

Sustainability Report 2010



Energía y Celulosa



Energía y Celulosa

Sustainability Report 2010

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Letter from the Chairman



1. LETTER FROM THE CHAIRMAN

Dear Ence shareholder:

The business group you are part of reinforced the strategy initiated in 2008, when it set about redefining the essence of its culture. This year, the Ence Group has embarked on a new quest to make full use of the tree. While this may sound like a relatively simple task for Spain's leading forest management company, it called for a profound change in culture and decisive steps towards positioning the Group as the leading producer of renewable biomass energy, just as it is the leading manufacturer of eucalyptus pulp.

This new business culture is founded on the cultivation of the tree, a crop whose potential goes beyond the manufacture of pulp, given that it can be utilised in full or the generation of renewable energy. Accordingly, the Ence Group set its sights on harnessing its know-how and began to develop a new business line with enormous potential; a line that enhances the company's sustainability and ensures steady growth worldwide.

The Strategic Plan that was approved and promoted by the Board of Directors laid the foundation for this new corporate culture, and the present and future management of the company. It also entailed the adoption of a new organisational model with greater specialisation in the different management areas, which enabled us to improve our results. Ensuring our sustainability is at the core of our management philosophy: environmental sustainability, social sustainability and economic sustainability.

From an environmental perspective, the Ence Group works with a renewable resource. We are experts at cultivating and taking care of it. In addition to providing a raw material for the manufacture of products that are essential to our society (pulp and energy), the tree captures large amounts of CO₂ during growth, which leads to a positive eco-balance in operations.



All of the work that goes into looking after the tree to enable the manufacture of pulp and the generation of renewable energy ultimately ends in our factories in Pontevedra, Navia (Asturias) and Huelva. Here, expansion and improvement plans have been implemented to increase the quality and quantity of output, while adhering to strict environmental sustainability standards that rank them among the world's most effective, clean and environmentally-friendly plants.

It is no surprise, therefore, that our factories have been awarded ISO Environmental Management Certification and were the first in Spain to join the EMAS (Eco-Management and Audit Scheme), a voluntary European Union regulation to recognise organisations that have implemented an Environmental Management System and are committed to its continuous improvement, both of which are verified by independent audits.

The factories' environmental management processes culminate in the delivery of two end products: TCF (Totally Chlorine Free) pulp in Pontevedra and ECF (Elemental Chlorine Free) pulp in Huelva and Navia, and renewable energy, an industry in which we have the largest capacity in Spain; with a total installed capacity of 229 MW (180 MW with biomass and 49 MW with gas cogeneration) or, in other words, enough energy to supply 570,000 households with power for one year.

From a social perspective, the Ence Group's operations form the backbone of rural economies by generating wealth and enabling the rural population to remain in the countryside. The Ence Group creates more than 11,000 jobs in Spain, 60% of which (over 6,500 jobs) are directly linked to forestry operations and based in the countryside, thus generating income in excess

of 130 million euros per annum; income which obviously boosts the rural economy.

And on the economic front, I am pleased to confirm all the positive financial results mentioned in this lengthy Management Report, which is further evidence of the Group's ability to generate funds and, therefore, ensure its viability. Apart from increasing respect for the environment and engagement with society, the company's objectives for the future include the attainment of higher profits and more flexible management, providing it with the means to produce profits that allow the payment of dividends and sufficient cash flow to undertake new investments while reducing debt. And I am pleased to say that this has been accomplished in 2010.

All of the above calls for a major effort on the part of everyone and the involvement of all our professionals, an effort that was more than evident in 2010 and which I am confident will continue into 2011.

This year, the Group consolidated its position in the European pulp market where, with an output of 1.2 million tonnes (an increase in production of 16% over the previous year), it is the largest manufacturer of eucalyptus pulp. This increase in production and good market performance due to greater price stability led to turnover of 626.5 million euros in the Pulp Division. The Group also increased the generation and sale of renewable energy by 10.5% over the previous year after placing more than 1.3 million MWh on the electricity market.

The Ence Group's total revenue in 2010 was 830.8 million euros, and recurring EBITDA was more than 200 million euros. This yielded a net profit of 64.7 million euros and enabled the Board of Directors to propose dividend payments equivalent to 40% of Group profits (almost 26 million euros) to the General Shareholders' Meeting. Positive cash generation, the capital increase of March (for 130 million euros), the establishment of a new, more effective financial structure and these excellent re-

sults all contributed to a net debt of just 173.3 million euros by the end of the year, a figure that is in line with the financial discipline rules established in the Strategic Plan, and which is equivalent to 0.97% of EBITDA, thus demonstrating that the company is in sound financial health.

Ence's environmental, social and economic sustainability is a reality. And this is precisely why we joined the United Nations Global Compact and benchmark accountability forums, a move which ultimately led to our inclusion in the Spanish FTSE4Good Ibex Index, which includes the 33 listed Spanish companies with the best socially responsible business practices.

This year has been devoted to implementing the financial discipline strategy and to improving the Ence Group's position in the pulp and energy markets, markets in which it is the paradigm of a sustainable business. The capital increase, which was oversubscribed 6.4 times, is evidence of the appropriateness of the strategy, market confidence in the Ence Group management, and the company's financial health.

And on this point, I would like to highlight a milestone in the company's recent history: the appointment by the Board of Directors of a new Managing Director in late 2010 with a view to strengthening the company's leading position in the industrial sector and renewable biomass energy market. I would like to take this opportunity to welcome our new Managing Director, Ignacio de Colmenares, who has been at the helm of the company since December 22nd, the day on which he was appointed by the Board of Directors. His experience in industry and renewable energy will serve to relaunch the management strategy defined by the Board, a strategy that aims to highlight our triple sustainability mission for the benefit of our shareholders, local communities and professionals.

Juan Luis Arregui Ciarsolo
Chairman of Ence



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Key figures



2. KEY FIGURES

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

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



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

Ence operates three industrial plants in Spain (in Huelva, Navia in Asturias, and Pontevedra) with an output capacity of 1.3 million tonnes of paper pulp and 1.8 million MWh of renewable electric power.

We have a workforce of 1,692 employees and generate more than 11,000 jobs in Spain, almost 60% of which are in rural areas.

In 2010 we increased energy production by 60%.

The company manages 113,000 hectares of forest in Spain, Portugal and Uruguay.

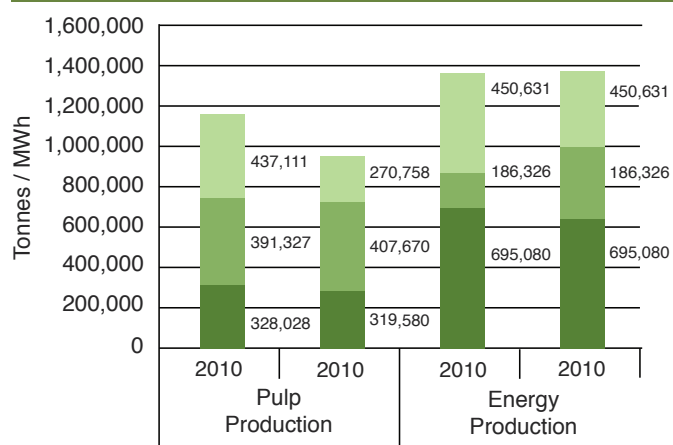
With a certified area of 86%, we have proven excellence in the management of forests.

Ence contributes to sustainable development

Our contribution to socio-economic development

- We achieved record-breaking results in 2010 with total revenues of 869 million euros, an increase of 35% over the previous year, and paid 40% of the profit in dividends.
- Our EBITDA in 2010 was 179 million euros.
- In 2010, 81 million euros were allocated to investment.
- Pulp production reached the record level of 1,156,467 tonnes in 2010, a 16.4% increase over 2009 levels.
- Electric power production in 2010 was 1,330,168 MWh, which represents an increase of 16% over the 2002-2009 period.
- Ence has 180 MW of installed capacity, making it the largest producer of renewable biomass energy in Spain.
- Every year, we manage 3.5 million cubic metres of timber, which is equivalent to a forest area of 350,000 hectares.
- At Ence, we promote sourcing from local suppliers: in 2010 the purchase of domestic timber increased 13%, representing a volume of 2,037,000 m³

Production

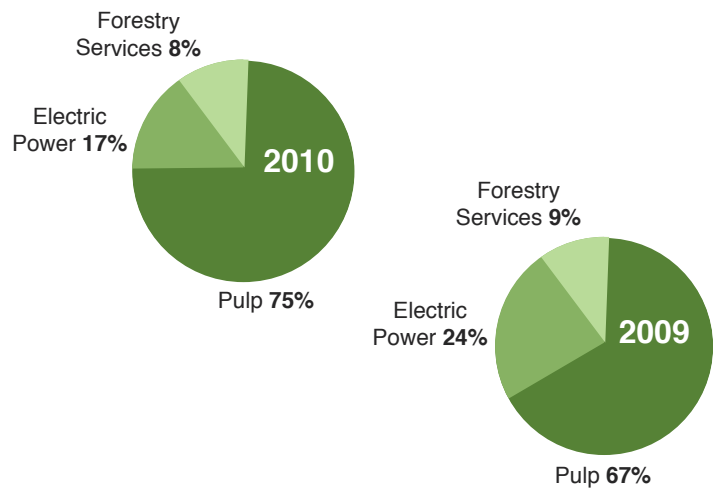


Revenues

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

2. KEY FIGURES

Revenues



Wealth generation, shared value



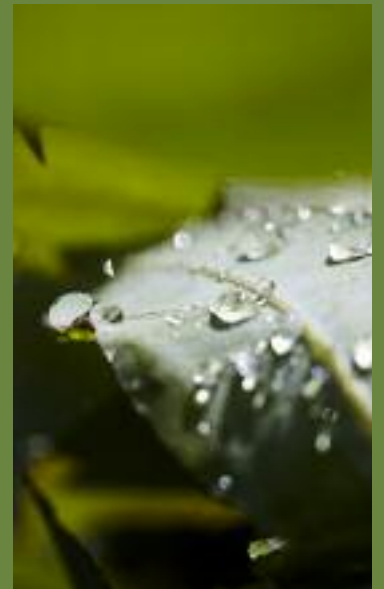
Our contribution to the environment

- In 2010 we invested of 8.81 million euros to improve our environmental performance. Environmental expenditure accounted for 3.88 million euros.
- Efforts were made to mitigate climate change: the forest areas Ence manages retain 1.5 million tonnes of CO₂ every year.
- We reduced the impact of our manufacturing processes: we do not use elemental chlorine to bleach paper pulp.
- In 2010, we completed a project to reduce NO_x emissions through the installation of the Dry Low NO_x (DLN) system and the purchase of a new monitoring system.
- Our factory in Navia produced 22% more renewable energy in 2010 than in 2009.
- Our factories in Huelva, Navia and Pontevedra have been awarded Integrated Environmental Authorisations.
- Our factories in Huelva, Navia and Pontevedra have been awarded ISO 9001 Quality Management and ISO 14001 Environmental Management Certification, and have achieved EMAS registration.
- In 2010, our forestry and industrial processes were awarded PEFC and FSC chain-of-custody certification.

Our contribution to society - Employment and human resources

- We have 1,691 employees in Spain, Portugal and Uruguay.
- Our activity creates jobs for more than 11,000 people in Spain. Some 60% of these people live in rural areas, thus generating 130 million euros in income.
- Salary costs amounted to 84 million euros.
- We increased expenditure on employee benefits by 20%, or more than one million euros.
- The number of hours spent on training increased 7% over the previous year, and has risen five-fold since 2007.
- Training expenditure accounted for 229,000 euros.
- In 2010, no occupational illnesses were reported, there were no fatal accidents and the number of hours lost due to illness decreased 15%.
- Women accounted for 18% of the Group's workforce in 2010, after increasing 7% over the past three years.
- Aware of the importance of women's role in management, the ratio of women to men in senior management positions is 1:6.
- The number of students in vocational training on work experience placements has doubled in the past three years.





3

The Ence Group



3. ENCE GROUP

The Ence Group has changed its company image and places greater emphasis on its role as an energy company. Biomass has brought stability, and forestry management has positioned

us as a leading global manufacturer of clean and efficient pulp. All of this is achieved whilst respecting the environment and heavily promoting innovation.

| | 2010 Achievements | Future Goals |
|----------------------------|--|---|
| ECONOMIC SUSTAINABILITY | Included in the TSE4 Good Sustainability Index | The 34 listed companies with the best corporate practices in the areas of environmental and social responsibility are listed in the FTSE4Good Index Series. |
| | Signed a financing agreement for 298 million euros with 21 banks | The company has a sound financial structure in the industry, with no short-term debt and high liquidity. |

Approved a new organisational model which is in line with the objectives of the Strategic Plan

Innovation and respect for the environment are the principles governing the management of the company and which will position Ence as a leading global producer of pulp and renewable energy.

Change the corporate culture in two or three years to ensure it is focused on the customer, the environment and results.

Increased share capital by 130 million euros

We issued 83,112,890 new shares with a nominal value of €0.90, thus securing funds for Ence's Biomass projects.

Increase our market share in the Spanish and French pulp markets and gain more customers in Central Europe and Italy.

Achieved a record net profit by the third quarter

A net profit of 54 million euros up to the third quarter, a record for the past 10 years.

Commitment to work to improve our results in 2011.

| 2010 Achievements | | Future Goals |
|------------------------------|---|---|
| SOCIAL SUSTAINABILITY | Membership of the United Nations Global Compact | This initiative promoted by the United Nations encourages businesses to support ten principles in the area of social responsibility. |
| | The factory in Pontevedra celebrated 410 days of no downtime | This demonstrates the factory's excellence in the management of safety as a result of its Continuous Improvement Project. |
| | Awarded the Gold Medal by the Province of Huelva | The medal is awarded by the Provincial Council to individuals, companies and organisations which are noted for their involvement and engagement with Huelva Province. |

3. ENCE GROUP

| | 2010 Achievements | Future Goals |
|------------------------------|--|--|
| ENVIRONMENTAL SUSTAINABILITY | Approved a project for the construction of a renewable biomass energy plant in Huelva | <p>This will be the largest of its kind in Spain. With a nominal capacity of 54 MW, it will be able to supply green energy to almost 400,000 people and will provide alternative employment to redundant agricultural</p> <p>Increased installed capacity by 210 MWh and annual EBITDA by 80 million euros:</p> <ul style="list-style-type: none">• Spring 2011: Huelva (50 MW)• Autumn 2011: financing of two 20-MW projects• 2012 and early 2013: 6 new 20 MW-plants |
| | Renewed the double timber Chain of Custody certification | <p>PEFC and FSC certification reaffirm Ence's commitment to sustainable forest management and strengthen its competitiveness.</p> <p>Complete FSC certification of the group's forestry assets in the southwest of the Iberian Peninsula.</p> |
| | Developed the world's first technique for improving eucalyptus | <p>Developed by Ence's Forestry Research Centre in Huelva, this is a pioneering system for the production of improved white eucalyptus using tree cuttings.</p> <p>Maintain investment and R&D+i in continuous improvement in order to improve our supply of raw materials within two years.</p> |
| | Improved environmental management of the factory in Pontevedra | <p>Oxygen and hydrogen peroxide consumption was reduced by 10%. Thanks to savings of 30,000 tonnes of steam, energy and water consumption was also reduced.</p> <p>Continue working to improve environmental management of the factory.</p> |

Mission, vision and strategy

Mission

We are a leading company in the production of eucalyptus pulp and renewable biomass energy based on comprehensive and responsible timber management.

Our aim is to offer efficient and competitive solutions to our customers' needs, develop a strong forestry industry, and increase the production of renewable biomass energy.

We are committed to the respect of people, their safety and development, to continuous improvement and our surroundings.

With everyone's help, we generate significant returns for our shareholders, company growth, and wealth and employment in the areas where we operate.

Vision

Ence and its professionals' future goal is to become global leaders in the full and sustainable utilisation of forest resources.

What does it mean to be global leaders?

Achieve worldwide recognition for the full utilisation of the tree, the power generated from its use, and for innovation in the exploitation of the primary energy (heat, CO₂, etc.) from our industrial boilers and plants.

- World leader in the generation of power from forest biomass.
- Best eucalyptus pulp producer in Europe.

What do we mean when we talk about full and sustainable utilisation?

While respecting the environment, use:

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

We will develop and use the best technology available to improve our current businesses, while proactively searching for other potential uses and new technologies.

3. ENCE GROUP

Strategy

In keeping with our mission and vision, Ence’s strategy focuses on:

Achieving a change in culture that facilitates the quest for excellence in management, greater customer orientation, cost containment, and better results.

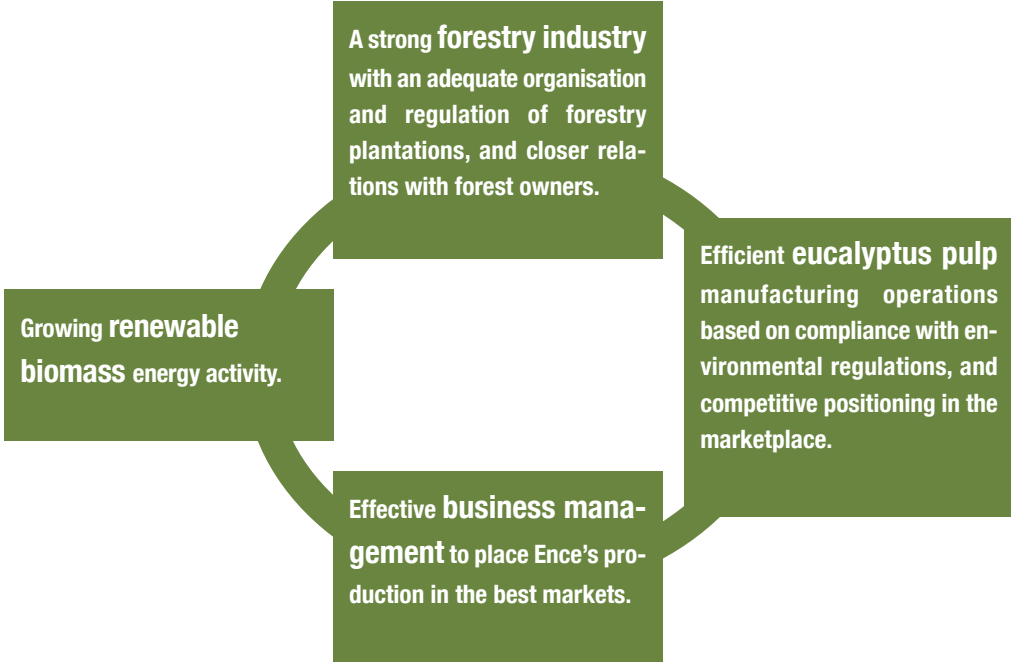
Reducing production costs by increasing revenues and reducing expenditure.

Improving the supply of raw material both to pulp factories and renewable biomass energy plants.

Launching up to 9 new renewable energy projects involving forest biomass within 3 years, thus increasing installed capacity by an additional 210 MW.

Increasing the free cash flow to ensure the growth of renewable energies and shareholder remuneration.

This strategy is based on four value drivers:



Sustainable business model

The Ence Group is committed to sustainability-oriented management practices. We generate wealth, provide social cohesion by creating thousands of jobs, and carry out our operations while protecting the environment.

The Ence Group strives for sustainable forest management in the production of pulp and renewable energy. It creates, cultivates and maintains forest areas for the sourcing of wood and biomass in Spain, Portugal and Uruguay.

Sustainability is intrinsic to our industrial activity. We believe that long-term strategic management leads to a profitable

company. We take a natural and renewable raw material –the tree– and use it to create products that are essential to our society: electric power and pulp. In addition, we benefit the community by creating thousands of direct, indirect and related jobs. Our forestry operations create employment for people in rural areas, who might otherwise be forced to emigrate or leave the countryside.

We always aim for efficiency, exploiting the entire resource while respecting the environment. This not only requires that we comply with, but often improve on European, national, regional and local environmental standards and regulations.

Our approach to sustainability

Economic performance

Boost local economies by creating employment in rural areas.

Strategy based on the promotion of financial sustainability and shareholder returns.

Enhance our profile in the renewable energy market.

Implement investment and innovation projects.

Environmental performance

Increase efficiency by making maximum use of the tree.

Minimise climate change and environmental impact.

Commitment to obtain certification for our factories and forests.

Invest to improve our environmental performance.

Manage resources responsibly, including wood, water and energy consumption.

Social performance

Membership of the United Nations Global Compact since 2010.

Occupational integration of people with disabilities.

Guarantee safety at work, equality and diversity.

Attract and retain talent through training and innovation.

Create wealth for society.

Commitment to excellence in management policy

The Ence Group's primary objective is business excellence. Accordingly, we have adopted a management policy that focuses on efficiency in industrial processes and in the use of resources.

The company carries out forestry, industrial and energy operations in accordance with a sustainability strategy, where the proper management of resources and responsible consumption of wood, water and energy are a priority. In this way, we can be sure that our commitments to shareholders, employees, customers, the community, and other interest groups are met.

Process management is supported at all levels by measures for risk prevention and the protection of people and the environment, efficient and quality production, and the principles of sustainable forest management and certification, which include the chain of custody, thus guaranteeing the origin and traceability of wood-based raw materials.

Consequently, the management of the Ence Group will provide the organisation with the resources needed to fulfil its commitments to the attainment of business excellence, which are described in the table on the right.

Our operations are systematically audited by independent accredited agencies, in accordance with the different management areas: product quality, environmental management, occupational health and safety, sustainable forest management and the chain of custody.

| | |
|---|---|
| Visible commitment of the management and employees. | The people who work at Ence are responsible for openly demonstrating their commitment to this policy. |
| Training and engagement of people. | We promote awareness and on-going training, in addition to proactive participation. |
| Communication with stakeholders. | We have transparent and smooth communication with our stakeholders. |
| Sustainability, compliance with regulations and other requirements. | Sustainability in our operations is a fundamental and essential principle. Ence undertakes to comply with the applicable regulations, legislation and other requirements. |
| Risk prevention, planning and continuous improvement | We have achieved effective prevention of risks, accidents and impacts that affect people, goods and the environment, including the control of serious accidents. |
| Cooperation with our customers, suppliers and contractors | We manufacture our products in accordance with our customers' specifications. We encourage our suppliers and contractors to implement management guidelines and requirements. |

| Data or management aspect | Operating unit or subsidiary | Accredited certification | Certified area and validation documentation |
|------------------------------------|---|--|--|
| Data on environmental parameters | Ence-Navia (CEASA) Ence-Huelva Ence-Pontevedra | LRQA AENOR AENOR | EMAS Environmental Statement (Regulation (EC) No 1221/2009), validated by the competent authority. |
| Data on greenhouse gas emissions | Ence-Navia (CEASA) Ence-Huelva Ence-Pontevedra | LRQA AENOR AENOR | Annual Report on Carbon Emissions, in accordance with Law 1/2005, regulating the trading of greenhouse gas emission allowances |
| Data on environmental investment | Ence-Navia (CEASA), Ence-Pontevedra, Ence-Huelva | Deloitte | Annual Financial Statements, in accordance with the Resolution of 25 March 2002 (recognition, assessment and reporting of environmental aspects in annual financial statements) |
| Management of occupational risk | Ence-Navia (CEASA), Ence-Pontevedra, NORFOR SILVASUR SIERRAS CALMAS | AENOR AENOR AENOR AENOR SGS | Certification of the occupational health and safety management system in accordance with international standard |
| Environmental Management ISO 14001 | Ence-Navia (CEASA), Ence-Pontevedra Ence-Huelva NORFOR SILVASUR | LRQA AENOR AENOR AENOR AENOR | Certification of the environmental management system in accordance with international standard ISO 14001 (in addition, the 3 factories have been certified in accordance with Regulation (EC) No 1221/2009 |

3. ENCE GROUP

| | | | |
|---|--|--|---|
| Sustainable Forest Management PEFC | NORFOR SILVASUR | AENOR | Certification of sustainable forest management in the company's forestry plantations and natural stands, in accordance with the international PEFC standard (Programme for the Endorsement of Forest Certification) |
| PEFC timber Chain of Custody standard | Ence (Multisite Navia, Huelva y Pontevedra) NORFOR SILVASUR | AENOR | Certification of the Chain of Custody of the timber used in processing to ensure its traceability and that it did not come from controversial sources, in accordance with the international PEFC standard (Programme for the Endorsement of Forest Certification) |
| FSC timber Chain of Custody standard | Ence (Multisite Navia, Huelva y Pontevedra), NORFOR, LAS PLÉYADES, SIERRAS CALMAS | SGS | Certification of the Chain of Custody of the timber used in processing to ensure its traceability and that it did not come from controversial sources, in accordance with the international FSC standard (Forest Stewardship) |
| Data on Sustainable Forest Management FSC | NORFOR SIERRAS CALMAS | SGS | Public Management Report and the results of certification audits, in accordance with the international FSC standard (Forest Stewardship Council). |
| Quality Management | Ence-Navia (CEASA) Ence-Pontevedra Ence-Huelva NORFOR SILVASUR | LRQA AENOR AENOR AENOR AENOR | Quality Management Certification, in accordance with the international ISO 9001 standard |

Corporate governance

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

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

Organisational structure

The company's Executive Committee is comprised of the Managing Director and the Directors of the company's business and management divisions. The committee is responsible for the management of the Company and is its main decision-

making body, although decisions may be forwarded to the Board of Directors, when these fall within areas of its competence. The composition and structure of the Executive Committee are available to the public in the Annual Report on the Ence Group's website (www.ence.es).

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

- Appointments and Remuneration Committee
- Executive Committee
- Audit Committee

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

Human Resources

At the Ence Group, people are key to the company's efficiency and competitiveness. We strive to promote equal opportunities for employees, we foster their professional development, monitor their health and safety and encourage proactive industrial relations.

Key figures

- We have 1,691 employees in Spain, Portugal and Uruguay.
- Our activity creates employment for more than 11,000 people in Spain. Some 60% of these people live in rural areas.
- Seventy percent of our workforce has a permanent or indefinite employment contract.
- Salary costs amounted to 84 million euros in 2010, which represented an increase of 2% over the previous year.
- We increased expenditure on employee benefits by 20%, or more than one million euros, over 2009 levels.

- The number of hours spent on training in 2010 increased 7% over the previous year, and has risen five-fold since 2007.
- Training expenditure accounted for 229,000 euros.
- In 2010, no occupational illnesses were reported, there were no fatal accidents and the number of hours lost due to illness decreased 15% over the previous year.
- Women accounted for 17.76% of the Group's workforce in 2010, 7% more than in 2007.
- Aware of the importance of women's role in management, the ratio of women to men in senior management positions is 1:6.
- The number of students in vocational training on work experience placements has doubled in the past three years.

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

the organisation. All with the aim of making the Ence Group increasingly competitive and efficient.

To achieve this, we have identified four priority areas for action within our people management and development policy.

Develop a new culture and values for the group

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

Ensure occupational health and safety

We are committed to carrying out operations in a business and organisational environment that promotes

Strengthen management capability, develop and retain talent

- We have the ability to attract, develop and retain the professionals required to give the organisation a competitive and sustainable advantage.
- We develop leadership and strategic vision skills.
- We provide the tools required to manage people and promote the development of our associates.
- We improve communication between managers and their teams

Develop a framework for industrial relations

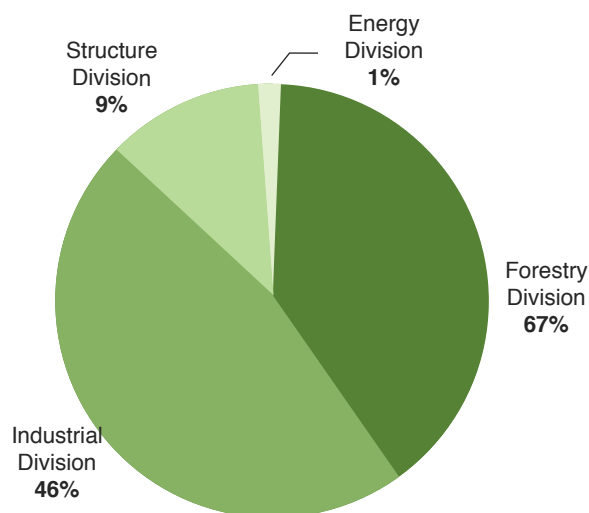
To address the needs of the company and its employees from an overall and long-term perspective.

Ence is committed to creating employment

The Ence Group is comprised of 1,691 employees. In addition to this, we create employment for over 11,000 people in Spain, 60% of whom live in rural areas and have a combined income of 130 million euros. In 2010 we doubled the average headcount of the Energy Division, thus demonstrating the enormous effort we are making to become the leading producer of renewable energy from forest biomass in Spain.

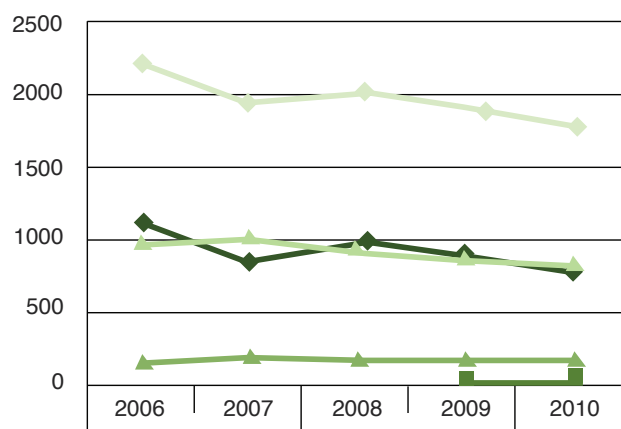
The Ence Group is comprised of 1,691 employees

Distribution of the Ence workforce



3. ENCE GROUP

Trends in the average headcount



- ◆ Forestry Division
- Energy Division
- ▲ Research & Technology management and corporate departments

Ence Group Workforce as at 31 December

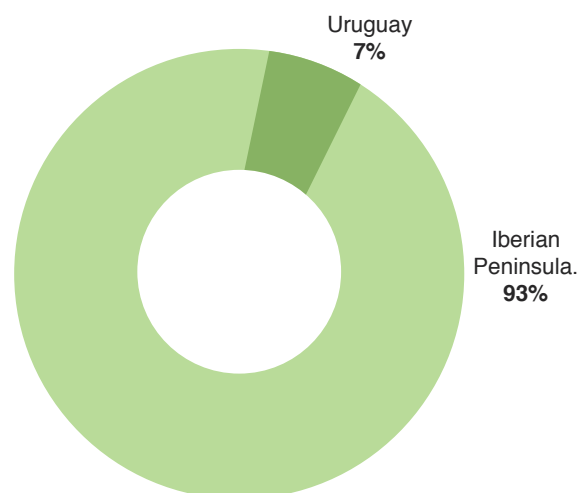
| | 2008 | 2009 | 2010 |
|---------------------|-------------|-------------|-------------|
| Forestry Division | 963 | 691 | 677 |
| Industrial Division | 842 | 798 | 804 |
| Corporate Division | 142 | 152 | 160 |
| Energy Division | | 13 | 22 |
| Total | 1947 | 1654 | 1663 |

By region, the Iberian Peninsula (Spain + Portugal) accounts for 93% of the workforce; the remaining 7% (118 employees) are located in South America (Uruguay).

Average Headcount 2008 2009 2010

| | | | |
|---------------------|-------------|-------------|-------------|
| Forestry Division | 1003 | 876 | 741 |
| Industrial Division | 144 | 142 | 144 |
| Corporate Division | 867 | 836 | 786 |
| Energy Division | | 8 | 21 |
| Total | 2014 | 1862 | 1692 |

Geographical distribution of permanent staff



93% of the workforce is employed in production

Some 93% of our associates are employed in production, while the remaining 7% are engaged in sales or support activities. Senior and middle management account for approximately 14% of the workforce.

The average age of employees in the Iberian Peninsula with a permanent contract is 42 years, while the average is slightly lower in Uruguay (36). Employees between the ages of 18 and 35 years account for 29.87% of the workforce; workers aged 36 to 50 years account for a further 38.77%, and the remaining 31.34% is comprised of employees in the 51 to 66-year age group.

The average number of years of service for permanent staff in the Iberian Peninsula is 16, and 8 in Uruguay.

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

We promote diversity and equal opportunities

The Ence Group is committed to diversity and equal opportunities for all employees. We are signatories of the UN Global Compact which means that Ence rejects any form of discrimination on the grounds of race, colour, sex, religion, political opinions and national or social origin. We are against child and forced labour; in fact, we take measures to eliminate the risk of child exploitation and forced or compulsory labour in our activities. Furthermore, our policy of equal opportunities and access to employment is in line with

7 direct, indirect or sub-contracted jobs are needed to produce 1,000 tonnes of pulp.

71% in rural and forest areas (5 jobs)

29% in manufacturing (2 jobs)

5 indirect jobs

11 direct, indirect or sub-contracted jobs are needed to produce 1 MW of biomass energy.

91% in rural and forest areas (10 jobs)

9% in manufacturing (1 job)

9 indirect jobs

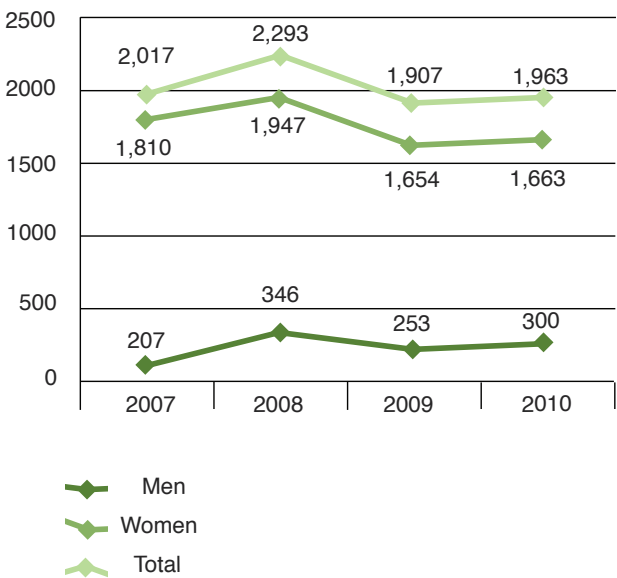
the principles set out in the Universal Declaration of Human Rights

The number of female employees has increased 7% in the past three years

Employees are recruited on the basis of their skills and suitability for the position. In 2010 no incidents of discrimination were reported. By ensuring equal access to employment and training for the different social groups, we have been able to create a culture of tolerance, which we believe is vital for our competitiveness and development.

3. ENCE GROUP

Distribution of the workforce by gender



The Ence Group operates in a sector where the presence of women has traditionally been low, and while we still have a long way to go, our efforts in this area have led to an increase of almost 7% in the number of female employees in

the workforce since 2007. In 2010, women accounted for 17.76% of the headcount. Recognising the importance of women in senior management positions, the ratio of women to men in such positions is 1:6. Persons with disabilities account for 3.36% of the workforce.

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

Our integration policy complies with the requirements set out in the LISMI (Law on the Social Integration of the Disabled), which requires that workers with disabilities account for 2% of the workforce. In 2010, the number of employees with disabilities was 23, which represents 3.36% of the Ence Group workforce. Of these, two had individual employment contracts and the others had collective bargaining contracts.

| Professional category | 2010 | | | 2009 | | |
|-----------------------|------|-------|-------|------|-------|-------|
| | Men | Women | Total | Men | Women | Total |
| Management | 6 | 1 | 7 | 6 | 1 | 7 |
| Individual contract | 191 | 49 | 240 | 171 | 41 | 212 |
| Collective Bargaining | 833 | 154 | 987 | 1008 | 174 | 1182 |
| Temporary | 361 | 96 | 457 | 394 | 67 | 461 |
| | 1391 | 300 | 1691 | 1579 | 283 | 1862 |

We manage, develop and retain talent

1 Recruitment and integration

At the Ence Group, we believe that people are key to the competitiveness of the company. In 2010, therefore, we continued to develop policies and strategies to attract and retain the best professionals in the market.

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

*The number of trainees with
vocational training has increased
150% in the past three years*

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

The programme consists of 6 months of specific training for all new employees and their progress is monitored through regular reviews and a performance evaluation at the end of

the programme. The programme is completed with training that is tailored to the employee and his or her future professional development

*In 2010, 64 students
completed work experience
placements in the company*

Our Internship Plan includes partnership agreements with universities, business schools and vocational training colleges. In 2010 such agreements enabled 64 young people to begin their career with work experience placements in our organisation. For the Ence Group, this is an important talent management strategy that enables us to select the most promising candidates for recruitment to the company.

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

2 Development and training

In order to ensure that we have competent and motivated professionals who bring added value to the organisation, the Ence Group has developed a series of development policies aimed at improving their skills and, therefore, those of the

| | 2008 | 2009 | 2010 |
|----------------------|------|------|------|
| University graduates | 24 | 26 | 21 |
| Vocational Training | 17 | 44 | 43 |
| Total | 41 | 70 | 64 |

3. ENCE GROUP

company. These include a Performance Evaluation and Management by Objectives (MBO) system and a Compensation Policy that aims to reward the employee's contribution to and engagement with the business, as well as promote their professional development.

In addition, in 2010 more importance than ever was placed on improving skills through specific training plans and programmes.

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

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

Performance evaluations are taken by senior and middle management, and supervisors were included for the first

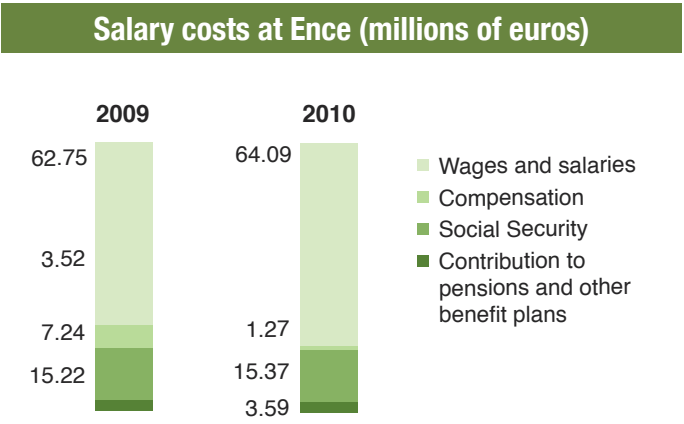
| Performance evaluations | 2008 | 2009 | 2010 |
|---------------------------------|------|------|------|
| Senior management | 24 | 28 | 25 |
| Middle management & supervisors | 189 | 153 | 181 |
| Total | 213 | 181 | 274 |

time this year. In 2010, 274 evaluations -16.2% of the Ence Group workforce- were carried out, 93 more than the previous year.

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

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

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



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

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

Ence's salary costs amounted to 84 million euros in 2010

Variable remuneration aims to reward employees for the achievement of individual, group, team or organisational goals which are directly linked to the business's short-term results. It is based on a percentage of the employee's fixed annual salary. This base is multiplied by two factors each year: the company factor and the individual factor. The company factor depends on the achievement of the company's profit targets, which is indicated in the annual Strategic Plan, and the individual factor depends on the



achievement of the individual goals set for the employee at the start of the year.

In 2010, Ence's salary costs amounted to 84 million euros, which represented an increase of 2% over the previous year.

External training costs amounted to 229,000 euros in 2010

The objective of the Ence Group's training plans is to promote the personal and professional development of employees at all levels of the organisation in order to improve their integration into the company and their commitment to company objectives. The plans in question are drawn up in collaboration with the different department heads, and a schedule and plan are established for the implementation of training activities. The 2010 plan was prepared following a joint assessment to identify training needs, after which a training budget was drawn up, and the training objectives and schedule were established.

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

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

3. ENCE GROUP

We have increased the number of hours devoted to training five-fold since 2007

The number of hours devoted to training in 2010 was increased by 7% over the previous year, and five-fold over 2007 levels. Training expenditure amounted to 229 thousand euros.

Leadership and safety - key training areas for our employees

At the Ence Group, developing our employees' leadership skills is a key factor for their professional development and integration and engagement with the company. In 2010, therefore, a comprehensive leadership development programme was launched for all managers in the company. The programme –in which 220 people participated- aims to provide the tools required for people management, promote the development of employees, and improve communication between managers and their teams. The training was completed with different workshops on emotional intelligence and coaching.

Determined to promote and safeguard the welfare of all employees, we place special importance on safety, and carry out training to improve this: workers are trained to put out fires, most of the workforce have received refresher training in the Interior Emergency Plan, and specific training is given in the Analysis and Investigation of Accidents. Furthermore, in the area of Health & Safety Management (HSM), specific courses have been given in preventive specialties, and official certificates have been awarded for Elementary, Intermediate, Advanced (HSM Officer) and HSM Auditor levels.

Courses have also been given on specific skills like the operation of chainsaws and forestry equipment, among others. In 2010, the Ence Group did not consider it necessary to provide

training to employees in human rights or anti-corruption as no significant risks have been identified in these areas.

We work to protect the health and safety of our workers

The Ence Group continuously strives to protect the health and safety of its employees. To achieve the target of Zero Accidents, we take a zero tolerance approach to non-compliance with the rules, and strive to improve workers' safety habits by instilling a culture of accident anticipation in all operations. .

In 2010, the number of hours lost due to illness decreased by 15%

In 2010, accident and occupational disease rates improved, thanks to the essential role of Health and Safety Management. This is part of the company's Integrated Management System (IMS) and has been included in the Management by Objectives programme. Indeed, it is an essential part of our day-to-day operations at all levels, and the content and training have been tailored to the different company areas i.e., the forestry, industrial and corporate divisions.

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

| Professional category | 2007 | 2008 | 2009 | 2010 |
|-----------------------|---------|---------|---------|---------|
| Courses | 177 | 156 | 159 | 156 |
| No. participants | 2,257 | 1,680 | 2,835 | 2,140 |
| No. training hours | 3,792 | 7,077 | 18,728 | 19,975 |
| External Cost | 232,955 | 250,135 | 244,639 | 229,498 |

Our centres have been certified in accordance with the international OHSAS 18001:2007 standard

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

In Uruguay, after undergoing two six-monthly monitoring audits, Eufores continues to hold OHSAS 18001 certification and, by the end of the year, 100% of the non-compliances identified in the most recent audit had been resolved.

Our safety management efforts are reflected in the accident rate for 2010: no occupational diseases were reported, there were no fatal accidents and the number of hours lost due to illness decreased 15% compared to 2009 (in 2010, the number of hours lost due to illness were 54,940).

Ence's safety management system includes a Joint Prevention Service (JPS) whereby the functions and responsibilities of employees at all levels of the organisation with respect to Health and Safety are defined. Accordingly, health and safety is not only integrated into all of the Group's functions and decisions, it also extends to contractors and suppliers, thus ensuring compliance with the rules. The four areas of prevention are adequately covered: Occupational Safety, Industrial Hygiene, Ergonomics & Applied Social Psychology and Health Surveillance. In 2010, we updated the document of establishment of the Joint Prevention Service for two purposes: firstly, to bring it into line with changes in legislation and, secondly, to provide for the Group's new organisational structure, and to ensure it adequately addressed the different Business Units.

Furthermore, in order to improve healthcare for temporarily disabled employees, the Ence Group signed an agreement with the Mutual Social Insurance Fund for Employment Accidents and Occupational Diseases to speed up the performance of diagnostic tests.

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

3. ENCE GROUP

In our quest for continuous improvement in accident prevention, we introduced the following improvements in 2010:

- Reporting, analysis and implementation of preventive and corrective measures for all accidents and incidents that occurred.
- Detection and correction of potentially dangerous behaviour using the preventive safety tool.
- Establishment of corporate guidelines and procedures for safety management.
- Improved communication in aspects concerning the health and safety of workers.
- Assessment of the safety results of contracted services.
- Carrying out of thorough and frequent inspections.

We strengthen industrial relations through communication and engagement

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

In 2010, trade union elections were held in the factory in Huelva, where Comisiones Obreros obtained a majority, and UGT and Sindicato Unitario also secured representation. During the elections, there were no incidents to suggest that the rights to freedom of association and participation in collective bargaining agreements had been violated.

Safety in the workplace

In 2010, we carried out specific actions to strengthen safety in the workplace, including the following resolutions which were adopted by the workers:

Factories and workplaces

Implementation of the corporate work permit through different task forces in each factory.

Completion of psychosocial risk assessments in all workplaces.

Factory in Navia

Replacement of emergency equipment in huts.

Improvement of health and safety signage in factory areas, and in chemical products for fluid pipes

Factory in Pontevedra

Improvement of the Sulphate concentration in the filter system.

Completion of ergonomic assessments at operator positions

Factory in Pontevedra

Introduction of forestry work clothing for our own staff.

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

In 2010 the Silvasur Agroforestal collective bargaining agreement was negotiated. This will remain in force until 31 December 2011 and provides for general salary increases in keeping with the actual CPI, thus enabling workers to maintain their purchasing power in times of economic crisis. In 2011 we will negotiate collective bargaining agreement with Norte Forestal, the Group subsidiary engaged in forestry operations in the north of the Iberian Peninsula and in Pontevedra.

This year we continued with the new organisational and business model defined in the Strategic Plan, which contemplates three Business Units -Pulp, Forestry and Energy- in

addition to a number of transversal services that provide support to these three broad areas.

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

In addition, the Group has an employee benefits programme in place, which cost the company more than one million euros in 2010, an approximate increase of 20% over 2009 expenditure

*In 2010, 20% more was
spent on employee
benefits than in 2009*

3. ENCE GROUP

Internal communications

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

Our strategy aims to keep our employees informed of any company developments, our mission, values and strategy, and to help them feel part of this and rewarded for their efforts. The Communications Plan therefore recognises team achievements, strives to create a participative and transparent company, integrates internal communications into the overall management of the company and creates an internal image.

Expenditure on employee benefits

In thousands of euros 2010

| | |
|----------------------|-----|
| Company store | 168 |
| Canteen | 429 |
| Christmas | 204 |
| House rental | 45 |
| Hospitality fund | 25 |
| Other staff benefits | 21 |
| Staff transport | 160 |

Continuous Improvement Project at the factory in Pontevedra

At Ence, we recognised our staff's contribution to improving the efficiency of the factory at an event to also celebrate the

fact that no accidents requiring sick leave had occurred in more than a year.

The management and workers of Ence in Pontevedra launched a Continuous Improvement Project in the factory by setting up multidisciplinary task forces to design solutions to improve factory efficiency. The results of the initiative speak for themselves: oxygen and hydrogen peroxide consumption, for example, was reduced by 10%, and 30,000 tonnes of steam were saved, which enabled a reduction in energy and water consumption. We recognised the efforts of our professionals and rewarded the teams, particularly the ones which achieved the best results.

Apart from day-to-day tasks, strategic initiatives aimed at improving production processes were also introduced, and an Organisation, Orderliness and Cleaning Plan (OOL) to improve the condition of the work areas and positions was also implemented as part of the Continuous Improvement Project.

At the Best Team awards presentation ceremony, the management also took the opportunity to congratulate the employees of Pontevedra for going 410 days without an accident that required sick leave.

This continuous improvement initiative will help to consolidate Ence Pontevedra as one of the most competitive plants in the paper industry. Indeed, the Pontevedra factory is regarded as a benchmark for the production of TCF (Totally Chlorine Free) pulp among the largest clients in the paper sector.

Ethical conduct and respect for human rights

We at the Ence Group pay special attention to the preservation of human rights. In 2010 we became a member of the United Nations Global Compact, an international initiative whereby businesses worldwide are encouraged to adopt sustainable and socially responsible policies, and to report on their implemen-

tation. We have therefore undertaken to support, promote, abide by and disseminate its ten principles. Every year we renew our commitment and assess our compliance with the ten principles. The results of the assessment are included in a progress report that is forwarded to the Spanish Global Compact Network, and which is available to our stakeholders.

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

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

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

Furthermore, by certifying our chain of custody, we can be sure that the timber we use does not come from controversial sources that might violate human rights. In 2010 there were no incidents involving the violation of indigenous rights. Principle 10 requires that we play a proactive role in combating corruption, extortion and bribery in order to enhance our transparency and to provide clearer and more open communication with governments, organisations and civil society. In 2010, we assessed the potential risks of illicit operations that could be considered corrupt, unfair or bia-

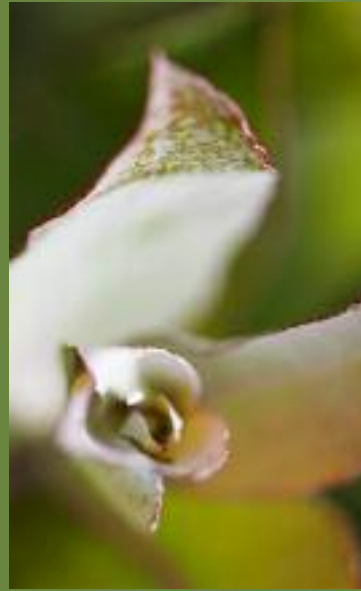
sed. The results of the analysis were included in a risk map that was presented to the Audit Committee, which reports to the Board of Directors, and is responsible for identifying, analysing and implementing prevention and mitigation measures.

Although we do not have a specific mechanism for the reporting, control and handling of incidents involving corruption, our Communications Plan ensures smooth internal communication and close dialogue with our workers, thus encouraging them to report or notify management of any conduct that might be considered corrupt. No incidents of corruption were reported in 2010.

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

The Ten Principles of the Global Compact

1. **Protection of fundamental human rights**
2. **Not be complicit in human rights abuses**
3. **Uphold the freedom of association and the right to collective bargaining**
4. **The elimination of forced and compulsory labour**
5. **The abolition of child labour**
6. **The elimination of discrimination in respect of employment and occupation**
7. **Support a precautionary approach to environmental challenges**
8. **Undertake initiatives to promote greater environmental responsibility**
9. **Encourage the development and diffusion of environmentally friendly technologies**
10. **Work against corruption in all its forms including extortion and bribery**



4

Our Businesses



4. OUR BUSINESSES

Forestry Operations

The Ence Group’s primary activities in the field of forestry are the creation of forestry assets, research into the yield of species, and their cultivation, care and maintenance for the extraction of wood and biomass.

Key figures

- Ence manages 113,940 hectares of forest in Spain, Portugal and Uruguay.
- The Group has a certified area of 100,000 hectares.

- In 2010 we forested 6,324 hectares: 1,967 of which were earmarked for the cultivation of energy crops, almost tripling the previous year’s level.
- Ence promotes sourcing from local suppliers: in 2010 the purchase of domestic timber increased 13%, representing a volume of 2,037,000 m3.
- In 2010 we allocated 2 million euros to forestry R&D+i.
- Four percent of the forest area managed by the company is of High Conservation Value.

| 2010 Achievements | 2011 Goals |
|--|---|
| We use selected clones in parcels in the province of Huelva, which has enabled us to double their growth. | Continue to implement the best practices identified in Huelva in new plantations under development. |
| In Spain, a large part of our forestry assets hold PEFC certification. Our forests in the north of the peninsula have also been awarded FSC certification. | Obtain better genetic materials and continue to increase the rooting rate and efficiency of plants during their growth in Ence’s Forestry Research and Technology Centre and the Nursery in Huelva. |
| In Uruguay, Ence’s Sierras Calmas forests hold FSC certification and are in the process of obtaining Uruguay Sustainable Forest Management certification. | Obtain FSC certification for the Group’s forestry assets in the northwest of the Iberian Peninsula. |
| | Complete the Sustainable Forest Management certification process in Uruguay. |

We signed a partnership agreement with the Regional Government of Andalusia to promote a number of institutional and business initiatives in the area of forestry planning, timber and biomass production and the promotion of renewable energy.

Promote the appointment of a significant number of representative industry partners in order to enable greater professionalisation and improved forest management.

We signed a partnership agreement with PROMAGAL (the Galician federation of timber producer associations) to increase the market uptake of timber from certified forests.

Promote the formation of associations among small forest owners in the north of the peninsula in order to improve dialogue with social partners.

Our Approach to Sustainability

Economic performance

We have a long-term investment policy to maximise self-sufficiency and to expand forestry assets in the Iberian Peninsula.

We strengthen R&D+i programmes by investing in advanced forestry techniques.

We increase the efficiency and productivity of our plantations through the selection of species and seeds.

Eucalyptus produces better quality at a lower cost in the manufacture of paper for printing and writing, and tissue paper.

Environmental performance

We identify categories of protected areas so that preventive measures can be taken: the Natura 2000 Network, Sites of Community Interest and Special Protection Areas for Birds.

Eucalyptus promotes biodiversity and its planting creates new natural spaces.

We maintain and strengthen natural ecosystems and areas of high conservation value, such as cork and Mediterranean forests.

We have a comprehensive plan for pest and disease control.

Our forestry management reduces the risk of fire.

Social performance

Our eucalyptus plantations create employment and wealth in rural areas through the signing of agro-forestry agreements with the owners of woodlands.

Our eucalyptus plantations stand out for their numerous -profitable and sustainable- industrial uses, from the production of honey and essential oils to hunting, livestock farming and leisure.

We take every care to minimise the visual impact of our activity on the landscape.

4. OUR BUSINESSES

Our raw material: eucalyptus

Our activity focuses on biomass energy generation and pulp production. The raw material required for both activities comes from natural and renewable resources: forest biomass and wood. Ence uses wood from eucalyptus forests to produce pulp.

Together with pine, eucalyptus is one of the world's most used forest species for industrial purposes and is grown in more than 90 countries. It has significant advantages due to its variety of uses and profitable and sustainable industrial applications. It is regarded as one of the most useful and versatile trees from an industrial perspective. It creates wealth in rural areas; it surpasses other species in terms of growth and productivity when its wood is used to produce pulp; it produces better quality paper at a lower cost and is a source of renewable energy like biomass and energy crops.

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

Eucalyptus plantations create wealth in rural areas

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

In 2010 the purchase of domestic timber increased 13%, representing a volume of 2,037,000 m³

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

The Ence Group promotes sourcing from local suppliers, as demonstrated by the fact that the purchase of domestic timber increased 13% in 2010, which represents a volume of 2,037,000 m³. Timber from the company's own forests amounted to 224,000 m³ in the Iberian Peninsula in 2010 and accounted for 6% of total consumption. In the area of forest management, we felled 525,007 m³ of timber in the Iberian Peninsula in 2010.

Eucalyptus and the environment: 7 answers

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

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

1- Does the eucalyptus tree damage or degrade the soil in which it grows?

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

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

2- Does the eucalyptus tree reduce water supply?

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

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

3- Are eucalyptus plantations unsightly for the local community?

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

4- Are eucalyptus plantations a hazard in sensitive and protected areas?

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

5- Is the eucalyptus an invasive species that has an adverse effect on biodiversity?

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

4. OUR BUSINESSES

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

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

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

6- Are eucalyptus plantations very sensitive to fire?

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

The Ence Group has designed and implemented a Forest Fire Prevention Plan in every area of activity, which is integrated into its other forestry and harvesting activities. The plan sets out basic guidelines and procedures in the event of a fire, in

addition to prevention tasks and other measures to ensure compliance with current legislation.

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

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

Because the Ence Group removes forest waste for use in biomass, its incidence of forest fires is up to 71% lower than in the rest of Spain.

7- Does the eucalyptus promote and spread forest pests and diseases?

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

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

En Huelva se han alcanzado niveles de control de plagas del 85%.

Sustainable forest management

The Ence Group's Management Plan entails the rational use of all the forest's resources and services, whether productive, ecological or social.

We have been committed to sustainable forest management since we championed the "Iberian Declaration of Elvas" in 1997 on the triple function of forests. Since then, we have developed Spain's first Sustainable Forest Management System with the objective of maintaining the biodiversity, productivity, regeneration capacity and viability of forests, in addition to strengthening their ecological, social and economic functions.

Our Management Plan entails the rational use of forest resources and services, whether productive, ecological or social

The system is based on Technical Forest Management Plans, Forestry Planning Programmes, the Continuous Forest Inventory, other instruments of the Integrated Quality and Environmental System and Planning Projects.

Furthermore, each management unit has a Planning Project – a technical planning document where the relevant criteria, objectives and priorities are set out, options are assessed and decisions made.

Accordingly, the monitoring and control of activities in accordance with the Continuous Forest Inventory is ensured, including the controlled use of phytocides, verification of the

health and vitality of forest areas, inspection of their protective functions and the study and inventory of each forest's unique characteristics. As a result of this monitoring exercise, environmental risks can be identified and the appropriate corrective and preventive measures taken.

The Ence Group's forest management system entails the identification and classification of unique heritage items, which are published in a company-funded catalogue that includes 173 elements of notable ecological, social, historical or cultural value.

We not only take environmental sustainability criteria into consideration; we also promote the development of local communities. Forestry companies create jobs and have other economic and social benefits, such as livestock farming, beekeeping, hunting, fishing and activities that evolve around the natural and scenic values of the forest, in addition to environmental training and research.

Unique heritage items

| | South | Portugal | Uruguay | North |
|----------------------------|-------|----------|---------|-------|
| Historical cultural | 21 | 1 | 0 | 98 |
| Natural | 39 | 0 | 0 | 10 |
| Social | 3 | 0 | 0 | 1 |
| Total | 63 | 1 | 0 | 109 |

4. OUR BUSINESSES



This contribution is recognised by the local communities, as evidenced by the Gold Medal awarded by the Navia cultural association, “Amigos del Concierto”, for our long and productive industrial tradition in the area, and our commitment to the future of the town council.

For more information on our Forest Management Plans, please visit our website: www.ence.es

Certified sustainable forest management

In 2010, the Ence Group forested 6,324 hectares, 4,357 of which were earmarked for the production of pulp. The remaining 1,967 hectares –almost three times the level of the previous year- were allocated to the cultivation of energy crops.

In 2010 we almost tripled the area allocated to energy crops

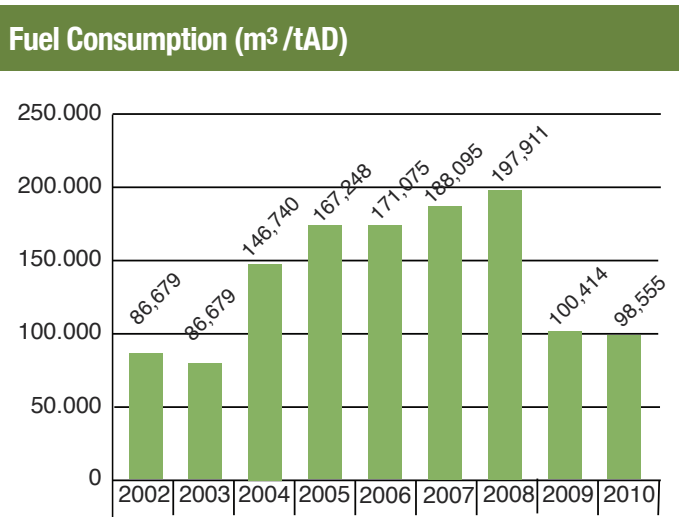
This –duly documented- management enabled us to obtain sustainable forest management certification for our forests in the Iberian Peninsula and Uruguay in accordance with the strictest and most advanced international standards, like the

ISO 14001 and the PEFC (Programme for the Endorsement of Forest Certification schemes) and FSC (Forest Stewardship Council) systems.

The Ence group has always been the driving force behind forest certification in Spain. Our forestry subsidiaries Silvasur and Norfor were the first companies in the Iberian Peninsula to obtain PEFC certification (in June 2002). Currently, more than one million hectares of the Group’s forest land in Spain holds PEFC certification, in addition to certification by regional and industry bodies, public authorities and private businesses.

Sustainable forest management certification is a guarantee that the wood does not come from illegal sources, natural forests, areas where the rights of the population are being violated, genetically modified trees or non-certified, ecologically valuable forest areas that might be endangered by forestry activity.

By obtaining certification, we can demonstrate that the wood comes from controlled forests and provide assurance that it does not come from controversial sources. We therefore contribute to the sustainability of the entire production chain: from



the forest to the pulp plant, from our customers to the paper manufacturer, and from here to the end consumer.

The Ence Group has a certified area of 100,000 hectares

Despite the divestment transaction in Uruguay in 2009, Ence currently has a certified area of almost 100,000 hectares.

Our forestry assets in Spain hold PEFC certification and our forests in the north of the Iberian Peninsula also have FSC certification. Our forestry assets in the southwest of the peninsula are currently in the process of obtaining FSC certification, which should be completed by early 2011.

In Uruguay, Ence's Sierras Calmas forests have FSC certification and are in the process of obtaining Uruguay Sustainable Forest Management certification (UNIT 1152, PEFC).

Of the total forest area managed by the company, 26% (29,334.37 hectares) are natural forests. Furthermore, 4,774 hectares have been declared forests of high conservation value (MAVC) and 17,804 hectares are located in areas that have been officially declared natural protected areas by the competent authorities.

Sustainable Forest Management System in Uruguay – Sierras Calmas

The forestry management units of Sierras Calmas in Uruguay are located in the east of the country, primarily occupying the departments of Lavalleya and Rochaand, and to a lesser extent, Canelones and Florida. In addition to managing the assets, the Ence Group also administers plantations on behalf of third parties through consortiums and leasing, as well as standing timber.

Sierras Calmas's commitment to the forest and the people who work in it led to the development of an Integrated Ma-

| Certified area (ha) | | | | | |
|---------------------|-------------------|------------------|------------|---------------|------------|
| Company | Total Area | PEFC | | FSC | |
| | | Area | % | Area | % |
| Ence-Energía | 4,670.02 | 0 | 0% | 0 | 0% |
| Ence-Huelva | 63,641.63 | 55,255.95 | 87% | 0 | 0% |
| Ence-Norte | 12,957.37 | 11,794.35 | 91% | 3,688 | 28% |
| Ence-Portugal | 4,513.72 | 0 | 0% | 0 | 0% |
| Ence-Uruguay | 28,157.15 | 0 | 0% | 27,817 | 99% |
| TOTAL | 113,939.90 | 67,050.30 | 26% | 31,505 | 28% |

4. OUR BUSSINESES

nagement System that ensures respect of the environment in accordance with sustainability criteria: preservation of the biodiversity of the forest, its regeneration capacity, its vitality and ability to perform its present and future environmental, social and economic functions.

Sierras Calmas has a number of strategic objectives, which entail:

- Sustainable forest management of plantations
- Production of wood of sufficient quality and quantity to meet demand
- Continuous improvement in the performance of:
 - o Environmental aspects
 - o Occupational health and safety aspects
 - o Social aspects
- Research and development: genetic improvements, forestry practices, etc.

- Project profitability
- Development and maintenance of an Integrated Management System

Reforestation and CO₂ capture

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

Power generation emits less CO₂ than the amount captured from the atmosphere by the tree crops used to generate the power. Furthermore, the CO₂ capture process is particularly efficient in forest energy crops, and the full CO₂ emission cycle in the construction and operation of a biomass plant is more favourable than that of other renewable

| Managed area (ha) | | | | | | | |
|-------------------|------------|-------------------|-----|-----------|----|-------------------------|-----|
| Company | Total area | Natural forests | | MAVC | | Natural protected areas | |
| | | Conservation area | % | MAVC area | % | Superficie Protección | % |
| Ence-Energía | 4.670,02 | 107,28 | 2% | 0 | 0% | 361 | 8% |
| Ence-Huelva | 63.641,63 | 15.624,73 | 25% | 4.554 | 7% | 13.738 | 22% |
| Ence-Norte | 12.957,37 | 1.595,66 | 12% | 220 | 2% | 596 | 5% |
| Ence-Portugal | 4.513,72 | 492,12 | 11% | 0 | 0% | 3.109 | 69% |
| Ence-Uruguay | 28.157,15 | 11.514,59 | 41% | 0 | 0% | 0 | 0% |
| TOTAL | 113.939,90 | 29.334,37 | 26% | 4.774 | 4% | 17.804 | 16% |

energies. The development of biomass energy in Spain could allow CO₂ savings of up to 12 million tonnes.

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

Eucalyptus plantations as carbon sinks

Compared to other species, eucalyptus is particularly efficient in CO₂ capture, carbon fixation and oxygen generation. This is due to the fact that it has a higher growth rate and its wood is denser, thus enabling it to retain more carbon per unit of volume.

An individual tree's potential multiplies exponentially in the case of a forest mass, as all trees have a higher carbon fixation rate in their first years of life. The forest mass effect is beneficial for the species (an isolated tree survives worse) and the better they grow, the more carbon they fix. If, in addition, a species is induced to grow faster, it will grow more quickly and fix even more carbon.

Furthermore, eucalyptus plantations rejuvenate with each felling and, as this occurs every 10 to 15 years, the forest mass is always young and has a high carbon fixation rate: carbon fixation is extracted and renewed up to three times.

Eucalyptus plantations are therefore an effective solution to deforestation. They have the ability to act as the planet's "spare lung" but only occupy 0.8% of its surface compared to the 34% used for agriculture.

4. OUR BUSINESSES

Nuestra apuesta por la I+D+i. Ámbito forestal.

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

As a result, the use of selected clones in parcels in the province of Huelva has enabled us to double their growth, and these improvements are being implemented successfully in new plantations under development. Consequently, we have increased both the afforestation of the plantations and their productivity.

In 2010 we invested approximately 2 million euros in forestry R&D+i in three main areas:

1. **Madera:** forestry research focuses primarily on the improvement of forest species for the manufacture of pulp.
 - Genetic improvement programme involving the selection of individual species that adapt better to the conditions of each soil.

- Forestry improvement programme to improve the growth and productivity of plantations

2. Biomass and energy crops:

- Energy crop programme with ten selected species.
- Waste biomass programme
- Evaluación de los restos forestales como combustible.

3. Technical assistance for forestry.

In 2010, we reviewed the standards and guidelines for the foresting of improved eucalyptus and implemented the best environmental and sustainable forest practices in the different geographical regions where we operate (north and south of the Iberian Peninsula and Uruguay). Forestry standards allow the transfer of R&D+i to operations in the case of new fertilisation tests, soils and pest control, etc.

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

Ence's forestry research, world leader in enhanced eucalyptus

Ence's nursery in Huelva has developed a pioneering world technique for the production of improved white eucalyptus from the cuttings of trees that have proven to perform better in the field. The technique was developed by Ence's Forestry Research and Technology Centre in Huelva, and it was used to produce an annual average of 7 million plants to meet the company's forestry needs.

This is how the trees Ence grows in all of Spain for the supply of wood to its three paper pulp and electric power factories are produced. The company's R&D+i management team monitors the behaviour of these trees, improving and increasing their production capacity and ability to sustainably adapt to the forest lands where Ence produces the timber it needs.

The main benefits of using the improved plants produced in Huelva are a significant increase in wood production from the same surface area, which can be as much as three times higher than the results obtained from planting seeds. The use of what we call "plus" trees, coupled with forestry practices that bring out their full potential, produce more uniform forest lands made up of individual trees that adapt better to the different climate and geological conditions and soil characteristics.

The success of the technique lies in a strict control of factors such as humidity, temperature and sunlight. Although the technique has been fully developed, Ence's Forestry Research and Technology Centre and the Nursery in Huelva have a continuous improvement policy in place to achieve better genetic materials and to continue increasing the rooting rate and efficiency of plants during growth.

4. OUR BUSINESSES

Pulp and paper

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

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

Key figures

- Pulp production reached the record level of 1,156,467 tonnes in 2010, a 16.4% increase over 2009.
- The Group's three factories in Spain (Huelva, Navia and Pontevedra) have been awarded ISO 14001 certification and have been validated in accordance with the Eco-Management and Audit System (EMAS).

- We strive to improve energy efficiency in production: energy generation per unit of production has increased 36% in the last 2 years.
- Specific fuel consumption was reduced by 45% during the 2002-2010 period.
- During the 2002-2010 period, we reduced water consumption per tonne of pulp produced by 27%.
- Between 2002 and 2010, we recovered a considerable amount of waste (69.1 kg/ADT), which was higher than the amount of waste sent to disposal sites.
- We have reduced specific CO₂ emissions per tonne by 43% since 2002.
- In 2010, we emitted 476,938 tonnes of CO₂, which represents a decrease of almost 10% over 2009.

Our Approach to Sustainability

Economic performance

We maintain our position in the European paper industry as a strategic supplier of eucalyptus pulp.

We maintain our leadership in the printing, writing paper, tissue and speciality paper segments, and have strengthened our position with the leading paper manufacturers.

We have strengthened our presence in emerging markets like Eastern Europe and the Mediterranean countries.

Environmental performance

Our industrial plants hold ISO 14001 certification and we have validated our Environmental Statements in accordance with EMAS.

Our bleaching processes are Elemental or Total Chlorine Free (ECF or TCF). Furthermore, Ence's factory in Lourizán is one of only two plants in the world that bleaches paper pulp without using chlorine or chlorine compounds.

We invest and take measures to increase energy efficiency in our factories.

We use all of the raw material used in pulp and paper production, and all non-cellulosic biomass is used for power co-generation.

We save in fuel consumption, thus mitigating climate change, reducing economic costs and preventing sulphur dioxide emissions.

We develop and implement the Best Available Techniques (BATs). This consequently leads to greater process efficiency, lower economic costs and the least possible impact on the environment.

Social performance

Occupational health and safety has been integrated into our management system.

We fulfil our commitments to customers, employees and society, implementing product and process quality,

efficiency and environmental management standards, and dialogue with stakeholders in the communities where we operate.

We use eucalyptus as a raw material, which is highly rated by the manufacturers of printing and writing paper.

4. OUR BUSINESSES

Clean and efficient production

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

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

We use the Best Available Techniques in our production processes.

The pulp and paper industry pioneered the development and implementation of what are known as Best Available Techniques (BATs). This consequently leads to greater process efficiency, lower economic costs and the least possible impact on the environment. The Best Available Techniques or BATs in the pulp and paper industry are set out in the official EU Best Available Techniques reference document (BREF), which was developed pursuant to the IPPC regulation (Integrated

| 2010 Achievements | 2011 Goals |
|--|--|
| We have made significant investment to reduce odours in our pulp plants. | Reduce the odours caused by sulphur, nitrogen and dust particles in the air by 50% in our factory in Pontevedra. |
| We have implemented water saving measures: exploitation of intermediate condensates, cooling towers, the reuse and partial closing of circuits. | Continue to reduce specific consumption of wood and water and establish a continuous improvement strategy. |
| We increased energy generation per unit of pulp production. | Continue to invest in energy saving and efficiency measures in production. |
| We implement the Best Available Techniques (BATs), such as the dry debarking of trunks, extended firing at low kappa levels and oxygen delignification, etc. | Incorporate new Best Available Techniques and Environmental Practices in order to increase efficiency. |
| The effectiveness of our management system is evidenced by the fact that all of our plants in the Iberian Peninsula hold the relevant certification. | Retain ISO and EMAS Environmental Management Certification in our plants in Spain. |

Pollution Prevention and Control). The Ence Group actively participates in the review and updating of the BREF through Aspapel. More information on the subject is available to the public on the European Union website: <http://eippcb.jrc.es>.

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

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

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

Sustainable pulp production

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

We have reduced the specific consumption of wood, energy and water.

In 2010 we continued to promote the complete integration of product and process quality, and health and safety into our environmental management system, thus fulfilling the commitments made to our customers, employees and society.

The effectiveness of this management system is demonstrated by the continuous improvement in environmental performance of our factories. The environmental management systems of the company's factories in Spain have been certified by accredited bodies in accordance with the ISO 14001 Standard. Furthermore, the most representative environmental monitoring and control parameters have been recorded in the Environmental Statements of each factory.



4. OUR BUSINESSES

The Group’s three factories in Spain (Huelva, Navia and Pontevedra) have had their statements validated in accordance with the Eco-Management and Audit System (EMAS) and Regulation (EC) No 1221/2009 of the European Parliament and of the Council. The three factories were the first in their respective Autonomous Communities to undertake this voluntary commitment, which few other companies have done to date. In all cases, the values of the regulated parameters comply with the legal limits and in some cases are well below them.

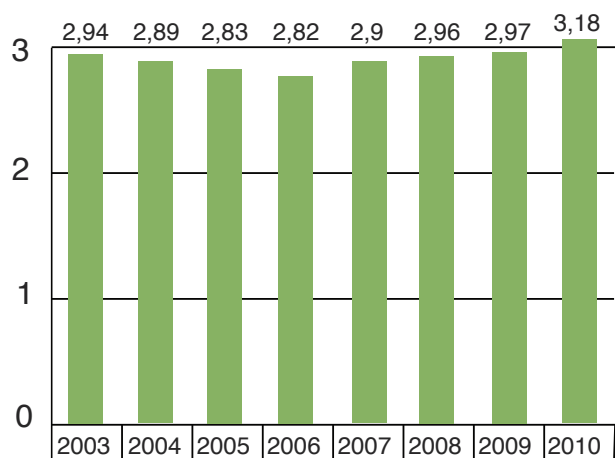
Implementation of the BATs has significantly improved these parameters. All of our factories have recorded a reduction in the specific consumption of energy, water and

raw materials. The table below shows the most representative parameters and the values for 2010. These are expressed in kg per load or m3 consumption per unit of production, as is customary in the sector. The unit of production (ADT) is the “air dry” tonne and always refers a dry solids content of 90%.

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

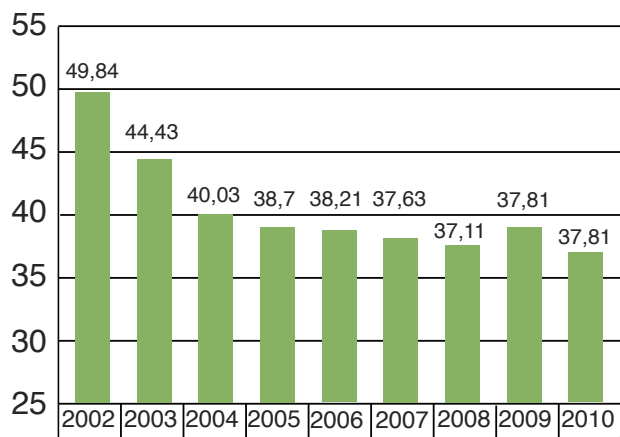
| Most representative parameters | Parameter value | Unit |
|--|-----------------|---------|
| Wood | 3,18 | m³/ADt |
| Water | 36,3 | m³/ADt |
| Fuel | 64,8 | kg/ADt |
| Electricity produced | 730,2 | kWh/ADt |
| Non-hazardous waste to disposal site | 44,3 | kg/ADt |
| Hazardous waste | 0,9 | kg/ADt |
| CO2 | 0,45 | t/ADt |
| DQO | 15,3 | kg/ADt |
| NOx | 1,43 | kg/ADt |
| S (total sulphur, including SO2 and SH2) | 0,40 | kg/ADt |

Wood consumption per unit of production (m³ wood/tAD)



In 2010 we increased wood consumption as there was a shortage of more than 2 million cubic metres in the Iberian Peninsula, which had to be covered by imports from South America.

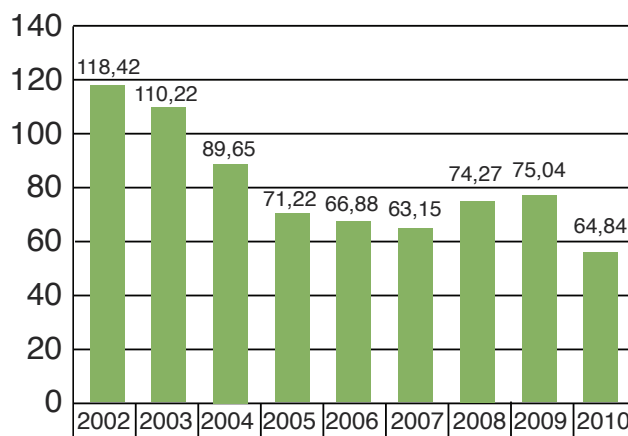
Water consumption (m³ /tAD)



Water consumption per tonne of pulp produced was reduced by 27% during the 2002-2010 period. This reduction is especially relevant, considering the global scarcity of water, and is further evidence of the continuous improvement of our processes. We were able to reduce water consumption by using intermediate condensates, installing cooling towers and, more especially, by reusing washing water and partially closing circuits.

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

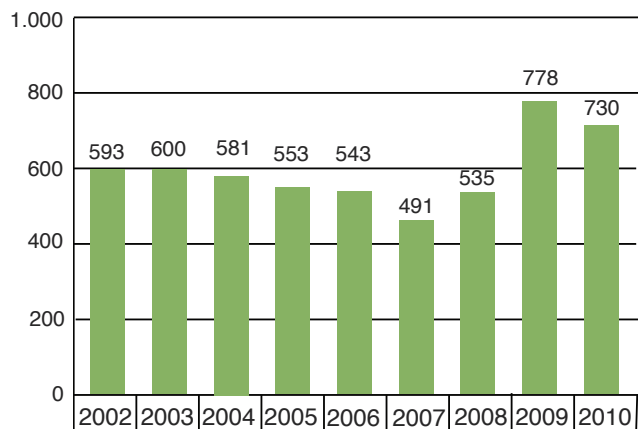
Fuel consumption (m³ /tAD)



Other important consumption is the fossil fuel (fuel) used in furnaces and boilers. Reduced fuel emissions help to mitigate the effect of climate change, reduce economic costs and prevent the emission of sulphur dioxide (SO₂). During the 2002-2010 period, specific fuel consumption decreased 45%.

4. OUR BUSINESSES

Energy production per unit of pulp produced (kWh /tAD)



With regard to energy production and consumption, the factories generate the energy required for operations and export any surplus to the national electricity grid. Energy generation per unit of production has increased as a result of investment in this area and the implementation of energy saving measures in the process itself.

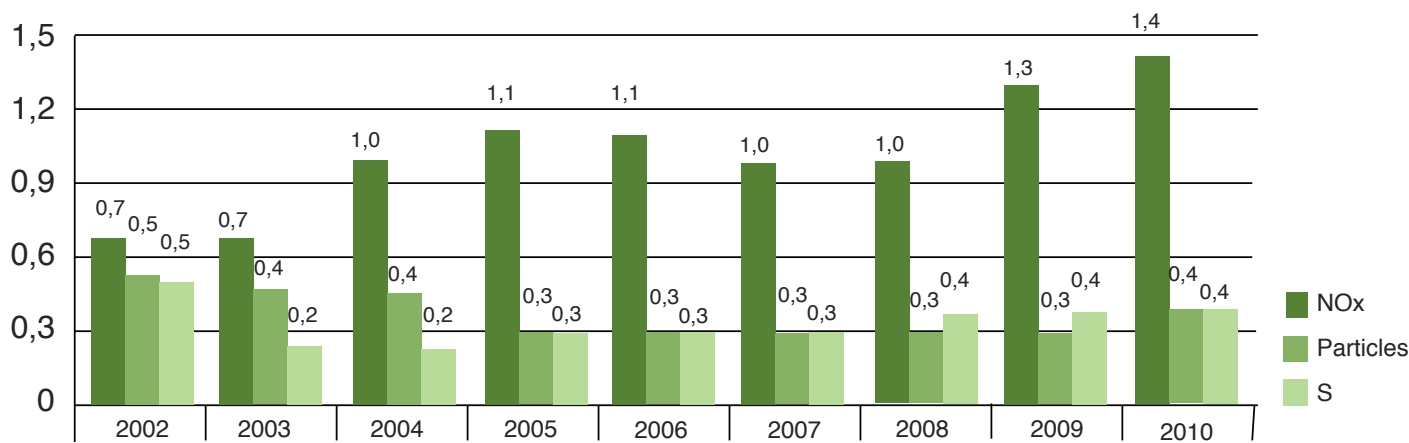
Emissions to air during normal factory operations are within the legally established limits, and particle emissions actually decreased during the period covered in this report. Overall sulphur (S, total sulphur, including SO₂ and SH₂ emissions) and nitrogen oxide emissions are within the BREF reference values (0.4 and 1.5 kg/ADT, respectively), and are below the legally established limits.

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

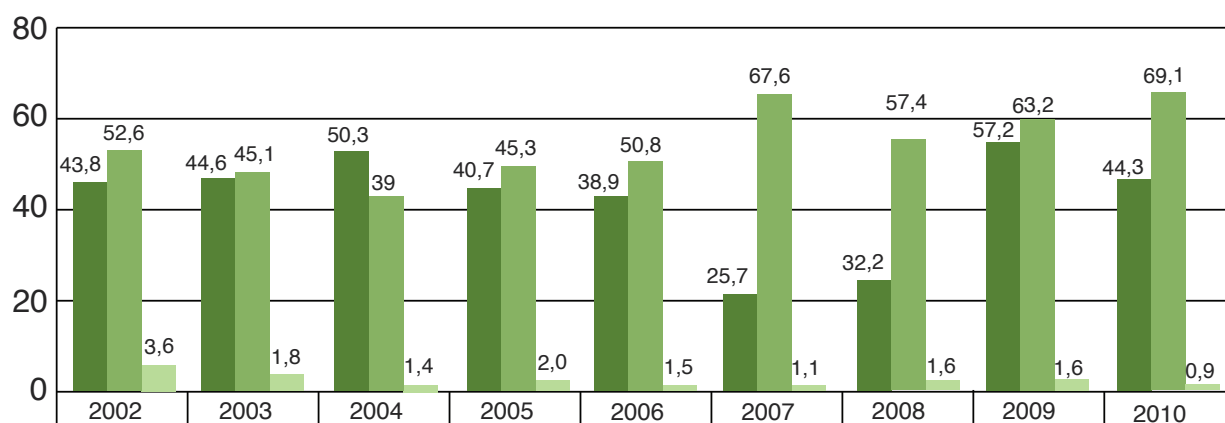
Waste is managed according to the relevant legal requirements and waste reduction and recovery programmes are implemented at source. Between 2002 and 2010, we recovered a considerable amount of waste (69.1 kg/ADT), which was higher than the amount of waste sent to disposal sites.

Hazardous waste is generated in maintenance and auxiliary tasks (used oil and absorbents, mainly) and occasionally by the packaging and remains of equipment that might be contaminated. The amount of hazardous waste per tonne of pulp produced in 2010 was 0.9 kg/ADT.

Emissions to air (kg/ADt)



Waste generated (kg/ADt)



Discharge management

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

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

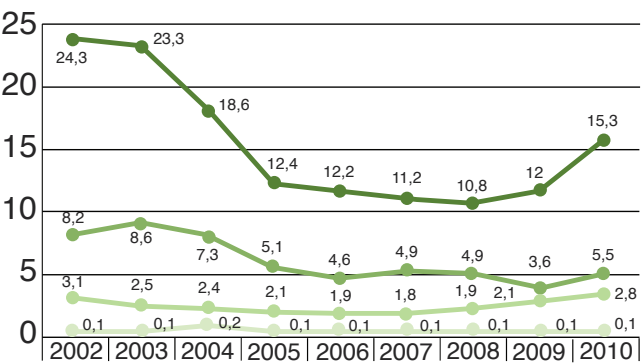
Liquid effluent parameters show a substantial improvement during the 2002-2010 period. The most significant achieve-

ment was a 40% reduction in chemical oxygen demand (COD) between 2002 and 2010. Chemical oxygen demand (COD) is a measure of the pollution potential of waste material and is expressed as the oxygen needed to degrade the organic material in the wastewater.

The aforementioned reduction in COD was achieved through the improvement and optimisation of the treatment plants between 2002 and 2010. At the same time, the BOD (Biochemical Oxygen Demand, indicative of the biodegradability of the effluent) improved by 33%. Solids also improved by 10% during the same period. This data demonstrates the continuous improvements that have been made to processes in Ence, which have been gradual, steady and sustained over time.

4. OUR BUSINESSES

Liquid effluent parameters (Kg /ADt)



CO2 Emissions

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

The allowances for 2009 were delivered in 2010 and the period closed with surpluses.

By optimising the use of biomass and investing to improve the efficiency of cogeneration, greenhouse gas emissions in the plants subject to the trading scheme decreased 21% between 2002 and 2010. During the same period, specific CO2 emissions per tonne were reduced by 43%. In 2010, we emitted 476,938 tonnes of CO2, which represents a decrease of almost 10% over 2009. The graph shows the trends in CO2 emissions at our plants between 2002 and 2010.

Controlled use of chemical products

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

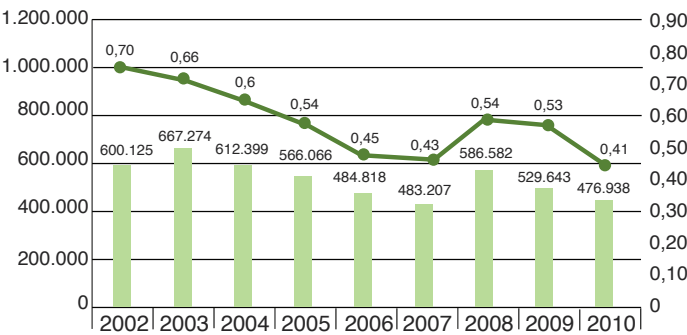
We check to ensure that the chemical products we use comply with the EU regulation on chemical substances (REACH) prior to authorising their use. In addition, we actively participate in different consortiums and working groups on this regulation, which helps us to classify the chemical substances and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

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

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

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

CO2 Emissions



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

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

All of Ence's production plants have a dedicated Research, Development and Innovation unit devoted to the improve-

ment of industrial processes and the development of pulp that meets our customers' needs.

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

4. OUR BUSINESSES

Energy

The Ence Group is the leading producer of renewable biomass energy. We operate 3 industrial plants that are capable of generating enough electric power to supply 400,000 households for one year.

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

Key figures

- The Ence Group has 180 MW of installed capacity, making it the largest producer of renewable biomass energy in Spain.
- Electric power production in 2010 was 1,330,168 MWh, which represents an increase of 16% over the 2002-2009 period.

| 2010 Achievements | 2011 Goals |
|--|---|
| We have made new investments to increase installed power by 400,000 MWh/year. | Increase the production of renewable biomass energy in Spain by 210 MW, thus bringing our installed power to 390 MW. |
| We are building Spain's largest forest biomass plant in the province of Huelva. With an installed power of 50 MW, it will have the capacity to supply electricity to approximately 600,000 households. | Construct 10 biomass electricity generation plants over the next 4 years, which will require investment of approximately 500 million euros.. |
| We implement measures to optimise the use of biomass and invest to improve the efficiency of cogeneration in order to reduce greenhouse gas emissions. | Continue to reduce greenhouse gas emissions through the implementation of mitigation measures, effective management and increased efficiency. |

Our Approach to Sustainability

Economic performance

At Ence, we are promoting renewable energy generation as, being a regulated industry, it provides stability to our operations and brings equilibrium to the Group.

Use of the surplus biomass not used in pulp production has obvious economic advantages: it enables the generation of a non-fossil fuel and therefore reduces the risks associated with petrol price increases.

Biomass is the most stable renewable energy of all: it can be used to generate electricity 24 hours a day as it does not depend on the wind blowing, the sun shining or the water flowing.

Ence helps to reduce Spain's high level of dependence on foreign energy markets.

Environmental performance

Biomass energy generation is carbon neutral.

We make efficient use of biomass.

The use of biomass for energy generation reduces the uncontrolled dumping and burning of agricultural waste.

We use the waste left over from energy generation.

We provide a solution to the accumulation and elimination of waste for which there is no market by closing the forest-industry chain.

Social performance

We operate 3 industrial plants that are capable of generating enough electric power to supply around 400,000 households for one year.

We see power generation as an opportunity for socio-economic development.

Biomass energy generation creates more employment than any other renewable energy source and gives new life to rural and agricultural areas

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

4. OUR BUSINESSES

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

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

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

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

According to data by the Energy Diversification and Saving Institute (IDAE), Spain currently has a total installed power of 533 MW for biomass. Although this is a good figure, it is still a far cry from the goal set for 2020. At Ence, we see this as an opportunity to grow and consolidate our position as the leading producer of biomass energy in Spain.

*Our factories in Spain have
obtained Integrated
Environmental Authorisation .*

The Ence Group has more than 50 years of experience in the management of sustainable forest production. We operate 3 industrial plants that are capable of generating enough electric power to supply around 400,000 households for one year. This accounts for more than 40% of the renewable biomass energy generated in Spain. We plan to increase biomass energy generation by 210 MW in Spain, which would bring our installed capacity to 390 MW.

The high opportunity cost of biomass

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

- **Lowers our changes of achieving the Kyoto and 20/20/20 Plan targets.**
 - Spain foregoes the generation of 250-300 GWh of electricity from renewable sources.
 - The emission of 105,000 tonnes of CO₂ in Spain cannot be avoided as this is what it takes to generate the equivalent amount of electric power with fossil fuels.
- **Lowers our contribution to socio-economic development in Spain:**
 - The opportunity to create 370 direct jobs and 338 indirect jobs, generating annual income of 9.5 and 8.6 million euros respectively, is foregone.
 - In addition to income from employment, rural areas also forego potential income of 16.6 million euros per annum.
 - If the exported biomass had been used by Spain, the country's balance of trade would have been 12.3 mi-

llion euros higher per annum (savings of €10.4 million for not having to import energy and of €1.9 million for requiring fewer CO₂ emission allowances).

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

4. OUR BUSINESSES

Biomass and Sustainable Development

Economic sustainability

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

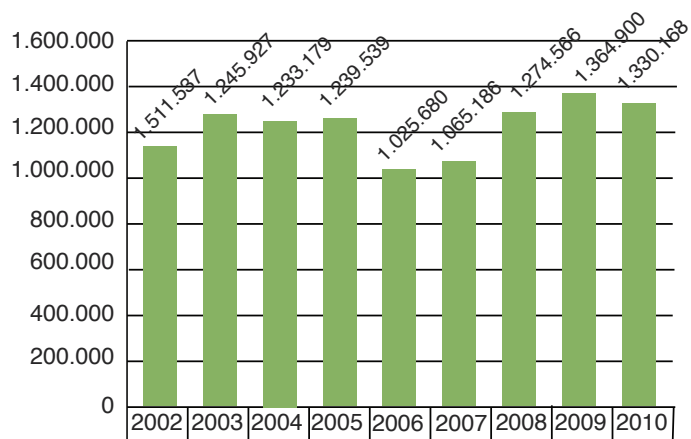


The biomass used as a raw material in our processes mainly comes from tree bark that is not suitable for the manufacture of pulp (solid biomass) and from the black fluid or residue left over after wood firing, which is comprised of lignin, water and the remains of the chemical products used in firing,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

Use of the surplus biomass not used for pulp production has obvious economic advantages: it enables the generation of a non-fossil fuel and therefore reduces the risks associated with petrol price increases.

The surplus energy produced by our plants is placed on the domestic electricity market. The amount of electric power sold to the national grid has increased substantially since 2002. Electricity sales in 2010 again exceeded the one million MWh mark. Electric power production in the Ence Group in 2010 was 1,330,168 MWh, which represents an increase of 16% over the 2002-2009 period.

Electricity generation by the Ence Group (MWh)



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



The Ence Group has made investments aimed at increasing installed capacity, such as the extension of the factory in Navia and the installation of new biomass and recovery boilers which will increase annual output by 400,000 MWh. Energy development at the Huelva factory is also based on the enhancement of biomass through the installation of a new 50 MW-boiler.

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

In addition to the aforementioned extension in Huelva and the new plants in Mérida and Alcántara (Cáceres), the Ence Group is also developing new projects in Castilla y León (Melgar de Fernamental in Burgos and Villaturiel in León) and in Castilla-La Mancha (Ciudad Real).

We help to preserve the environment

4. OUR BUSINESSES

Climate change

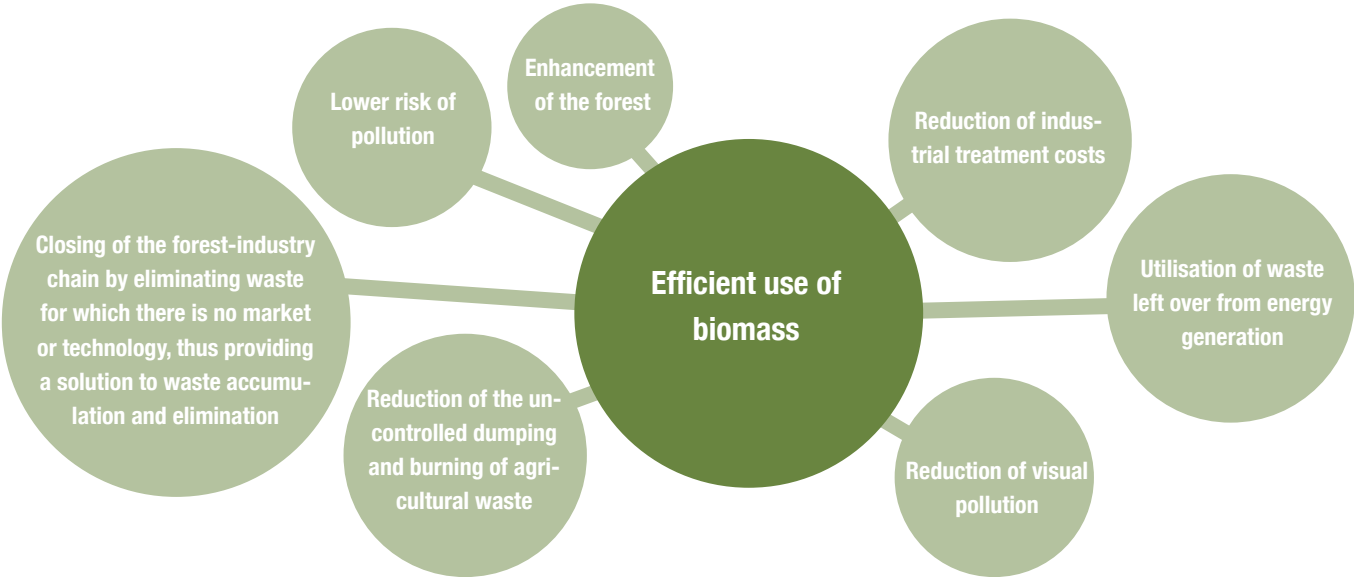
The Ence Group shares society’s concern about climate change. Accordingly, we have undertaken the commitment to reduce CO2 emissions from fossil fuels. We have developed policies for an increasingly efficient use of energy in industrial processes and set targets to reduce and replace fossil fuels by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

During the first commitment period, in 2008 and 2009 CO2 emissions actually increased due to the expansion of the facilities, especially at the plant in Huelva, which gave rise to a

higher -albeit temporary- demand for fossil fuel. Nevertheless, the increase was significantly lower than the amount allocated to the whole Group by the National Allocation Plan for Emission Allowances. We were able to reduce emissions per unit of production by operating the Navia plant to its full capacity, optimising the use of biomass and implementing energy saving measures in the plants in 2009.

Reuse of forestry, agricultural and industrial waste

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



Social cohesion

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

Biomass energy generation could create 2,000 million euros of income from employment and more than 80,000 jobs.



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

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



Grants for rural areas are rapidly decreasing: Community aid to support agriculture in Spain decreased 9.5% between 2005 and 2008 and there is uncertainty about Community aid as of 2013.

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

Biomass usage could be a key contributor to national investment



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

Spain invests 2%-4% of GDP in energy imports at a time when it has a balance of trade deficit.



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

4. OUR BUSINESSES

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



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

The development of forest biomass could enable savings of 104 million euros/year in fire-related costs.



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

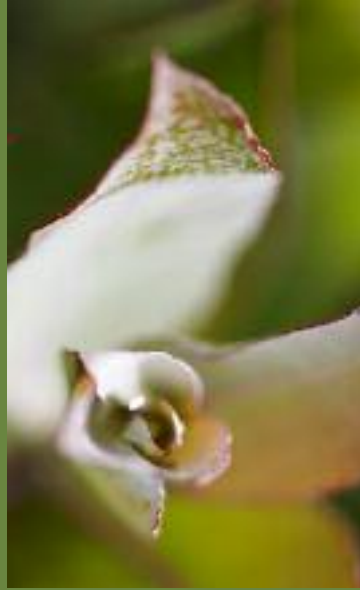


Our commitment to R&D+i. Energy

The Ence Group's R&D+i projects in the area of energy in 2010 have primarily focused on the development of short-rotation woody energy crops and the exploitation of forest waste for the production of renewable energy at Ence's new

biomass plants. It has also undertaken a new line of work in new energy processes.

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



5

**Our target
audiences**



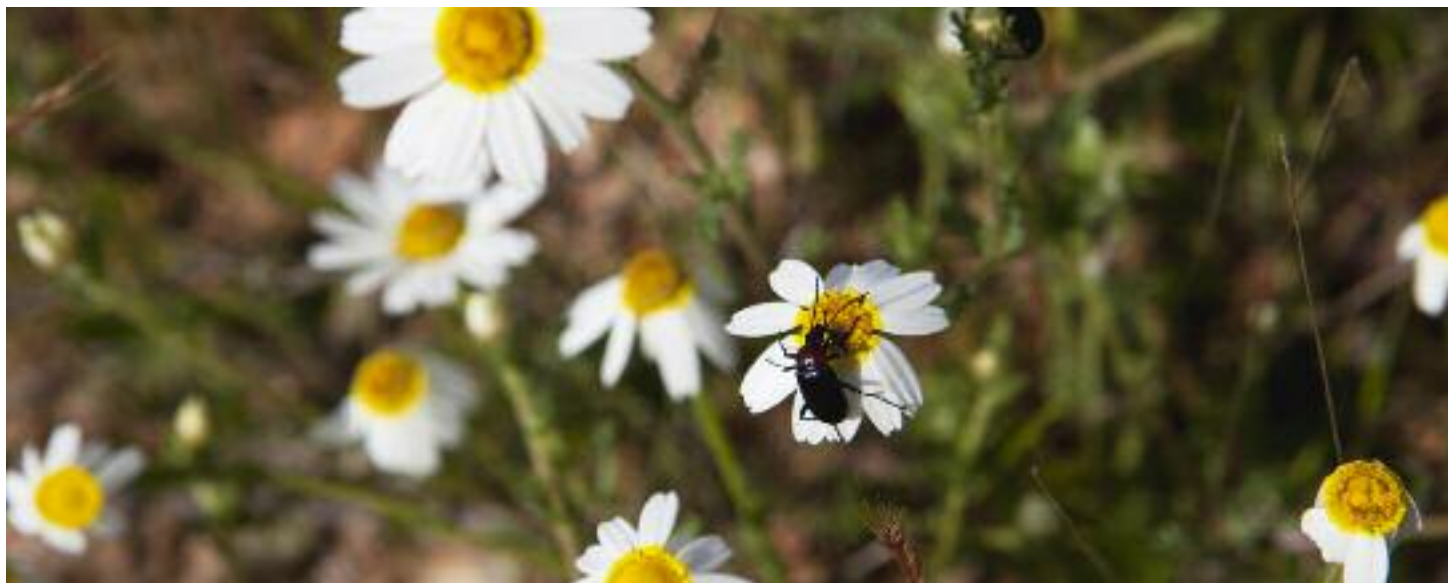
5. OUR TARGET AUDIENCES

The Ence Group is committed to maintaining transparent and close relations with the communities in which it operates. Accordingly, in 2010 we made an even greater effort to increase dialogue with our stakeholders through new communication channels.

Our objective: Know and better understand their needs and expectations and provide relevant information on our economic, social and environmental performance.

Key Indicators

- The Ence Group invests the equivalent of 1% of EBITDA in Corporate Social Responsibility (CSR) activities.
- It is a member of 65 leading associations, foundations and institutions.
- It collaborates with 13 universities in Spain, America and Europe, and 13 technology and R&D+i centres.



| 2010 Achievements | 2011 Goals |
|--|---|
| <p>We strengthened our presence, communications and relationship with the community by making improvements to the company website.</p> | <p>Strengthen our presence in the Internet by enhancing our visibility in version 2.0, thus establishing more and better relations with our stakeholders.</p> <p>Start an account on Twitter and LinkedIn, and launch a YouTube channel.</p> |
| <p>We continue to carry out dissemination and awareness-raising programmes and activities about eucalyptus.</p> <p>We have produced and broadcasted fortnightly forestry and environmental programmes on the main radio and local and/or provincial TV stations in Huelva, Pontevedra and Navia.</p> | <p>Work to improve social perceptions of eucalyptus through:</p> <ul style="list-style-type: none"> • Information campaigns. • Technical meetings with media groups. • Publication of specialised guides on eucalyptus and forest management. • Meetings with institutions and associated groups. • Participation in national forums and meetings. • Strengthening of content in social networks. |
| <p>We signed an agreement with “Forests without Borders” for the development of a partnership programme as part of our Commitment to Sustainability.</p> | <p>Make an important change to our management model and become more open to the proposals of ecology associations, setting up a workshop to agree on a framework for eucalyptus plantations.</p> |
| <p>We celebrated “World Forest Day” with the participation of different stakeholder representatives.</p> | <p>Continue to celebrate “World Forest Day” and carry out special programmes to commemorate the “International Year of Forests”, placing special emphasis on the importance of a sustainable forest model.</p> |
| <p>In 2010, more than 2,000 people visited our plants in Pontevedra, Navia and Huelva.</p> | <p>Continue to invite visitors to our plants and answer any questions they might have.</p> |

5. OUR TARGET AUDIENCES

In 2010, the Ence Group worked to provide greater management transparency, to become more accessible to stakeholders and to achieve more active and stable communication that was consistent with its values and the concerns of society.

We wish to make society aware of our efforts in the areas of management and investment, of the work of our professionals, of our responsible and ethical conduct and respect for the environment. Our communications strategy is based on a close relationship with the media, the communities in which Ence operates, local and regional authorities, industry advocacy groups (ecologists and environmentalists, social, cultural, educational and scientific groups, etc.), investors and analysts and, of course, the employees themselves. Carrying out our day-to-day activities in a responsible and transparent manner is our primary means of communicating and engaging with our stakeholders.

Other stakeholders also include those who take an interest in our activity or approach us with recommendations on how to improve our day-to-day management.

The work of the different company departments and areas en-

tails ongoing dialogue within their areas of operation, whether forestry, industry or corporate. Obvious examples include commercial relations, forestry projects in rural communities, audits and other mechanisms used by public institutions to monitor forestry, industrial and environmental activity, the activity of the Communications, Brand and Reputation management team, relationships with analysts and investors, and labour relations and dialogue with trade unions in the field of industrial relations.

In 2010, the Ence Group invested 1.8 million euros -the equivalent of 1% of company EBITDA- in CSR.

The Ence Group invests the equivalent of 1% of EBITDA in Corporate Social Responsibility (CSR) activities. A similar amount (1.8 million euros) is invested in community action activities and sponsorships, memberships of industry associa-

Our main stakeholders

- Shareholders and investors
- Financial communities
- Employees
- Customers
- Forest owners
- Suppliers and contractors
- Public authorities
- Non-governmental organisations and local communities
- Opinion leaders



tions, foundations and institutions, collaboration with scientific and university communities and other external communication activities, in addition to institutional relations to leverage relations with stakeholders.

The following table shows the communications channels for the different stakeholders. In addition, specific details of the activity and the Ence Group's level of contribution in 2010 are available to the public via the communications channels normally used for the listed institutions.

| Stakeholder Mapping | | | |
|--|--|--|---|
| Stakeholder | Level of significance | Communications channels | Relevant aspects |
| Shareholders and investors (Analysts and investors) These are the owners of the ENCE Group. Profile (composition): www.ence.es/accionistas_inversores.html | They direct the strategy of the company by making decisions that enable it to grow and remain in society, and indirectly foster sustainable development. | <ul style="list-style-type: none"> • General Shareholders' Meeting. Monthly information for the Board of Directors • Audited annual reports • Corporate Governance Report • Sustainability Report • Specific section of the company website • Investor Relations Department, periodic presentations to analysts and investors (Roadshows) • Quarterly stock market reports • Information available from the CNMV | <ul style="list-style-type: none"> • Company strategy focused on growth Economic Indicators • Reputation • Good governance • Risk assessment and management • Transparency |
| Customers Generate revenues. Profile (supply): see Annual Report | They determine product quality and environmental requirements, as well as production | <ul style="list-style-type: none"> • Publication of significant events • Regular visits • Satisfaction surveys • Technological assistance service • Annual Report • Sustainability Report • Environmental product profile | <ul style="list-style-type: none"> • Supply • Privacy • R&D+i • References • FSC or PEFC certification • Competitiveness • Greater satisfaction of their needs • Fulfilment of requirements |

5. OUR TARGET AUDIENCES

| Stakeholder Mapping | | | |
|---|--|--|---|
| Stakeholder | Level of significance | Communications channels | Relevant aspects |
| Suppliers and contractors We incorporate them into our own management systems (quality, environment, health and safety, chain of custody and sustainable forest management). Profile (not available). | They ensure supply and the optimal functioning of operations | <ul style="list-style-type: none">• Participation in discussion forums• in associations• Monitoring of compliance with current regulations• Personal visits• Regular meetings with governance directors• Annual Report• Sustainability Report• Environmental Statements• Proposals for Framework Agreements and other kinds of agreements• Public Summary Management Plan• Presentations on specific topics• Specific reports on each environmental authorisation• Collaboration in policy development | <ul style="list-style-type: none">• Fulfilment of what was agreed• Security in the long-term contracting of the service• Selection conditions• Improved employment conditions• Financial support that enables them to receive a return on investment• Contract selection and awarding criteria• Wood market |

Stakeholder Mapping

| Stakeholder | Level of significance | Communications channels | Relevant aspects |
|---|---|--|---|
| Public authorities Ence works with the public authorities in the identification and defence of industry and private interests, both in required control aspects and the promotion of new activities and projects. | They influence market conditions through policy-making and the enforcement of legal and tax requirements. | <ul style="list-style-type: none"> • Annual Report • Sustainability Report • Environmental Statements • References • Round tables, working groups • Regular meetings • Specific reports on each environmental authorisation • Partnership agreements | <ul style="list-style-type: none"> • Monitoring of compliance with legal requirements • Support in the design and achievement of public policy • Joint collaboration in technical-scientific development • Promotion of sustainable development • Promotion of a rational use of forestry products and services |
| Employees It is our employees that make Ence's day-to-day operations possible. Accordingly, we base our relationship with them on trust and recognition, on their professional development and a commitment to the sustainable growth of the organisation. Profile: See Annual and Sustainability Reports. | Key element for honouring agreements with customers Convey values | <ul style="list-style-type: none"> • Sustainability Report • Management policy • Health & Safety Committee • Annual training plan • Intranet • Training satisfaction surveys • Annual Report • Monthly area meetings | <ul style="list-style-type: none"> • Consequences of workforce restructuring • Continuous improvement of employment conditions • Recognition • Management systems • Employment conditions • Information on company activity • Courses and training to improve their professional skills • Strategy and performance of the company |

5. OUR TARGET AUDIENCES

| Stakeholder Mapping | | | |
|--|---|---|--|
| Stakeholder | Level of significance | Communications channels | Relevant aspects |
| Local communities and Environmental and Ecology Groups Relations with the communities in which we operate are of vital importance. Knowing the concerns of local communities is the best way to cultivate a good relationship between both parties. Their concerns and information needs enable us to better defend common interests. Profile: civil society and pressure groups. | <ul style="list-style-type: none">Conflicts of interest can jeopardise the company's reputation and, given their influence on local government, delay the start-up of operations or determine their location. | <ul style="list-style-type: none">Talks, symposiums and conferencesGuided toursSpecial programmes (Eco-schools in Uruguay, World Forest Day, etc.)Annual ReportCSR ActionsEnvironmental StatementReceipt and handling of complaints, suggestions and information requestsWebsite | <ul style="list-style-type: none">Minimisation of environmental impactsHow to defend common interestsGenetic modificationsEmergence of new pestsLoss of biodiversity as a result of monocultureInteraction with other economic and/or cultural activitiesConservation and promotion of the environmentConservation of protected and specially protected species and habitatsProtection of our natural heritage |
| Opinion leaders They influence public opinion Profile: the media and scientific community | <ul style="list-style-type: none">They lend credibility to, or discredit company messagesBetter knowledge of the forestry industry by societyDetermination of new work methodologies for greater protection of the environment and quality improvement in the performance of work | <ul style="list-style-type: none">Σ Constant attention, sending of press kits and press releasesVisits to plantsWebsiteAnnual ReportSustainability ReportCollaboration and ActivitiesPublic Summary of Management PlanEnvironmental Statements | <ul style="list-style-type: none">How any disputes that arise were resolvedR&D+i policyEnvironmental, economic and social impact of our activityFinancial data and results |

Mapa de Actores

| Stakeholder | Level of significance | Communications channels | Relevant aspects |
|---|---|--|--|
| Financial community Provide capital Profile: not available | Financing is subject to the minimisation of certain risks that have a direct influence on the running of the company. | <ul style="list-style-type: none"> • Audited Financial Statements • Corporate Governance Report • Information available from CNMV • Regular and one-off meetings • Sustainability Report • Environmental Statement • Quarterly stock market reports • Strategic Plan • Presentations on specific topics | <ul style="list-style-type: none"> • Risk management • Company strategy • Business performance and outlook • Market trends • Investments made • Reputation • Good governance • Financial statements |
| Propietarios forestales Ence trabaja con los propietarios forestales, los incorporamos a nuestros propios sistemas de gestión (calidad, medio ambiente, prevención de riesgos laborales, cadena de custodia y gestión forestal sostenible) Perfil: no disponible | <ul style="list-style-type: none"> • They lend credibility to or discredit company messages | <ul style="list-style-type: none"> • Press kits and press releases • Visits to plants • Website • Annual Report • Sustainability Report • Environmental Statements • Public Summary of Management Plan • Guided tours • Receipt and handling of complaints, suggestions and information requests | <ul style="list-style-type: none"> • Social benefits • Proper management of forests • Fulfilment of what was agreed • Legal compliance • Business performance • How to defend common interests • Genetic modifications • Emergence of new pests • Loss of biodiversity as a result of monoculture |

5. OUR TARGET AUDIENCES

Building relationships of trust with our stakeholders

Active participation in associations and institutions

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

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



We are members of more than 50 associations, foundations and institutions that are benchmarks in their respective fields.

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

We are members of the Association of Spanish Pulp, Paper and Cardboard Manufacturers (ASPAPEL).

The Ence Group engages in ongoing dialogue with its stakeholders through membership and active participation in ASPAPEL. The association is working closely with the industry's main stakeholders in the preparation of its third Sustainability Report. This process, which is being undertaken by an independent consultant and auditor, will serve as a basis for the preparation of new industry indicators, goals and action plans in the area of sustainability.

We publish a good practice guide in collaboration with the Spanish Forestry Technology Platform.

Considerable impetus has been given to forestry under the umbrella of the Spanish Forestry Technology Platform. Activities include the preparation of the "Good practice guidance on the sustainable mobilisation of wood in Europe"; the development of a new "Due Diligence Regulation" and energy developments based on renewable biomass energy.

We are members of leading international institutions.

There are numerous channels of communication with stakeholders at the national and international level, either directly, through membership of associations like the European Pulp Industry Sector (EPIS), the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification schemes (PEFC), or indirectly, as in the case of the Confederation of European Paper Industries (CEPI) and the International Council of Forest and Paper Associations (ICPA).



5. OUR TARGET AUDIENCES

National and international organisations with whom we work:

Spanish Organisations

- | | |
|--|--|
| <ul style="list-style-type: none">• AAEE (Asociación de Autogeneradores Españoles)• AAP (Asociación de Aprovechamiento Biomasa)• ACOGEN (Asociación Española de Cogeneración)• AEMPE (Asociación Empresarios Pequeña y Mediana Empresa de Pontevedra)• AERI (Asociación Española de Relaciones con Inversores)• AFEC (Asociación de Fabricantes Españoles de Celulosa)• AFLOSUL (Asociación de Propietarios Forestales Algarve)• AGFR (Asiacao para uma Gestao Florestal Responsavel)• AIMEN (Asociación de Investigación Metalúrgica de Noroeste)• AIQB (Asociación de Industrias Químicas Básicas de Huelva)• AIQPA (Asociación de Industrias Químicas y de procesos de Asturias)• ANATRANS (Asociación Nacional de Transportistas)• APD (Asociación para el Progreso de la Dirección)• APOM (Asociación de Productores Onubenses de Maera)• APPA (Asociación de Productores de Energías Renovables)• ASAJA (Asociación Agraria y Ganadera Andalucía) | <ul style="list-style-type: none">• Asociación Monte Industria (Galicia)• Asociación de propietarios Forestales de Asturias• Asociación Defensa Forestal• ASPAPEL (Asociación Española de Fabricantes de Pasta, Papel y Cartón)• ASPAFLOBAL (Asociación Propietarios Forestales Barlovento Algarvio)• Cámara de Comercio Luso-Española• Cámara de Comercio de Pontevedra• Cámara de Comercio de Huelva• CEA (Confederación de Empresarios de Andalucía)• CEOE (Confederación Española de Organizaciones Empresariales)• Círculo de Empresarios• Club Asturiano de la Calidad• COAHSIQ (Comisión Autónoma de Seguridad e Higiene en el Trabajo)• Comunidad de Regantes de Andevalo (Guadiana, Sur y Minero)• CONFEMADERA (Confederación de Empresas de la Madera) |
|--|--|

- Consorcio de Empresas del Master de Tecnología Ambiental de Andalucía
- Cluster de la Madera de Galicia
- Cooperativa Corchera San José Berrocal
- Confederación de empresarios de GALICIA
- FADE (Federación Asturiana de Empresarios)
- FAEN (Fundación Asturiana de la Energía)
- FALCOR (Fundación Andaluza del Corcho)
- FAMA (Fundación Asturiana de Medio Ambiente)
- FEUGA (Fundación Empresa Universidad Gallega)
- FOE (Federación Onubense de Empresarios)
- Foro de Bosques y Cambio Climático
- Forum Forestal (Federación Portuguesa de Propietarios Forestales)
- FSC España (Forest Stewardship Council)
- Fundación CONAMA (Congreso Nacional del Medio Ambiente)
- Fundación Entorno, Empresa y Desarrollo Sostenible
- PEFC España (Programme for the Endorsement of Forest Certification)
- Red del Pacto Mundial de Naciones Unidas
- SAVB (Sociedad para la Valorización Energética de la Biomasa en Andalucía)
- VIFOAS (Asociación de Viveros forestales de Asturias)
- Asociación Andaluza de Empresas Forestales

International Organisations

- ACDE (Asociación Cristiana de Dirigentes de Empresa)
- ADM (Asociación de Dirigentes de Marketing, Uruguay)
- Cámara de Industrias de Uruguay
- DERES (Desarrollo de la Responsabilidad Social Empresarial, Uruguay)
- Fundación Río Negro
- ICFPA (International Council of Forest and Paper Association)
- PPPC (Pulp and Paper Products Council)
- Sociedad de Productores Forestales de Uruguay
- Unión de Exportadores de Uruguay

European Organisations

- CEI Bois (The European Confederation of woodworking industries)
- CEPI (Confederation of European Paper Industries)
- EPIS (European Pulp Industry Sector)
- FEIC (European Federation of the Plywood Industry)
- IEFC (Instituto europeo del Bosque Cultivado)

5. OUR TARGET AUDIENCES

Promotion of R&D+i and knowledge sharing with the scientific community

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

We have partnership agreements with 13 universities

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

Notable activities in 2010:

The Ence Chair, the first on Pontevedra Campus (University of Vigo)

The objective of the chair was to work with the University's School of Forest Engineering on research projects and educational and practical training activities to support the development of new technologies. Some of the projects completed in 2010 include a study of the drying of eucalyptus bales that were cut in summer under controlled temperature and humidity conditions in an open-air drying chamber with a roof: a study on biomass ash fusibility, and the writing of an energy crop manual.

We are committed to sustainable agreements with the University of Oviedo

The Ence Group has several partnership agreements with the University of Oviedo. In 2010, these included the launch of a research project with the School of Mining Engineering to

study the feasibility of using ash from the biomass boiler to manufacture cement and bricks, and a project for the optimisation of solar radiation sensors with the School of Industrial Engineering.

We joined forces with the Energy, Environmental and Climate Change Cluster to promote research into the development of technology and innovation in strategic sectors for the region,

such as the design and manufacture of capital goods and the use of clean and efficient energy in industry.

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

Scientific bodies with whom we work

Universities

- University of Huelva
- University of Córdoba
- University of Seville
- University of Vigo / Pontevedra
- University of Santiago de Compostela
- University of the Republic (Uruguay)
(Fac. of Engineering and Agronomy)
- Polytechnic University of Madrid
(School of Industrial and Forest Engineering)
- Polytechnic University of Catalonia
- National Technological University, Argentina
- University of Toulouse
- University of Vienna
- University of Lisbon IICT
- University of Aveiro

R&D Centres

- CSIC (IRNA) Seville
- IFAPA (Andalusia)
- INIA (Spain)
- INIA (Uruguay)
- IRTA (France)
- Est. Fitopat. Aveiro
- CNRS (France)
- INRA (France)

Paper technology centres

- CTP (France)
- STFI (Sweden)
- TNO (Netherlands)
- KCL (Finland)
- AFOCEL (France)

5. OUR TARGET AUDIENCES

We undertook new collaborative projects in 2010

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

- Specific agreement between the Ence Group and CE-TEMAS (Forest and Wood Technology Research Centre) for a study to assess the production of biomass from energy crops.
- Collaboration with the University of Santiago de Compostela on a R&D project entitled “The productivity and dynamics of organic matter in clonal plantations and Eucalyptus Globulus Labill seedlings”.
- The Ence Group has a partnership agreement with the University of Orense for the study of biofuels derived from cellulose hydrolysis processes.

Framework agreement with the University of Huelva

The Ence Group signed a framework agreement with the University of Huelva in 1997, which covers numerous research projects and educational and university activities.

As part of the framework agreement, in 2010 the company worked with the Department of Agro-forestry Sciences to draw up a map of forest soils in the province of Huelva in order to undertake a detailed study of the soils and assess their suitability for different forestry uses. In addition, it signed a partnership agreement with the Department of Chemical Sciences for the Study and Classification of Biomass.

In 2010 it was agreed to maintain the Eucalyptus Research and Documentation Centre (CIDEU), Europe's first centre engaged in the research of eucalyptus and related matters. The objective of the centre is to select, identify, analyse and dis-



seminate scientific information on eucalyptus and scientific areas related to the forestry industry, thus supporting the University of Huelva's forestry studies and providing information to the public.

The objectives of the CIDEU are to support research on eucalyptus and related forestry matters, and the management of documentary information relating directly or indirectly to eucalyptus. The CIDEU was established to support forestry studies at the University of Huelva and to help provide the public with relevant information on eucalyptus and forests.

The Ence Group also participates in a consortium for the development of

Andalusia's Masters in Environmental Technology at the University of Huelva. The aim of the masters programme is to provide high quality training focused on the protection of the environment and knowledge of technical aspects in order to be able to assess environmental impacts and its recovery and restoration.

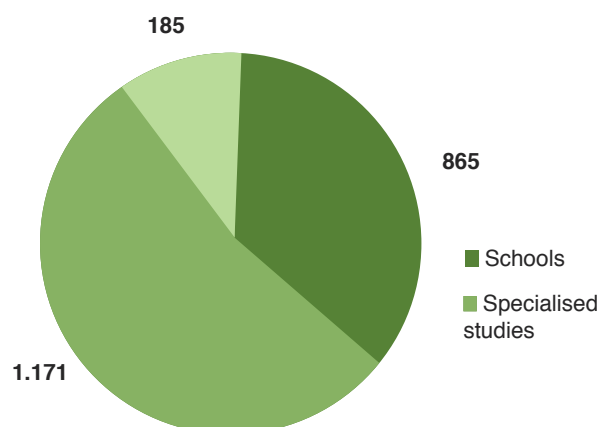
Collaboration with local communities

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

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

The Ence Group is committed to the communities in which it operates, especially in these times of global economic crisis and shortage of power generation. This commitment was recognised and reinforced in 2010 when the Group was awarded one of the Gold Medals of the Province of Huelva by the Provincial Council. The medal is awarded by the Provincial Council to individuals, companies and organisations that are noted for their involvement and engagement with Huelva Province.

Visitors to Ence forestry centres in 2010



Visitors to factories

| | Schools | Specialised studies | Institutions & Social Groups |
|--------------|------------|---------------------|------------------------------|
| Pontevedra | 345 | 554 | 21 |
| Navia | 192 | 47 | 155 |
| Huelva | 328 | 570 | 9 |
| TOTAL | 865 | 1,117 | 185 |

5. OUR TARGET AUDIENCES

Our engagement with the local community was recognised with the Gold Medal of the Province of Huelva

The Ence Group, which provides stable employment to approximately 2,300 people in Andalusia, was the only company to receive a medal in this edition of the awards which recognise individuals, companies and organisations that are noted for their involvement and engagement with Huelva.

The Provincial Council highlighted Ence's contribution to the development of Huelva through innovation and the creation of quality, stable employment, and praised its leadership in the fields of business and research.

We plan to invest over 100 million euros in the Huelva region.

Ence's operations have an undeniable impact on employment and wealth generation in Huelva, the Andalusian province with the most forests. We have plans to invest over 100 million euros in the region, and we help to generate wealth and thousands of stable jobs in rural areas through better organisation of Andalusia's natural resources.



In addition, in 2010 we sponsored and collaborated in numerous public, social, cultural and sporting activities in the towns and communities where we operate, the most prominent being:

- **Schools and universities:** in addition to school visits to the factories throughout the academic year, we also promoted different forest management initiatives with university students, which included visits and field workshops in the forests managed by Ence. In 2010, we participated with the Polytechnic University of Madrid in the "El bosque protector" TV series, the organisation of the Sixth Forestry Stakeholders' Meeting, an information session on forest biomass, and the visit of researcher, Dean Nicolle, to Galicia to conduct a study on the Souto da Retorta eucalyptus in conjunction with the Max Planck Institute.

In 2010, approximately 2,221 people visited our forestry centres and factories, more than double the number of visitors in 2009.

- **Dissemination, sponsorship and patronage activities:** : We produced and broadcasted fortnightly TV and radio programmes on forestry and the environment in Huelva, Pontevedra and Navia for local stations; we organised the “2010 Commitment” awards for individuals and companies that stand out in their work to preserve the quality of life, we donated furniture to the Merchants Guild of Pontevedra, sponsored a swimming competition in the Navia River, the Navia Ence Football Club and the Fourth Photography Competition entitled “A glance at the CIDEU forest (Huelva)”.
- **Activities with public authorities, CMVMC and NGOs:** Other notable activities carried out by the Ence Group in 2010 include the following: we collaborated with Areeiro

Phytopathological Station in the control of eucalyptus pests and diseases; we granted multimedia journalism scholarships specialised in nature and the conservation of ecosystems in conjunction with the EFE Foundation and EFE Verde; we took part, as founding members, in the Doñana 21 Foundation’s Technology Centre for Sustainable Development; we joined “Compromiso Asturias XXI”, and we promoted sport through agreements with the Nino Mirón Foundation, Pontevedra Football Club and San Juan del Puerto Town Council..

- In the area of environmental training, we participated in the following congresses, seminars and technical sessions in 2010, among others:

We participated in the National Environmental Congress (CONAMA 10), the Paris Sustainability Conference and the Third International Conference on the Generation of Energy from Waste and Biomass, and also collaborated in the Responsible Forest Management and FSC Certification course, etc.

5. OUR TARGET AUDIENCES

Our commitment to Community Action

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

We celebrate World Forest Day

Every year, we organise and sponsor World Forest Day, which is held on 21 March, coinciding with the start of spring in the northern hemisphere. The celebrations took part in Huelva, Pontevedra and Navia and were attended by representatives of local and regional authorities, education centres, universities, environmental groups and the media, etc.

The activities focused on the dissemination, awareness and sustainable development of the forestry industry, and included discussion forums, exhibitions, school and educational programmes, forest-themed photography competitions, and cultural, information and social participation events.

Furthermore, on the occasion of the International Year of Forests in 2011, we signed an agreement with Forests without Borders for the development of a collaborative programme

as a sign of our commitment to sustainability. We would like to take this opportunity make the public aware of the crucial role of forests in regulating the earth's climate and its future sustainability.

We organise and sponsor school and educational activities to raise awareness about the role of forests.



The Eucalipto Solidario programme in Ethiopia

We promote economic development and improve the quality of life of the Ethiopian people.

The aim of the Eucalipto solidario outreach programme, launched by the Polytechnic University of Madrid, the Ence Group and the Ethiopian Institute of Agricultural Research, is the promotion of economic development and the recovery of forests in the Highlands of Ethiopia.

Ethiopia has one of the lowest HDI rankings (Human Development Index) in the world and the region where the project was carried out –the Highlands– is one of the least developed in the country. Due to strong agricultural and demographic pressure, the area's natural forests have been drastically reduced in recent years.

The project involved the use of eucalyptus to promote sustainable economic development and a better quality of life for the people in this African region. This was achieved through the establishment of nurseries and the training of staff in forestry management and timber harvesting.

In operation since 2006, Ence's work in the region has already paid off and has had a very positive effect on the quality of life of the Ethiopian people.



IMPLIK2 School Programme

As patron of the Pontetec Foundation, the Ence Group participates in the development of the Implik2 school campaign. The objective of the campaign is to promote a mindset of respect and a desire to preserve Pontevedra's natural surroundings. The programme is actually an offshoot of the traditional "From the Forest to Pulp" school programme, under which almost 10,000 schoolchildren have visited the Ence plant in Huelva over the past decade.

The programme is taught in schools by environmentalists specialised in education, after which the children visit the Ence plant. In this way the children learn about the forestry industry and environmental control and management in their region.

Almost 10,000 schoolchildren have visited ENCE's plant in Huelva over the past decade.



5. OUR TARGET AUDIENCES

We establish relationships with our customers, suppliers and contractors



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

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

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

We have developed systems and procedures for the approval of suppliers of goods and services.

These systems include technical product and raw material specifications which are defined by the Ence Group plants. Suppliers are evaluated on a regular basis to ensure compliance with health, safety and environmental requirements, as well as fulfilment of delivery deadlines, and the furnishing of the pertinent documentation.

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

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

Our customers demand sustainable and responsible forest management.

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



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About this report



6. ABOUT THIS REPORT

Grupo Ence S.A.'s Sustainability Report reflects its commitment to transparency and communication and provides an accurate account of the plans, results and new challenges posed by sustainable development in the performance of our operations in 2010.

In 1997, the company produced the first Environmental Statements for its factories, which eventually led to the publication of Integrated Environmental Reports. Continuing this process, the Ence Group published its first biennial Sustainability Report in 2004. The 2010 Sustainability Report is the sixth, and third biennial report, the Group has published.

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

The information has been reported is in accordance with the GRI (Global Reporting Initiative) guidelines (Application Level B, G3 Checklist)

Scope of the Sustainability Report

Geographical scope: Spain, Portugal and Uruguay.

Period covered: 2010.

Activities: Forestry and manufacturing for the production of pulp and energy.



Scope

This report includes data and information on the Ence Group's activities in the field of forestry and manufacturing for the production of pulp and renewable energy in Spain, Portugal and Uruguay in 2010. Any restrictions on the scope of the report, exceptions to the general rule, or significant deviations from previous periods have been specified in the relevant section of this Sustainability Report.

Data quality

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



Fundación Entorno

Consejo Empresarial Español para el Desarrollo Sostenible

When drawing up the report, the Ence Group sought the advice of the Fundación Entorno-BCSD España foundation, for which purpose a special task force was established.

More information and contact details

The information in this Sustainability Report is supplemented by the data published in our 2010 Annual Report and on our website. You are welcome to forward any questions or suggestions you might have in relation to the operations of the Ence Group and sustainability, to:

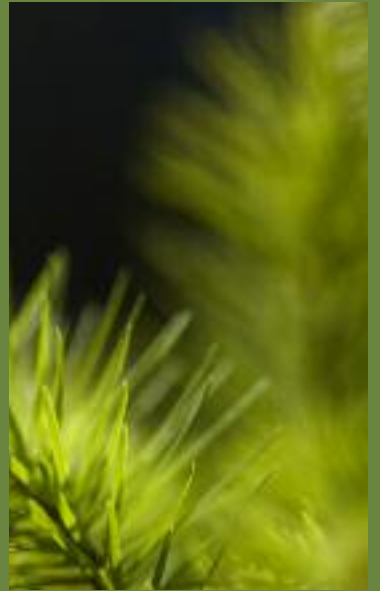
Grupo Empresarial Ence, S.A.

Paseo de la Castellana 35, 1ª planta - 28046 Madrid

Tel: +34 913 378 500 [2.4] - info@ence.es

www.ence.es/es/sostenibilidad.html

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



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**GRI
Index**



7. GRI INDEX

Índice GRI

The information reported herein complies with the GRI (Global Reporting Initiative) G3 guidelines. The Ence Group hereby declares that the information covers all of the Level B specifications.

GENERAL

| Disclose | Description | Location/Page |
|-------------------------|--|--|
| 1 Strategy and Analysis | | |
| 1.1 | Statement from the most senior decision- maker of the organisation about the relevance of sustainability to the organisation and its strategy. | Letter from the Chairman Letter from the Managing Director |
| 1.2 | Description of key impacts, risks and opportunities | Letter from the Chairman Letter from the Managing Director Sustainable Business Model (The Ence Group) |

| Disclosure: | Description | Location/page |
|---------------------------------|---|--|
| 2 ORGANISATIONAL PROFILE | | |
| 2.1 | Name of the organisation | About this Report |
| 2.2 | Primary brands, products and/or services | The Ence Group Our Businesses Annual Report (pages 22 and 23) |
| 2.3 | Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures. | Organisational structure (The Ence Group) Annual Report (pages 96 and 97) |
| 2.4 | Location of organisation's headquarters | About this report |
| 2.5 | Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report | Key figures Annual Report (pages 22 and 23) |
| 2.6 | Nature of ownership and legal form | Annual Report (pages 94 and 95) |
| 2.7 | Markets served (including geographical breakdown, sectors served and types of customers/beneficiaries) | Key figures Annual Report (pages 62 and 70) |
| 2.8 | Scale of the reporting organisation, including: number of employees, net sales (for private sector organisations) or net revenues (for public sector organisations), total capitalisation broken down in terms of debt and equity (for private sector organisations); and quantity of products or services provided | Key figures Annual Report pages 84 and 85 |

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| | | |
|------|---|---|
| 2.9 | Significant changes during the reporting period regarding size, structure or ownership, including: the location of, or changes in operations, including facility openings, closings, and expansions; and changes in the share capital structure and other capital formation | Annual Report: note 3.4 (page 64-65), note 23 (page 186-188) Letter from the Managing Director. Letter from the Chairman |
| 2.10 | Awards received in the reporting period | 2010 Achievements (The Ence Group) |

| Disclosure: | Description | Location/Page |
|----------------------------|---|---|
| 3 REPORT PARAMETERS | | |
| 3.1 | Reporting period for information provided | About this report |
| 3.2 | Date of most recent previous report (if any) | About this report |
| 3.3 | Reporting cycle (annual, biennial, etc.) | About this report |
| 3.4 | Contact point for questions regarding the report or its contents | About this report |
| 3.5 | Process for defining report content, including: determining materiality; prioritising topics within the report; and identifying stakeholders the organisation expects to use the report | About this report Our target audiences |
| 3.6 | Boundary of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers) | About this report |
| 3.7 | State any specific limitations on the scope or boundary of the report | About this report |

| | | |
|------|--|---|
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations | About this report |
| 3.9 | Data measurement techniques and the basis of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report | Key figures In each section of the Report |
| 3.10 | Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement | Acerca de este informe Informe Anual: nota 3.4 |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report | About this report Annual Report: note 3.4 |
| 3.12 | Tabla que indica la localización de los Contenidos básicos en la memoria | Contents |
| 3.13 | Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided | About this report |

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| Disclosure: | Description | Location/Page |
|--|---|--|
| 4 GOVERNANCE, COMMITMENTS, AND ENGAGEMENT | | |
| 4.1 | Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight | Organisational structure (The Ence Group)Corporate governance (The Ence Group)Annual Report: note 1.4 (pages 26 and 27)Corporate governance (The Ence Group) |
| 4.2 | Indicate whether the Chair of the highest governance body is also an executive officer | Annual Report: note 1.4 (pages 26 and 27) |
| 4.3 | For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members | Annual Report: note 1.4 (pages 26 and 27) |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body | Our target audiences (stakeholder mapping) We strengthen industrial relations through communication and engagement (The Ence Group) |
| 4.5 | Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance). | Annual Report: note 24 (page 189-190) IACG, page 13-16 IAGC: page 16-18 |
| 4.6 | Processes in place for the highest governance body to ensure conflicts of interest are avoided | IACG, page 38 Organisational structure (The Ence Group) Commitment to excellence in management Policy (The Ence Group) |
| 4.7 | Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social topics | IAGC, pages 19 and 20 Corporate governance (The Ence Group) |

| | | |
|------|---|--|
| 4.8 | Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation | Mission, vision and strategy (The Ence Group) Sustainable Business Model (The Ence Group) |
| 4.9 | Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social, performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles | IACG, page 39-41 |
| 4.10 | Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance | IACG, pages 19 and 20 |
| 4.11 | Explanation of whether and how the precautionary approach or principle is addressed by the organisation | Commitment to excellence in management policy (The Ence Group) |
| 4.12 | Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses. | Our target audiences Certified sustainable forest Management (Forestry Operations - Our Businesses) |
| 4.13 | Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: has positions in governance bodies; participates in projects or committees, provides substantive funding beyond routine membership dues; or views membership as strategic | Our target audiences |
| 4.14 | List of stakeholder groups engaged by the organisation | Our target audiences (stakeholder mapping) |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage | Our target audiences |

7. GRI INDEX

| | | |
|------|--|----------------------|
| 4.16 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group | Our target audiences |
| 4.17 | Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting | Our target audiences |

| Disclosure: | Description | Location/Page |
|----------------------|---|---|
| ECONOMIC PERFORMANCE | | |
| EC1 | Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. | Key figures |
| EC2 | Financial implications and other risks and opportunities for the organisation's activities due to climate change. | Reforestation and CO2 capture (Forestry Operations. Our Businesses) CO2 Emissions (Pulp and paper. - Our Businesses) Biomass and Sustainable Development (Energy. Our Businesses) |
| EC3 | Coverage of the organisation's defined benefit plan obligations | Human Resources (the compensation policy is described in the management, development and retention of talent section) AR (Financial Report) note 4 (n): page 122 |
| EC4 | Significant financial assistance received from government | AR (Financial Report), note 4 (p) (page 125) and note 14: pages 157 and 158) |
| EC5 | Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation | We manage, develop and retain talent. Human Resources (The Ence Group) |

| | | |
|-----|---|---|
| EC6 | Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation | We establish relationships with our customers, suppliers and contractors. Our target audiences Social Cohesion (Energy – Our Businesses, Eucalyptus plantations create wealth in rural areas (Forestry Operations – Our Businesses) |
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation | We manage, develop and retain talent (Our people, a great team. The Ence Group) The Ence Group does not have a formal local hiring policy. However, the common practice is to integrate and develop its employees so, whenever possible, local hiring is promoted, while respecting equal opportunities and promoting efficiency |
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement | Collaboration with local communities (Our target audiences) |
| EC9 | Understanding and describing significant indirect economic impacts, including the extent of impacts | Our Businesses (in all three sections) |

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| Disclosure | Description | Location/Page |
|---------------------------|---|--|
| ENVIRONMENTAL PERFORMANCE | | |
| EN1 | Materials used by weight or volume | Clean and efficient production (Pulp and Paper – Our Businesses) |
| EN2 | Percentage of materials used that are recycled input materials | Clean and efficient production (Pulp and Paper – Our Businesses) |
| EN3 | Direct energy consumption by primary energy source | Clean and efficient production (Pulp and Paper - Our Businesses) |
| EN4 | Indirect energy consumption by primary energy source | Not available |
| EN5 | Energy saved due to conservation and efficiency improvements | Clean and efficient production (Pulp and Paper – Our Businesses) |
| EN6 | Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives | Biomass and sustainable development (Energy. - Our Businesses) Clean and efficient production (Pulp and Paper. - Our Businesses) |
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved | Not available |
| EN8 | Total water withdrawal by source | Clean and efficient production (Pulp and Paper. - Our Businesses) |
| EN9 | Water sources significantly affected by withdrawal of water | Clean and efficient production (Pulp and Paper. - Our Businesses) |
| EN10 | Percentage and total volume of water recycled and reused | Clean and efficient production (Pulp and Paper. - Our Businesses) |

| | | |
|------|--|---|
| EN11 | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas | Our raw material: eucalyptus. (Forestry Operations. - Our Businesses) |
| EN12 | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas | Our raw material: eucalyptus. (Forestry Operations. Our Businesses) |
| EN13 | Habitats protected or restored | Our raw material: eucalyptus (Forestry Operations. Our Businesses) |
| EN14 | Strategies, current actions, and future plans for managing impacts on biodiversity | Our raw material: eucalyptus. (Forestry Operations. Our Businesses) |
| EN15 | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk | Not available |
| EN16 | Total direct and indirect greenhouse gas emissions by weight | Clean and efficient production (Pulp and Paper. Our Businesses) |
| EN17 | Other relevant indirect greenhouse gas emissions by weight | The indirect greenhouse gas emissions associated with travel and transport at the Ence Group are irrelevant compared to those emitted in production (Indicator EN16). |
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved | Clean and efficient production (Pulp and Paper. Our Businesses) |

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| | | |
|------|--|--|
| EN19 | Emissions of ozone-depleting substances by weight | No significant emissions |
| EN20 | NO, SO, and other significant air emissions by type and weight | Clean and efficient production (Pulp and Paper. Our Businesses) |
| EN21 | Total water discharge by quality and destination | Clean and efficient production (Pulp and Paper. Our Businesses) |
| EN22 | Total weight of waste by type and disposal method | Clean and efficient production (Pulp and Paper. Our Businesses) |
| EN23 | Número total y volumen de los derrames accidentales más significativos | Sin derrames significativos |
| EN24 | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally | Not available |
| EN25 | Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff | Not available |
| EN26 | Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation | Relations with customers, suppliers and contractors (Our target audiences) |
| EN27 | Percentage of products sold and their packaging materials that are reclaimed by category | 100% of the pulp produced by the Ence Group can be reclaimed |
| EN28 | Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations | In 2010 no environmental law or regulation was breached |

| | | |
|------|--|--|
| EN29 | Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce | Not available |
| EN30 | Total environmental protection expenditures and investments by type | Key figures. AR (Financial Report), note 27: page 194 - 199 |

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| Disclosure | Description | Location/Page |
|--------------------|--|----------------------------------|
| SOCIAL PERFORMANCE | | |
| LA1 | Total workforce by employment type, employment contract, and region | Human Resources (The Ence Group) |
| LA2 | Total number and rate of employee turnover by age group, gender, and region | Human Resources (The Ence Group) |
| LA3 | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations | Human Resources (The Ence Group) |
| LA4 | Percentage of employees covered by collective bargaining agreements | No disponible |
| LA5 | Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements | Human Resources (The Ence Group) |
| LA6 | Percentage of total workforce represented in formal joint management—worker health and safety committees that help monitor and advise on occupational health and safety programmes | Human Resources (The Ence Group) |
| LA7 | Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region | Human Resources (The Ence Group) |
| LA8 | Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases | Not available |

| | | |
|------|---|--|
| LA9 | Health and safety topics covered in formal agreements with trade unions | Human Resources (The Ence Group) |
| LA10 | Average hours of training per year per employee by employee category | Human Resources. Annual Report page 34 |
| LA11 | Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings | Human Resources (The Ence Group) |
| LA12 | Percentage of employees receiving regular performance and career development reviews | Human Resources (The Ence Group) |
| LA13 | Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indica- | Human Resources (The Ence Group) Annual Report page 26-27 and 177 |
| LA14 | Ratio of basic salary of men to women by employee category professional | Human Resources (The Ence Group) |

7. GRI INDEX

| Disclosure | Description | Location/Page |
|--------------|---|--|
| HUMAN RIGHTS | | |
| HR1 | Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening | Ethical conduct and respect for human rights (The Ence Group) |
| HR2 | Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken | Ethical conduct and respect for human rights (The Ence Group) Certified sustainable forest management – Our sustainable |
| HR3 | Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained | Management, development and retention of talent (Human Resources) |
| HR4 | Total number of incidents of discrimination and actions taken | We promote diversity and equal opportunities (Human Resources. The Ence Group) |
| HR5 | Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights | We strengthen industrial relations through communication and engagement (Human Resources. The Ence Group) |
| HR6 | Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour | We promote diversity and equal opportunities (Human Resources. The Ence Group) |
| HR7 | Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour | We promote diversity and equal opportunities (Human Resources. The Ence Group) |

| | | |
|-----|--|---|
| HR8 | Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations | Not applicable |
| HR9 | Total number of incidents of violations involving rights of indigenous people and actions taken. | Ethical conduct and respect for human rights (The Ence Group) |

7. GRI INDEX

| Disclosure | Description | Location/Page |
|------------|--|---|
| SOCIETY | | |
| SO1 | Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting | Las plantaciones de eucalipto generan riqueza en el medio rural (Actividad Forestal. Nuestros negocios) |
| SO2 | Percentage and total number of business units analysed for risks related to corruption | Ethical conduct and respect for human rights (The Ence Group) |
| SO3 | Percentage of employees trained in the organisation's anti-corruption policies and procedures | Durante el ejercicio 210 no se impartido formación relativa a políticas y procedimientos anti-co- |
| SO4 | Medidas tomadas en respuesta a incidentes de corrupción | Ethical conduct and respect for human rights (The Ence Group) |
| SO5 | Public policy positions and participation in public policy development and lobbying | Associations and institutions (Our target audiences) |
| SO6 | Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country | Not available |
| SO7 | Total number of legal actions for anticompetitive behaviour, anti-trust, and monopoly practices and their outcomes | Not available |
| SO8 | Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations | AR (Financial Report), note 4 (k) and 15 |

| Disclosure | Description | Location/Page |
|-------------------------------|---|---|
| PRODUCT RESPONSIBILITY | | |
| PR1 | Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures | Clean and efficient production (Pulp and Paper. Our Businesses) |
| PR2 | Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements | There were no relevant incidents |
| PR3 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcome | Not available |
| PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcome | There were no relevant incidents |
| PR5 | Practices related to customer satisfaction, including results of surveys measuring customer satisfaction | Satisfaction surveys are administered to customers |
| PR6 | Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship | 2010 Achievements (The Ence Group) |

7. GRI INDEX

| | | |
|-----|---|---|
| PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes | There were no relevant incidents |
| PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data | The Ence Group has no record of substantiated complaints in this area |
| PR9 | Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services | There were no significant fines for this reason In 2010 |

MANAGEMENT APPROACH

Information on the management approach

| | |
|---------------------------------|-------------------|
| ECONOMIC ASPECT | |
| Economic performance | 2010 Achievements |
| Market presence | |
| Indirect economic impact | |
| ENVIRONMENTAL ASPECT | |
| Materials | Our Businesses |
| Energy | |
| Water | |
| Biodiversity | |
| Emissions, discharges and waste | |
| Products and services | |
| Compliance | |
| Transport | |
| General aspects | |

SOCIAL ASPECT – Work practices and ethics

| | |
|-----------------------------------|-----------------|
| Employment | Human Resources |
| Labour-Management relations | |
| Occupational Health & Safety | |
| Training and Education | |
| Diversity and Equal Opportunities | |

SOCIAL ASPECT – Human Rights

| | |
|--|-----------------|
| Investment and procurement practices | Human Resources |
| No discriminaci3n | |
| Freedom of Association and Collective Bargaining | |
| Abolition of Child Labour | |
| Prevention of forced and compulsory labour | |
| Safety practices | |
| Indigenous rights | |

SOCIAL ASPECT - Society

| | |
|--------------------|--|
| Community | Ethical conduct and respect for human rights |
| The Ence Group . | Our target audiences |
| Corruption | |
| Public policy | |
| Unfair competition | |
| Compliance | |

SOCIAL ASPECT – Product responsibility

| | |
|------------------------------------|----------------------|
| Customer Health & Safety | Our target audiences |
| Labelling of products and services | |
| Marketing communications | |
| Customer privacy | |
| Compliance | |



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