1** | **198.0** | **825.5** | **201.5** | **191.2** |
| Supplies | (106.2) | (93.2) | (96.7) | (94.7) | (390.8) | (100.9) | (96.1) |
| Change in stocks of finished products | 3.6 | (0.6) | 2.3 | (7.0) | (1.7) | (3.1) | 0.7 |
| **Gross Margin** | **115.8** | **107.1** | **113.7** | **96.4** | **433.0** | **97.5** | **95.7** |
| Works performed by the group on fixed assets | 7.8 | 7.5 | 7.4 | 4.6 | 27.2 | 7.0 | 7.1 |
| Other income | 1.1 | 3.3 | 3.4 | 4.8 | 12.6 | 1.7 | 1.4 |
| Result from hedging operations | (6.7) | (3.0) | (1.5) | 0.8 | (10.4) | (5.0) | (7.5) |
| Personnel | (22.9) | (22.7) | (21.2) | (22.6) | (89.4) | (18.9) | (19.9) |
| Other operating expenses | (55.8) | (56.2) | (62.3) | (59.5) | (233.9) | (51.5) | (43.1) |
| **EBITDA** | **39.3** | **36.0** | **39.5** | **24.4** | **139.1** | **30.7** | **33.7** |
| **EBITDA margin** | **18.0%** | **17.9%** | **19.0%** | **12.3%** | **16.9%** | **15.2%** | **17.6%** |
| Depreciation of fixed assets | (14.8) | (13.9) | (17.1) | (17.7) | (63.5) | (15.5) | (14.6) |
| Impairment and result from sales of fixed assets | 0.7 | 0.6 | 2.8 | 0.3 | 4.4 | 0.5 | 0.8 |
| **EBIT** | **25.1** | **22.7** | **25.2** | **7.1** | **80.1** | **15.8** | **19.9** |
| **EBIT margin** | **11.5%** | **11.3%** | **12.1%** | **3.6%** | **9.7%** | **7.8%** | **10.4%** |
| Financial income | 0.4 | 0.4 | 0.8 | 3.6 | 5.3 | 0.2 | 0.2 |
| Financial expenses | (2.7) | (6.9) | (10.5) | (8.3) | (28.4) | (6.0) | (6.1) |
| **Profit before tax** | **22.9** | **16.2** | **15.6** | **2.4** | **57.0** | **10.0** | **13.9** |
| Corporate tax | (6.7) | (4.8) | (4.8) | 0.5 | (15.8) | (3.4) | (4.5) |
| **Net profit** | **16.2** | **11.4** | **10.7** | **2.9** | **41.2** | **6.6** | **9.4** |
| **Balance sheet** | | | | | | | |
| Tangible fixed assets | 922.3 | 939.4 | 952.5 | 952.9 | 952.9 | 951.6 | 906.4 |
| Intangible fixed assets | 15.4 | 8.8 | 8.3 | 8.1 | 8.1 | 12.0 | 5.9 |
| Long- term financial assets | 2.7 | 2.6 | 3.9 | 4.1 | 4.1 | 4.1 | 4.1 |
| Other non-current assets | 45.0 | 36.9 | 45.7 | 42.7 | 42.7 | 37.6 | 38.7 |
| **Total fixed assets** | **985.4** | **987.7** | **1,010.3** | **1,007.8** | **1,007.8** | **1,005.4** | **955.2** |
| Inventories | 105.5 | 110.6 | 107.9 | 112.5 | 112.5 | 111.4 | 101.9 |
| Trade debtors and other accounts receivable | 150.7 | 132.3 | 129.0 | 135.8 | 135.8 | 135.9 | 121.9 |
| Cash and other short-term financial assets | 102.2 | 105.8 | 62.8 | 94.5 | 94.5 | 77.1 | 87.9 |
| Other current assets | 5.6 | 7.9 | 3.7 | 1.8 | 1.8 | 1.5 | 6.8 |
| Non-Current Assets Classified as kept for Sale | | 28.7 | 24.0 | 16.5 | 16.5 | 19.8 | 68.4 |
| **Total current assets** | **364.0** | **385.3** | **327.4** | **361.0** | **361.0** | **345.7** | **386.9** |
| **Total assets** | **1,349.4** | **1,373.0** | **1,337.8** | **1,368.8** | **1,368.8** | **1,351.1** | **1,342.0** |
| **Equity** | **777.2** | **766.3** | **732.2** | **720.2** | **720.2** | **729.0** | **717.8** |
| Long- term financial debt | 251.8 | 278.3 | 277.3 | 283.4 | 283.4 | 277.9 | 282.1 |
| Long-term provisions | 24.7 | 21.2 | 22.8 | 23.2 | 23.2 | 20.8 | 13.8 |
| Financial instruments for long-term hedging | 28.6 | 26.9 | 38.0 | 25.5 | 25.5 | 24.4 | 32.0 |
| Other non-current liabilities | 41.5 | 38.6 | 45.2 | 48.5 | 48.5 | 51.9 | 50.9 |
| **Total non-current liabilities** | **346.5** | **365.0** | **383.3** | **380.6** | **380.6** | **375.0** | **378.7** |
| Short-term financial debt | 5.7 | 10.9 | 17.0 | 21.0 | 21.0 | 27.6 | 27.5 |
| Trade creditors | 180.2 | 186.5 | 154.3 | 165.8 | 165.8 | 163.1 | 166.6 |
| Short-term provisions | 8.1 | 8.1 | 7.7 | 7.9 | 7.9 | 8.2 | 10.9 |
| Financial Instruments for short-term hedging | 15.8 | 7.0 | 10.0 | 34.6 | 34.6 | 21.2 | 22.1 |
| Other current liabilities | 15.8 | 15.4 | 21.6 | 26.4 | 26.4 | 12.9 | 16.4 |
| Non-Current liabilities classified as kept for Sale | | 13.7 | 11.7 | 12.3 | 12.3 | 14.0 | 2.2 |
| **Total current liabilities** | **225.7** | **241.7** | **222.2** | **268.1** | **268.1** | **247.1** | **245.6** |
| **Total liabilities** | **1,349.4** | **1,373.0** | **1,337.8** | **1,368.8** | **1,368.8** | **1,351.1** | **1,342.0** |
| **Cash flow statement** | | | | | | | |
| **EBITDA (adjusted)** | **47.5** | **42.1** | **40.9** | **21.6** | **152.1** | **35.6** | **42.8** |
| Inventories | 0.5 | (11.9) | 2.8 | 0.3 | (8.3) | 1.5 | 2.8 |
| Trade debtors and other accounts receivable | 7.1 | (0.1) | 7.9 | 13.0 | 27.9 | (6.3) | 14.3 |
| Other current liabilities | (5.7) | 3.0 | (23.0) | 17.8 | (8.0) | (12.9) | (0.8) |
| Changes in working capital | 1.8 | (7.8) | (12.5) | 30.4 | 12.0 | (17.7) | 16.4 |
| Interest payments | (6.0) | (6.3) | (5.6) | (4.8) | (22.7) | (4.8) | (5.9) |
| Subsidies transferred to P&L | (0.2) | (0.2) | (0.2) | (0.5) | (1.1) | (0.3) | (0.3) |
| Hedging instruments: pulp and exchange rate | (6.7) | (3.0) | (1.5) | 0.8 | (10.4) | (5.0) | (7.5) |
| Corporate tax payment | - | - | - | (2.9) | (2.9) | - | (1.1) |
| Others | (1.4) | (1.7) | 0.6 | (2.4) | (5.0) | (3.4) | (1.7) |
| **Cash flow: operating activities** | **35.0** | **23.1** | **21.7** | **42.1** | **121.9** | **4.3** | **42.6** |
| Tangible assets | (11.1) | (6.4) | (33.1) | (12.0) | (62.5) | (10.6) | (11.9) |
| Biological assets | (6.7) | (6.1) | (6.3) | (6.1) | (25.3) | (6.6) | (7.2) |
| Intangible assets | (0.2) | (0.3) | 0.1 | (0.1) | (0.4) | - | - |
| Other financial assets | - | - | - | - | - | (0.1) | 0.1 |
| Divestments | | | 3.7 | 0.6 | 4.3 | | |
| **Cash flow: investment activities** | **(17.9)** | **(19.9)** | **(35.6)** | **(17.6)** | **(91.0)** | **(17.3)** | **(19.0)** |
| Collections and payments from equity instruments | (0.2) | (29.0) | (37.2) | (5.9) | (72.3) | (3.7) | (19.8) |
| Collection and payments from financial liability instruments | (3.3) | 31.7 | 9.4 | 13.7 | 51.6 | 0.1 | (12.8) |
| **Cash flow: financing activities** | **(3.5)** | **2.7** | **(27.8)** | **7.8** | **(20.8)** | **(3.6)** | **(32.6)** |
| **Increase (decrease) in cash and cash equivalents** | **13.6** | **5.9** | **(41.7)** | **32.3** | **10.1** | **(16.6)** | **(9.0)** |

Energía y Celulosa