

# 2016 Annual Corporate Social Responsibility Report



# 2016 Annual CSR Report

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## Executive summary

In 2016, the most salient initiatives undertaken by Ence on the corporate social responsibility front were the following

### Corporate governance

- Ence is a socially-responsible company committed to a corporate culture predicated on the ethical conduct of its employees, executives and directors and governed by transparency in both its internal dealings and interactions with its surroundings.
- Ence's commitment to its stakeholders is articulated in its Board-approved Corporate Social Responsibility Policy, which is in line with the recommendations issued in the Good Governance Code approved by Spain's securities market regulator.

### People

- Ence's workforce averaged 891 professionals in 2016, which is 8% more than in 2015. Over 18% of its employees are women. 87% enjoy indefinite contracts and 98% work full time. Absenteeism fell by 2.13% compared to 2015.
- As pledged in its Harassment Prevention Policy, Ence is committed to preventing, avoiding, remedying and disciplining any potential instances of harassment. Ence did not receive any reports of harassment in 2016.

### Environment

- Environmental protection capital expenditure at Ence's pulp mills totalled €7.3 million in 2016.
- Its operations centres in Huelva, Navia, Pontevedra and Merida hold the corresponding integrated environmental permits for the pursuit of their industrial activities.
- Emission levels at Ence's operations centres are within the limits established in their corresponding environmental permits and within the benchmark ranges stipulated in the sector's Best Available Techniques Reference Document (BREF), which will be mandatory from 2018.
- The discharge readings at all the operations centres not only comply with the limits established in the environmental permits, but also outperform the values stipulated in the sector BREF.
- The Pontevedra operations centre registered record-low odour emissions in 2016 (measured in minutes).
- The Pontevedra factory has been selected to participate in a European Union project called "Strengthening the administrative capacity on the central and local level for the transposition and implementation of the new Industrial Emission Directive 2010/75/EU".
- The Navia and Pontevedra complexes obtained the Nordic Swan ecolabel for their compliance with the most stringent environmental standards in 2014. The goal of this ecolabel is to help consumers take environmentally-friendly purchasing decisions.
- Ence and the department of the environment of the regional government of Galicia entered into an Environmental Pact on 28 June 2016 under which the company will roll out a five-year programme comprising sizeable environmental protection and community investments and projects in Pontevedra and surrounding areas. The Pact includes a framework agreement for application of Ence's corporate social responsibility policy in the area.

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## Strategic partners and suppliers

- Ence, as Spain's leading private forest manager, managed 68,979 hectares of forest land in 2016, 57% of which it owns.
- Ence mobilised 3.3 million tonnes of timber and nearly one million tonnes of biomass last year. Direct purchases from forest owners and small suppliers accounted for 69% of timber purchases.

## Customers

- Ence produced 931,443 tonnes of pulp in 2016. Sales volume amounted to 923,408 tonnes, over 90% of which was exported to Europe.
- Ence is Spain's largest producer of renewable energy from biomass. It currently has over 254 MW of installed renewable energy capacity. In 2016, Ence generated 1,403 GWh of renewable energy.

## Shareholders and investors

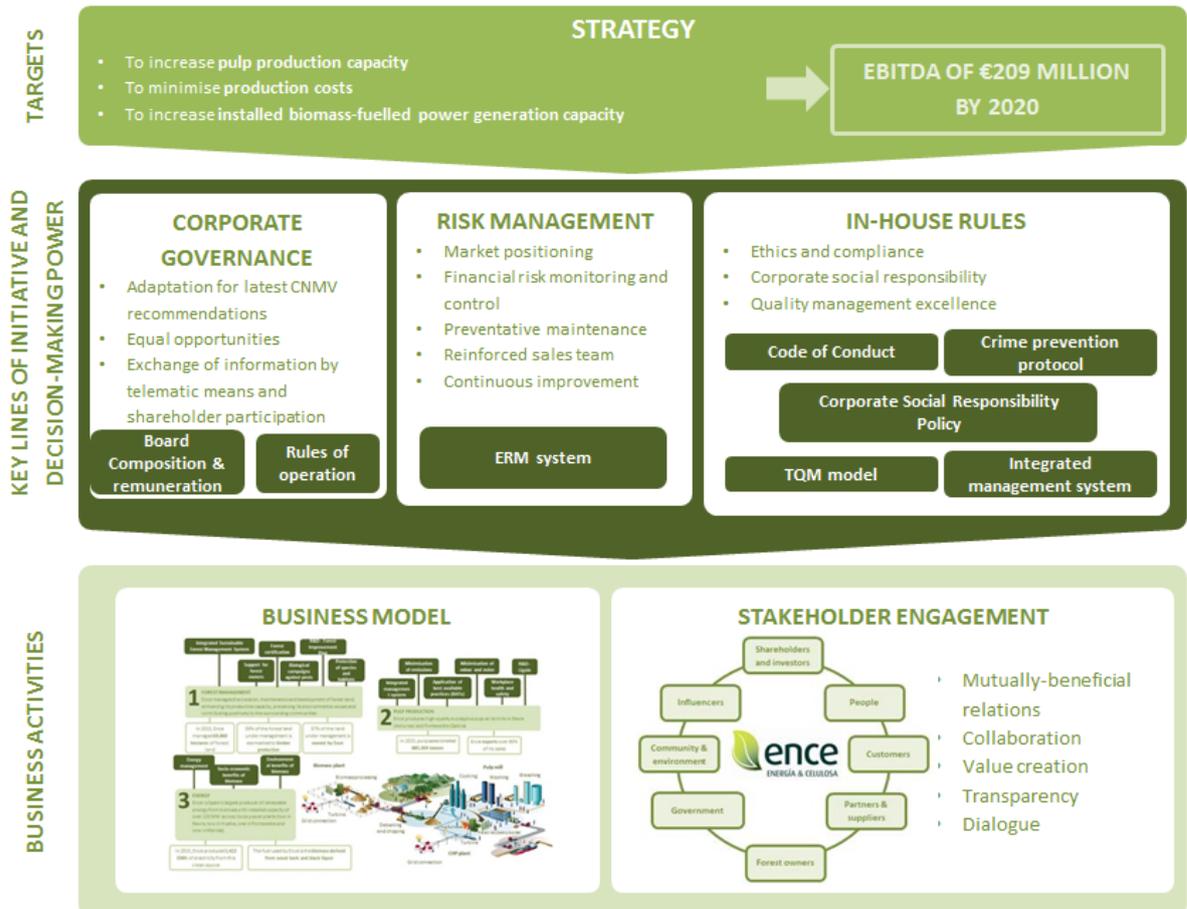
- In 2016, Ence earmarked €41.3 million to shareholder remuneration, marking year-on-year growth of 15.4% and a return of 6.6% (calculated in respect of the year-end share price).
- The company's shares have been traded on the Spanish stock exchanges and on the continuous market since it was privatised in 2001 and are part of the Ibex Small Cap, Ibex Top Dividendo and FTSE4Good stock indices.
- In 2016, for the fifth year in a row, Ence was named the European company with the best IR programme in its sector according to the ranking compiled by the prestigious publication *Institutional Investor* for which it polls 755 buy-side asset managers and 909 sell-side analysts.

## Government and authorities

- Ence contributed €76.47 million of tax in 2016.
- Elsewhere, it participated in the Rubín Marsh recovery project in Cantabria, designed to reintroduce the fishing eagle, extinct in the area, and convert the marshland into a nesting area for a range of bird species.
- Lastly, the Environmental Pact entered into with the regional authorities in Galicia is designed to enhance the quality of living and social, economic and environmental well-being in the vicinity of our complex in Pontevedra.

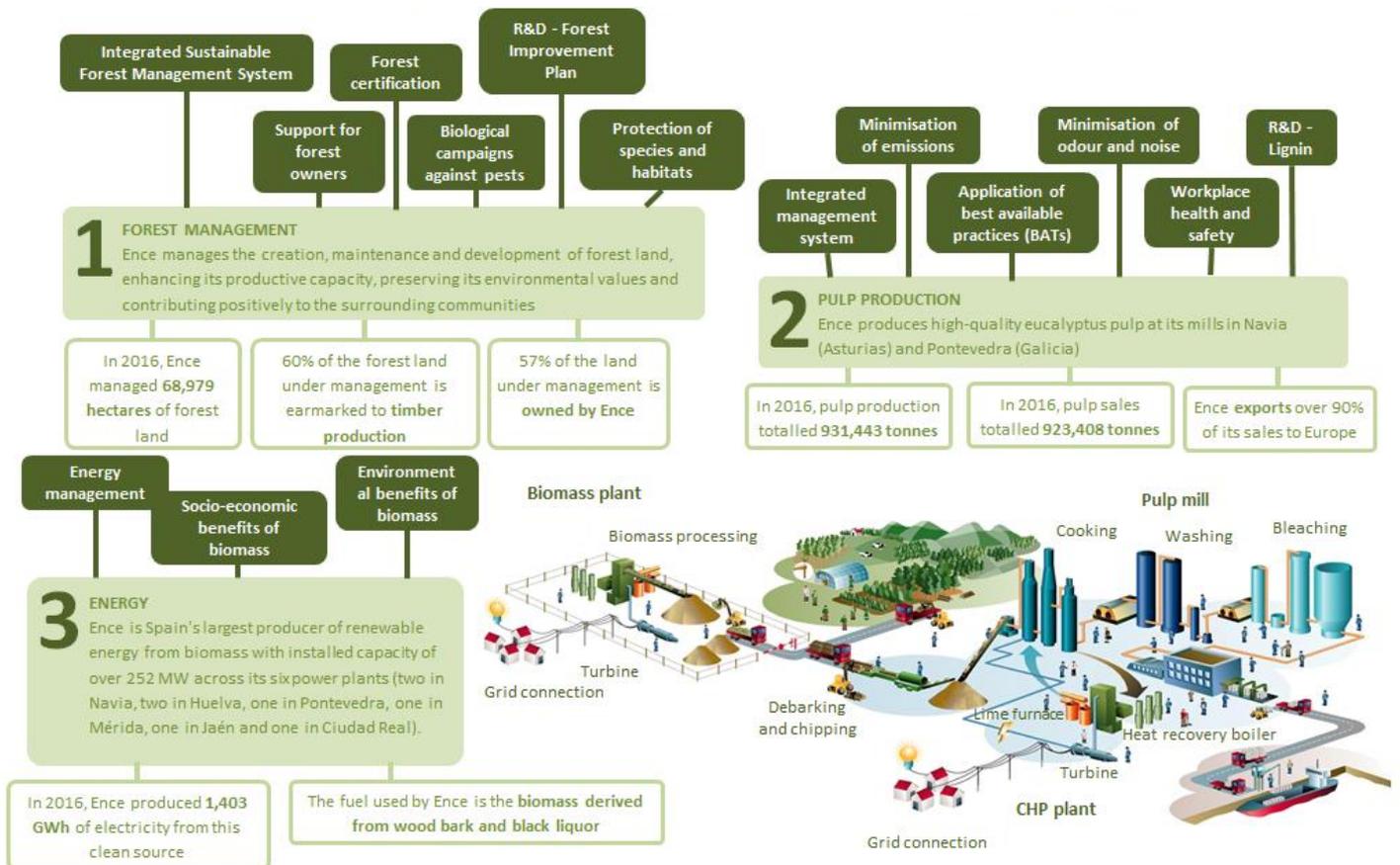
## 1. Business model

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



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



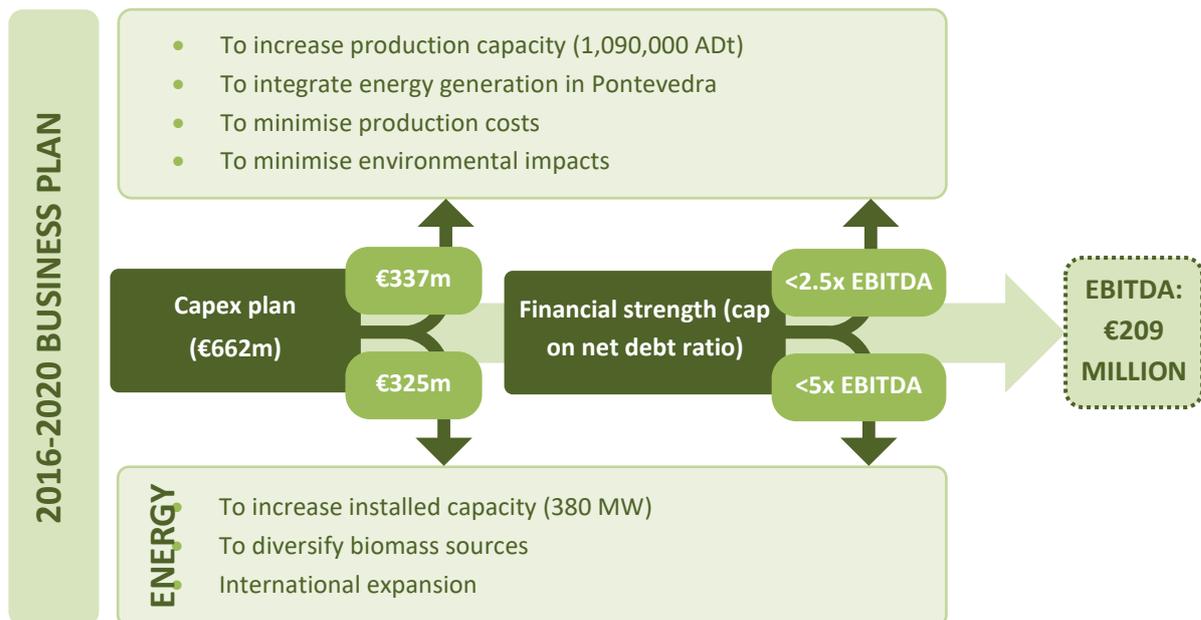
## 2. Strategy, governance model and management

### 2.1. Strategy

Ence's current Business Plan contemplates doubling the company's EBITDA and valuation by 2020.

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

Ence is targeting **€209 million of EBITDA in 2020**, which would be roughly double 2015 EBITDA and would imply doubling the company's value (these projections assume pulp prices of \$720/t and an exchange rate of \$/€1.25). To achieve this guidance, it has an **ambitious capital expenditure plan** which calls for investing around **€662 million** in its core pulp and energy business lines. These investments will enable Ence to grow in a highly competitive fashion, by increasing its **pulp production** and **energy generation capacity** while minimising **production costs** and the potentially adverse **environmental impacts** derived mainly from its pulp production activities.



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

In the **energy business**, the priority is to **increase installed low-carbon biomass power generation capacity** to **380 MW** by 2020. **€325 million** of capital expenditure will be earmarked to this effort.

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The company will continue to **diversify the sources of biomass** used as fuel, taking in agricultural biomass, a development that implies a significant technical and logistical challenge. In addition to the growth envisaged in this business line in **Spain**, where Ence sees compelling upside, the company is analysing potential entry into **new countries such as Chile, Colombia and India**, high-growth markets deemed safe and propitious to foreign direct investment.

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

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

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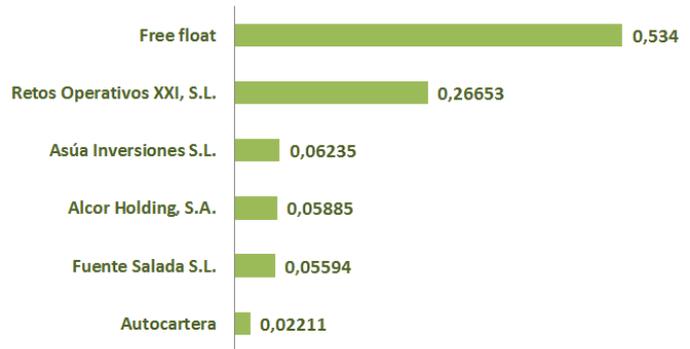
## 2.2. Corporate governance

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

### Ownership structure

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

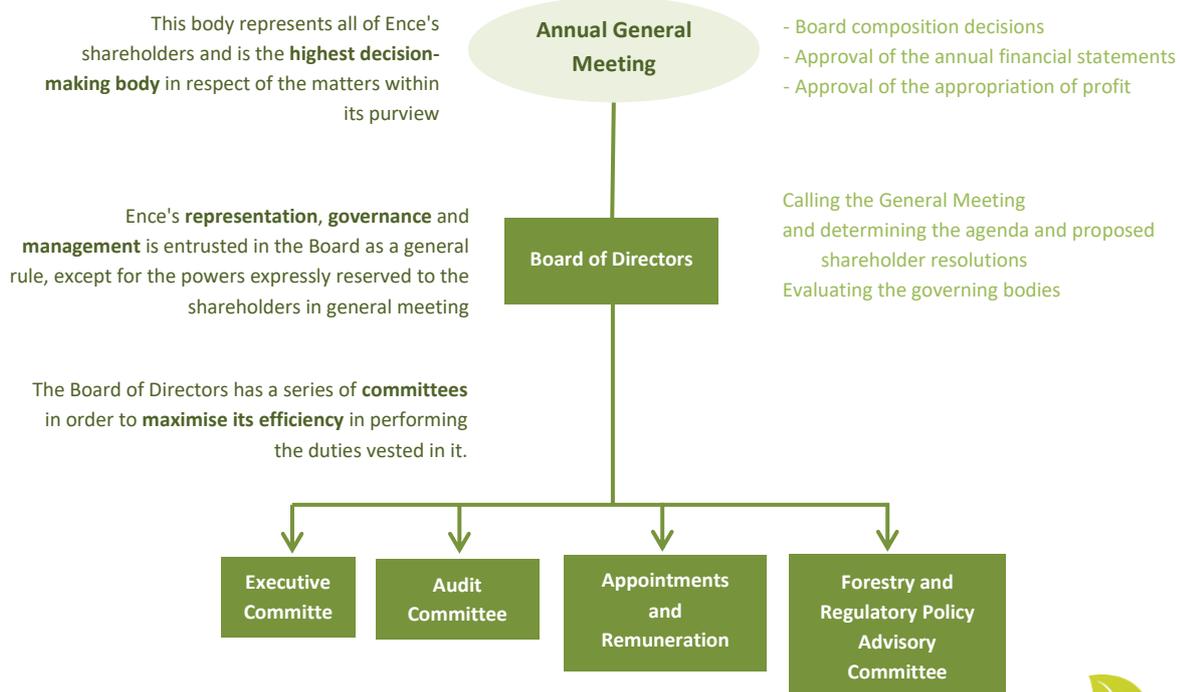
Ence's shareholder structure



Issued capital	No. of shares	No. of voting rights
225.245.250	250,272,500	250,272,500

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

### Governance structure:



## General Meetings

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

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

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

- The General Meeting Regulations
- The Board Regulations
- The Internal Securities Markets Code of Conduct

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

All Ence shareholders of record within five days of the scheduled Meeting date are entitled to **attend and vote at** General Shareholders' Meetings.

### Annual General Meeting

An Ordinary Shareholders' Meeting, duly called, must take place within the first six months of every financial year with a view to ratifying management's performance and approving, if appropriate, the prior year's financial statements and the proposed distribution of profit. Similarly, at such Meetings, the shareholders must debate and resolve on resolutions regarding any other matter which, falling within the purview of the Meeting, may be added to the agenda.

In 2016, Ence held its Annual General Meeting on **16 March**; the main resolutions ratified were:

- Examination and approval of the annual financial statements and management report.
- The motion to distribute a dividend in cash.
- Examination and discharge of the Board of Director's performance and the re-election/appointment of its members.
- Amendment of the Bylaws primarily with a view to updating them in keeping with Spain's Corporate Enterprises Act and the latest corporate governance recommendations for listed companies.
- Approval of the 2016-2018 long-term incentive plan.
- Re-appointment of the statutory auditor.

Any Meeting other than this Annual General Meeting is deemed an **Extraordinary General Meeting**. The Board of Directors may call an Extraordinary General Meeting whenever it deems so doing in the company's best interests. No Extraordinary General Meetings took place in 2016.

Shareholders with interests in the company of 5% or more can call EGM, stating in the call notice the items to be included on the agenda

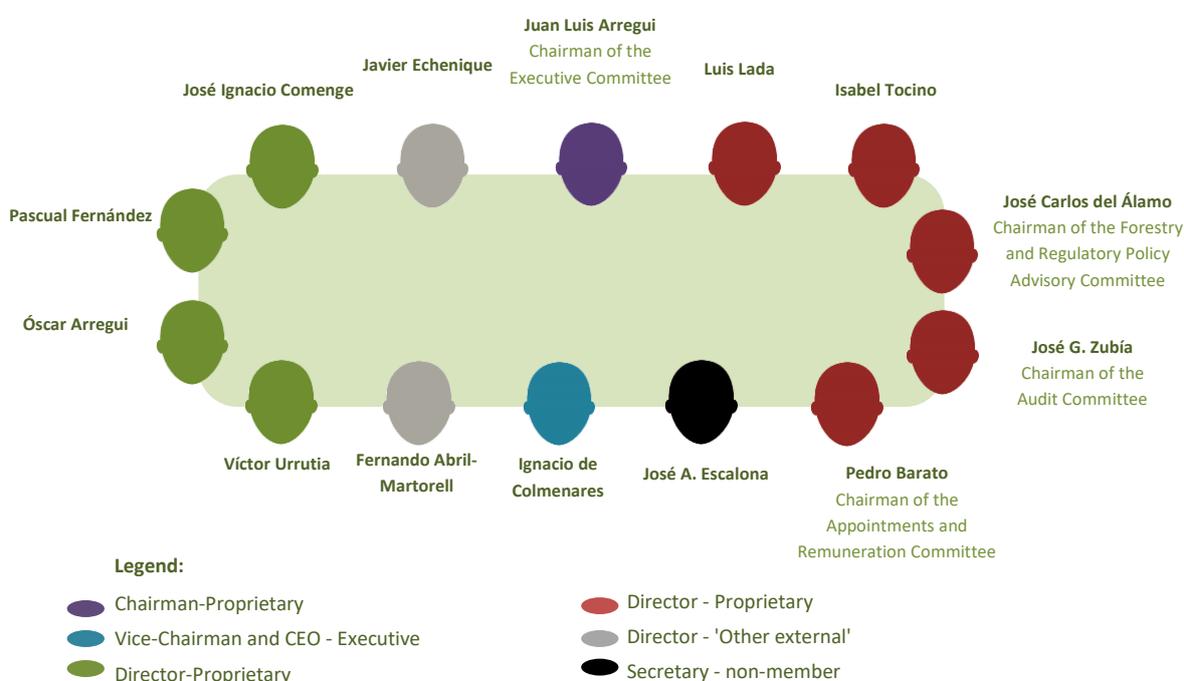
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In order to foster attendance at, participation in and decision-making during the General Shareholders' Meetings, the shareholders entitled to attend can cast their **votes by correspondence** on the motions related to the agenda items, specifically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

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

## Board of Directors

Thirty-eight per cent of Ence's directors are independent



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

- Calling General Shareholders' Meetings and determining the corresponding agenda and proposed shareholder resolutions
- Issuing the annual financial statements and other reports to be put before the General Meeting for approval and presenting and proposing the same documents at such Meetings
- Approving the director remuneration regime within the limits set by the company's shareholders in general meeting
- Assessing the performance of its steering committees, chairperson, directors, the chief executive and the board itself

## Board composition and remuneration



- **Director appointment and removal**
  - It is up to the Appointments and Remuneration Committee and Board of Directors to **propose the appointment, re-election and removal** of directors for approval by the Board and, ultimately, ratification by the company's shareholders in general meeting.
  - Directors are appointed for a **maximum term of three years** and may be re-elected once or more for the same term of office.
  - The Appointments and Remuneration Committee evaluates directors' backgrounds in order to select **the most qualified candidates**, making proposals to the Board in this respect. This Committee also ensures that men and women opt for Board positions on **equal terms**, establishing to this end a target for representation by women, who are under-represented, issuing guidance on how to achieve this target and making sure that the selection procedures are unbiased so as to prevent discrimination on any grounds.
  - All of Ence's directors must be **renowned individuals with reputed professional backgrounds**; they must have the skills and competence to discharge the duties intrinsic to a position of such responsibility.
- **Remuneration**
  - The director remuneration policy, which is approved by the company's shareholders on the terms stipulated in Spain's Corporate Enterprises Act, determines their compensation in their capacity as such within the Bylaw-stipulated remuneration regime; this policy must include a cap on the remuneration to be paid annually to the directors for their work on the Board.
  - It is up to the Board of Directors to determine the remuneration payable to each director for the performance of his or her director-related duties on the basis of a report and recommendation from the Appointments and Remuneration Committee, which will consider to this end the duties and responsibilities assigned to each director, their membership of Board Committees and other

For more information about the directors' backgrounds, refer to the corporate website

## Board functioning



- **Meetings**
  - The Board of Directors meets, at the behest of its Chairman, as many times as are deemed opportune towards the optimal functioning of the company, meeting at a minimum six times a year and at least quarterly. The Board must prepare an **annual schedule of ordinary sessions** before the start of each year, establishing a meeting frequency designed to enable the Board to carry out its duties with due efficiency.
  - The notice calling ordinary meetings may be made by letter, fax, telegram or electronic mail, authorised by the signature of the Chairman or Secretary or Vice-Chairman at the behest of the Chairman. Meetings must be called with at least two days' notice.
- **Voting by proxy**
  - Directors must do their best to attend the meetings called by the Board but, when they cannot do so in person, they must endeavour to be represented by another member from the same class of directorship. In the event that the director who cannot attend is a non-executive director, his or her vote may only be conferred in another non-executive director.
  - Voting in writing and without a formal meeting is only permitted when none of the directors opposes this way of proceeding; under these circumstances the directors may submit their votes by e-mail, including any observations they would like recorded in the meeting minutes.

In 2016, the Board met on 11 occasions

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

## Executive Committee

<b>Executive Committee</b>	<p>The <b>Board of Directors delegates the matters and transactions it deems fit</b> in this committee. The Board delegates all powers except for those that cannot be delegated pursuant to the company's Bylaws or the Board Regulations.</p>	<p><b>In 2016:</b></p> <ul style="list-style-type: none"> <li>- 5 meetings</li> <li>- 1 executive member</li> <li>- 6 non-executive members</li> </ul>
<b>Audit Committee</b>	<p>This Board committee is responsible for ensuring regulatory compliance, financial transparency and assessment of the risks that could affect the company. Its duties include the following:</p> <ul style="list-style-type: none"> <li>• Proposing to the Board of Directors the appointment, re-election or replacement of the statutory auditor.</li> <li>• Supervising the work of the company's internal audit service.</li> <li>• Monitoring the process of drawing up and disclosing the company's legally-required financial information and ensuring its integrity.</li> <li>• Issuing annually, prior to issuance of the audit report, a report expressing an opinion on the independence of the auditor.</li> <li>• Supervising effectiveness of the company's internal controls and the internal control and risk management systems (financial and non-financial risks), including the internal control over financial reporting system and the systems controlling environmental and health and safety matters.</li> <li>• Spearheading the amendment and updating of the company's Codes of Conduct.</li> <li>• Examining compliance with the company's corporate governance rules and making the necessary proposals for enhancing them. Specifically, the Audit Committee is tasked with gathering information and, as warranted, issuing a report to the members of the Board of Directors on any disciplinary measures taken and with regularly appraising the effectiveness and appropriateness of the company's corporate governance regime.</li> </ul>	<p><b>In 2016:</b></p> <ul style="list-style-type: none"> <li>- 6 meetings</li> <li>- 0 executive members</li> <li>- 5 non-executive members</li> </ul>
<b>Appointments and Remuneration Committee</b>	<p>This Board committee is vested with the powers related to <b>director appointment, evaluation and remuneration</b>. Its duties include the following:</p> <ul style="list-style-type: none"> <li>• Evaluating the universe of skills, knowledge and experience needed on the Board.</li> <li>• Raising proposals for the re-election, removal or appointment of independent directors before the Board and reporting on proposals for the re-election, removal or appointment of all other classes of directors.</li> <li>• Proposing to the Board annual director and executive pay schemes and amounts.</li> <li>• Reporting back on the evaluation of the performances of the Chairman of the Board and the company's chief executive officer.</li> </ul>	<p><b>In 2016:</b></p> <ul style="list-style-type: none"> <li>- 4 meetings</li> <li>- 0 executive members</li> <li>- 5 non-executive members</li> </ul>

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## Forestry and Regulatory Policy Advisory Committee

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

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

### In 2016:

- 4 meetings
- 1 executive members
- 6 non-executive members

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

### Members of the Management Committee

- CEO (Ignacio de Colmenares y Brunet)
- Pulp Operations Officer (Jaime Argüelles Álvarez)
- Managing Director of International Development of New Power Plants and Forest Assets (Javier Arregui Abendivar)
- Energy Operations Officer (Jordi Aguiló Jubierre)
- Supply Chain Officer (Álvaro Eza Bernaola)
- Corporate Resources Officer (María José Zueras Saludas)
- Finance and Corporate Development Officer (Alfredo Avello de la Peña)
- Communication and Institutional Relations Officer (Luis Carlos Martínez Martín)

## 2.3. Risk management

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

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

### Ence's risk management system

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

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

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

The ERM system contemplates the risks to which delivery of Ence's various objectives is exposed, distinguishing between strategic, operational, financial reporting and compliance related risks. The ERM system is reviewed regularly in order to introduce prevailing best practices in this arena at the general and industry levels.

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

	Key risks associated with:	Risk mitigation strategies:
Decision-making risks	<b>Business continuity</b> in the event of natural catastrophes and disasters, unexpected meteorological and geological conditions and other factors of a physical nature, fires, floods or any other emergency situation that could affect the company's productive or storage facilities.	Prevention and minimisation of the potential impacts entails a series of management measures, such as: <ul style="list-style-type: none"> <li>- <b>Combating the pests</b> that threaten the company's biological assets.</li> <li>- <b>Fire safety training</b>, insurance policies, regular audits, preventative inspections, surveillance and control of business operations.</li> </ul>
	<b>Compliance</b> , particularly in relation to the upcoming BREF requirements.	Note that Ence is participating actively in the forums shaping decisions regarding the new BREF regulations.
	<b>Market share objectives</b> , focusing on the contraction in demand for certain products and potential changes in market preferences.	Ence has reinforced its presence and positioning in the European market and continually monitors trends in the pulp market.
Financial risks	<b>Key risks associated with:</b>	<b>Risk mitigation strategies:</b>
	<b>Financial discipline</b> in the face of pulp price, exchange rate and interest rate volatility.	Ence is in constant contact with its financial institutions with the aim of arranging, as appropriate, the pertinent financial hedges and/or futures in order to mitigate potential fallout from pulp price volatility. In addition, Ence monitors the currency markets and the trend in the dollar-euro exchange rate and hedges its most important financing transactions against currency and interest rate volatility
	<b>Tax risk</b> derived from public fiscal policy.	The Audit Committee continually monitors the company's tax-related risks with a view to assisting the Board with its task of determining tax risk management and control policy.  In addition, Ence has a team of advisors and experts who, together with the company's in-house tax experts, have drafted internal rules for tax compliance and guidelines for minimising exposure to risk in this respect.
	<b>Trade credit risk</b> vis-a-vis pulp business customers as a result of adverse trends in their businesses.	Ence has arranged an insurance policy which assigns credit limits according to the creditworthiness of the customer and covers virtually all of the Group's pulp sales.

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Operational risks	<b>Key risks associated with:</b>	<b>Risk mitigation strategies:</b>
	<b>Upgrading of productive facilities</b> , focusing on installation and equipment obsolescence.	Ence reviews civil works, carries out investments and maintenance work in order to prevent obsolescence of its facilities and machinery and ensure production efficiency.
	The <b>development of new products</b> in response to customer needs.	Ence has reinforced its presence and positioning in the European market and continually monitors trends in the pulp market.
	<b>Streamlining of operating costs</b> with a view to making its products and services increasingly competitive.	Ence regularly reviews its main suppliers' performance. The risk of a shortfall of timber supply is managed mainly by means of reliance on alternative markets, an increased market presence via standing timber purchases, contingency plans and inventory buffers to guarantee business continuity.
	<b>Post-production logistics</b> , focusing on end product stock outages and maritime transportation costs.	Ence continually reviews stock plans in an attempt to identify and address potential deviations Ence has adopted the strategy of bearing the cost of any variation in shipping costs with respect to quotes provided in order to minimise shipping costs.
Organisational risks	<b>Key risks associated with:</b>	<b>Risk mitigation strategies:</b>
	Changes in <b>energy market regulations</b>	Ence is calibrating its output levels in order to achieve the initially-estimated profitability levels despite the changes in energy market regulations.
	Workplace <b>health and safety</b>	Ence has accident prevention plans predicated on safety training, the maintenance of integrated health and safety management systems and certification to benchmark standards such as ISO, OSHAS and FSC.
Environmental risks	<b>Key risks associated with:</b>	<b>Risk mitigation strategies:</b>
	This category relates to the main risks associated with the impact of the company's operations on the environment.	Ence's risk-mitigation strategies consist of continuous improvement programmes coupled with investments at its productive facilities specifically designed to make them more environmentally-friendly.  Note that Ence is participating actively in the forums shaping decisions regarding the new BREF regulations.

## 2.4. Ethics and compliance

Ence is a socially-responsible company committed to a corporate culture predicated on the ethical conduct of its employees, executives and directors and governed by transparency in both its internal dealings and interactions with its surroundings.

### Code of Conduct

Ence's Code of Conduct is binding on all employees, executives, directors and third parties who act on behalf of the company or are otherwise included within its scope of application.

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

Ence's Code of Conduct is available on its corporate website  
[www.ence.es](http://www.ence.es)

#### Ence's ethical cornerstones

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

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

The **Audit Committee** is tasked with **monitoring and controlling** application of the Code of Conduct, as well as ensuring sufficient acquaintance and strict compliance with it at the corporate level. In addition, Ence has a **Whistle-blowing Channel**, which can be used by any of the parties bound by the Code of Conduct to report potential breaches or events or conduct that violate the law and/or Ence's body of rules and regulations. The Whistle-blowing Channel can be accessed by e-mail or ordinary post. In 2016, two complaints were received and the opportune investigations were initiated.

#### Key initiatives undertaken in 2016

- Implementation of the action plans deriving from Ence's Crime Prevention and Detection Protocol.
- Formulation and implementation of policies and procedures to mitigate the organisation's exposure to specific criminal risks.
- Execution of Code of Conduct education and awareness activities at all Ence workplaces.
- Quarterly follow-up on the action plans established in each operating centre, coordinated at the Group level, in relation to the areas of industrial, structural, workplace and environmental safety.
- Introduction of criminal liability clauses in all contracts with employees and third parties.
- Top-down **internal communication** and presentation of the Code to management personnel and professionals employed under individual contracts.
- Introduction of **formal acceptance** of the Code by means of signature of an annual statement of compliance with the Code of Conduct and a conflict of interests report.
- Audit of compliance with the Code of Conduct.
- Audit of collections and payments to prevent activities in violation of Spanish anti-money laundering and counter terrorist financing legislation.

# 2016 Annual CSR Report

## Crime Prevention and Detection Protocol

In 2016, Ence extended the activities designed to bolster its Crime Prevention and Detection Protocol, as required under Spanish Organic Law 1/2015, which took effect on 1 July 2015, amending Spain's Criminal Code.

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

## Corporate Social Responsibility Policy

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

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

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

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

### Ence's CSR principles

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

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

*Refer to the Appendix for the full Corporate Social Responsibility Policy.*

## 2.5. Excellence

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

### The total quality management (TQM) model

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

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

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

### Integrated management system

Ence has developed an integrated management system with the overriding goal of ensuring that all of the company’s activities are carried out under the scope of the management policy established by senior management and the defined targets and goals are met. This integrated system is **certified by an accredited organism** which audits it annually. The management system is articulated around processes that are identified and evaluated in order to facilitate control tasks and their continuous improvement.

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

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

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

### **Continuous improvement approach**

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

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

# 2016 Annual CSR Report

Ence's environmental management policy is based on **compliance with prevailing legislation**, which establishes the requirements with which all pulp production related activities must comply. The operations centres in Huelva, Navia, Pontevedra and Merida hold the

**integrated environmental permits** required for the pursuit of their industrial activities, as required under Spanish Law 16/2002 on the Integrated Prevention and Control of Contamination. The goal of these permits is to prevent, or at least reduce, and control air, water and soil contamination with a view to protecting the environment as a whole. To this end, the permits encompass a series of authorisations with respect to emissions, liquid discharges, waste management and soil and underground water protection. Against this backdrop, the permits set emission limits for each facility based on best available techniques and oversight and control plans in respect of all relevant environmental parameters.



## Nordic Swan ecolabel

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

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

## 3. Business lines

Ence is active in different stages of the forest product value chain, managing forest plantations, producing pulp and reusing the resulting biomass to generate power

### 3.1. Forest management

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

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



Land under management by use (hectares)\*



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

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

As for the land mass managed by Ence, in 2016, the main end use was the production of timber for pulp production (59%), followed by the production of biomass (17%). Some 23% - around 16,000 hectares - was earmarked to the protection and conservation of ecosystems.

These figures do not vary substantially with respect to 2014 or 2015. In 2014, the main end use was similarly the production of timber for pulp production (59%), again followed by the production of biomass (18%). Some 22% - equivalent to 17,800 hectares - was earmarked to the protection and conservation of ecosystems that year. In 2015, the main end use was also the production of timber for pulp production (59%), followed by the production of biomass (16%). Twenty-three per cent - equivalent to 16,300 hectares - was earmarked to the protection and conservation of ecosystems.

# 2016 Annual CSR Report

Company	Biomass	Pulp	Conservation	Other	Total
Ence Energy	40,01	-	-	-	40,01
Energy - Huelva	3.898,37	4.225,17	488,20	-	8.611,74
Norfor	35,53	10.962,22	1.828,42	403,70	13.229,87
Silvasur	6.903,43	26.478,98	13.714,96	-	47.097,37
<b>Total</b>	<b>11.254,78</b>	<b>41.331,72</b>	<b>16.050,21</b>	<b>403,70</b>	<b>68.978,99</b>

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

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

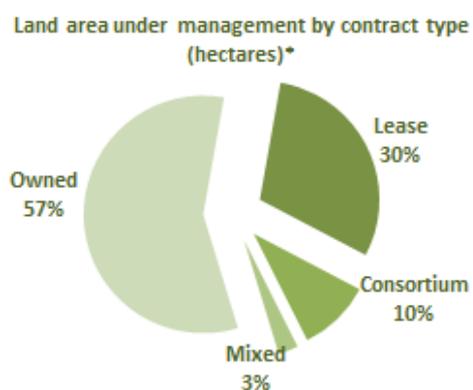
Ence, as Spain's leading private forest manager, managed 68,979 hectares of forest land in 2016, 57% of which it owns

## Key forest management initiatives

- Collaboration with the regional authorities in Asturias and Galicia on the development of a coordinated biological plan for 2016 to fight the *Gonipterus* beetle.
- Organisation of expert seminars addressing how to fight the *Gonipterus* beetle and establishment of a public-private taskforce including companies, research centres, associations and public authorities.
- Roundtable event with forester and owner associations to analyse eucalyptus production issues and come up with joint solutions.
- Participation in FSC Spain's Standards Committee to help formulate the new sustainable forest management standard.
- Sector gatherings (expert workshops) addressing sustainable forest management with owner certification groups (Andalusia, Galicia and Asturias).
- 'Biofactory' project to foster the end-to-end fight against the *Gonipterus* pest in Cantabria:
- Work to recover tracts of eucalyptus trees damaged by fire (up to 5,400 hectares).
- Nursery monitoring using a geographic information system (GIS) to analyse clone locations, study how they respond and enhance customer service.
- Participation in the expert committees of the National Environmental Congress (CONAMA), contributing in the areas of biodiversity, energy efficiency and payments for environmental services.
- Creation of a chain of custody group for small forest suppliers with the aim of facilitating their access to the certified timber market.
- Implementation of environmental audits to control standing timber purchases in northern Spain.

# 2016 Annual CSR Report

This business unit is also tasked with **purchasing timber from third parties**, as not all the timber consumed by Ence is sourced from forest land managed directly by the company. Ence's work as timber buyer, whether in the form of standing timber or supplies, implied the purchase of 2.7 million cubic metres of **timber** for over €174 million. As for timber **biomass**, the company moved roughly one million tonnes to its various power plants, entailing a purchasing volume of over €38 million.



	Timber volume (m <sup>3</sup> )   Standing timber purchases + Suppliers	Timber value (€)   Standing timber purchases + Suppliers	Biomass volume (tonnes)   all plants	Biomass value (€)
2014	1.833.365	120.857.497	807.741	37.110.920
2015	2.456.318	161.598.131	1.026.222	44.100.174
2016	2.724.111	174.066.098	974.662	38.900.908

	2014	2015	2016
Standing timber purchases	559.779,70	611.232,01	743.634,63
Small suppliers	1.304.172,31	1.310.820,99	1.203.320,94
Total annual supplies	3.357.478,10	2.671.114,29	2.824.972,56
% purchases from small suppliers	56%	72%	69%

\* Ence considers small suppliers forest owners with annual purchase volumes of under 3,000m<sup>3</sup>

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## Support for forest owners

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

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

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

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

**In 2016, direct purchases from forest owners and small suppliers accounted for 69% of timber purchases**

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

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

Year	% FSC	% PEFC
2010	28	77
2011	28	89
2012	30	72
2013	31	68
2014	40	75
2015	55	82
2016	69	85

**In 2016, 85% of total certifiable land area was PEFC-certified and 69% was FSC-certified.**

**ENCE's goal is to have 100% of its forest tracts dual-certified within three years at most.**

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



## R&D

In the forestry area, Ence focused its R&D efforts on the following initiatives:

- I. Improving the phytosanitary properties of its Eucalyptus Globulus plantations by combating the *Gonipterus platensis* (eucalyptus tree weevil)
- II. Evaluation of new clones that are tolerant of *Gonipterus* and *Mycosphaerella*.
- III. Selection of new genotypes created from controlled crossing of specimens in order to assess generic traits that can be exploited for business purposes.
- IV. Improvement of the nursery plant breeding process.
- V. Enhanced use of agricultural biomass waste by developing specific harvesting and logistics processes.

All these initiatives were undertaken under the umbrella of Ence's Continuous Improvement Plan established over three decades ago, the legacy of which positions the Group optimally to tackle these challenges and demands. This Plan encompasses three improvement programmes: The genetic enhancement programme, the silviculture programme and the pest and disease improvement programme.

Within the pest and disease improvement programme, it is worth singling out the effort being made to biologically control the *Gonipterus platensis* using *Anaphes nitens* (this pest's specific parasite). Two biofactories were set up in early 2016, one in Pontevedra and one in Huelva, with the aim of making the *Anaphes nitens* production process more efficient by investigating and improving every step of the process; the resulting cost reductions are promising in terms of application and effectiveness of the biological control of the *Gonipterus platensis* in *Eucalyptus globulus* plantations. In addition, in 2016, 16,000 hectares of plantations were treated with biological pest controls twice, during the spring and summer harvests, with another 5,400 hectares receiving just one treatment.

Also as part of the effort to fight the *Gonipterus* pest, authorisation was obtained from the Ministry to research the use of another parasite, *Anaphes inexpectatus*, which is currently being tested in a laboratory environment. The goal is to identify this parasite's biological cycle and the optimal conditions for its reproduction at an industrial scale. Elsewhere, as part of the Genetic Improvement work, the company is evaluating a range of genetic materials that are tolerant of the *Gonipterus* pest and *Mycosphaerella* disease taken from specimens selected for presenting these genetic traits of interest. These materials are being tested and evaluated in different field tests with a view to verifying these virtues in different climate, soil and terrain conditions.

Research continues in parallel into the selection of new cloned materials deriving from controlled crosses of specimens presenting compelling traits in terms of timber quality, growth, etc.

As for the nursery breeding process, work continues to improve plant quality in response to customer needs and demands. The results to date are better-quality plants grown at lower cost.

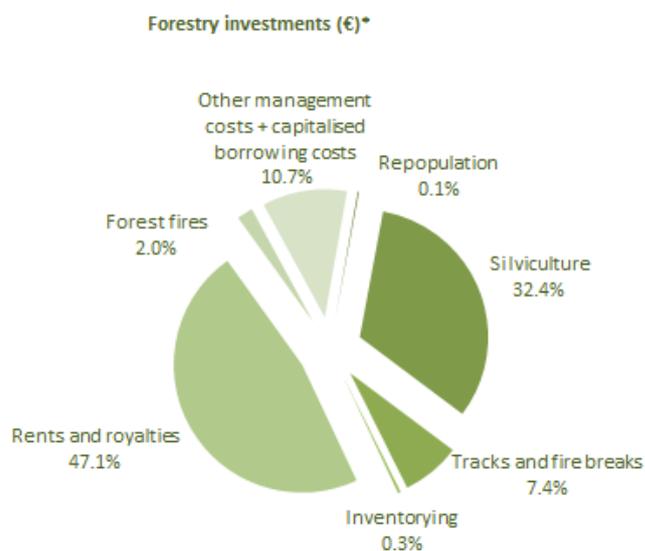
Another important line of initiative relates to the use of agricultural biomass, an area in which the company is innovating in terms of the related harvesting and logistics processes. Against this backdrop, Ence R&D participated in the development of a prototype head for harvesting and threshing corn straw (Moresil). It collaborated with CIEMAT (acronym in Spanish for the Centre for Energy, Environmental and Technological Research) on an end-to-end assessment of impact and categorisation of foreign bodies (inert solids) in straw.

The company is also evaluating a new corn harvesting and threshing head, the CornRower II.

Ence R&D actively collaborates with associations and forest owners on the resolution of phytosanitary and silvicultural problems related with eucalyptus plantations, advising them on matters as varied as eucalyptus species and strain selection, land preparation, planting methods and all the forestry care work required to enhance productivity.

In addition, Ence R&D collaborates with the regional governments of Galicia and Asturias on the biological control of the *Gonipterus* pest as well as with other research and technology centres such as the 'Do Areeiro' plant pathology centre and SERIDA.

# 2016 Annual CSR Report



In all, Ence invested around €6 million in this effort in 2016, earmarking a noteworthy €2.15 million to forest care and maintenance work, and over €3 million to the generation of income and royalties.

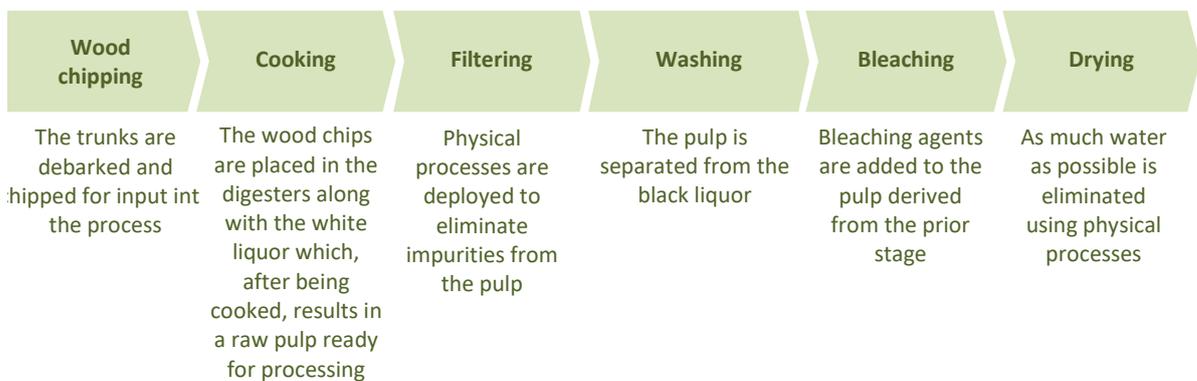
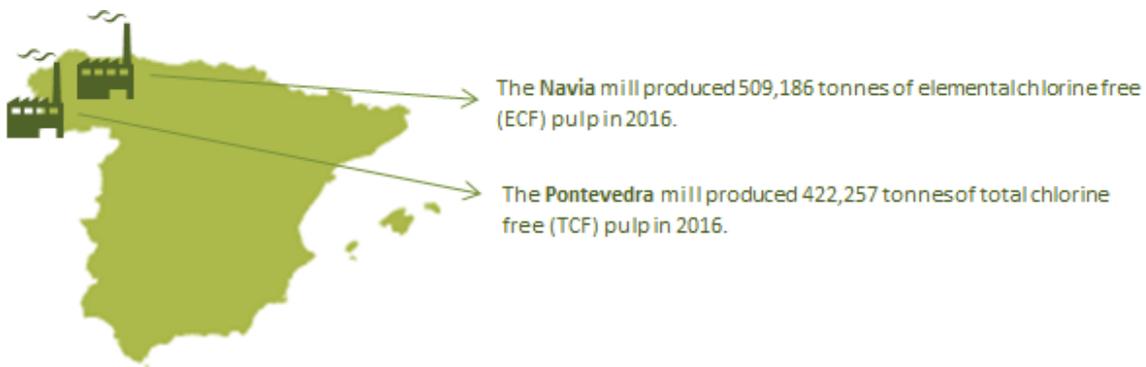
# 2016 Annual CSR Report

## 3.2. Pulp production

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

Ence produces **eucalyptus pulp**, which is primarily used as the main raw material for **making paper**. In 2016, 59 % of the pulp sold by Ence was used to make **tissue paper**, 8% to make **printing and writing papers**, 31 % for **specialty papers** and the remaining 2% for **packaging**.

Ence produced 931,443 tonnes of pulp in 2016.



Ence produces high-quality pulp at its mills in **Navia** (Asturias) and **Pontevedra**, where it uses environmentally-friendly technology and continuous improvement methodology to reinforce the competitiveness and quality of its pulp. Thanks to this, coupled with an advanced logistics system, it **sells over 90%** of the pulp it makes to Europe, which is home to the most demanding customers in the world.

Sales volumes amounted to 923,408 tonnes in 2016, over 90% of which was sold in Europe.

# 2016 Annual CSR Report



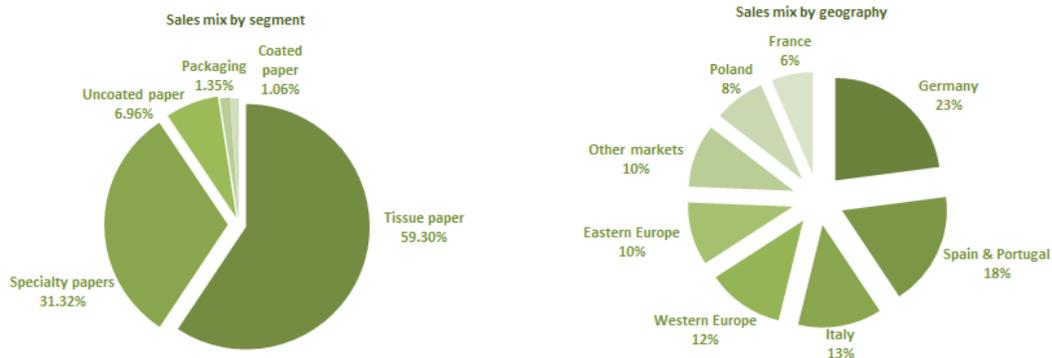
## R&D

In 2016, Ence continued to work on **two research programmes** in the lignin area. Both projects are aimed at generating a commercial outlet for lignin. Lignin is a polymer found in the cell walls of vegetable organisms whose job is to lend support to the stem. As a result, the more lignin a plant contains, the more woody it is.

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

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

Ence sold **923,408 tonnes** of pulp in 2016, up 4% from 2015. Almost 60% of these sales went to Germany, Spain, Portugal, Italy and France.



The company is striving to implement a **new sales mix** which will enable it not only to make its sales more profitable but also to reinforce its sales strategy, specifically underpinned by:

- **New product development:** identification of opportunities for differentiation that imply greater value-added
- **Reach:** focus on smaller and more profitable customers
- **Customer orientation:** the goal is excellent customer management, engaging and involving the entire organisation in this task

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

## 3.3. Energy

**Ence is Spain's largest producer of renewable energy from biomass. It currently has over 254 MW of installed renewable energy capacity**

Ence generates power at its **six productive facilities** (two in Navia, two in Huelva, one in Pontevedra and one in Merida). Two of these plants are **biomass cogeneration (CHP) plants** and are integrated into the pulp mills in Navia and Pontevedra; the other four are pure **electricity generation plants** fuelled exclusively by forestry and agricultural biomass. The **combined generation of heat and power** is harnessed for the industrial activities carried out by Ence at its operations centres. Any surplus power is sold to the Spanish electricity grid. In addition to these plants, Ence recently acquired two new power generation facilities, one in Jaen and the other in Ciudad Real.

**In 2016, Ence generated 1,403 GWh of renewable energy.**

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

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



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

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

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## Energy management

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

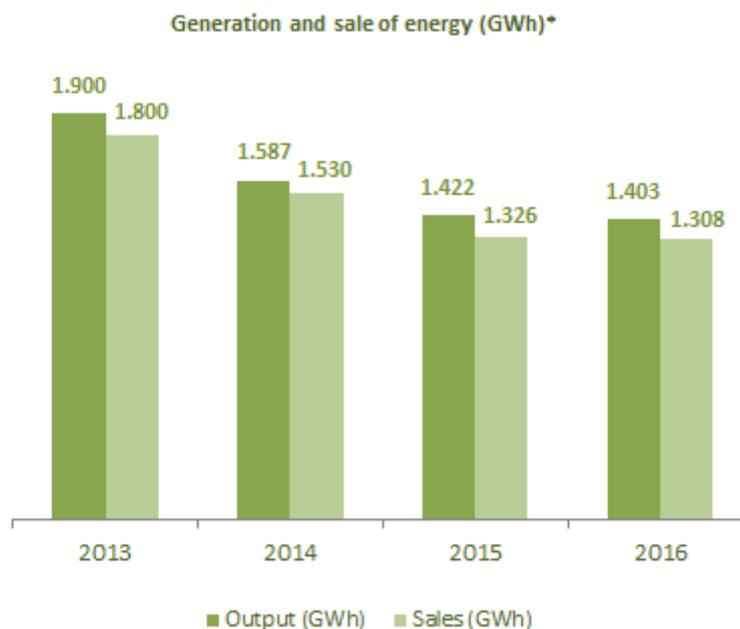
- The purchase and sale of electricity (front office, middle office and back office)
- Energy business planning and control
- Plant operations and management
- Monitoring of national and international energy regulations
- Analysis and execution of new projects



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

In 2016, Ence produced **1,403 million kWh** of electricity and sold **1,308 million kWh**.

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



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## 3.4 2016 earnings performance

In 2016, Ence posted revenue of €605.4 million, compared to €663.9 million in 2015, shaped mainly by the correction in pulp prices. Revenue in the pulp business amounted to €514.3 million, while revenue in the energy business totalled €96 million.

All year long the company continued to work to enhance its competitiveness and reduce its production costs. As a result, the cash cost in the pulp business declined to €340.9/tonne in the fourth quarter, in line with the level targeted in the Business Plan, thanks to the investments made to boost efficiency and increase capacity at the Navia mill in June.

In 2016, the Group's adjusted EBITDA declined by 30.8% to €138 million, marked by the above-mentioned pulp price correction. The energy business's profit margin widened by 3.3 percentage points despite the drop in prices in the wholesale electricity market, thanks to operational and biomass supply improvements brought about at the power plants.

Growth capital expenditure, essentially related to execution of the 2016 - 2020 Business Plan, doubled year-on-year to €65.8 million. Of the total, €43.3 million was earmarked to the pulp business with the remaining €22.5 million invested in the energy business, the latter related to the acquisition in December 2016 of two separate 16-MW biomass-fuelled renewable energy plants.

In addition, in 2016, Ence earmarked €41.3 million to shareholder remuneration, marking year-on-year growth of 15.4% and a return of 6.6% (calculated in respect of the year-end share price). Of the total, €24.9 million was accounted for by the final dividend paid from 2015 profits, €7.8 million to the interim dividend from 2016 earnings and €8.6 million to the buyback of 4 million shares.

Consolidated borrowings declined by €22.9 million in 2016 to end the year at €218.3 million. This level of debt implies a leverage ratio of just 1.6x adjusted EBITDA at year-end 2016.

### Share price performance

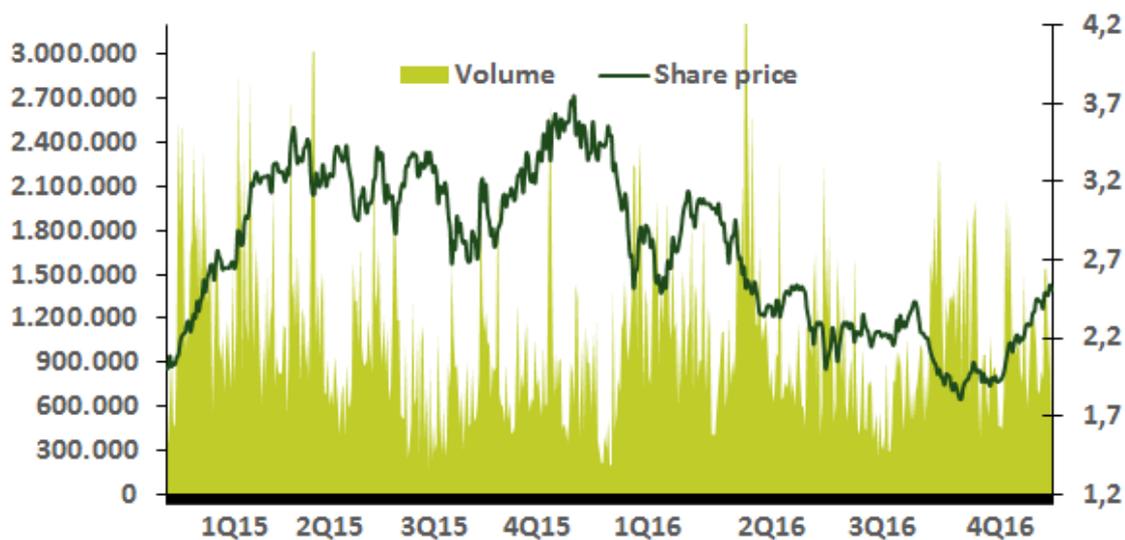
Ence's share capital consists of 250,272,500 shares with a unit par value of €0.90. They are represented by book entries and all carry identical voting and dividend rights.

The company's shares have been traded on the Spanish stock exchanges and on the continuous market since it was privatised in 2001 and are part of the Ibex Small Cap, Ibex Top Dividendo and FTSE4Good stock indices.

Ence's share price corrected by 28.2% in 2016, affected by the drop in pulp prices, ending the year at €2.51, down from €3.50 at year-end 2015.

During the same period, the company's sector peers saw their share prices correct by 22.0% on average(\*).

# 2016 Annual CSR Report



	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17
<b>Share price at the end of the period</b>	3.32	3.07	2.90	3.50	2.97	2.15	1.94	2.51	2.89
<b>Market capitalization at the end of the period</b>	830.4	767.1	724.5	874.7	742.1	538.1	485.5	628.2	723.3
<b>Ence quarterly evolution</b>	65.2%	(7.6%)	(5.5%)	20.7%	(15.2%)	(27.5%)	(9.8%)	29.4%	15.1%
<b>Daily average volume (shares)</b>	1,350,917	1,121,305	804,972	752,636	1,418,013	1,387,907	887,938	1,159,686	883,525
<b>Peers quarterly evolution *</b>	41.4%	(6.9%)	10.9%	12.2%	(25.5%)	(20.5%)	2.1%	31.5%	1.9%

(\*) Altri, Navigator, Fibria and Suzano.

## 4. Impact on stakeholders

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



### 4.1. People

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

Ence's workforce averaged **891 professionals** in 2016, 8% more than in 2015.

Over 18% of the workforce is female	77% are aged between 30 and 50	87% enjoy indefinite contracts and 98% work full days	61% of the employees under indefinite contracts are covered by collective bargaining agreements	Absenteeism fell by 2.13% compared to 2015	Employee turnover was 1.52%
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For Ence, human capital management is fundamental to delivery of the company's strategic objectives as it is its people who, with their shared values and skills, work day after day to deliver the best possible results.

It is against this backdrop that the company formulated its 2016 - 2020 Strategic Human Resources Plan. This plan is aimed at shaping a body of professionals who are well trained in technical and management skills, committed to

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Ence, its customers, results, continuous improvement, safety and environmental performance. It is underpinned by the following priority initiatives:

- Developing a 'support and guide' leadership model and participative management style
- Boosting expertise in technical, management and workplace safety matters
- Getting its professionals to embrace Ence's values
- Attracting and retaining talent as a key to successful business plan execution
- Performance evaluation and competitive pay
- Labour relations based on dialogue, mutual trust and shared responsibility
- Acknowledgement of achievements and results

## Talent Scholarships

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

The Talent Scholarship programme is implemented in the company's corporate headquarters in Madrid as well as in the operations centres in Huelva, Navia and Pontevedra. In 2016, an average of **55 interns** participated in the programme, discharging responsibilities in different areas of the firm including the corporate finance, communication and internal audit departments, among others.

## Diversity and equal opportunities

Ence promotes diversity and equal opportunities and rejects all forms of discrimination, whether on the grounds of race, gender, religion or nationality. This pledge is expressly enshrined in its **Ethics Code** and articulated in its **Equality Plan**. The latter plan promotes effective application of the principle of non-discrimination between men and women, guaranteeing the same job and career development opportunities for both genders at all levels of the organisation. The **remuneration policy** is likewise designed to guarantee non-discrimination in pay, compensating employees competitively based on market criteria. The ratio between the starting salary and the minimum wage stipulated in Spanish legislation is over 130%.

## Company benefits

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

In addition, as part of its **Harassment Prevention Policy**, Ence has pledged to prevent, avoid, remedy and discipline potential instances of harassment as part of its non-negotiable commitment to guaranteeing the dignity, integrity and non-discriminatory treatment of all of the company's employees. Ence did not receive any reports of harassment in 2016.

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## Internal communication and engagement

Internal communication plays a crucial role in underpinning the company's strategic vision and cultural change. Its effectiveness depends directly on the involvement of everyone at the firm, most particularly the Management Committee and broader management team. The success of the 2016-2020 Business Plan is predicated largely on motivation, a propitious workplace climate and the know-how that every individual at Ence can bring to the table.

Against this backdrop, the internal communication strategy must help make sure that Ence's professionals are kept abreast of pertinent developments, understand their mission and role and the company's values and strategy and feel vested in the company so that they will give it their best.

To this end, Ence has formulated an Internal Communication Plan covering 2016-2020, with the following objectives in mind:

- 🌿 Ensuring that the Business Plan and its objectives and the company's TQM model are understood by all
- 🌿 Helping Ence's professionals embrace the cultural and organisational changes needed to successfully execute the Business Plan
- 🌿 Boosting employee motivation by acknowledging their achievements
- 🌿 Helping to create a participative and transparent management model
- 🌿 Mainstreaming internal communication at Ence
- 🌿 Enhancing Ence's image and reputation among employees

In order to deliver the above Internal Communication Plan targets, in 2016, the Management Committee launched a series of initiatives:

- 🌿 Top-down *in situ* presentation of the Business Plan to the entire organisation
- 🌿 Organisation of the annual Management Summit at which the executive team analysed the chief challenges for the year ahead and market outlook
- 🌿 A programme designed to enhance familiarity with the TQM by means of briefing articles placed in the various workplaces and a new section in the 'Team Ence Up-to-date' newsletter
- 🌿 Conference call / Webex to report on progress on the business front
- 🌿 Earnings briefing notes posted on the Intranet
- 🌿 Information about the 'The Customer Speaks' section in the 'Team Ence Up-to-date' newsletter
- 🌿 Executive dinner in conjunction with the AGM
- 🌿 Christmas card competition
- 🌿 Definition of responsibilities and agreement of annual objectives (for executives and professionals employed under individual contracts)
- 🌿 Six-monthly monitoring of delivery of objectives
- 🌿 Annual performance interview

Another of Ence's priorities is to **acknowledge the professionals** who have participated in improvement initiatives and thank them for their efforts. This recognition effort took several forms in 2016:

1. Recognition of the professionals who ranked as STANDARD BEARERS in their performance evaluations in 2015, an event celebrated in March 2016
2. Annual prizes at the operations centres in Huelva, Navia and Pontevedra and for the Supply Chain Department
3. Prizes at the annual Management Summit

## Training and career development

Training is an important aspect of the Strategic HR Plan, which contemplates the following corporate training initiatives in addition to the each Operations Centre's specific training plans:

In 2016, Ence imparted 29,341 hours of training, up 84% from 2015

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The most noteworthy training initiatives developed by Ence in 2016 were the following:

#### Workplace health and safety

Training designed to promote and embed **safe conduct** at all levels of the organisation under the scope of the Workplace Health and Safety Training Plans for 2016 and 2017; in 2016, this effort implied a substantial increase in training hours for staff covered by collective bargaining agreements.

#### The TQM model and management tools

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

#### Environmental training

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

#### Development of leadership skills

Here the aim is to nudge the firm towards a **more participative management style**. Management skills training is

#### Technical and management skills training

The purpose of these courses is to equip workers with process and technology related skills specific to their trade or area of expertise and the knowledge they need to grow in their respective professions (hydraulics and pneumatics, mechanical, instrument, process knowledge and skills, etc.). Among the initiatives carried out in this category in 2016, the technical training plan for **operations and maintenance** and the **Lean Sigma Six Green** and **Black Belt** and **Project Management (PMP)** training sessions stand out.

2016 CORPORATE TRAINING PLAN	No. of training hours per employee	No. of participants envisaged in 2016
Leadership development plan: "Driving your development"	20	48
Change leaders programme	4	103
Technical O&M training programme	28	363
Workplace health management skills plan	20	403
Green Belt training	40	53
Black Belt training	144	10
Management Committee Green Belt training	24	9
PMP programmes	84	18

In 2016, Ence continued to work to integrate **talent management and retention** into its people management processes with the aim of ensuring that the company attracts, develops and retains the professionals it needs to create and sustain a competitive advantage. Ence structures this effort around the following lines of initiative:

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

All of the above is underpinned by two basic people management systems: the **Management by Objectives system** (the 'what') and the

In 2016, 33.4% of Ence's workforce participated in the management by objectives and performance evaluation scheme

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**Management by Performance system** (the 'how'), in keeping with Ence's corporate culture. The goal is to involve the entire chain of command in people management and human capital policy, so that the company's professionals feel they have the trust of and are recognised by the people they report to. To this end, the idea is to continue to increase the number of performance evaluations carried out and the number of people who participate in the participative management by objectives system.

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

In 2016, the firm also sought 360° feedback about values and leadership, a process in which 719 professionals evaluated 69 people. The main conclusions drawn:

	STRENGTHS	AREAS FOR IMPROVEMENT
Skills	Commitment to results (3.92)	Commitment to doing things better (3.68)
	Commitment to the environment (3.76)	Leadership (3.61)
	Commitment to Ence (3.74)	Commitment to internal and external customers (3.60)
	STRENGTHS	AREAS FOR IMPROVEMENT
Conduct	Acting in an environmentally-responsible manner. Commitment to the environment (3.85)	Knowing how to eliminate work inefficiencies. Commitment to doing things better (3.51)
	Assuming accountability for the objectives associated with the job. Commitment to results (3.84)	Nimbly resolving problems arising with internal customers. Commitment to internal and external customers (3.45)
	Maintaining a positive attitude towards Ence. Commitment to Ence (3.82)	Ongoing monitoring of his/her colleagues' development, recognising and rewarding their achievements and redirecting them in the event of barriers/obstacles. Leadership (3.44)

## Satisfaction survey

Management believes it is important to know what the people who work at Ence think of the company and their level of satisfaction in order to design new initiatives and adapt them to their expectations and needs. To this end, on 19 December 2016, the company set in motion its workplace climate survey with the CEO sending the entire workforce a letter outlining the content, objectives and timing of the project. The results of this survey will be published next February.

## Labour relations

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

The highlights in this arena in 2016:

- **Madrid offices:** A new head of human capital was hired in the Purchasing and Supply Chain Department in 1Q16.

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- **Biomass power plants in Huelva:** An agreement regulating certain aspects of the manner of settling the electricity premium in 2016 was signed during the first quarter. In May, 87 employees were transferred to Ence Energía S.L. and the State Collective Agreement for the Pulp, Paper and Board Sector for 2015-2018 was published. Elections were held on 22 December to appoint union representatives at the 40-MW plant, with two delegates appointed to represent Comisiones Obreras and one to represent Unión General de Trabajadores (UGT).
- **Navia Operations Centre:** Union elections were held in the Forestry division to select the person to represent office staff in Navia. Also, two meetings took place to address workplace climate issues, with another two held with employees from the division to analyse and formulate an action plan for improving the workplace climate.
- **Pontevedra Operations Centre:** Several meetings were held in 2016 with the Works Committee to discuss the facility action plan and to follow up at the committee level on the concerns sparked by the lack of investment in the causticising area.
- **Pontevedra Offices:** Partial union elections were held in 2016 as a result of which the number of representatives on the works committee was increased from five to nine.
- A strike was called for 9, 10 and 11 August at the **operations centres in Navia and Pontevedra and at the Pontevedra office complex** in protest against a fine imposed on an employee from the forest division. Participation in the strike was low.

## Workplace health and safety

The health and safety of the people who work for Ence is one of the company's strategic human resource management priorities. Specifically, Ence is looking to foster cultural change that results in safer operations and processes.

### Principles of cultural change at Ence

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

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

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

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

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

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

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

The number of **workplace accidents fell by 6.3%** year-on-year in 2016.

The number of **lost-time injuries fell by 25%**.

## • Key initiatives undertaken in 2016

<b>FORESTRY</b>	<ul style="list-style-type: none"> <li>- Annual monitoring audit of OHSAS 18001 certification.</li> <li>- Participation in forestry health and safety taskforce meetings with the Health and Safety Institute of Galicia, the sector business association (Confemadera), forestry sector companies and safety services</li> <li>- Forestry operations safety monitoring seminars</li> <li>- Theoretical and practical onsite awareness sessions about the safe use of chainsaws</li> <li>- Incident-free OHSAS audits</li> <li>- Ranking of contracted suppliers</li> <li>- Provision of training to staff under the scope of the Health and Safety Skills Plan</li> <li>- Provision of core health and safety training to staff</li> <li>- Rollout of presence control devices in the purchasing area</li> </ul>
<b>PULP</b>	<ul style="list-style-type: none"> <li>- Second monitoring audit of OSHAS 18001 certification</li> <li>- 50% drop in lost-time injury rate</li> <li>- Execution of a collaboration agreement with the emergency services in Asturias</li> </ul>
<b>ENERGY</b>	<ul style="list-style-type: none"> <li>- Incorporation of the new biomass power plants - La Loma and ENEMAN, S.A. - into the Health and Safety Management System</li> <li>- Provision of theoretical and practical fire prevention training to the entire staff at the Huelva complex</li> <li>- Incident-free OHSAS audits</li> <li>- Zero lost-time injuries in 2016</li> <li>- Execution of 100% of the courses planned under the scope of the 2016 Health and Safety Skills Plan</li> </ul>

## 4.2. Strategic partners and suppliers

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

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

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

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

### Purchases from suppliers

- Ence encourages purchasing from small-scale suppliers.
- Last year, it purchased 48% of its timber from small-scale suppliers (< 3,000 m<sup>3</sup> debarked/year).
- In 2016, 97% of the timber purchased came from Galicia and Asturias.
- Of the firm's 325 timber suppliers, 169 have PEFC chain of custody certification and 134 are

### Purchases from forest owners and associations

- In 2016, Ence purchased timber from a total of 2,363 forest owners.
- On average, it purchased 329 tonnes per owner in 2016.
- Thirty-four per cent of the timber purchased in 2016 was bought through some form of forest association.

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

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

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

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

## 4.3. Customers

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

### Pulp

Ence is active in the most demanding pulp segments in Europe, a market to which it sent 90% of its production in 2016. This is prompting Ence to gradually adapt to the market paradigm, increasing its presence in the faster-growing segments (tissue paper) and scaling it back in those segments that are contracting.

### Energy

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

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

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

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

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

In 2016, Ence conducted over 230 customer visits

In 2016, Ence conducted two visits using the VOC model; these visits were attended by different people from the various factories, always including someone from the manufacturing, logistics, sales and quality control areas. During these visits, customers are interviewed about six topics (Ence's image, products, sales service, logistics service, technical assistance and their outlook for the future with respect to market aspects).

## 4.4 Environment

Aware of the potential environmental ramifications of its business activities, and by means of application of best available techniques, Ence is striving to become a sector benchmark in environmental management. The company has identified climate change as a key issue to be factored into its business development and plans to implement measures to manage and mitigate its impact

### Sustainable forest management

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

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

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

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

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

### FOREST CERTIFICATION

In order to make its sustainable forest management strategy as efficient as possible, Ence has an **integrated forest management system** which provides the framework for

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

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compliance with the ISO quality and environmental management standards and the PEFC and FSC sustainable forestry and chain of custody standards.

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



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

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



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

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

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

Total land area under management	PEFC	% PEFC*	FSC	% FSC*
68.979	56.833	85%	47.596	69%

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

## PROTECTING NATURE AND AND ITS SPECIES

Over 5,700 hectares of the forest land managed by Ence qualifies as high conservation value forest (HCVF), presenting one or more of the classification attributes stipulated by the FSC. In addition, another 11,700 hectares are official protected nature reserves, a designation assigned by the various competent Spanish authorities.

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In the areas and habitats subject to some form of protection requirements, Ence takes action to improve their conservation status and develop preventative measures. Generally speaking, it only intervenes when necessary in an attempt to allow the areas follow their natural course so as to maintain their ecological functions and preserve their forest structure and diversity. **Routine monitoring** is carried out annually. Every five years their classification, ecological functions and state of conservation and any change therein are reviewed in greater depth.

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

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

## Legal framework

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

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

## Managed forests: unique environmental traits

In 2016, Ence identified all the unique traits present in its managed forests, taking a specific management approach and validating them all by means of audit processes. In all, it identified **118 environmental traits**, **9 social traits** and **224 cultural traits**. Between 2015 and 2016, the plan is to re-catalogue these unique traits using new environmental and social criteria. The main traits identified:

- **14 protected flora species** present in the forests managed by the company which have been identified *de visu* in specific reports. The exact number of protected fauna species present is unknown as specific on-the-ground inventories are not compiled.
- **Some 62 forests containing protected flora species**, representing 8% of the forests managed by Ence.
- **The number of flora studies carried out in certified forests:**
  - South: 145 FSC forests (all analysed) and 163 PEFC forests (14 studies pending)
  - North: 128 FSC forests (all analysed) and 189 PEFC forests (all analysed)

In the north, these studies are carried out by sustainability experts and in the south they are carried out by Huelva University.

**58 Sites of Community Importance (SCI)**, as defined by the EU, have been identified in the forests managed by Ence.

## TRACEABILITY

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

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

### Management of the environmental impacts of the pulp production process

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

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

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

## MATERIAL CONSUMPTION AND WASTE MANAGEMENT

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

## Responsible use of chemical products and chlorine-free bleaching

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

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

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

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

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

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

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

## ENERGY USAGE AND AIR POLLUTION

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

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

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

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

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

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

At the **Pontevedra** operations centre, all of the initiatives contemplated in Phase II of the Environmental Reliability Plan, focused on the prevention of air emissions from the recovery furnace in the event of incidents, have been completed. At the **Navia** operations centre, a project has been executed to reduce the emission of particles in the biomass furnace by upgrading the performance of the electro-filters. The company has also finished expanding the diluted gas treatment facility.

	PONTEVEDRA			NAVIA		
	2016	BREF	IEP	2016	BREF	IEP
<b>RECOVERY BOILER</b>						
Particles (mg/Nm <sup>3</sup> )	12	10-40	150	29	10-40	50
SO <sub>2</sub> (mg/m <sup>3</sup> )	14	5-50	200	9	5-25	200
TRS (mg/Nm <sup>3</sup> )	2,1	1-5	-	-	1-5	-
SH <sub>2</sub> (mg/Nm <sup>3</sup> )	1,1	-	5	0,4	-	7,5
NO <sub>x</sub> (mg/Nm <sup>3</sup> )	186	120-200	260	158	120-200	300
<b>LIME FURNACES</b>						
Particles (mg/Nm <sup>3</sup> )	8	10-30	50	29	10-30	50
SO <sub>2</sub> (mg/m <sup>3</sup> )	10	5-70	300	42	5-70	1.200
TRS (mg/Nm <sup>3</sup> )	2	1-10	-	-	1-10	-
SH <sub>2</sub> (mg/Nm <sup>3</sup> )	1,8	-	5	1	-	7,5
NO <sub>x</sub> (mg/Nm <sup>3</sup> )	139	100-200	380	248	100-350	600

	PONTEVEDRA			NAVIA			HUELVA 40 MW			HUELVA 50MW			MERIDA		
	2016	BREF	IEP	2016	BREF	IEP	2016	BREF	IEP	2016	BREF	IEP	2016	BREF	IEP
<b>BIOMASS BOILER</b>															
Particles (mg/Nm <sup>3</sup> )	26	-	100	14	2-12	20	23	2-15	30	2	2-12	20	4	2-15	50
SO <sub>2</sub> (mg/m <sup>3</sup> )	261	-	1,700	33	10-70	200	13	15-100	200	25	10-70	200	8	15-100	200
NO <sub>x</sub> (mg/Nm <sup>3</sup> )	469	-	600	201	50-180	250	257	70-225	300	167	50-180	250	210	70-225	400
CO (ppm)	104	-	616	-	-	-	-	-	-	-	-	-	-	-	-

## WATER CONSUMPTION AND LIQUID DISCHARGES

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

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

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

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

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

	PONTEVEDRA			NAVIA		
	2016	BREF	IEP	2016	BREF	IEP
Volume discharged (m <sup>3</sup> /ADt)	32	25-50	37	33	25-50	45
Suspended solids (kg/ADt)	0,54	0.3-1.5	1,8	1,2	0.3-1.5	2
COD (kg/ADt)	4,18	7-20	7	4,7	7-20	15
BOD (mg/l)	9	25	48	21	25	100
AOX (kg/ADt)	< 0.0003	0,2	0,02	0,03	0,2	0,2
Total nitrogen (kg/ADt)	0,25	0.05-0.25	0,65	0,063	0.05-0.25	N/A
Total phosphorous (kg/ADt)	0,011	0.02-0.11	0,09	0,019	0.02-0.11	N/A

	HUELVA			MERIDA		
	2016	BREF	IEP	2016	BREF	IEP
Volume discharged (m <sup>3</sup> /h)	227	-	-	-	-	-
Suspended solids (mg/l)	19,5	5-30	150	12,39	5-30	20
COD (mg/l)	12,08	30-150	-	-	-	-
BOD (mg/l)	-	-	-	5,25	-	10
AOX (mg/l)	0,1	-	8,7	-	-	-
Total nitrogen (mg/l)	1,2	1-50	8	6	1-50	25
Total phosphorous (mg/l)	0,78	-	4	0.39 (mg/l)	-	3
TOC (mg/l)	5	-	150	-	-	-
pH	-	-	-	8,01	-	6-9
Conductivity	-	-	-	1.082	-	1200
Chlorides (mg/l)	-	-	-	152,43	500-1000	200
Sulphates (mg/l)	-	-	-	204,96	300-1500	300
Nitrates (mg/l)	-	-	-	17,51	-	25
Total phosphorous (mg/l)	-	-	-	0,57	-	3

## ODOUR AND NOISE

Ence views odour generation as another of the significant environmental impacts of its business operations and, with a view to reducing odour, measured in minutes, at diffuse sources, has completed a project for the expansion of the specific facility for the treatment of diluted odorous gases at the Navia operations centre.

The **Pontevedra** operations centre registered record-low odour emissions in 2016 (measured in minutes). Emissions at stationary sources declined by 30 % from 2015, while emissions from diffuse sources were down 50 %.

Ence is working towards a 'ZERO ODOUR' target

As for the company's efforts to minimise the noise made by its facilities, the **Navia** operations centre has drawn up an **action plan** in order to reduce sound emissions in the perimeter of the factory to 55 dBA. Measures have been taken to reduce noise from the recovery and biomass boilers by fitting silencers and soundproofing the roller. Phase II of the project for closing off and sound-proofing the timber facility is underway. Specifically, the project for reducing noise at line two of the timber facility has been fully defined and is slated for execution starting in March

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2017. The details of the measures to be taken to reduce noise at the general factory facilities have also been defined and will be executed during the annual stoppage scheduled for 2017.

At the **Merida** operations centre a plan for improving noise emissions by installing acoustic insulation and replacing mechanical parts in the cooling towers has also been successfully executed. The boiler's side walls at this power plant have also been fully sealed.

Although immission levels have fallen by as much as 8 dBA at the noisiest part of the facility, a new plan has been launched that will directly tackle some of the other noisiest parts.

In 2016, noise emissions were within the thresholds **stipulated in the environmental permits** at the company's operations centres other than at night-time at the Merida and Navia centres, where they were slightly higher.

	PONTEVEDRA		NAVIA		HUELVA		MERIDA	
	2016	IEP	2016	IEP	2016	IEP	2016	IEP
Day	62,8	70	60,7	55	67,4	75	59,2	65
Afternoon	62,2	70	-	-	-	-	-	-
Night	59,7	60	60,2	45	59,2	70	56,6	55

## Production of power from renewable sources

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

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

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

### Key socio-economic advantages

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

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

The **Pontevedra operations centre** has been selected to participate in a European Union project called "**Strengthening the administrative capacity on the central and local level for the transposition and implementation of the new Industrial Emission Directive 2010/75/EU**", which is being spearheaded by the **Austrian environment agency and the department of the environment of the regional government of Galicia**.

Against this backdrop, a delegation from the environmental protection ministry of the **Republic of Macedonia** has visited the Centre with the aim of observing the progress made on the environmental management front in recent years which has positioned the Pontevedra factory at the industry forefront and made it a benchmark for its environmental performance.

Environmental capital expenditure at the Pontevedra factory totalled €5.3 million in 2016 (€2.1 million in 2015).

Environmental capital expenditure at the Navia factory totalled €2.0 million in 2016 (€0.6 million in 2015).

The **Galician regional administration's** quality and environmental assessment division inspected the complex during the fourth quarter to verify the level of compliance with all the aspects contemplated in its **integrated environmental permit**, concluding once again that the facility is **fully compliant with all matters and parameters analysed**.

Lastly, true to its environmental pledge, the Pontevedra operations centre publishes daily environmental performance indicators on its website ([www.encepontevedra.com](http://www.encepontevedra.com)) showing levels for the last 30 days; the reported figures are adapted for ready comparison with the parameters defined in the integrated environmental permit and the benchmark indicators used in the EU's pulp and paper sector BREF report.

## Environmental Pact

The department of the environment of the regional government of Galicia and Ence entered into an **Environmental Pact** on 28 June 2016 triggering the rollout of a five-year programme comprising environment-related investments and projects designed to contribute to economic development in Pontevedra and Galicia and boost the sustainability of the activities performed by Ence at its Pontevedra operations centre. Pursuant to the Pact, Ence has pledged to bring its environmental management beyond that stipulated in prevailing environmental legislation by:

- Introducing environmental upgrades at the Pontevedra industrial complex, specifically with the aim of reducing water consumption, improving energy efficiency, better integrating the factory into the landscape, reducing emissions and improving wastewater quality.
- Fostering job creation by using regional forest resources.
- Creating a research centre focused on the generation of specialist jobs and helping to refurbish a building to house this centre.
- Installing a biomass-fuelled co-generation plant and three bioenergy centres.

### Key environmental advantages

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

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- Negotiating a collaboration agreement, which was signed on 28 July 2016, designed to enhance the living standards of all residents of Galicia, particularly those living in the Pontevedra Bay area, their safety and their development, the environment and the natural, community and economic surroundings and their sustainability. The following measures are envisaged to facilitate execution of the Pact:
  - A commitment to contribute up to €15 million to any investments contracted for by the regional government's department for the environment and planning and the regional public water body in relation to the expansion and modernisation of the urban waste treatment facility in the town of Os Praceres.
  - A commitment to contribute up to €5 million to the refurbishment of Pazo de Lourizán, an equivalent building or new build to house the research centre in the process of being set up and up to €1 million to construction of a football pitch in the vicinity of Lourizán;
  - Creation of a framework agreement for application in tandem with Ence's corporate social responsibility policy with annual funding of up to €3 million for the following lines of initiative: forest sustainability, energy efficiency, renewable energy, environmental reliability, environmental quality, safety, sustainable development, social progress, equal opportunities, education and training, job training, talent and entrepreneurship, grassroots sports and sports facilities, research and science and community relations.

Effectiveness of these commitments and projects is contingent upon effectiveness and survival of Ence's concession rights in Pontevedra and the grant of the necessary permits and authorisations, which have already been applied for from the competent body of the regional government of Galicia and are accordingly in the midst of being processed. Against this backdrop, an **addendum to the Pact** was signed on 16 January 2017 under which, **exceptionally and with effect solely in 2017**, Ence assumes, in proportion to the budget for the works and installations contemplated in the terms and conditions of the Pontevedra complex concession term extension that obtain the corresponding permits during the year, the commitments outlined in the **"Framework agreement for the specific crystallisation in the area of Lourizán of Ence's corporate policy"**, which contemplates annual funding of up to €3 million.

The **landscaping** project at the **Pontevedra** operations centre has already been authorised and work is underway.

## 4.5. Society

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

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

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

#### Key initiatives undertaken

- **Society**

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

- **Journalist community**

- Ongoing distribution of information to the media.
- Ongoing and ad-hoc provision of the information requested by the media.
- Open media access to the company's facilities and its most important events (AGM).
- Media presentations covering the main upgrade work planned for the Pontevedra complex.

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

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

The analysis performed by the researchers at Vigo University leads to the conclusion that in silvicultural work alone, the company's annual demand for timber generates close to 178,000 day's wages in forestry each year. Moreover, the paper sub-sector, in which Ence commands a weight of over 90%, is the chain in the forest-timber value chain in Galicia that presents the highest productivity level per hour worked, outperforming the furniture sub-sector and other timber manufacturing industries by 75% in this respect.

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## 4.6. Shareholders

Here at Ence we are committed to creating value for our shareholders and investors, to which end we have provided the resources and procedures needed to ensure that the company's information is of the **utmost transparency and is readily accessible**.

The Investor Relations Department is tasked with handling Ence's **regular and ongoing communication** with the various capital markets agents: shareholders and equity investors, bondholders and fixed-income investors, brokers and research analysts, credit ratings agencies, etc.

Ence's top priority is to keep the various market agents adequately informed about its financial situation, management performance, business strategy and any other noteworthy developments, making sure the information is **trustworthy, accurate, timely, fair and balanced**.

**In 2016, for the fifth year in a row, Ence was named the European paper company with the best IR programme** according to the ranking compiled by the prestigious trade journal *Institutional Investors* for which it polls 755 bus-side asset managers and 909 sell-side analysts.

The most important channel used by Ence to engage with its shareholders, the investor community and the rest of the capital markets agents is the investor tab within its corporate website ([www.ence.es](http://www.ence.es)), which the IR Department keeps permanently updated, providing **user-friendly and timely access** to all the information of possible interest to these stakeholders: share price performance, dividends, price-sensitive notices, financial information, corporate governance and sustainability reporting, fixed-income issues and ratings, corporate and earnings presentations, etc.

In 2016, **the investors tab of Ence's website received 25,704 visits**.

The **quarterly results presentations are broadcast live** and interested parties are given the chance to ask **management questions** about the company's performance. Earnings presentation recordings are then made permanently available on the company's website.

All of the information required by the securities market regulator, the CNMV, is also available on the latter organism's website ([www.cnmv.es](http://www.cnmv.es)), including price-sensitive event notices. In 2016, Ence notified the CNMV of 37 such price-sensitive developments.

Shareholders can participate in the company's governance at the General Meeting. The Board of Directors encourages their participation by taking as many measures as it deems opportune in order to help ensure that the duties vested in the shareholders in general meeting under prevailing legislation and Ence's corporate governance regime are performed as intended.

**Ence sets up an online shareholder forum within its corporate website** to facilitate communication among its shareholders prior to celebration of each General Meeting. In so doing the Board seeks to understand shareholder opinions and concerns before formulating meeting agendas and shareholder motions.

Ence also has social network profiles (**LinkedIn, Twitter, Facebook, YouTube**), aware of these new information technologies' reach and importance today. It uses these accounts to share information of interest about the company's activities and engage in **smooth and transparent dialogue** with its stakeholders.

The Investor Relations Department is responsible for attending continually and individually to queries fielded from shareholders, bondholders, institutional and retail investors, financial analysts and other capital markets agents via **e-mail ([ir@ence.es](mailto:ir@ence.es)) or by phone (+34 91 337 8553)**.

Ence also participates in conferences and regularly meets with these stakeholders with the aim of making sure they have the best and most updated public information about the company so that they can in turn exercise their rights and uphold their interests.

In 2016, the IR Department tallied **434 direct contacts with investors** by means of its participation in:

- 14 roadshows with equity investors (London (2), New York, Boston, Chicago, Edinburgh, Paris, Helsinki, Stockholm, Copenhagen, Madrid, Barcelona, Andorra and Bilbao)

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- Six equities investor conferences (3 in London, 1 in Geneva and 2 in Madrid)
- One fixed-income roadshow in Madrid and two fixed-income conferences in London and Madrid
- Four earnings presentations
- Three meetings between the CEO and investors organised in Madrid
- Meetings and conference calls arranged at Ence's offices

## 4.7. Government and regulators

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

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

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

In 2016, Ence's **tax contribution** amounted to **€76.47 million**:

- **€52.5 million** paid to the Spanish state government.
- **€21.7 million** paid to regional governments in Spain.
- **€2.2 million** paid to local governments.

Elsewhere, Ence participated in the **Rubín Marsh recovery project** in Cantabria, designed to reintroduce the fishing eagle, extinct in the area, and convert the marshland into a nesting area for a range of bird species.

In addition, in Galicia it presented a **project for the recovery of third-party eucalyptus tracts damaged by fire** (up to 5,400 hectares), an initiative that entails an **investment of €7 million**, the creation of 67 jobs and the generation of an estimated €42 million of income over 10 years.

In the **forestry management arena**, Ence continues to collaborate actively on the process of modifying and adapting existing regulations to factor in sustainable management criteria. In the case of the FSC scheme, Ence formed part of a taskforce set up to adapt Spanish regulations to the **management reality** of small and large forest owners alike. This work was conducted with social agents (universities and owner associations), economic players (certifiers and consultants), with the support of environmental NGOs, and, naturally, with the backing and knowledge of the FSC.

As for the PEFC scheme, Ence participated in the so-called CTN-162, the Standardisation Expert Committee tasked with developing the voluntary regulations related with sustainable forest management in respect of forest classification, indicator elaboration, management unit definition and unregulated training aspects.

In addition, Ence worked with the FSC, PEFC and competent authorities at the regional, national and European levels to clarify the framework for implementation in Spain of the European due diligence regulation with respect to the legal origin of timber (EUTR), which took effect in 2013. Ence's role consisted of, on the basis of consultation, preparing proposals for the design of a simple and clear regime for ensuring the licit origin of all the timber sold in its areas of influence.

The environmental sustainability approach is complemented by the social responsibility strategy targeted at the generation of earnings and jobs in rural areas, thereby contributing to regional development. The work performed to finance certification bodies, transfer know-how to forest owners and companies and disseminate information through regular meetings and bulletins makes a real contribution to the sector's development, all of which underpinned by the Group's environmental and social responsibility policies.

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

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

# 2016 Annual CSR Report

## 5. About this report

### Scope

The information included in this Corporate Social Responsibility Report for 2016 encompasses all of the activities performed by the Ence Energía y Celulosa S.A. Group between 1 January and 31 December 2016.

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

### Underlying standards

Ence's 2016 Corporate Social Responsibility Report was developed on the basis of the guidelines established in version G4 of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines.

The balanced and reasonable depiction of Ence's performance in 2016 required application of the following principles:

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

## Appendices

### Corporate Social Responsibility Policy

#### 1.- Foreword

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

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

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

#### 2.- Purpose

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

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

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

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

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

#### 3.- Corporate strategy

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

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

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

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

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

## 4.- General principles

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

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

## 5.- Stakeholder engagement

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

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

- Shareholders: Ence's owners. They guide the company's strategy based on decisions that facilitate the company's growth, sustainability and results over the short, medium and long term.
- People: the professionals who work at or for Ence make it possible for the company to improve and, by extension, deliver ever better results. Management is strategically committed to generating the trust of the people who work at or for the company - one of its most valued assets - to acknowledging and developing them.
- Customers: Ence sells high quality products and establishes trust-based relations with its customers based on respect and a promise of timely supply.

- Strategic partners and suppliers: these are crucial members of all of Ence's management systems (quality, environmental, workplace health and safety, chain of custody, sustainable forest management, etc.). They guarantee the supplies we need for the company to work optimally and are the visible face of the sustainable forest management effort.
- Forest owners: Ence works increasingly closely and strategically with its forest owners, actively fostering direct access to and communication and engagement with them. These initiatives establish guidelines for collaborating on issues such as forest plantation planning, improved phytosanitary standards, sustainable management and the injection of greater transparency into the timber market.
- Government and regulators: Ence works with the sector institutions to defend the sector's and company's interests in respect of control efforts, the promotion of new activities and the development of new projects. In addition, by paying taxes and levies, we contribute to the maintenance of public positions, this being one of our key contributions to society.
- Community and environment: Ence is keenly interested in fostering good relations with its surroundings with a view to understanding the concerns prevailing in its local communities and presented by the groups that represent them.
- Influencers (analysts, media, NGOS): these play a crucial role in building Ence's reputation and forging the shift in perception needed in some places regarding the company's industrial activities, which are environmentally-respectful and sources of job and wealth creation.

## 6.- Stakeholder commitments

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

Our commitments to each of these stakeholders are outlined below:

### 6.1 Commitment to shareholders and investors

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

### 6.2 Commitment to people

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

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

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

### 6.3 Commitment to our external and internal customers

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

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

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

## 6.4 Commitment to partners and suppliers

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

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

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

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

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

## 6.5 Commitment to forest owners

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

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

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

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

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

## 6.6 Commitment to governments and regulators

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

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

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willingness to collaborate and predisposition towards agreement and commits to the various institutional structures that allow it to channel this philosophy.

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

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

## 6.7 Commitment to its surroundings

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

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

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

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

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

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

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

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

## 7.- Results tracking systems

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

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

- Compensation matters
- Work-life balance
- Company benefits
- Internal communication and engagement

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

## 8.- Risk supervision mechanisms

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

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

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

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

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

## 9.- Stakeholder communication channels

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

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

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

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Stakeholder	Communication channels	Key considerations
Shareholders and investors	<ul style="list-style-type: none"> <li>General Meetings</li> <li>Quarterly earnings reports</li> <li>Quarterly earnings presentations given by the CEO</li> <li>Regular meetings</li> <li>Monthly information for the Board of Directors</li> <li>Roadshows</li> <li>Attendance at seminars and conferences</li> <li>Periodic distribution of information updates</li> <li>Information submitted to the CNMV</li> <li>Annual Report</li> <li>Annual Corporate Governance Report</li> <li>Sustainability Report</li> <li>Dedicated tab on the corporate website</li> <li>Press dossiers and releases</li> <li>Dedicated e-mail inbox: ir@ence.es</li> <li>Social media</li> </ul>	<ul style="list-style-type: none"> <li>Corporate profile</li> <li>Financial indicators</li> <li>Market performance</li> <li>Reputation</li> <li>Corporate governance</li> <li>Risk evaluation and management</li> <li>Transparency</li> </ul>
People	<ul style="list-style-type: none"> <li>Annual Report</li> <li>Sustainability Report</li> <li>Intranet</li> <li>People management policy</li> <li>Two-yearly workplace climate survey</li> <li>Performance evaluation</li> <li>Top-down communication</li> <li>Screens installed in work facilities</li> <li>Noticeboards</li> <li>Memos by e-mail</li> <li>Online monthly newsletter</li> <li>Health and safety committees</li> <li>Annual training plan</li> <li>Regular meetings by unit/area</li> <li>Whistle-blowing channel</li> </ul>	<ul style="list-style-type: none"> <li>Company information</li> <li>Changes in the workforce</li> <li>Continuous improvement of work conditions</li> <li>Labour relations</li> </ul>
Customers	<ul style="list-style-type: none"> <li>Annual Report</li> <li>Sustainability Report</li> <li>Price-sensitive event filings</li> <li>Periodic visits</li> <li>Participating in sector meetings</li> <li>Satisfaction surveys</li> <li>Product environmental dossiers</li> <li>Press dossiers and releases</li> <li>E-mail</li> <li>Social media</li> <li>Whistle-blowing channel</li> </ul>	<ul style="list-style-type: none"> <li>Tenders</li> <li>Data protection</li> <li>R&amp;D</li> <li>References</li> <li>FSC and PEFC certification</li> <li>Competitiveness</li> <li>Satisfaction of their needs</li> <li>Compliance</li> <li>Prices</li> </ul>
Strategic partners and suppliers	<ul style="list-style-type: none"> <li>Annual Report</li> <li>Sustainability Report</li> <li>Participation in debates within sector associations</li> <li>Oversight and compliance with prevailing regulations</li> <li>Regular visits and meetings</li> <li>Proposals for framework and other agreements</li> <li>Whistle-blowing channel</li> </ul>	<ul style="list-style-type: none"> <li>Keeping our word</li> <li>Assurance regarding the scope for providing the service over the long-term</li> <li>Selection criteria</li> <li>Improvement of working conditions</li> <li>Financial support</li> <li>Timber market</li> </ul>
Forest owners	<ul style="list-style-type: none"> <li>Annual Report</li> <li>Sustainability Report</li> <li>Participation in debates within sector associations</li> <li>Participation in conferences</li> <li>Facility tours</li> <li>Press dossiers and releases</li> <li>Website</li> <li>Tracking and responding to complaints, suggestions and information requests</li> <li>CSR initiatives</li> <li>Whistle-blowing channel</li> </ul>	<ul style="list-style-type: none"> <li>Company benefits</li> <li>Adequate forest management</li> <li>Keeping our word</li> <li>Legal compliance</li> <li>Business performance</li> <li>Common interests</li> <li>Information exchange</li> <li>Forest certification</li> </ul>
Government and authorities	<ul style="list-style-type: none"> <li>Annual Report</li> <li>Sustainability Report</li> <li>Environmental declarations</li> <li>Tax filings</li> <li>Round tables, taskforces</li> <li>Regular dialogue and meetings</li> <li>Reports specific to each environmental permit</li> <li>Collaboration agreements</li> <li>Regular reports and documents</li> <li>Ad hoc reports and documents</li> </ul>	<ul style="list-style-type: none"> <li>Verification of compliance with legal requirements</li> <li>Application of best available practices (BATs)</li> <li>Support drafting and implementing public policies</li> <li>Collaboration with development of technical/scientific standards</li> <li>Promotion of the rational use of forest products and services</li> </ul>

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Community and environment	Annual Report Sustainability Report Environmental declarations Talks, chats and seminars Guided tours Tracking and responding to complaints, suggestions and information requests CSR initiatives Websites Whistle-blowing channel	Minimisation of environmental impacts Efficient use of resources Common interests Interaction with other economic/cultural activities Environmental conservation and awareness Conservation of protected and endangered species and habitats Heritage conservation effort Creation of jobs and wealth
Influencers	Annual Report Sustainability Report Environmental declarations Open line, distribution of press dossiers/releases, memos, opinion and editorial articles Talks, chats and seminars Facility tours Websites Collaborations and activities	Conflict resolution R&D Environmental, economic and social impacts of our businesses Business and financial indicators

## Quantitative indicators by business line

### Forest land area by use (hectares)

2014

Company	Biomass	Pulp	Conservation	Other	Total
Ence Energy	3.109,52	-	181,61	-	3.291,13
Energy - Extremadura	-	-	-	-	-
Energy - Huelva	11.272,51	-	671,18	-	11.943,69
Norfor	59,80	11.216,98	1.999,35	409,22	13.685,35
Silvasur	271,46	36.156,08	14.794,44	-	51.221,97
<b>Total</b>	<b>14.713,29</b>	<b>47.373,06</b>	<b>17.646,58</b>	<b>409,22</b>	<b>80.142,14</b>

2015

Company	Biomass	Pulp	Conservation	Other	Total
Ence Energy	118,73	-	-	-	118,73
Energy - Extremadura	127,18	-	-	-	127,18
Energy - Huelva	3.699,39	4.484,67	544,42	-	8.728,48
Norfor	35,53	11.130,56	1.913,81	413,32	13.493,22
Silvasur	7.607,20	25.911,59	13.882,37	-	47.401,16
<b>Total</b>	<b>11.588,03</b>	<b>41.526,82</b>	<b>16.340,60</b>	<b>413,32</b>	<b>69.868,77</b>

2016

Company	Biomass	Pulp	Conservation	Other	Total
Ence Energy	40,01	-	-	-	40,01
Energy - Huelva	3.898,37	4.225,17	488,20	-	8.611,74
Norfor	35,53	10.962,22	1.828,42	403,70	13.229,87
Silvasur	6.903,43	26.478,98	13.714,96	-	47.097,37
<b>Total</b>	<b>11.254,78</b>	<b>41.331,72</b>	<b>16.050,21</b>	<b>403,70</b>	<b>68.978,99</b>

# 2016 Annual CSR Report

## Land area by contract type

### 2014

Company	Biomass	Pulp	Conservation	Other	Total
Ence Energy	3.109,52	-	181,61	-	3.291,13
Energy - Extremadura	-	-	-	-	-
Energy - Huelva	11.272,51	-	671,18	-	11.943,69
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### 2016

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## Certified land area

	2013	2014	2015	2016
FSC Spain	26.769	35.591	38.147	47.233,09
PEFC Spain	59.866	57.864	56.833	58.876,24

## Forestry investments

2014

	Ence Energy	Energy Extremadura	Energy Huelva	Iberflorestal	Norfor	Silvasur	Total
Repopulation	-	-	-	-	79.836	-	79.836
Silviculture	-	-	-	-	556.674	233.405	790.079
Tracks and firebreaks	-	-	-	-	43.831	232.777	276.608
Inventorying	-	-	-	-	24.230	156.281	180.511
Rents and royalties	-	-	-	-	613.385	933.285	1.546.670
Forest fires	-	-	-	-	-	115.276	115.276
Other management costs + capitalised borrowing costs	-	-	-	-	454.793	150.717	605.510

2015

	Ence Energy	Energy Extremadura	Energy Huelva	Iberflorestal	Norfor	Silvasur	Total
Repopulation	835.607,68	169.816,26	-	-	51.804	-	1.057.228
Silviculture	149.251	269.775	119.115	-	349.554	107.156	994.850
Tracks and firebreaks	280	-	43.686	6.451	83.528	394.785	528.729
Inventorying	-	-	-	-	15.376	790	16.166
Rents and royalties	1.411.646	1.505.601	853.383	175.343	551.358	386.148	4.883.479
Forest fires	-	-	-	-	-	133.061	133.061
Other management costs + capitalised borrowing costs	356.852	204.468	86.492	-	166.076	91.364	905.252

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2016

	Ence Energy	Energy Extremadura	Energy Huelva	Iberforestal	Norfor	Silvasur	Total
Repopulation	63.318	5.466	-	7.870	150.638	92.905,10	320.198
Silviculture	52.121	51.301	166.475	-	639.723	66.398	976.018
Tracks and firebreaks	-	-	107.558	-	79.413	421.376	608.348
Inventorying	-	-	-	-	2.408		2.408
Rents and royalties	77.663	150.000	94.007	168.495	322.777	399.874	1.212.815
Forest fires	-	-	79.290,50	-	-	246.086	325.377
Other management costs + capitalised borrowing costs	54.599	37.494	128.215	-	87.841	212.007	520.155

## Energy usage and air emissions

EMISSIONS					
Parameter	2014	2015	2016	BREF	IEP

### PONTEVEDRA OP CENTRE

#### RECOVERY BOILER

Particles (mg/Nm <sup>3</sup> )	21	19	12	10-40	150
SO <sub>2</sub> (mg/m <sup>3</sup> )	28	24	14	5-50	200
TRS (mg/Nm <sup>3</sup> )	1,9	3,0	2,1	1-5	-
SH <sub>2</sub> (mg/Nm <sup>3</sup> )	1,0	1,6	1,1	-	5
NO <sub>x</sub> (mg/Nm <sup>3</sup> )	185	188	186	120-200	260

#### LIME FURNACES

Particles (mg/Nm <sup>3</sup> )	11	9	8	10-30	50
SO <sub>2</sub> (mg/m <sup>3</sup> )	14	10	10	5-70	300
TRS (mg/Nm <sup>3</sup> )	3,2	2,4	2,0	1-10	-
SH <sub>2</sub> (mg/Nm <sup>3</sup> )	2,1	2,2	1,8	-	5
NO <sub>x</sub> (mg/Nm <sup>3</sup> )	142	167	139	100-200	380

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## BIOMASS BOILER

Particles (mg/Nm <sup>3</sup> )	19	25	26	-	100
SO <sub>2</sub> (mg/m <sup>3</sup> )	259	219	261	-	1700
NO <sub>x</sub> (mg/Nm <sup>3</sup> )	385,0	426,0	469,0	-	600
CO (ppm)	122,0	89,0	104,0	-	616

## NAVIA OP CENTRE

### RECOVERY BOILER

Particles (mg/Nm <sup>3</sup> )	22	24	29	10-40	50
SO <sub>2</sub> (mg/m <sup>3</sup> )	51	15	9	5-25	200
TRS (mg/Nm <sup>3</sup> )	-	-	-	1-5	-
SH <sub>2</sub> (mg/Nm <sup>3</sup> )	0,7	0,7	0,4	-	8
NO <sub>x</sub> (mg/Nm <sup>3</sup> )	221	192	158	120-200	300

### LIME FURNACES

Particles (mg/Nm <sup>3</sup> )	21	27	29	10-30	50
SO <sub>2</sub> (mg/m <sup>3</sup> )	92	43	42	5-70	1200
TRS (mg/Nm <sup>3</sup> )	-	-	-	1-10	-
SH <sub>2</sub> (mg/Nm <sup>3</sup> )	1,4	1,5	1,0	-	8
NO <sub>x</sub> (mg/Nm <sup>3</sup> )	348	315	248	100-350	600

### BIOMASS BOILER

Particles (mg/Nm <sup>3</sup> )	47	25	14	2-12	20
SO <sub>2</sub> (mg/m <sup>3</sup> )	82	40	33	10-70	200
NO <sub>x</sub> (mg/Nm <sup>3</sup> )	141,0	177,0	201,0	50-180	250

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## HUELVA OP CENTRE

### 40 MW BIOMASS BOILER

Particles (mg/Nm <sup>3</sup> )	62	64	23	2-15	30
SO <sub>2</sub> (mg/m <sup>3</sup> )	5	2	13	15-100	200
NO <sub>x</sub> (mg/Nm <sup>3</sup> )	76,1	230,0	256,6	70-225	300

### 50 MW BIOMASS BOILER

Particles (mg/Nm <sup>3</sup> )	1	3	2	2-12	20
SO <sub>2</sub> (mg/m <sup>3</sup> )	7	10	25	10-70	200
NO <sub>x</sub> (mg/Nm <sup>3</sup> )	154,3	150,2	167,0	50-180	250

## MERIDA OP CENTRE

### 20 MW BIOMASS BOILER

Particles (mg/Nm <sup>3</sup> )	5	6	4	2-15	50
SO <sub>2</sub> (mg/m <sup>3</sup> )	23	16	8	15-100	200
NO <sub>x</sub> (mg/Nm <sup>3</sup> )	238,0	230,4	209,8	70-225	400

## Water consumption and liquid discharges

PONTEVEDRA					
Volume discharged (m3/ADt)	32,2	31,1	32,0	25-50	37
Suspended solids (kg/ADt)	0,42	0,53	0,54	0,3 - 1,5	1,8
COD (kg/ADt)	4,47	4,50	4,18	7-20	7
BOD (mg/L)	10	9	9	25	48
AOX (kg/ADt)	< 0,0004	< 0,0003	< 0,0003	0,20	0,02
Total Nitrogen (kg/ADt)	0,21	0,22	0,25	0,05-0,25	0,65
Total Phosphorous (kg/ADt)	0,011	0,012	0,011	0,02-0,11	0,09

NAVIA					
Volume discharged (m3/ADt)	33,2	34,4	33,0	25-50	45
Suspended solids (kg/ADt)	1,10	1,15	1,20	0,3 - 1,5	2
COD (kg/ADt)	5,80	4,89	4,70	7-20	15
BOD (mg/L)	27	24	21	25	100
AOX (kg/ADt)	0,05	0,07	0,03	0,20	0,2
Total Nitrogen (kg/ADt)	0,17	0,14	0,06	0,05-0,25	s/e
Total Phosphorous (kg/ADt)	0,033	0,036	0,019	0,02-0,11	s/e

HUELVA					
Volume discharged (m3/ADt)	588	232	227		
Suspended solids (kg/ADt)	26	13	20	5-30	150
COD (kg/ADt)	40	15	12	30-150	-
BOD (mg/L)	0,04	0,08	0,10		8,7
AOX (kg/ADt)	2,51	1,83	1,20	1-50	8
Total Nitrogen (kg/ADt)	0,21	0,53	0,78		4
Total Phosphorous (kg/ADt)	14	4	5		150

MERIDA					
pH	7,8	7,7	8,0		6-9
Conductivity	854	1.062	1.082		1.200
Suspended Solids (mg/L)	9,5	12,5	12,4	5-30	20
Chlorides (mg/L)	114	149	152	500-1000	200
Sulphates (mg/L)	242	243	205	300-1500	300
BOD (mg/L)	< 5	< 5	5		10
Total Nitrogen (kg/ADt)	< 5	< 5	6	1-50	25
Nitrates (mg/L)	23,9	6,9	17,5		25
Total Phosphorous (mg/L)	0,48	0,41	0,57		3

## Odour and noise

NOISE				
Value	2014	2015	2016	AAI
<b>PONTEVEDRA</b>				
Day	61,0	62,1	62,8	70
Afternoon	60,0	61,1	62,2	70
Night	55,9	57,0	59,7	60
<b>NAVIA</b>				
Day	61,3	60,7	60,7	55
Night	60,4	59,3	60,2	45
<b>HUELVA</b>				
Day	-	68,0	67,4	75
Night	-	59,7	59,2	70
<b>MERIDA</b>				
Day	66,4	66,4	59,2	65
Night	57,0	57,0	56,6	55