

# 2012 Sustainability Report

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# 1 Letter from the Chairman



# Chairman's letter

I have the pleasure of presenting Ence's **Sustainability Report for 2012**, in which we wish to account for our results in the field of sustainability to our stakeholders.

Our mission is to become a benchmark company in pulp production and a leader in renewable biomass energy production. We are committed to continuous improvement in this to enable us to be more efficient and competitive, without forgetting our values of commitment to people, our customers and the environment.

Based on our mission and vision, the pillars of our strategy are tied to efficiency, diversification of sales, growth in energy production from biomass, positioning in forestry management and maintaining a strong financial structure.

In this context, 2012 was a significant year for Ence as we progressed the definition of our strategic framework and the deployment of the company project on which our strategy is based. All of this took place in the framework of implementation of our TQM (Total Quality Management) model guiding the cultural and management

transformation in which Ence is involved, to achieve the strategic objectives set.

In relation to the company's economic performance in 2012, Ence's net profit increased by 4% to €43 million thanks to the improvements in costs and competitiveness achieved during the financial year. Our improved competitiveness showed in the 6% reduction in average cash cost (total unit cost) over the year, which favoured Ence's entry into international markets. Adjusted EBITDA was €175 million, 15% higher than in 2011. However, taking cover, compensations and provisions into account, the EBITDA was in line with the previous financial year.

The main milestones achieved in 2012 for our three lines of business were as follows:

The most significant with regards to Ence's forestry activity was the divestment of non-strategic forest assets corresponding to over 27,000 hectares in Uruguay. In this line, Ence is working to increase standing timber purchases on the Iberian Peninsula, so significantly reducing timber imports.

Pulp production and sales increased by 1% in 2012, with both figures being around 1.25 million tonnes. Our operations centres continue their progress towards minimisation of their environmental impacts, as shown in the expansion of the Navia waste water treatment plant and the progress in the odour control project in the three factories. Additionally, our Integrated Management System is kept up to date, as is the EMAS Statement for the three factories.

The production and sale of energy from the use of biomass increased by around 8% in each case as a result of the start up of the new Huelva biomass plant with its 50 MW of installed power. In the medium and long term, Ence's energy production capacity will be boosted by the new Mérida biomass plant, construction of which started in 2012.

All our forestry and industrial activity has been carried out within the framework of efficient and satisfactory relationships with our stakeholders. As a result of our Investor Relations team's efforts, our transparency

and good management of investor relations has been recognised in the sector.

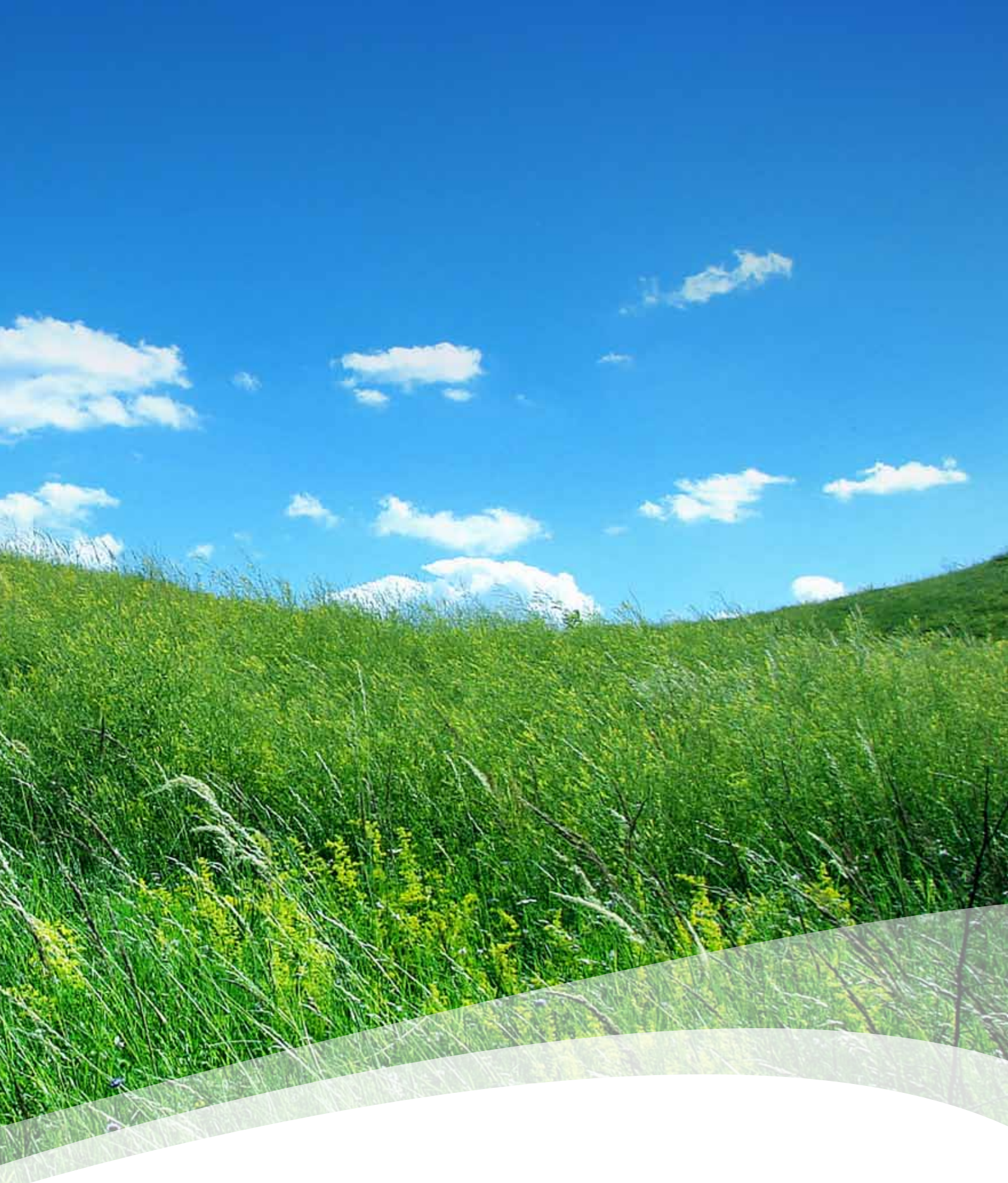
But the key factor in Ence achieving the above progress is undoubtedly the people who work with us. We strive for their professional development and to retain talent, so that together we work to achieve the company's objectives. Due to the intensive industrial activity we carry out, one of our priorities in human resources management is continuous improvement of occupational health and safety by means of creating a corporate culture which promotes safe behaviour in our employees' daily work.

This Sustainability Report has been prepared based on **Global Reporting Initiative** criteria and has been verified, receiving an A+ rating. With this, we hope to provide the relevant information on our performance in the subjects related to the sustainability of our business.

**Juan Luis Arregui Ciarolo**  
*Chairman of Ence - Energía y Celulosa*







## 2 Presenting the Company

# Presentation

Ence is the **leading company in the European market in eucalyptus pulp production** and is **Spain's leading company in renewable forest biomass energy generation**. Firmly committed to sustainability, the company is also a **leader in comprehensive,**

**sustainable management of forest areas** and, more particularly, eucalyptus forest crops aimed at the production of the natural raw materials (cultivated wood and biomass) needed for the carrying out of its business.

	2010	2011	2012
Direct economic value generated* (thousands €)	830,758	825,451	827,578
Distributed economic value (thousands €)	766,047	784,259	784,547
Operating costs	621,355	648,684	648,743
Payments and economic benefits for employees	83,049	82,604	77,408
Payments to equity providers	31,482	32,000	31,530
Payments to governments (taxes, duties, sanctions, etc.)	29,762	20,775	26,665
Investments in the community	399	197	200
Retained economic value** (thousands €)	64,711	41,192	43,031

\* The direct economic value corresponds to income from sales (net revenue amount).

\*\* The retained economic value corresponds to the profit for the financial year after taxes and is the difference between the economic value generated and distributed.

Ence generates over 11,000 jobs in Spain, of which about 60% are related to forest management and supporting employment in rural areas. Therefore, Ence provides an

important **structuring effect to the region**, contributing to the creation of guaranteed income and preventing populations from emigrating to urban areas.

The company manages forest areas by applying the strictest internationally recognised sustainability and corporate responsibility criteria. As such, Ence has **pioneered certification projects** undertaken in Spain, not only in its own forests, but extending this policy to its immediate environment to promote the certification of areas belonging to its partners and collaborators.

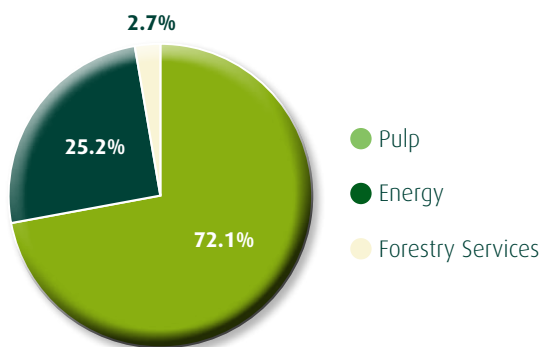
Ence produces **nearly 1,300,000 tons per year of high quality eucalyptus pulp** at its plants in Navia (Asturias), Pontevedra and Huelva, where it implements environmentally-friendly technologies and continuous improvement processes to boost its competitiveness and quality.

Ence also leads renewable biomass energy production in Spain with an installed biomass power capacity of 230 MW and another 50 MW in gas cogeneration. **The new Huelva biomass plant**, which came into service in 2012, consolidated Andalusia as Spain's leading area in the use of this renewable energy source.

Electricity sales came to represent over 25% of total sales in 2012, as a result of Ence's strategic push to this line of business.

Ence is, in short, a company which makes tree cultivation (and hence being in continuous contact with nature) into an environmentally-friendly job creating industry at the same time as providing products which are essential to our society: natural pulp and renewable energy.

Sales



# Leading company in its sector

Ence's mission is to be a leading company in the production of eucalyptus pulp and renewable biomass energy based on comprehensive and responsible timber management.

Ence's aim is to offer efficient and competitive solutions to its customers' needs, develop a strong forestry industry, and increase the production of renewable biomass energy. Its whole business is based on commitment to the respect for people, their safety and development, to continuous improvement and to its surroundings.

The objective of its business is, through everyone's participation, to achieve profitability for its shareholders, company growth and job and wealth generation in the areas where it operates.

Ence's vision is to become a global leader in the full and sustainable utilisation of forest resources. This full utilisation of the tree is achieved by applying the best available technologies to improve process efficiencies.

To attain its mission and its vision, Ence bases its activity on the following values, which act as a reference framework to inspire and regulate the organisation's operation:

- **Commitment to people:** The relationship with people is based on respect and communication and its priorities are recognition, safety and professional development.
- **Commitment to our external and internal customers:** Meeting customers' expectations is one of Ence's main activities.
- **Commitment to the environment:** Ence strives for economic, social and environmental sustainability in all its operations, through responsible, sustainable management.
- **Commitment to improvement:** Continuous improvement is understood in Ence as an attitude of non-conformism which means looking for improvements in all fields through excellence in management.
- **Commitment to results:** Ence drives results orientation in its activities to ensure the provision of value for its shareholders.
- **Commitment to Ence:** Pride in belonging and commitment are key factors for the people who make up Ence.



# Corporate governance

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

- Executive Committee
- Audit Committee
- Appointments and Remuneration Committee

The **composition and structure** of the Management Committee and the Board of Directors are available in the **Annual Report**, accessible on Ence's website ([www.ence.es](http://www.ence.es)).

The company's **Management 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.

Ence's **fundamental rules** of Corporate Governance are set out in the company's **Articles of Association**, 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](http://www.cnmv.es)) and on the Ence Group website ([www.ence.es](http://www.ence.es)).

The **Annual Corporate Governance Report** for 2012, prepared in accordance with the CNMV format, is available on both websites.

# Strategy and achievements for 2012

## Strategic Pillars

## 2012 Achievements

To strengthen the company's position as a **low cost producer** by means of active management of pulp and energy operations, focusing on achieving **efficiency improvements** in production volume, **operating costs and investments**.

**Efficiency improvements** with increases of 1% per year in both pulp production, to 1,249,636 tonnes, and pulp sales, to 1,248,805 tonnes. Energy sales also increased by 4% compared to the previous year, reaching 1,542,773 MWh.

Additionally, the **cost reduction** trend was maintained, down by 6% to 343.9 €/tonne

To deepen **sales diversification** by customer geographical location and segment in the European market, providing **product solutions** adapted to the customers' production process needs and exploiting the company's **differential logistical** positioning due to its closeness to the customer and flexibility.

Ence is the **leading European producer of short-fibre pulp** with a market share on the continent of over 15%. Ence **exports nearly 87% of its pulp production** and has **163 European customers** per factory, supplying all **the paper making segments**, especially the tissue segment which represents approximately 50% of total sales.

To develop and execute a **renewable biomass energy growth** project both in Spain and in international markets, making maximum use of the company's capabilities in forest management, with the objective of **increasing the weight of the energy business**, which offers greater stability in future cash flow generation.

Ence reached an **energy turnover of €197,493,022**, representing **annual growth of 10%** and a **percentage of energy sales** over total group sales corresponding to **24%**.

In line with the renewable biomass energy growth strategy, the company successfully closed the **financing for €60.7 million for the 20 MW Mérida plant** which, in spite of the difficulties with the financial markets, shows the investor community's confidence in the company's strategy.

In addition, the **50 MW Huelva biomass plant** (the biggest in Spain) started to feed electricity into the grid in September, with an **anticipated annual production capacity of 340 GWh** and consumption equivalent to 125,000 homes.

To reinforce the company's **competitive position** in the field of **forestry supply management**, focusing on sustainability, diversification of supply sources and efficiency improvements, enabling exploitation of Ence's **forest assets**.

The company made progress in the **disintermediation of timber** by means of the purchase in 2012 of 600,000 tonnes from **forest producers' associations**, improving the sale and purchase conditions by eliminating middlemen's costs. This progress in 2012 represents a **140% increase with respect to the previous financial year**.

The purchases made from **forest owners** (standing timber purchases) and purchases made from **small suppliers** together represent **69% of the total timber purchases** (30% and 39%, respectively).

To preserve a **strong financial structure** which acts as a **competitiveness lever** for the company, by focusing on keeping the level of **indebtedness low** and a **sound liquidity** position.

In December 2012, Ence **sold its forest assets in Uruguay** for \$77.3 million to a prestigious North American institutional fund that has forestry operations in Latin America, representing the **divestment of 27,780 hectares** of eucalyptus. The success in its strategy of disintermediation in purchasing wood enabled the company to boost its balance and reinforce its financial structure, closing 2012 with a **net recourse debt of €200,659,000**, meaning a **net debt / EBITDA ratio of 1.4x**.



# Sustainable management model

Ence puts **sustainability** at the core of its business. Integrated into its forestry, production and electricity generation activities and its management model are **economic, social and environmental sustainability criteria** which guarantee orientation towards results, mutual benefit in relations with suppliers, forest owners, customers and other stakeholders and the management of impacts on the surroundings.

The **comprehensive management** of forest areas for pulp and renewable energy production covers the whole

**value chain** and is a differentiating advantage. Ence's activity includes the selection, planting and cultivation of trees, their harvesting, transport and receipt at the operations centres, for full utilisation. This presence in the whole **value chain** enables good forestry practices to be applied in the plantations and in their utilisation, leading to greater **efficiency in energy and pulp production**. It also enables Ence to have a **better understanding of the raw materials** it uses, by being directly or indirectly involved in their management through the application of the sustainability criteria on which it bases its activity.

# Ethical conduct and respect for human rights

For another year, Ence renewed its commitment to the Ten Principles of the UN Global Compact. The objective of this international initiative is for member companies to accept the current main environmental and social challenges and to integrate them into their management. With this commitment, Ence promotes the dissemination of these principles among its stakeholders, especially among its suppliers.

The wish of the United Nations is to involve all economic players in active policies of respect for human rights,

respect for the environment, the use and spread of ecological technologies, ethical management and active and transparent labour relations based on respect.

These Ten Principles are based on various 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.





## Ten Principles of the Global Compact

<b>Principle 1</b>	Businesses should support and respect the <b>protection of internationally proclaimed human rights</b> .
<b>Principle 2</b>	Businesses should make sure that they are not complicit in <b>human rights abuses</b> .
<b>Principle 3</b>	Businesses should uphold the <b>freedom of association</b> and the effective recognition of the <b>right to collective bargaining</b> .
<b>Principle 4</b>	Businesses should uphold the elimination of all forms of <b>forced and compulsory labour</b> .
<b>Principle 5</b>	Businesses should uphold the effective abolition of <b>child labour</b> .
<b>Principle 6</b>	Businesses should uphold the elimination of <b>discrimination</b> in respect of employment and occupation.
<b>Principle 7</b>	Businesses should support a <b>precautionary approach</b> to environmental challenges.
<b>Principle 8</b>	Businesses should undertake initiatives to promote greater <b>environmental responsibility</b> .
<b>Principle 9</b>	Businesses should encourage the development and diffusion of <b>environmentally friendly technologies</b> .
<b>Principle 10</b>	Businesses should work against <b>corruption</b> in all its forms, including extortion and bribery.

As most of the Ence's activities mainly take place on the **Iberian Peninsula**, where there are **regulations** and **strict controls** in place with respect to **human rights**, there are few or no risk factors in this area.

Additionally, Ence ensures that the wood it uses for pulp and renewable energy production does not come from controversial sources by means of **certification of its chain of custody**.

# Excellence in quality management

In February 2011, Ence decided to adopt TQM (*Total Quality Management*) as its **model for cultural and management practice transformation**. With this purpose and with the involvement of Top Management, the decision was taken to develop its own model of **Excellence in Management** based on quality, efficiency, people and continuous improvement as an essential aspect of Ence's way of working and managing.

The model is structured around **themes that make it easier to understand and implement**, in which the following progress was made in 2012:

## 1. Guiding improvement

The main activities for this theme were related to the **Company Project deployment** and the **Strategic Framework** for the three operations centres. Their **missions and values** were formulated during the year and a **strategy** was defined as regards products, markets, customers and technology.

**The PDCA cycle** (*Plan, Do, Check, Act*) was completed in 2012, to improve all levels of the organisation. The basis of this cycle is that after planning actions, these need to be carried out and then assessed to see how well they work so as to make the relevant changes aimed at improvement.

After having defined **strategic projects**, these were **deployed on a cascading basis** in the business units, the operations centres and departments in which management is framed within TQM. Each of these units defined around ten **Fundamental Improvement Objectives** and a

similar number of **focused improvements** which are then deployed by interdepartmental, multi-level teams to ensure that all the proposed goals are achieved. **Deployment plenary sessions** were also held to ensure coordination and reconciliation of improvement targets and actions.

## 2. Process management

**Standardisation control and improvement projects** for **pulp** production and **forest utilisation** were implemented in 2012.

The Huelva, Navia and Pontevedra operations centres and the forest operations are undertaking this project aimed at reducing variability, increasing process effectiveness and improving finished product quality. Applying this tool has enabled significant **improvements in quality and productivity**, as well as involving people who intervene in processes in controlling and improving them.

Other tools were also implemented under this theme, such as:

- VOC (*Voice of the Customer*) project to structure and systematise **customer visit management** with extensive interdepartmental participation and involvement of people from the Pulp business's operations centres.
- Application of 8D and "Red Board" methodology for **managing customer complaints** related to the Pulp business unit.



- Implementation of **first level preventive maintenance** in the Pontevedra and Navia operations centres' pilot facilities.
- Start of the **standardisation, control and improvement project for contracting, planting, forestry treatment and energy crop utilisation processes**.

The establishment of a basic tool for **solving acute problems** which arise in daily work was also studied in greater depth, whether these problems are in reducing episodes of smell emissions or reducing loss of effectiveness.

Finally, a model seeking to **develop people's participation and autonomy** in managing their activity was implemented in several departments.

### 3. Management of daily activity

Projects on improving **organisation, tidiness and cleanliness** conditions continued in 2012. The three Huelva, Navia and Pontevedra centres continued their progress in implementation in industrial areas and offices within a 5-year plan.

### 4. Change management

Some **instruments supporting changes** to management practices were implemented in 2012, such as **information sessions** on the TQM model for excellence in management, customer orientation **workshops, launch sessions** for deployment of objectives and other **training initiatives** related to the model.





# 3 Human Resources

# Personnel management

For Ence, human resources management is the basis for achieving the company's **strategic objectives**. The **priorities** with regards to personnel management are:

- Development of a **new framework of values and culture** based on internal communication: The aim is for all employees to know their mission and their contribution to the company's success and for them all to feel part of Ence. Through a variety of mechanisms, to promote upward and downward communication, paying special attention to recognition of achievements and employee satisfaction.
- Promotion of capabilities, **professional development and retaining talent**. Strengthening the management team reinforces leadership and results orientation. This is supported by offering development opportunities through leadership and management skills programmes. Managers take on responsibilities for identifying talent and succession planning for key positions.
- Improvement of **labour relations management** to make it compatible with the new strategic

framework: through training and making working conditions more flexible, seeking greater employee skills and company competitiveness.

- Continuous improvement of **occupational health and safety**: by building in a corporate culture of safe behaviour in operations, Ence aims to continue to progress towards its target of zero accidents.

Teams were created in 2012 to **reinforce** the company's **strategic lines**.

Within the framework of **implanting the TQM quality management system**, intensive training processes have been carried out on the use of the troubleshooting tools, which is a key aspect in continuous improvement.

Ence had a workforce of **1.063 employees** in 2012. Of these, 71% were between 30 and 50 years of age, 90% had an **open-ended contract** and 98% worked **full time**. Around **64%** of employees are covered by a **Collective Bargaining Agreement**.

	2010		2011		2012	
	Men	Women	Men	Women	Men	Women
<b>By category</b>						
Director	35	2	29	2	30	4
Individual contract	152	44	151	42	185	59
Collective Bargaining	736	150	663	111	591	93
Temporary	307	53	204	22	81	20
<b>By age</b>						
Employees <30 years	145	23	138	9	76	9
Employees 30-50 years	764	180	665	132	614	140
Employees >50 years	321	46	244	36	197	27
<b>By contract type</b>						
Open-ended contract	925	197	843	155	806	156
Temporary contract	305	52	204	22	81	20
<b>By working day</b>						
Full time	1,220	228	1,041	155	886	154
Part time	10	21	6	22	1	22

Workforce data correspond to data at 31 December 2012.

# Diversity and equal opportunities

Ence promotes diversity and equality of opportunities and rejects any kind of discrimination, whether by race, sex, religion or nationality. This commitment is acknowledged in its Ethical Code.

	2010		2011		2012	
	Men	Women	Men	Women	Men	Women
Employees who have taken parental leave	33	10	58	13	35	14
Employees who have taken up their posts after taking parental leave*	33	9	57	11	34	10
Employees who continued in their posts after 12 months of parental leave**	29	10	48	5	35	9
Return to work rate [employees who have taken leave/employees who have returned to work after leave) x 100]	100%	90%	98%	85%	97%	71%

\* Not including employees whose parental leave ends in 2013.

\*\* The parental leave referred to corresponds to 2011.

The **Equality Plan** promotes the effective application of the principle of equality between men and women, guaranteeing the same opportunities for access and professional development in the field of work at all levels of the organisation. Although Ence belongs to a sector in which the presence of women has traditionally been low, **over 16%** of the workforce were **women** in 2012.

In its **harassment prevention policy**, Ence commits to preventing, avoiding, resolving and sanctioning cases of

harassment which may occur, as an essential requirement to guarantee the dignity, integrity and equality of treatment and opportunities for all workers.

Additionally, the **remuneration policy** guarantees non-discrimination between employees. Remuneration is competitive in accordance with market criteria, with a variable component based on an objective performance assessment with criteria of fairness and efficiency.





	2012	
	Men	Women
<b>Basic salary</b>		
Individual contract	43,793	43,908
Collective Bargaining	26,141	24,407
Temporary	7,660	7,094
<b>Average salary</b>		
Individual contract	54,374	51,952
Collective Bargaining	44,009	32,642
Temporary	13,766	10,711
<b>Ratio between basic and average salary</b>		
Individual contract	81%	85%
Collective Bargaining	59%	75%
Temporary	56%	66%

For reasons of confidentiality, information relating to Directors is not reported broken down by sex.

There are no differences in **standard starting salary** for **men and for women**. The ratio between this salary and the inter-professional minimum laid down in Spanish legislation is 125%.

No **incidents of discrimination** were recorded in 2012.



# Personnel selection

Personnel selection is a priority process in personnel management and the criteria on which the selection process is based are divided into different phases:

- **Initial phase:** Definition of the post, technical, management and personal skills profile and essential requirements.
- **Process development phase:** During the interview, reciprocal commitments are set and agreed, in accordance with company values.
- **Entry phase:** Through the induction programme and making field visits, the aim is to provide an introduction to the organisation, its values and principles, as well as initial training in the post.
- **Follow up phase:** Performance (aptitudes and initial training) and commitment (involvement in

the team and company) are assessed by means of follow up interviews (6 months after joining).

The selection process is based on **objective criteria**, such as the acquisition of technical and management skills, merit and alignment with Ence's values.

In all selection processes, **internal promotion** and **local hiring** are encouraged, under equal conditions.

Thanks to collaboration agreements and agreements with universities, business schools and professional training schools, **70 people** carried out **work experience training** in Ence's centres in 2012, of whom 11 were recruited once their experience period ended.



# Training and development

The fundamental aim of employee training is to promote their **professional and personal training** at all levels to improve their **integration** into the company and their **commitment** to its strategic objectives.

Training initiatives can be grouped under the following themes:

- **Health and safety in the workplace:** The objective of this training is to promote safe behaviours and build safety into all the levels of the organisation.
- **TQM model and management tools:** Its objective is to orient management towards the customer to improve their satisfaction and

continuous improvement in the search for efficiency in operations and training in the use of management tools.

- **Environmental training:** With the aim raising the awareness of all workers towards environmental care and respect, as well as in the responsible used of resources.
- **Management skills:** This training is intended to evolve towards more cooperative models as regards management and working style, promoting innovation and results orientation, encouraging a climate of trust and fostering professional and personal development.

- **Technical skills:** With the aim of training operators in process knowledge and technology, as well as their development within the profession (knowledge on hydraulics, pneumatics, mechanics, instrumentation, processes, etc.).

continuously at all levels of the company. Training in management skills is aimed at people who hold key posts and people who manage teams, as well as people being developed. Technical training is mainly aimed at process operators.

Training on health and safety in the workplace, quality and environmental management is given

	2010		2011		2012	
	Men	Women	Men	Women	Men	Women
<b>Training hours</b>						
Senior Management	402	0	508	0	163	118
Individual Contract	4,043	1,504	4,910	1,721	6,642	1,917
Collective Bargaining	9,341	2,194	7,098	1,529	7,749	1,122
Temporary	1,793	541	1,486	329	1,190	198
<b>Total</b>	<b>19,818</b>		<b>17,580</b>		<b>19,099</b>	
<b>Average number of training hours by category</b>						
Senior Management	10.86		16.39		8.26	
Individual Contract	28.30		34.35		35.08	
Collective Bargaining	13.02		11.15		12.97	
Temporary	6.54		8.03		13.74	
<b>Average number of training hours by gender</b>	12.69	17.09	13.37	20.22	17.75	19.06

In 2012, the **number of training hours increased by 9%** compared to the previous year.

An important aspect of employee professional development is **performance assessment**, on which recognition for the work carried out is based.

Performance management is based on a continuous dialogue on goals, achievements, reinforcements and recognitions, analysing not only “what is achieved”, but also “how it is achieved”, “with what resources” and “in what situations”. The process is carried out continuously the whole year round for all specialists and managers.

A **first interview** is held around mid-year with the aim of maintaining performance management system continuity, detecting trends, agreeing necessary corrective actions and

reinforcing positive behaviours. On the other hand, the process is closed in the first quarter with the **comprehensive performance assessment** with the objective of clarifying what is expected of the post, reinforcing and recognising behaviours, orienting people towards development and progress, orienting efforts towards the company’s objectives and challenges and gaining people’s commitment to Ence’s values. The performance assessment is also related to the **remuneration policy** for the group assessed.

In 2012, **30% of employees** received performance assessments (30% of men and 32% of women).

In addition to performance management, other tools are used with the aim of developing employees professionally, such as **coaching** and **benchmarking** actions in visits to other companies with the aim of identifying best practices.

# Retaining talent

Ence worked in 2012 to build **talent reviews** into management processes with the aim of ensuring that the company attracts, develops and retains the professionals it needs to create a sustainable competitive edge.

For this reason, Ence focused on the following:

- Gaining a **clear view** of the **organisation** and the company's key positions.
- Identifying **key senior managers, potential successors and talented individuals**.

- Anticipating and preparing the **next moves and replacements**.
- Identifying possible gaps that may arise and adopting the **necessary corrective measures**.

All of this is based on two basic personnel management systems: management by objectives (what) and performance management (how), consistent with Ence's culture.

	2012	
	Men	Women
<b>New hires</b>		
Employees <30 years	118	9
Employees 30-50 years	163	34
Employees >50 years	21	0
<b>Total</b>	<b>345</b>	
<b>New hires who left work during 2012</b>		
Employees <30 years	90	2
Employees 30-50 years	108	14
Employees >50 years	17	0
<b>Total</b>	<b>231</b>	
<b>Total number of employees who have left</b>		
Employees <30 years	156	4
Employees 30-50 years	228	31
Employees >50 years	76	11
<b>Total</b>	<b>506</b>	
<b>Average turnover*</b>		
Employees <30 years	-50%	56%
Employees 30-50 years	-11%	2%
Employees >50 years	-28%	-41%

\* Average turnover was calculated using the following formula: (hires-employees who have left)/total number of employees x100

Note: Average turnover in the main business in Spain was 3% during 2012.

-15% Global media rotation is due to the closing of activity in Ibersilva process.



# Employee satisfaction

It is important for us to know employees' opinions and level of satisfaction to design future initiatives and adapt them to their **expectations and needs**.

The **working environment survey** is carried out to find out the workforce's level of commitment in each of the company's geographical locations and functions and compare trends, as well as to define action plans deriving from the results with the aim of improving satisfaction.

The survey is carried out biannually in the whole organisation. The last one was carried out in 2012 and

among the best rated categories were **Organisation** (level of involvement and connection with the company), **Commitment to the Company** (clarity of organisational structure and of responsibilities at work and assessment of resources and means made available for work) and **Direct Manager** (direct boss's management style: communicates, recognises, accessible, delegates, etc.). On the other hand, **Leadership and Professional Development** were the worst rated in the survey and on which Ence needs to keep working.

# Internal participation and communication

Internal communication arises as a response to companies' new needs to motivate their human resources. In this, transmitting relevant information on what is happening in the company, motivating employees and establishing an efficient line of communication between them, the management and the company's different departments are its main objectives.

Internal communication is structured using the **following channels:**

- **Cascading communication:** Used frequently and always according to properly designed plans, cascading communication enables knowledge to be transferred to all workers and, at the same time, inputs to be received from them on the subjects raised. It starts from Senior Management and is passed down through the organisation in steps according to the organisational structure.
  - **Screens in the facilities:** Ence has installed screens in the offices and industrial area of its operations centres. The screens are used to transfer messages and/or explanations related both to company development and projects, such as matters of an operational nature for the industrial complex.
  - **Noticeboards in departments:** Section indicators and news specific to it are notified on these.
  - **E-mail communications:** This channel is used to broadcast specific information and communiqués and/or for sending information to the organisation by the company's leaders. For those people who, due to the nature of their work, do not access computers daily, written communication is used.
  - **Written communication:** Completing the tool above. The most important communications are sent in writing and are delivered personally to the people in the organisation.
- **Corporate intranet:** As well as being the gateway to many of the company's management applications, all the information broadcast by the company can be found on the intranet, both for its external and internal public. It is also a tool for participation.
  - **Newsletter:** A monthly publication with information on the company's various business units.

At Ence, **labour relations** are based on dialogue and joint responsibility. As such, the necessary labour relations framework is maintained to be able to work on improving efficiency and productivity.

In 2012, **64% of employees** were covered by one of the four **Collective Bargaining Agreements** in force.

As regards the level of conflict, Ence has not been insulated from the current turbulent social setting and there were 4 days of strikes in its centres in 2012, 3 in the Navia operations centre and 1 in the Pontevedra operations centre, due to disagreements with workers' representatives relating to the internal organisation of the company's resources. These disagreements were finally resolved through dialogue and negotiation, which is the basis of our labour relations.

Ence will undertake the negotiation of collective bargaining agreements for the 3 operations centres – Huelva, Navia and Pontevedra – in 2013, with the aim of improving productivity through continuous improvement to stay competitive in all areas of the company.

In relation to the minimum notice period with regard to organisational changes, Ence abides by that which is laid down in the current legislation. However, in the interests of maintaining an appropriate labour relations environment, it maintains its commitment to notifying of any significant change with sufficient notice.



# Social benefits for employees

In addition to their economic remuneration, Ence offers its employees a series of social benefits which make it easier to **reconcile working and family life**. Some of the social benefits are indicated below:

- **Medical insurance** for employees covered by Collective Bargaining Agreements.
- **Supplementary benefit** of up to 100% of normal pay for a normal working day in situations of temporary disability due to common illness or accident.
- **Accident and life insurance** for which the company pays 50% of the premium.
- **Pension plan** for employees as a joint pension with contributions defined for retirement contingencies and provisions defined for disability contingencies.
- **Company store** financed by the company in both Huelva and Pontevedra.
- **Factory canteen**, subsidised by the company. The cost to the employee is €1/meal in Huelva, €1.50 in Pontevedra and 80% of the meal cost in Navia. Employees in Madrid are paid €9/day as meal assistance by means of a meal card.
- **Transport**: the company provides transport for personnel living in Huelva and a transport allowance based on place of residence (for those who do not use the transport service provided by the company). In Madrid, personnel covered by the Collective Bargaining Agreement receive the monthly zone B1 transport payment.
- **Loans** for house purchase or repair or for a vehicle.
- **Loans** for urgent situations.
- **Study grants** for employees' children studying at university or for second level vocational qualifications.
- **Gratuities** for births, marriage or death for those working at the Pontevedra work centre.
- **Flexible compensation plan** which can be selected by Directors and personnel on Individual Contracts, with those products permitted under the law at all times.

These benefits are offered to all employees regardless, depending on their type of working day.

# Health and safety at work

The protection of employees' health and safety is one of Ence's strategic priorities in personnel management. A culture change is sought in the company, which leads to safer operations and processes. The principles on which this culture change is based are as follows:

- Building safety into daily work in all operations under the slogan **"safety is the top priority"**.
- Leading through **example** and with visible **commitment** from Senior Management.
- Systematically **assessing risks** and behaviours related to safety as the first step to prevention.
- **Recording and analysing** all **accidents and incidents**, learning lessons and making resources available to prevent repetition.
- **Correcting** all **unsafe behaviours** under the "zero tolerance" principle.
- Investing in **continuing training** on the safety of the company's own personnel.
- Selecting **suppliers and subcontractors which are approved** for safety and supervising their compliance with Ence's safety rules.
- Dedicating time to safety and considering it as an **unavoidable responsibility** for each and every one of the employees.
- Building the concepts of safety and ergonomics into the **design of facilities**.

- Having **means and resources** to eliminate risk situations.
- Extending the use of **safety tools** to all levels.

Risk prevention culture refers to attitudes, abilities and patterns of individual and group behaviour which affect and influence safety at work and, therefore, prevention. **Preventive safety audits** (OPS in Spanish) contribute to making attitudes and safe behaviours more uniform by identifying safe and unsafe practices, their correction and communication to the whole company. Furthermore, SOPs (**Standard Operating Procedures**) are drawn up to establish the correct way of carrying out tasks and avoiding mistakes or unsafe practices and **safety inspections and audits** are carried out.

The **main risks** in Ence's facilities are same-level falls, falls from height, bumping into objects and contact with chemical substances.

An extensive **theoretical/practical training** programme was implemented in 2012 with all the **power saw operators** who do work for Ence. This training was based on the **5 inviolable rules** which guarantee safety in operations. Additionally, **bimonthly meetings on safety in the workplace** were held with the forest contract managers.

Ence has an Occupational Risk Prevention **management system**, certified according to the **OHSAS 18001** standard, which enables it to reduce its accident rate and increase productivity, comply with health and safety legislation and promote a risk prevention culture by integrating prevention into the company's general system and gaining the commitment of all workers to continuous improvement in health and safety performance.



	2010		2011		2012	
	Men	Women	Men	Women	Men	Women
Accident rate [(number of accidents*/total hours worked) x 200,000]	4.36	3.75	4.44	1.97	2.61	0.00
Occupational disease rate [(number of occupational diseases*/total hours worked) x 200,000]	0.00	0.00	0.00	0.00	0.00	0.00
Lost time rate [(total number of days lost**/total hours worked) x 200,000]	17.71	96.59	48.76	124.16	28.58	0.00
Absenteeism rate [(total number of days lost through absence/total days worked) x 100]	2.89	2.59	2.92	4.27	2.70	2.79
Number of fatal victims	0	0	0	0	1***	0

\* Only those accidents with time off are included in the number of accidents.

\*\* In accounting for days lost, the working days from the day after the accident are considered.

\*\*\* The fatal victim was not related to professional activity.

The Joint Prevention Service which has taken on **health oversight**, as well as carrying out medical checkups based on specific protocols, prepares informative documents which go into greater depth on general health aspects, promoting **healthy lifestyle guidelines**.

Ence has **Health and Safety Committees** in the three operations centres (in which 100% of the employees are represented), which hold monthly meetings and collaborate with the trade union associations on all risk prevention subjects for which they request collaboration.



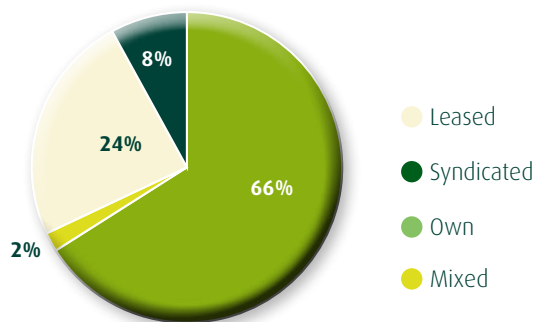


# 4 Forestry

# The forestry business unit

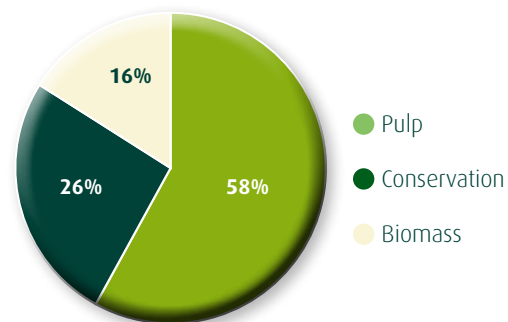
Ence undertakes the **management of forest areas** (its own, leased or syndicated) under **sustainability criteria**, seeking **certification** acknowledging this under the **FSC** (Forest Stewardship Council) and **PEFC** (Programme for the Endorsement of Forest Certification) systems. The objective of this forest area management is to **supply the raw materials** to the factories, in the form of **wood** to produce pulp and of **forestry wastes** to generate renewable energy.

Area managed



The area Ence managed in 2012 was over 115,000 hectares. Of this area, **66%** formed part of its forest assets, while the rest was divided between **leased or syndicated areas or a combination of any of the above**.

Area managed



**Sixteen percent** of the area managed by Ence is used for **biomass for energy utilisation** and **58% for pulp production**. The remaining **26%** is set aside exclusively for **conservation and habitat restoration**, without a production purpose.

Of Ence's forest assets, 2,129 hectares are **High Conservation Value Forests**, a concept created by the FSC and which refers to managed zones, areas or localities which have high conservation values according to certain attributes (inclusion in Special Protection Areas for Birds, the presence of catalogued species, supply of basic necessities to local communities, etc.). In these areas, Ence does not exploit the

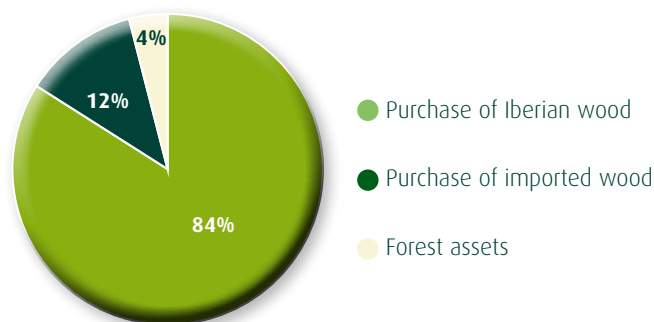


wood, but rather carries out **management for preventive purposes and to improve the state of conservation.**

However, not all the wood consumed by Ence comes from directly managed forest areas, hence this business unit is charged with **purchasing wood from third parties.** Currently, Ence is promoting direct **purchasing from forest owners**, basing its relationship with them on closeness and mutual benefit. In 2012, purchases from forest owners' totalled 600,000 tonnes of timber, compared to 250,000 tonnes in 2011. Furthermore, the number of suppliers increased in 2012, especially those with smaller purchasing volume, favouring the diversification of wood sources.

In 2012, the **input of domestic timber** was 2,389 thousand m<sup>3</sup> (70% of the total), around 13% more than in 2011. One of the facts that permitted this was the logistical efforts made to transport Iberian wood from Galicia to the Huelva factory. The **input of Iberian wood** (including Portugal) totalled 3,008 thousand m<sup>3</sup>. **Imported wood** came to a volume of 404 thousand m<sup>3</sup> (78% from Uruguay and the remaining 22% from the Republic of Congo), **50% less than the previous year.** The **wood from Ence's forest assets** was 132 thousand m<sup>3</sup> in 2012, around 4% of total consumption.

Source of wood supply



# Strategy and achievements for 2012

Ence's strategy in its forestry activity is aimed at **reducing costs and optimising processes**. To do this, the number of small suppliers is being increased and imports being reduced, which will lead to disintermediation of supply sources, with clear advantages for Ence and Iberian Peninsula suppliers. In addition, there is an increased volume of standing timber purchases directly from forest owners, with whom, apart from setting up agreements for timber purchase, the company collaborates in forestry management certification, the health of the forest areas and improving productivity. The third strategic priority for the business unit is related to timber logistics and its objective is to optimise this, with clear impacts on operating costs and reduction of energy consumption and the generation of indirect greenhouse gas emissions.

The **main achievements** during 2012 were:

- **Divestment of non-strategic forest assets:** The sale of 27,780 hectares of forest assets that Ence owned in south-east Uruguay took place in December 2012, along with the sawing and chipping facilities. This divestment of forest assets, considered non-strategic, enabled Ence to boost its solvency and financial strength, improving its reduced level of indebtedness.
- Start up of the **timber highway:** as a result of Ence's interest in increasing purchases domestically sourced timber, a significant logistical effort was made during 2012 to transport timber from Galicia to the Huelva factory by ship. Two exclusive concessions have been authorised in the ports of Cee and Ferrol (both in La Coruña), providing Ence with a maximum transport capacity of approximately 500,000 tonnes of wood per year.
- **Optimisation of transport routes:** The use of **GPS** in timber transport has made it possible to find out the distance travelled by the lorries and to define optimum routes to minimise fuel consumption.
- **Reduction of fuel consumption** in ships transporting timber: the use of **smaller ships** than Ence was using to transport timber by sea, although with greater frequency, has meant a significant reduction in fuel consumption.
- **Collaboration in regulation on sustainable forest management.** A working group was created in 2012 in collaboration with the FSC and other economic and social players for presentation and subsequent approval of modifications to the FSC standard with the aim of adapting it to the management situation in Spain.
- **FSC certification of approximately 3,000 hectares.** Ence certified around 3,000 hectares in 2012 according to the voluntary FSC standard, guaranteeing sustainability in management of forest areas in accordance with a series of established principles and criteria.





## Eucalyptus, re-evaluated

Eucalyptus plantations in Spain have historically been a source of debate due to their alleged adverse effects on various environmental elements, directly or indirectly, and on the rural economy. However, although it now appears to have been recognised that the problem of cultivating eucalyptus is the incorrect management that has at times been implemented, it is important to clarify some aspects:

- **Water consumption:** Eucalyptus, like all fast-growing species, is very efficient in its consumption of available water. In comparison with other species, its consumption is relatively low. Some of the improved plants used by Ence are especially well adapted to low water availability.
  - **Soil:** Eucalyptus itself, due to a basic ecological principle of not conditioning its future survival, does not impoverish the soil. Neither do intensive forestry practices do so, as the fraction rich in nutrients (twigs and leaves) remain in the forest.
  - **Fires:** Eucalyptus is a species which is specialised in surviving in case of forest fires, due to its capacity for sprouting and its rapid recovery. What increases the risk of fire in a eucalyptus plantation or one of any other species, is abandoning management.
- Proper care and cleaning of forest areas can reduce the risk by up to 70%.
- **Invasive nature:** Eucalyptus is a colonising plant, provided that the climatic conditions and the management of the crop so permit. In the North, the risk of the eucalyptus displacing other species does exist, but Ence establishes mechanisms for action in those places where eucalyptus may expand naturally. In the South and in Ence's areas of production for biomass, this risk does not exist.
  - **Use of chemical products:** In the areas managed by Ence, only those chemical products permitted by the current legislation are used. Furthermore, Ence conditions the use of these products to the voluntary FSC standard. The treatment that Ence carries out in the case of pests or disease is integrated, combining the use of chemical and biological means.
  - **Impact on local communities:** Appropriate, balanced management of forest areas permits the generation of a variety of income sources (due to forestry work and due to the multifunctionality of the forest) and represents a lever for rural development.

# Sustainable forest management

Ence carries out its forest management according to **sustainability criteria** (maintenance of resources, protection of biodiversity, fire prevention and integrated fight against pests, among others). The aim of these criteria is to guarantee the **growth and persistence of forest areas** and their **associated values**. This includes **sustained natural resource maintenance** (wood, cork, pastures, hunting, etc.), preservation and reinforcement of environmental values (biodiversity, soil, air and water quality, etc.) and the **development of the surrounding areas** (creating jobs and distributing income, maintenance of social values such as historical and archaeological remains, availability of places for recreation and free access for the population, etc.).

In this context, the **main tools** which enable these objectives to be met are the following, among others:

- Forest planning
- Continuous Forest Inventory, supported by LiDAR technology
- Establishing fire prevention plans
- Plan for an integrated fight against pests
- Specific mechanisms for conserving and promoting biodiversity
- Specific management plan for terraced areas
- Identification, assessment and protection of exceptional features
- Extensive cartography of non-productive areas with management plans
- Identification of High Conservation Value Forests

- Establishing ecological corridors
- Fragmentation of cutting areas
- Implementation of an excellence in management system (TQM) in the various operating areas to guarantee execution of the tasks according to requirements

All these activities are covered by the **Integrated Forest Management System**, which is audited annually in accordance with the **FSC and PEFC certification schemes**. Forest certification is then an element which guarantees that these measures are driven and promotes their development by covering all the management activities and confirming the usefulness of the tools made available by Ence in its requirements.

## Sustainable forest certification

**FSC forest management certification** guarantees that the forest management unit is being managed in accordance with the FSC standard's 10 **Principles** and 56 **Criteria**. This certification has a term of 5 years, but in-depth checks on the **management systems** and the **results on the ground** are carried out annually. The certifying body assesses the **social, economic and environmental conditions** in the forest area, showing management sustainability.

**PEFC certification** is aimed at ensuring that forest areas are managed responsibly and that their **numerous functions are protected** for present and future generations. The forest-sourced products certified by the PEFC give



consumers the guarantee that they are buying products from sustainably managed woodlands, **combating illegal logging and promoting the main functions** of forest resources, such as a contributing to maintaining ecosystems and biological diversity and being an economic support for many rural settlements, among others.

Ence’s forestry activity, over the whole **area managed** (whether its own, syndicated or leased), heeds identical criteria. Of the area managed, **76%** has **PEFC certification** and **46%** has **FSC certification**.

	Total	PEFC	%PEFC	FSC	%FSC
Area managed	115,985	88,103	76	53,866	46

In addition, Ence promotes the certification of forest areas belonging to third parties by means of a significant **forest extension programme**, which establishes the means to deliver particular tools to owners to improve their management sustainability. In 2012, numerous **meetings were held with owners** (congresses, training sessions, visits, etc.) to reveal the best **management techniques** to them. Furthermore, the creation of certification groups for owners and suppliers was promoted, facilitating their **access to FSC and PEFC certification schemes**.

Ence’s **Management Plan** entails the rational use of all forest resources and services, whether productive, ecological or social. In the framework of its forest management system, Ence prepares **Technical Forest Management Plans, Management Scheme Plans** and the Continuous Forest Inventory. Furthermore, each management unit has

a **Planning Project**, where the relevant criteria, objectives and priorities are set out, options assessed and decisions made.

All these tools enable proper **monitoring and control of activities**, including the controlled use of phytocides, checking the health of forest areas, verifying protective functions and the consideration and inventory taking of the exceptional features of each forest. **Corrective and preventive measures** are identified and applied based on these activities.

Forest management not only takes **environmental sustainability criteria** into consideration; it also promotes the **development of local communities**, generating jobs and creating value.

## Forest Management Plan Objectives

### Social objectives:

- To generate the socio-economic conditions which make it possible to improve or maintain local and workers' social and economic well-being.
- Public participation or stakeholder participation in management.
- To promote social and recreational use of forests.

### Environmental objectives:

- Persistence, conservation and improvement of forest areas and resources.
- Rational use of renewable natural resources.
- Protection of species of flora and fauna under any level of protection status.
- Maintenance of natural ecosystems and biological diversity.

- Erosion control.
- Identification, control and management of the wastes generated.
- Diversity in plantation composition.

### Economic targets:

- Achieve sustained performance from forest products and services.
- Boost multiple use of forest areas.
- Produce eucalyptus wood at market price for supply to factories.
- Increase forestry production.
- Promote trade in forestry products and services.
- Promote the professionalisation of the sector.

## Protection of species and natural areas

**Over 2,000 hectares** of the area managed by Ence are considered **High Conservation Value Forests (HCVFs)** as they show some of the attributes established by the FSC. Included in this area are around 1,200 hectares which are in **protected natural areas**, officially declared as such by various competent national authorities.

In **areas with some type of protection status**, protection of the areas and their habitats takes priority, involving actions which improve their conservation status and preventive measures. In general, no operations are carried out unless they are necessary in order to allow their natural evolution, maintain their ecological functions and preserve forest structure and diversity.

In order to prevent the isolation of these areas of **natural vegetation**, the necessary measures will be taken, whenever viable, to connect them together and to others outside the forests so as to improve the functions these zones have, which is as a refuge and passage for fauna, acting as **ecological corridors**.

**Ordinary monitoring** of these areas takes place **annually** and **monitoring of characterisation, ecological function** and the **evolution of their conservation condition** is carried out every 5 years.

Plant type and formation	Reason for protection	Autonomous region	Protected space	Area (ha)
Mediterranean sclerophyllous forests Quercus suber cork oak trees	Habitat of Community Interest 9330	Andalusia	Sierra de Aracena Natural Park and Picos de Aroche	221
			SCI and SPA	
			Unprotected	58
Sclerophyllous grazed forests (pastures) Pastures with evergreen Quercus spp.	Habitat of Community Interest 6310	Andalusia	Sierra de Aracena Natural Park and Picos de Aroche	241
			SCI and SPA	
			Unprotected	312
Mediterranean deciduous forests Thermo-Mediterranean riparian galleries and thickets (shrublands, tamarisk woods and riparian spirals)	Habitat of Community Interest 92D0	Andalusia	Sierra de Aracena Natural Park and Picos de Aroche	63
			SCI and SPA	
Mediterranean mountainous coniferous forests Mediterranean pine forests with endemic pines	Habitat of Community Interest 9540	Andalusia	Río Tinto Protected Landscape	2
			Sierra de Aracena Natural Park and Picos de Aroche	18
			SCI and SPA	
Thermo-Mediterranean and pre-steppe brush Shrublands, thermophilous Mediterranean bush, genista bush	Habitat of Community Interest 5333	Andalusia	Sierra de Aracena Natural Park and Picos de Aroche	662
			SCI and SPA	
			Unprotected	67
Alluvial forests with Alnus glutinosa	Habitat of Community Interest 91E0	Asturias	Hoces del Esva Protected Landscape	0,47
			Unprotected	3
Mixed forests of slopes, screes and ravines	Habitat of Community Interest 9180	Asturias	Hoces del Esva Protected Landscape	0,76
			Unprotected	4
Temperate Atlantic wet heaths with Erica tetralix and Erica ciliaris	Habitat of Community Interest 4020	Asturias	Unprotected	4
Acidophilous beech forests	Habitat of Community Interest 9120	Asturias	Hoces del Esva Protected Landscape	0,44
European dry heaths	Habitat of Community Interest 4030	Asturias	Unprotected	15
Galician-Asturian oak woods	Habitat of Community Interest 9230	Asturias	Hoces del Esva Protected Landscape	5
			Unprotected	71
Alluvial forests with Alnus glutinosa	Habitat of Community Interest 91E0	Galicia	Río Tea SCI	4
			SAC	
			Unprotected	11
Fixed coastal dunes with herbaceous vegetation ('grey dunes')	Habitat of Community Interest 2130	Galicia	Costa da Morte SCI	2
			SAC	
Temperate Atlantic wet heaths with Erica tetralix and Erica ciliaris	Habitat of Community Interest 4020	Galicia	Serra do Xistral SCI	31
			SAC	
			Unprotected	11
Dry Atlantic coastal heaths	Habitat of Community Interest 4040	Galicia	Costa da Morte SCI	3
			European dry heaths	
Dry european heaths	Habitat of Community Interest 4030	Galicia	Unprotected	159
Molinia meadows, semi-natural wet meadows of tall grasses	Habitat of Community Interest 6410	Galicia	Unprotected	1,19
Siliceous rocky slopes with chasmophytic vegetation	Habitat of Community Interest 8220	Galicia	Unprotected	2,32
Siliceous rock with pioneer vegetation	Habitat of Community Interest 8230	Galicia	Unprotected	1,49
Oligotrophic waters	Habitat of Community Interest 3110	Galicia	Serra do Xistral SCI	0,22
			Active raised bogs	
Active high peat bog	Habitat of Community Interest 7110	Galicia	Galicio-Asturian oak woods and Galicio-Portuguese oak woods	0,27
			Serra do Xistral SCI	5
			SAC	
			Unprotected	1,43
Galician-asturian and galician-portuguese oak wood	Habitat of Community Interest 9230	Galicia	Río Tea SCI	2
			SAC	
			Serra do Xistral SCI	24
			SAC	
			Unprotected	82

Note:

SCI: Site of Community interest

SPA: Special protection area

SAC: Special area of conservation

Unprotected: Areas with Community interest habitats without protection at a domestic level, also included in Ence's High Conservation Value Forests, according to the FSC. In these areas (HCVFs), no timber utilisation operations take place, but management is carried out for preventive purposes and to improve the state of conservation.



The integrated management system includes **specific instructions and recommendations** for managing for **protected species**, by applying an **identification and monitoring methodology**, taking specific characteristics into account as regards feeding, the reproductive cycle and the habitats of the catalogued species included in the inventory.

The protected species included in Ence's inventory are those included in:

- European Council Directive 92/43/EEC, relating to the conservation of natural habitats and wild animals and plants (Annexes II, IV and V)
- Spanish Catalogue of Threatened Species (CEEAA)
- Spanish List of Wild Species under Special Protection (LESRPE)
- Spanish Regional or Autonomous Region catalogues of threatened species

- The Red List of Spanish Vascular Plants
- European Council Directive 2009/147/EC, relating to the conservation of wild birds

In **Galicia**, **7 catalogued species of flora** have been detected: 6 of these included in the Habitats Directive (2 in Annex II, 1 in Annex IV and 3 in Annex V), 3 in the LESRPE ("special protection") and 1 in the Red List ("vulnerable"), all of these in areas of the forests managed by Ence where wood is not produced. Along with these, **11 species of vertebrates** have been identified, 4 included in Annex I of the Birds Directive, 5 in the Habitats Directive (3 in Annex II and 2 in Annex IV) and 1 in the CEEAA ("vulnerable").

In **Asturias**, **6 species of flora** have been detected, 4 of them included in the Habitat Directive (1 in Annex II, 1 in Annex IV and 2 in Annex V) and 2 in the LESRPE ("special protection"), along with **3 species of vertebrates**, 2 included in Annex I of the Birds Directive and 1 included in the Habitats Directive (Annex IV).

In **Huelva**, **25 species of flora** have been detected, of which 4 are included in the Habitats Directive (Annex IV) and **7 species of fauna**, 5 in the CEEA (2 in the "special interest" category, 2 "vulnerable" and 1 "at risk of extinction") and 7 in the Red List (5 "vulnerable", 1 "endangered" and 1 in the "data deficient" category).

All these catalogued species are subject to **observation** by the **environmental authority** and generate **usage restrictions** in the areas they inhabit and their immediate surroundings. The **only management permitted** is respect of their habitat, the notification of incidents, requests for permits to act in neighbouring areas and the fulfilment of regulatory conditions.

## Plant health Control

**Pests and diseases** in forest areas are an **important aspect of their management** as they put the **conservation of forest resources** at risk and reduce **production performance**. Depending on the type of disorder involved, **annual tree growth** can be **reduced** by up to **30%** or in extreme cases can even result in the **loss of the tree**.

Ence tackles the treatment of pests and diseases through **R&D+i** by developing **plants which are more vigorous and resistant** to the various disorders and by means of **agreements and studies with Spanish and international laboratories** in the search for the best possible health treatments.

In 2012, several companies in the sector, through the ASPAPEL association, of which Ence is a member, reached an agreement for an **integrated fight** (biological and chemical treatment) against the eucalyptus weevil on the

Cantabrian coast. All the actions were carried out based on strict **compliance with the current legislation**, but the FSC, PEFC, authorities and forest owners in the area were also notified to ensure their **awareness** and to facilitate their **collaboration**. This gained the **support** of private **forest owners** for the project and resulted in **coordination** with treatments carried out by the **regional authorities**. The result of the campaign was **success**, with **20% of the affected area treated**.

Additionally, Ence offers **free training to owners and authority personnel** on the **best forestry practices** to guarantee the care and good health status of plantations.

## Traceability

As Ence does not solely obtain wood from the forest areas it manages, but also **buys timber from third parties** for supply to its factories, the traceability of the wood purchased is another **fundamental aspect of management** carried out by the Forestry business unit.

Ence has set up a **supplier assessment system** through which it analyses various aspects of their activity (origin, regulatory permits, etc.). Suppliers are subject to a **regular auditing programme** to guaranteed compliance with the criteria laid down.

There is also a **traceability system** which covers the suppliers assessed, based on a delivery note system which guarantees that all the wood purchased by Ence is identified and is accompanied by information relating to **origin, volume** and **forest management certification**, if applicable.



# Supplier selection and assessment

Ence repudiates any kind of violation of human rights or illegal exploitation of forest resources. For this reason, it assesses its **suppliers** before starting a commercial relationship to ensure **respect** for the **fundamental rights** of workers and of any person related to obtaining the wood and that the timber does not come from illegal logging or controversial sources. In 2012, 211 suppliers were assessed, representing 97% of timber suppliers.





## R&D+i

Ence completed the **assessment and development of two new improved *Eucalyptus globulus*** plants in 2012 and these have been incorporated in the commercial production system in the company's nurseries. These two new improved plants are the result of rigorous experimental work, effective evaluation and intensive selection carried out over recent years, focused on developing genetic materials which are more resistant to limiting factors and better adapted environmentally.

But undoubtedly the **most relevant achievement** of the genetic improvement programme has been the **obtaining of the 3rd generation of "elite" improved plants**, in which the best values are represented for each of the 16 features evaluated in the species improvement programme (relating to rooting, drought resistance, resistance to pests and diseases, sprouting capacity and gross performance on cooking, among others). More than 400 improved plants of this generation have been successfully reproduced from cuttings and evaluation has begun in experimental trials.

These achievements show the sustainability of Ence's **genetic improvement strategy**, which enables

continuous development of commercial materials in the short term at the same time as improving parent populations and conserving genetic diversity in the medium and long term.

In 2012, for the first time, **improved hybrid plants between the globulus species and other eucalyptus species** were assessed and developed, reinforcing some characteristics of interest. The new improved hybrid plants were planted in different experimental trials under different cultivation conditions, but they are also being reproduced on a pre-commercial scale, enabling parallel evaluation and validation from pilot plantations.

During the last year, Ence completed the implementation of a **new management model** in the forestry practices area, hence all its procedures involved in forestry applied to cultivated eucalyptus forests belonging to Ence were reviewed and improved. This improvement was also an opportunity to **incorporate** all those **available R&D+i developments on an operational scale**, in areas of soil preparation, fertilisation, integrated pest control and forest treatments.



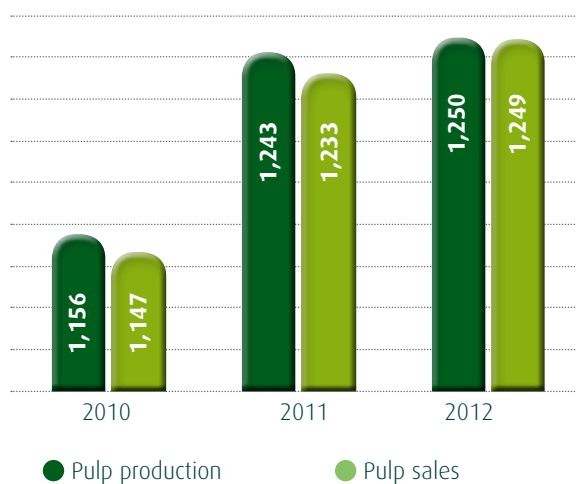


# 5 Pulp

# The Pulp business unit

Ence is the **leading company in the European market in eucalyptus pulp production** and the **second in terms of market share by sales**. Its pulp production capacity is approximately **1.3 million tonnes per year**. Both **production and sales increased by 1%** in 2012 compared to the year before.

Production and sales (thousands of ADTs\*)

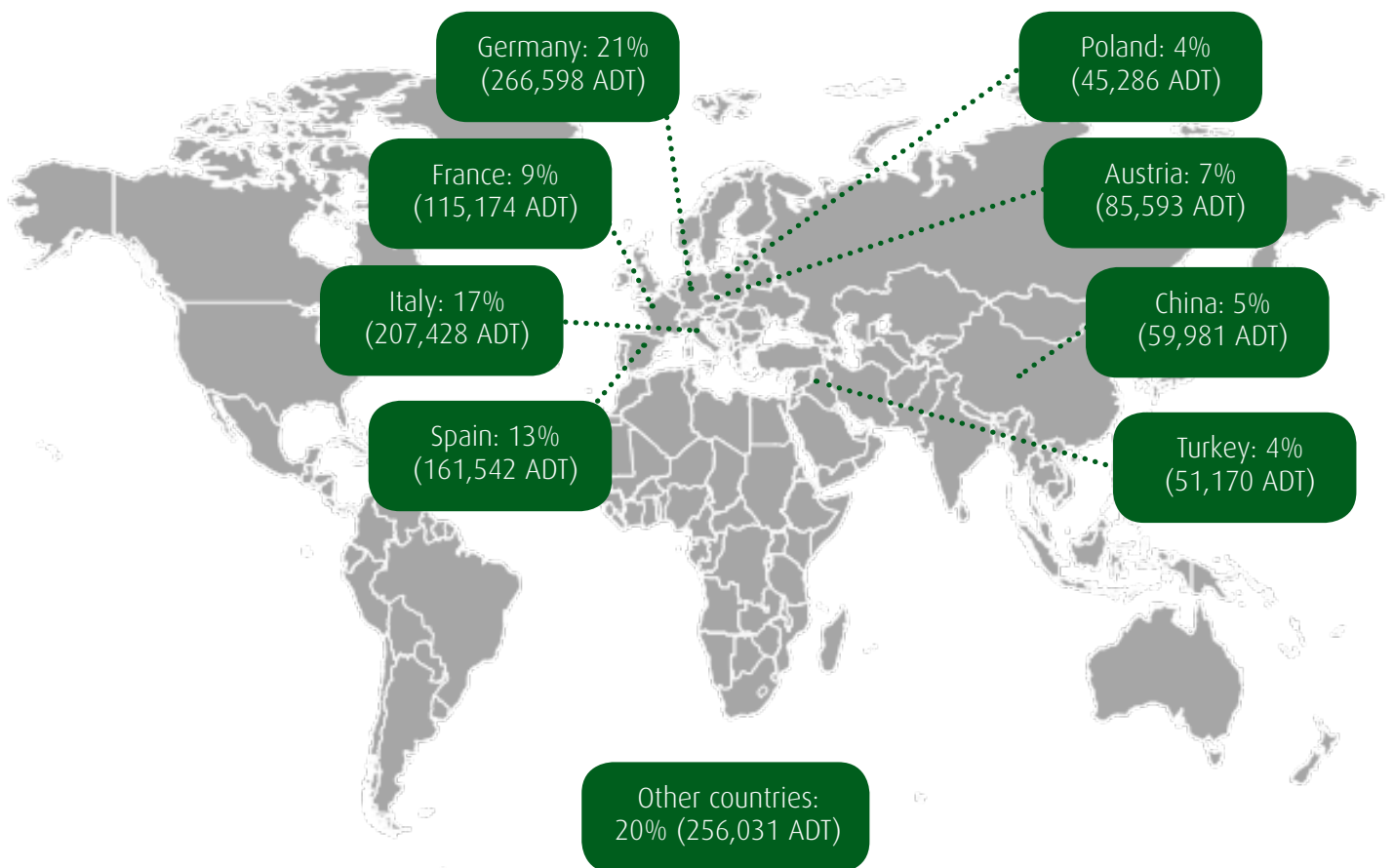


\* ADT = Air Dry Tonnes (air dried to 90%).

The Pulp business unit is dedicated to non-integrated **pulp production** from eucalyptus, used mainly as a raw material for **paper manufacturing**. 45% of the pulp Ence sells is used to manufacture tissue paper, 26% for printing paper, 19% for specialities and the remaining 10% for cardboard manufacture.

Ence produces high quality eucalyptus pulp at its plants in **Navia** (Asturias), **Pontevedra** and **Huelva**, where it implements environmentally-friendly technologies and continuous improvement processes to boost its competitiveness and quality. This allows it to **export over 85% of its production** by means of an advanced logistical system.

Geographical distribution of sales





# Strategy and achievements for 2012

Ence's strategy for developing this business unit is to maximise pulp production **efficiency** to improve its **competitiveness** and meet its **customers'** needs. Furthermore, Ence seeks to carry out its activities with the **minimum environmental impact** by applying **good practices** in its processes. Its main objectives are efficiency in resource consumption, improving the quality of its discharges and emissions, as well as minimising and correctly managing its wastes.

The **main achievements** during 2012 were:

- **Expansion of the waste water treatment plant** in the **Navia** factory, which, when it goes into service in 2013, will mean an improvement in the liquid effluent quality to attain European reference levels. This project, with a budget of €12 million, also considers aspects of minimising odour impacts and treating the organic wastes generated.
- **Start up of the odour control project in the three factories** with the aim of eliminating the

odour impact from their activities. This project has involved €9 million of investment and consists of implementing operational improvements and the installation of new equipment. At some of the focal points for odours, reductions of up to 75% were achieved with respect to the previous year.

- **Renewal of environmental management certificates** under the **UNE-EN-ISO 14001:2004** standard in the three factories and **validation of the Environmental Statement** for the three factories in accordance with the Eco-Management and Audit System (EMAS) as per European Union Regulation 1221/2009.
- **Generation of surpluses** on allocation of greenhouse gas **emission rights** for the factories. The 2012 emissions, verified by AENOR, did not exceed the allocation, hence the surpluses may be used in the 2013-20 period for emission rights trading.

## The Pulp production process

The first phase of the process consists of **treating the wood** when it reaches the factory. After stripping the bark, the trunks are milled to convert them into chips of the appropriate size for continuing with the process. The resulting bark is milled and used as a fuel in the biomass boilers to produce steam and electricity.

Once the quality of the chips has been guaranteed, after passing through a sorting and selection process, they are fed to the digesters, to which white liquor (aqueous Na<sub>2</sub>S and NaOH solution) is added. By heating the digesters,

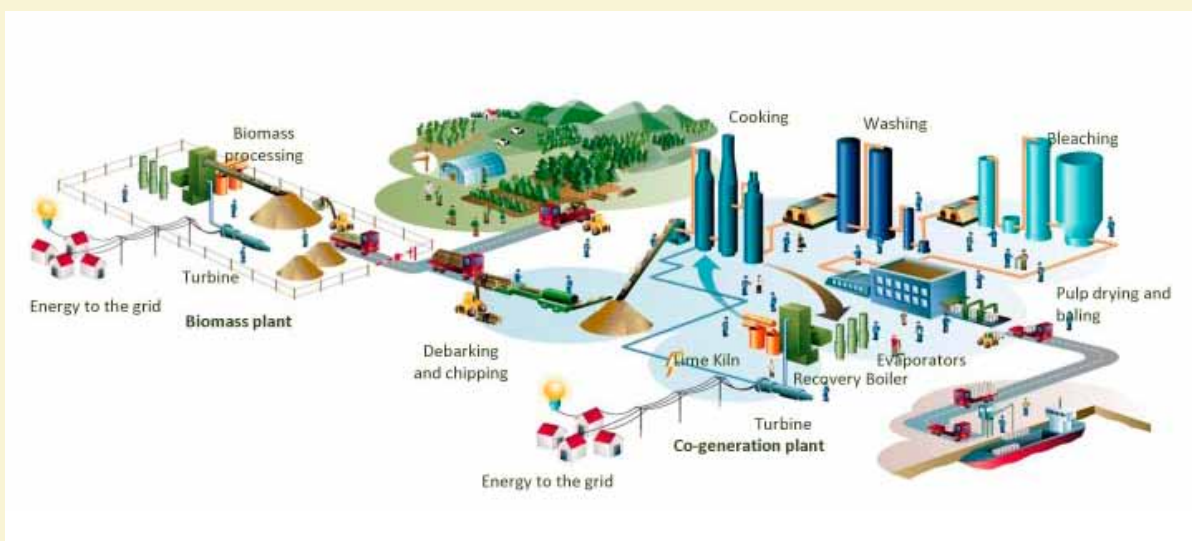
**cooking** occurs resulting in raw pulp, which needs to be treated.

Pulp treatment consists of **purification** (eliminating impurities using physical processes), **washing** (separating the pulp from the black liquor and oxygen delignification), **bleaching** (addition of whitening agents) and **drying** (elimination of as much water as possible by means of physical processes). After this latter phase, cellulose pulp is obtained ready for packing and distribution.



The **black liquor** obtained from the pulp washing is made up of organic material separated from the pulp and the chemical products consumed in the cooking and delignification. After passing through evaporators where the solids are concentrated, the organic material generated is burned in the heat recovery boiler, generating steam and electricity and part of the chemical reagents (Na<sub>2</sub>S) is recovered.

The inorganic fraction is mixed with weak white liquor to form **green liquor** which, after various physical treatments, is mixed with lime to obtain NaOH. This then is when the products which form the white liquor used in cooking are recovered. The lime is regenerated again in lime kilns and the material which accompanies it settles out and is managed as solid waste.



# Management model

Management at corporate level is framed in a **TQM** (Total Quality Management) **model**, based on excellence in management through quality, efficiency and continuous improvement. In this framework, **fundamental improvement objectives** have been set in each business unit. The main objectives in the Pulp business unit, with clear environmental orientation, are:

- Reduction of odour impacts
- Improvement of discharge quality
- Improvement of energy efficiency
- Reduction of raw material consumption (wood, fuel oil and chemical products)
- Reduction in waste generation

Additionally, at factory level, an **integrated management system** has been implemented in accordance with the following standards:

- UNE-EN-ISO 9001:2008, on quality management
- UNE-EN-ISO 14001:2004, on environmental management
- OHSAS 18001:2007, on management of health and safety in the workplace

This integrated management system is **certified** by an accredited body which carries out the corresponding audits annually. The **objective** of this system is to ensure that all of Ence's activities are carried out in accordance with the management policy laid down by senior management and with the defined objectives and goals. Management

is organised by **processes**, identified and assessed in order to facilitate their control and their **continuous improvement**.

Furthermore, the three factories are signed up to European Union Regulation 1221/2009 on Eco-Management and Auditing (**EMAS**).



Ence's environmental management is based on **complying with the regulations in force**, which establish the requirements with which all the activities related to pulp production need to comply.

In the **Integrated Environmental Authorisation (AAI)**, defined in the Spanish Integrated Pollution Prevention and Control Law, 16/2002, the necessary environmental conditions are laid down for being able to operate an industrial facility. Its objective is to prevent or, when this is not possible, reduce and control atmospheric, water and soil pollution in order to achieve a high level of protection for the environment as a whole. In this, the Integrated Environmental Authorisation comprises the various authorisations referring to atmospheric emissions, discharge of liquid effluents, waste management and the protection of soils and aquifers. In this context, the Integrated Environmental Authorisation lays down limiting values for each facility based on the best available techniques and supervision plans for all the relevant environmental aspects.



# Main environmental impacts and their management

The main **environmental aspects** related to the activities carried out by this business unit are **consumption of materials, water and energy** consumption, generation of **effluents** (liquids and gases) and **solid wastes** and others, such as the generation of odours or visual impacts. An **assessment** of these aspects is carried out in each factory and their possible **associated impacts** are identified. In the framework of the environmental management model, the necessary initiatives are identified and put into action to control and minimise these impacts, always holding them within the limits set by the applicable regulations.

## Application of best available techniques

The pulp and paper industry was a pioneer in developing and applying the so-called **Best Available Techniques** (BATs), which lead to greater process efficiency, lower economic costs and the minimum possible impact on the environment. The set of best techniques are defined in the European Union's official **BREF reference documents**, which derive from the development of the regulations on Integrated Pollution Prevention and Control (IPPC). The document corresponding to the pulp and paper industry includes the best techniques for reducing emissions, minimising the generation of all types of wastes and increasing energy efficiency in processes.

Ence actively participates in **reviewing and updating** the BREF documents through ASPAPEL, an association which groups companies in the pulp and paper sector.

Among the **BATs** applied in our production processes, the following are worthy of note:

- Dry debarking
- Modified cooking at low kappa number
- Closed-circuit filtering
- Oxygen delignification
- TCF bleaching
- ECF bleaching
- Partial closure of the bleach plant
- Discharge collection
- Effective washing and process control
- Condensate stripping
- Homogenisation tanks for concentrated liquids
- Biological waste water treatment
- Increased solids concentration in black liquor
- Incineration of malodorous gases in the recovery boiler or a dedicated boiler

## Consumption of materials

Ence uses as series of raw materials and auxiliary products in its cellulose pulp production process. The main raw material is **wood**, made up mainly of 50% cellulose, 25% lignin and 25% hemicellulose, approximately, in addition to containing resins, fats, waxes and other substances in small amounts.

The **wood consumption ratio** per unit of production in 2012 was **2.9 m<sup>3</sup>/ADT**, 2.5% lower than in 2011.

	2010	2011	2012	Change 2011-2012
<b>Industrial process</b>				
Wood (m <sup>3</sup> )	3,436,368	3,638,071	3,643,083	0%
Caustic soda (t)	31,266	29,995	32,153	7%
Oxygen (t)	23,879	26,598	26,464	-1%
Oxygenated water (t)	13,322	16,647	15,259	-8%
Sulphuric acid (t)	38,907	40,731	39,484	-3%
Sodium chlorate (t)	23,548	25,159	24,232	-4%
<b>Offices</b>				
Paper (t)	29	26	23	-11%
Toner (unit)	760	689	446	-35%

The rest of the materials consumed in the industrial process, which are relevant to Ence due to their volume, are the **chemical products** added in different phases of the production process to separate and treat the cellulose contained in the wood and to manage the wastes produced.

With the exception of caustic soda, the consumption of materials decreased in 2012 compared to the previous year, thanks to the application of the BATs and proper process control. However, the indicator which measures material consumption efficiency is the **ratio** calculated based on cellulose production. In this regard, the general trend is steady or for slight reduction, except for the case of caustic soda, for which a slight increase is also seen. This variation is due to the putting into operation of new scrubbers (purification systems) which use caustic soda as the absorbent liquid, to minimise odours.

The total **purchases made** by Ence in 2012 (excluding forestry purchases) came to **€287 million**. Purchases from **domestic suppliers** were around **93%** of this total.

Some of the **BATs applied** result in a saving in chemical product consumption. For example, **modified cooking** at low kappa number requires lower bleaching agent consumption. **Oxygen delignification** promotes the recovery of lignin, but it also increases efficiency in recovering chemical products for reuse in the production process. Finally, **condensate stripping** enables the reuse of condensates.

At Pontevedra, it is estimated that **more than 97% of the caustic soda used in the cooking process is reused**, which means **over 100,000 tonnes**.

Consumption of the most relevant **materials in offices** has been **reduced significantly**: by 15% in the case of paper and 27% for toner.

### Responsible use of chemical products

In accordance with EC Regulation 1907/2006 relating to the registration, evaluation, authorisation and restriction of chemical substances and preparations (**REACH**), Ence confirms that the chemical products it uses comply with this regulation before authorising their use. Ence has the following registered: calcium oxide, calcium carbonate, chlorine dioxide, white, green and black liquors, ash (from the biomass boiler) and dregs (inert elements from green liquor clarification). Furthermore, all the requirements of this regulation have been incorporated in the integrated management system.

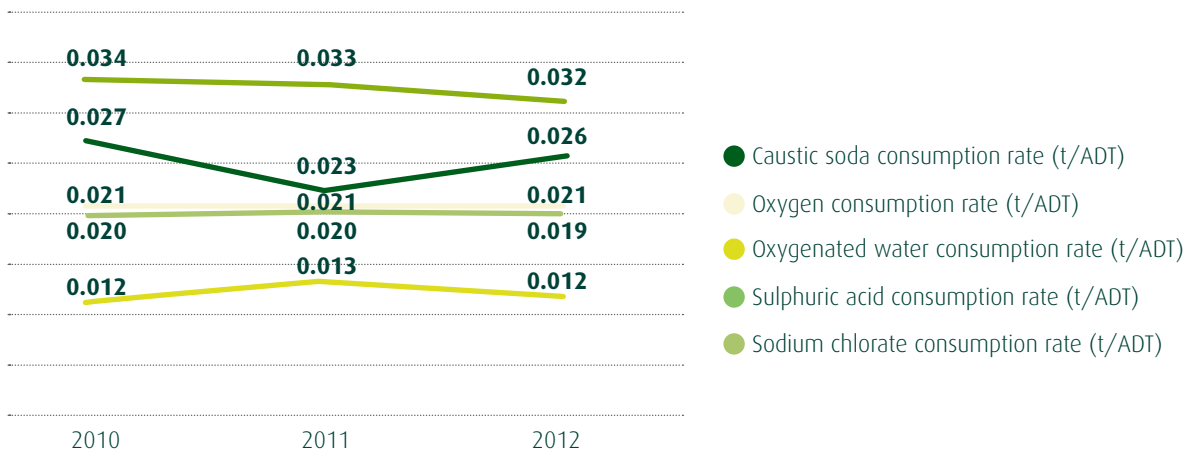
Ence actively participates in registered substance consortia to update the register in case of changes in composition or identified new uses. Although cellulose pulp does not need to be registered as it is made up of natural substances which are not chemically modified and not classified as hazardous, REACH obliges the collection of information on customer uses for the registered substances present in the end product.

Ence also demands of its **suppliers** that the substances they supply have been registered for their specific use in the production process, that all the substances have the relevant health and safety data sheets and that they are correctly labelled in accordance with the current European regulations.

### Chlorine free bleaching

The process known as ECF (Elemental Chlorine Free) is used in our Huelva and Navia factories. In this, elemental chlorine is replaced by chlorine dioxide to prevent dioxin pollution. In the Pontevedra factory, bleaching is **TCF** (Totally Chlorine Free), in which no chlorine compound is used, but hydrogen peroxide is used as the bleaching agent instead. Furthermore, some of the BATs applied, such as oxygen delignification or modified cooking at low kappa number, significantly reduce bleaching agent consumption.

### Consumption of chemical products



## Energy Consumption and Emissions

Another of the most relevant environmental aspects is energy consumption, in the form of **fuels and electricity**.

	2010	2011	2012	Change 2011-2012
Fuel oil (Gj)	3,011,600	2,549,652	2,631,789	3%
Coke (Gj)	4,126,690	4,645,784	4,908,136	6%
Propane (Gj)	149,240	173,705	158,490	-9%
Biomass (Gj)	16,826	16,858	16,306	-3%
Electricity (Gj)	6,039,648	8,451,983	11,039,060	31%
Electricity (Gj)	2,583,834	2,661,098	2,659,061	0%

\* Fuel consumptions are those included in the verified greenhouse gas emissions reports and take both pulp production and electricity generation into account.

The fuel most widely used in the production process is the **fuel** (natural gas is only used in cogeneration plants), responsible for the operation of furnaces and boilers. Its consumption has increased a 3% in 2012, but has been reduced a 13% compared to 2010. The rest of energy consumption, except natural gas, has also been reduced. The consumption of **biomass** has increased more than 30% thanks to the improvements in the utilization of organic by-products during the entire production process and the extension of the power generation activities.

	2010	2011	2012
Primary energy consumed in electricity production (Gj)*	5,832,683	6,007,098	6,002,499

\* Calculations carried out based on International Energy Agency data (2009).

### Indirect energy consumption by source (Gj)\*

	2010	2011	2012
Coal	326,832	336,605	336,347
Fuel oil	166,788	171,775	171,644
Gas	944,777	973,029	972,284
Biomass	23,442	24,143	24,125
Wastes	13,383	13,783	13,773
Other	1,108,611	1,141,762	1,140,888
<b>Total</b>	<b>2,583,834</b>	<b>2,661,098</b>	<b>2,659,061</b>

\* Calculations carried out based on International Energy Agency data (2009).



If **pulp production** for 2012 is taken into account, the ratio of fuel oil consumption fell by over 1%, while the electricity consumption ratio stayed practically at the same values as in 2011. The biomass consumption ratio saw an increase of over 30% in 2012.

The implementation of **dry debarking and solids concentration** in the black liquor lead to increased efficiency in the biomass energy utilisation obtained during the production process.

### Emissions management

Fuel consumption is associated with **direct emissions of greenhouse gases** which, in the case of the pulp and paper industry, are affected by the European Directive on Emissions Trading. Electricity consumption also involves **indirect emissions** of these gases as well.

	2010	2011	2012	Change 2011-2012
Direct emissions* (tCO <sub>2</sub> )	476,872	472,218	491,690	4%
Indirect emissions** (tCO <sub>2</sub> )	236,851	243,934	243,747	0%
Total emissions (tCO <sub>2</sub> )	713,723	716,152	735,437	3%

\* Direct emissions are those included in the verified greenhouse gas emissions reports.

\*\* Indirect emissions were calculated based on electricity consumption, applying the emission factor of 0.33 tCO<sub>2</sub>/MWh published by the Spanish Institute for Diversification and Energy Saving (IDAE) (2011).

The focal points of these emissions (recovery boiler and lime kilns, among others) have **automatic measurement systems** which are connected to a **control system** by means of which the measured parameters can be observed

and managed. In this way, it is ensured that they do not exceed the emission limits laid down in the corresponding authorisations for each factory.

	2010	2011	2012	Change 2011-2012
NO <sub>x</sub> (t)	2,114	1,888	1,947	3%
SO <sub>2</sub> (t)	1,681	1,589	1,224	-23%
Particles (t)	701	610	572	-6%
CO (t)	207	226	210	-7%
SH <sub>2</sub> (t)	15	13	9	-25%

In addition to these control systems and to the initiatives aimed at improving process energy efficiency, emission **reduction measures** have been implemented, such as the installation of electrostatic precipitators and scrubbers (purification systems).

**Total emissions** have increased a 3%, due mainly to the increase in the consumption of fuel and natural gas. The evolution of indirect emissions follow the same trend as electricity consumption.

## Ence signs the “Carbon Price Communiqué”

Together with **over 100 international companies**, Ence signed the communiqué which makes a call to political leaders to establish a clear framework for **carbon emission pricing**.

The document, which springs from The Prince of Wales' Corporate Leaders Group on Climate Change (EUCLG), has support from the **World Business Council for Sustainable Development** (WBCSD), the Corporate Leaders Network for Climate Action (CLN) and the **International Emissions Trading Association** (IETA).

The aim of the communiqué is to show support for the initiative for **implementing emissions pricing** for carbon by means of various mechanisms such as **emissions trading**. The extension of this system will reduce **competitive pressure** between industries and permit **incentivisation of changes in behaviour**, which are needed to achieve the existing emissions **reduction targets**.





### Economic impact of climate change

Ence's three Spanish factories are included in the **National Allocation Plan for Emission Allowances**. During Phase II, which covered the 2008-12 period, Ence received a total of 657,790 tonnes of CO<sub>2</sub> per year free. During this period, not all these rights were consumed and a surplus was generated which may be used in Phase III, covering the 2013-20 period. During this third phase, the allocations have been significantly reduced. However, in this regard the Group has been proactive and, in addition to the surplus rights from the previous phase, it has formalised futures operations for a total of 601.000 tonnes of CO<sub>2</sub>, as well as the purchase of another 506.202 tonnes of CO<sub>2</sub> executed in December 2012, which has generated a sufficiently large bank of emissions for the next four years.

On the other hand, the regulatory changes applicable to the energy business have a negative impact on the available Project Finance for the Huelva 50 MW and Mérida 20 MW projects, as this financing is calculated based on certain ratios which take the cash flows forecast in their operation into account.

The effect estimated by the financial institutions of the joint application of Spanish Law 15/2012, of 27 December, on fiscal measures for energy sustainability and Spanish Royal

Decree/Law 2/2013, of 1 February, on urgent measures in the electricity sector and the financial system, is a reduction in financing available in the Mérida and Huelva projects of €20 million and €29 million respectively.

Currently, Ence's Management is analysing the reasonableness of the hypotheses used by the financial institutions, mainly in evolution of costs and the underlying RPI. It is considered likely that these analyses will lead to a process of negotiation which will enable the financing available in the two projects to be adapted to the anticipated impact of these regulatory changes, limiting the reduction in the aforementioned available financing.

In relation to the management of the impact deriving from the emission of CO<sub>2</sub> and the new fiscal regulations for energy consumption, Ence has been implementing efficiency and reduction measures for several years, which have led to a gradual reduction in consumption and emissions. However, in 2012, Ence also started an ambitious R&D programme for the next three years to optimise all activities related to fuel supply and its utilisation for generating electricity. This will minimise the aforementioned impacts. This programme includes a variety of actions, such as the development of fluidised bed boilers appropriate for fuel utilisation, the optimisation of materials and of the thermodynamic cycle to improve performance or CO<sub>2</sub> utilisation.

Note: To calculate the economic impact deriving from the energy business regulation, legislation published in 2013, before the preparation of the Sustainability Report, was considered due to its relevance and in spite it not being included in the reporting period for this Report.

## Water consumption and discharge management

Another of the relevant consumptions for Ence is **water**. In the three factories, water consumption comes from **collection from surface sources**, the requirements of which are set in the corresponding authorisations. No significant effects on the environment occurred in 2012. The volume of water consumed increased by around 1% in 2012 compared to 2011 consumption, in line with the increase in pulp production.

	2010	2011	2012
Water consumption (m <sup>3</sup> )	41,728,550	45,822,517	46,446,631

Throughout the whole process, measures are sought to promote **efficiency in water consumption** and its reuse, such as dry debarking or condensate stripping.

The use of this resource in the production process leads to the **generation of discharges**, mainly associated with the cellulose pulp cooking, washing, bleaching and drying processes. These effluents are characterised by their contents of **solids in suspension** (mainly cellulose fibres) and the associated **organic loading**. The main **parameters analysed** are: solids in suspension, pH, BOD (Biological Oxygen Demand), COD (Chemical Oxygen Demand), TOC (Total Organic Carbon), nitrogen content in its various forms and phosphorous.

Applying the **prevention principle** ahead of correction, Ence carries out an operational control on the processes

to minimise the amount of effluents and to improve their quality as far as possible, but always complying with the requirements laid down in the corresponding discharge authorisations. In the Pontevedra and Huelva factories, the liquid effluents generated are treated in an **activated sludge treatment plant**, which not only manages to adapt the results of the various discharge parameters to the values demanded by the Integrated Environmental Authorisation, but in many cases maintains them well below the limits. The Pontevedra factory is recognised across Europe for the quality of its discharges, which are made to the sea. The Huelva factory's effluents are discharged to the river. In the Navia factory, the start up of the **new effluent treatment plant** in 2013 will mean a significant improvement in the quality of discharges to sea.

	2010	2011	2012
Discharge volume (m <sup>3</sup> )	39,879,619	43,651,413	44,620,029

Control and monitoring of the discharge **receiving medium** is carried out annually by means of a variety of analyses by accredited companies. These analyses have always shown that no alterations exist in sensitive ecosystems due to Ence's discharges.



## Wastes generation

The main wastes produced during the cellulose pulp production process are **dregs** (inert elements from the clarification of green liquor), **ash** from the biomass boiler and **biosludge** (in Pontevedra and Huelva) in the effluent treatment plant. Throughout the production process, waste generation is minimised by using the by-products

as biomass, for energy utilisation. The dregs and ash are collected and managed by authorised managers and are used in cement production and the preparation of technosols (used in land recovery). The biosludge is burned in the biomass boiler to exploit the energy.

	2010	2011	2012
<b>Non-hazardous waste (t)</b>			
Industrial waste (dregs, ash and biosludge)	124,565	131,970	163,099
Municipal and similar waste	39,758	29,963	29,938
<b>Hazardous waste (t)</b>			
Slaker rejects	812	813	799
Fuel oil cleaning residues	NA	NA	375
Used oils	80	72	97
Miscellaneous (batteries, biosanitary items, etc.)	24	16	39

Selective collection of **non-hazardous wastes** (municipal solid waste, paper and cardboard, glass, scrap metal and wire) is carried out in the factories to promote recycling.

**Hazardous wastes** (used oils, spent batteries and empty packaging, among others) are collected by authorised transport firms and managed by authorised managers.

	2010	2011	2012	Change 2011-2012
Packaging paper (t)	2,780	2,588	2,613	1%
Packaging wire (t)	2,540	2,676	2,875	7%

**As regards the packaging** it puts into the market, Ence uses paper to wrap the pulp it sells, which has the necessary characteristics for the customers to be able to include it in their process directly along with

the pulp, so reducing the amount of waste generated by consumption of Ence products. The amount of paper used has increased in the last year in line with the increase in pulp production.



## Other impacts

### Generation of odours

Ence considers the generation of odours to be another of the relevant impacts of its business and its Senior Management has driven a **project for eliminating odours** generated in the factories.

A project for odour elimination was started in 2009 in collaboration with the **University of Santiago**. In 2012, Ence worked on **executing the solutions** proposed in earlier phases and **evaluating the results** obtained. In 2013, new actions will need to be proposed and executed to further Ence's ambition of totally eliminating odours from its factories.

After having implemented the solutions proposed by the University of Santiago, the trend in the results confirmed that from the measurements made in 2012, odour emissions from the Pontevedra factory had **reduced by 50%** compared to the study carried out in 2009. At the focal points for emissions (recovery boiler, lime kilns and dissolving tank III), this reduction was up to 75%.

The execution of the second part of the odour impact elimination plan is planned for 2013, by means of:

- Collection of vapours from the washing area to be oxidised and sent to the recovery boiler
- Collection of biosludge from the treatment plant through closed pipes to the recovery boiler
- Collection of gases from scattered focal points for elimination by thermal oxidation

A total investment of €7.7 million is anticipated for this project.

### Visual impact

A project for minimisation of visual impact was begun in 2012, by means of eliminating **15 steam plumes** from the **Pontevedra** factory. A total **investment** of €1.8 million is anticipated for this project.

# Environmental costs and investments

Ence made significant investments in 2012 to improve its environmental performance and carry out its processes more efficiently, corresponding mainly to projects for effluent treatment, odour reduction and minimisation of visual impact.

The most significant investments in 2012 are detailed below:

	€ Million
<b>Recurring environmental investments</b>	0.818
<b>Exceptional investments</b>	
Effluent treatment in Navia	1.993
Elimination of plumes in Pontevedra	0.308
Elimination of odours	1.141
<b>Other investments</b>	
Boiler economiser	1.523
New debarking plant	2.408
<b>Total</b>	<b>8.191</b>

# Communication of environmental performance





Annually, each of the factories makes its **environmental statements**, validated by an accredited body, available to the public through Ence's website. The results of the main environmental performance indicators are also presented to the **media** annually.

On the other hand, the Pontevedra factory has opened a **website** ([www.encepontevedra.com](http://www.encepontevedra.com)) on which the

factory's daily environmental performance indicators are made available to the public. The data for the last 30 days can be checked each day on the site, appropriately placed in context with the Integrated Environmental Authorisation parameters and the EU's BREF indicators.

## Information to customers

Each operations centre prepares and issues its "Environmental profile" annually, a document which is delivered to all of Ence's customers. This includes the annual information relating to:

- Certified management systems
- Pulp production
- Best available techniques implemented
- Consumption of chemical materials
- Energy consumption
- Fossil fuel consumption
- Wood consumption
- Water consumption
- Liquid effluent parameters
- Gaseous emission parameters
- Generation of wastes
- CO<sub>2</sub> emissions
- Substances register (REACH)





6 Energy

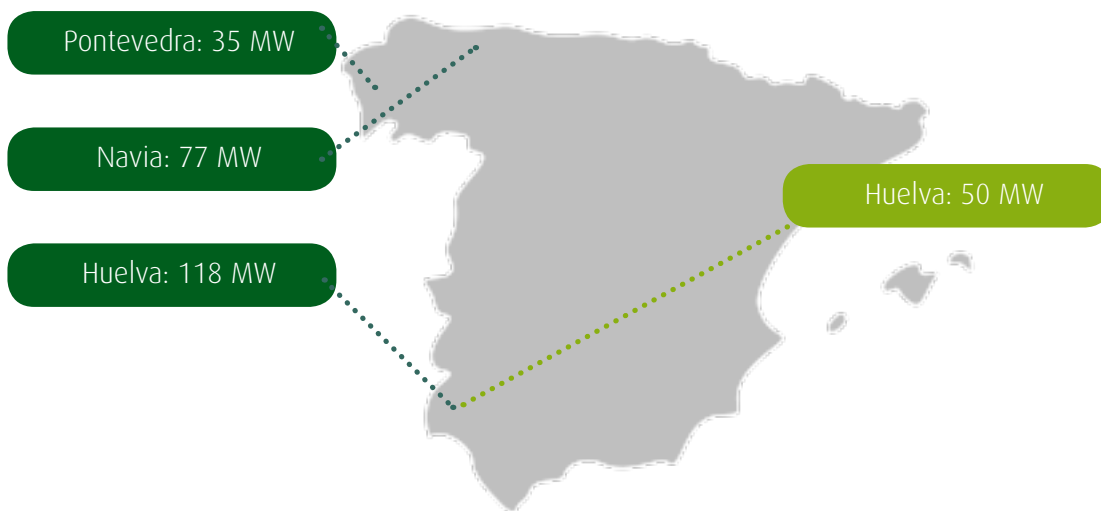
# The Energy business unit

Ence is the leading company in Spain in **renewable energy production** with forest biomass and energy crops. The company currently has **280 MW of installed power**, of which 230 MW are for renewable energy from biomass. Its **annual electricity production** exceeds 1,600 GWh.

## Installed power

Biomass utilisation

Cogeneration with gas





Production and sale of energy (GWh)



Ence cogenerates to **produce electricity and heat** in its three factories. The electricity is used to supply the needs of the operating regime of the cogeneration facilities themselves and the heat is used in the pulp production process. The surplus energy not used by the factory

is sold to the grid. Both **energy production** and **sales** have increased over recent years, with an **accumulated increase** since 2010 of over 20% in each case.

In its biomass utilisation plants, the raw materials used are:

- **Lignin:** a waste from wood cooking.
- **Tree bark:** biomass rejected during the wood preparation phase.
- Biomass from **forest waste**.
- Biomass from **energy crops**.

The company generates electricity using **seven production plants:** two in Navia, one in Pontevedra and three in Huelva. Four of these are cogeneration plants, one using natural gas in Huelva and the other three using biomass from the cellulose extraction process at its Huelva, Navia and Pontevedra factories. The Navia and Huelva factories also have one and two **condensation power generation** plants, respectively, fed exclusively with forest biomass. In addition, construction of the **new Mérida biomass plant** started in 2012. This will use biomass from energy crops in the same region and forestry waste.



	2010	2011	2012	Change 2011-2012
Energy crops - area planted (ha)	1,043	11,546	13,677	18%

The **area planted with energy crops increased by 18%** in 2012 compared to 2011 and in the latter year it increased 11-fold with respect to the year before.

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



All of Ence's generating and cogeneration sets are recorded in the register of **electricity producers under the special "feed-in" system**, regulated by Spanish Royal Decree 661/2007 of 25 May.

In addition to electricity generation activities, this business unit is also responsible for managing all the **tasks related to the sector**:

- Purchase and sale of electricity (front office, middle office and back office)
- Planning and control of the energy business.
- Operation and management of plants
- Monitoring of domestic and international energy regulations
- Studying and implementing new projects



# Strategy and achievements for 2012

Ence is committed to gradually increasing its renewable biomass energy **production capacity** over the coming years, in Spain and abroad, maintaining its position as a **leader in electricity generation from forest biomass and energy crops** to mitigate **environmental impacts** and the **impact on its results** of the cyclical nature of the pulp and paper sector.

The **main achievements** during 2012 were:

- **Start up of the new Huelva biomass plant** with an installed power of 50 MW. Its boiler permits homogeneous combustion of biomass at moderate temperatures, favouring minimisation of emissions. This is the biggest biomass plant in Spain and is also the first plant of its type to have managed to obtain financing in "Project Finance"

mode. Since its synchronisation with the grid, it has maintained excellent operation, being very robust, reliable and manageable. The fuel used is energy crops from its local region and forest biomass.

- Financing was secured and construction begun on the **Mérida biomass plant**, which will have an installed capacity of **20 MW**. The financing mode was "Project Finance" again, establishing another reference milestone in the sector. Like the Huelva plant, the fuel used will be an energy crop which is being grown in the local region and forest biomass. Technological improvements have been incorporated in the Mérida plant steam cycle to improve efficiency to state-of-the-art levels.

## The benefits of biomass utilisation

Renewable biomass energy has **enormous development potential** in Spain, which has the second largest forest area in the European Union. Indeed, it is the only renewable energy to show a positive economic balance due to the benefits generated given its capacity to **create jobs, develop the rural setting** and contribute to **improving the environment**, both by capturing CO<sub>2</sub> and through the care and cleaning of forests, with a reduction of fire risks of up to 70%.

Furthermore, it is the most stable renewable energy and the only one which is manageable, not depending on variable factors such as sunlight, the wind or the availability of certain agricultural wastes. Biomass could participate in the progressive replacement of domestic coal, creating jobs in the affected mining areas, given the proximity of these mining basins to forest areas with potential for biomass production.

The main **environmental benefits** are:

- **Compliance with the internationally-set environmental targets:** biomass utilisation can meet a significant part of Spain's European targets on renewable sources of gross energy consumption.
- **Mass CO<sub>2</sub> capture:** Biomass has a positive balance in CO<sub>2</sub> emissions capture (the CO<sub>2</sub> released is less than that captured). The CO<sub>2</sub> capture process is particularly efficient in forest energy crops,
- **Reduction in fires and reforestation:** Sustainable forest management, specifically in relation to collecting and cleaning the biomass that accumulates in forests, offers three great advantages of significant environmental value:
  - Reduced fire risk
  - Optimising the use of spaces

- Support for the natural regeneration of forest areas (reduced risk of pests and improved woodland quality)

- **Reuse of forest, agricultural and industrial wastes:** resulting in a reduction in uncontrolled burning of agricultural waste, reduced visual contamination, utilisation of wastes, reduced industrial process costs and recovery, among others.

The main **socio-economic benefits** are:

- **Job creation:** Fulfilment of the Renewable Energies Plan 2020 (REP 2020) as regards the expansion of installed power for biomass utilisation will result in the creation of 15,000 new direct and indirect jobs in rural areas.
- **Source of income and savings for the public purse:** Fulfilment of REP 2020 will result in the generation of €671 million per year in new revenue and savings.
- **Investment in rural areas:** Fulfilment of REP 2020 will result in investment of €3,000 million in rural areas, mainly with domestic suppliers.
- **Economic development of rural areas:** Fulfilment of REP 2020 will result in the utilisation of unprofitable agricultural lands, not competing with food growing uses, providing the rural sector with new alternatives of viable crops which are stable over the long term.

All these advantages are augmented thanks to Ence's commitment to **generating value** in the areas where it operates by means of its close collaboration with forestry producers, the growth of the business and its capacity for investment, research work to improve the efficiency of its activities, the mitigation of its environmental impacts and the reduction of the country's energy dependency.

# Our commitment to R&D+i

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

Another of Ence's great commitments is the **global R&D project** called the "IR40" project, which seeks to optimise and improve biomass electricity generating **installation**

**performance** and define the basic specifications for a new high-performance thermodynamic cycle for new biomass plants. The project consists of various activities, among which are fuel characterisation, the study and validation of solutions to prevent degradation phenomena which affect the combustion equipment during its service life and the development and validation of various technological solutions which enable increases in plant efficiency and profitability.

## Phase 2 of the IR40 Project

In 2012, Ence executed the second phase of the "IR40 Project", consisting of **biomass mixture characterisation**, in collaboration with an external technological centre.

The **main activities** carried out in this phase were:

- **Checking of the biomass characterisation** carried out to date (LHV, elemental composition, inert components, moisture, ash fusibility, etc.).
- Definition of a **sampling protocol**, with the aim of characterising representative samples of Ence's fuel.
- **Laboratory analysis of the selected biomass samples**, with the aim of determining the components in the fuel which could cause corrosion in pipes or leave aggressive deposits on heat exchanger surfaces.
- **Determination of the fraction of aggressive components** in the ash and volatilised in the combustion gases (where they can cause corrosion in the heat exchangers).
- **Analysis** (chemical and mineralogical) **of mineral phase formation and of volatilisation** of the components as a function of combustion temperature.
- **Interpretation of results** and determination of the **design fuel** in a High-Performance Energy Generation Plant.
- Study for **use of the characterised biomass** in electricity generating plant and definition of **measures for minimising possible corrosive effects** in view of the determined composition.





# 7 Relations with stakeholders

# Relationship with stakeholders

Ence's **commitment** to its **various stakeholders** is part of its **vision**, in which it refers to its customers, shareholders, to forest owners and the communities in which it operates. In short, stakeholders for Ence are all the people, groups or institutions **affected by its activity** and which **can influence it significantly**. For this reason, it is an objective for Ence that the **relationship** with these stakeholders develops in an **efficient and satisfactory** manner. To do this it establishes various

**communications channels** which promote the **exchange of information** and act as the basis for a **mutually beneficial relationship**.

In the framework of the **TQM model**, an **in-depth analysis** was carried out over almost a year on Ence's activity and its internal and external repercussions, resulting in the **identification of the relevant stakeholders** for the company.





Stakeholders	Level of significance	Communications channels	Relevant aspects
<b>Shareholders and investors</b>	These are the <b>owners of the ENCE Group</b> . They guide the company's <b>strategy</b> based on decisions enabling growth, company sustainability and short-, medium- and long-term <b>results</b> .	<ul style="list-style-type: none"> <li>• The General Shareholders' Meeting</li> <li>• Quarterly communication of results</li> <li>• Presentation of quarterly results by the Managing Director by means of a conference call</li> <li>• Regular meetings</li> <li>• Monthly information for the Board of Directors</li> <li>• Road shows in the main European and North American financial marketplaces</li> <li>• Attendance of international seminars</li> <li>• Periodic delivery of updated information by e-mail</li> <li>• Information available from the CNMV</li> <li>• Annual Report</li> <li>• Annual Corporate Governance Report</li> <li>• Sustainability Report</li> <li>• Specific section on the company website</li> <li>• Contact mailbox: ir@ence.es</li> </ul>	<ul style="list-style-type: none"> <li>• Company strategy</li> <li>• Economic indicators</li> <li>• Market trends</li> <li>• Reputation</li> <li>• Good governance</li> <li>• Risk assessment and management</li> <li>• Transparency</li> </ul>
<b>People</b>	<p>The people who make it possible for Ence to improve its <b>activity</b> and, consequently, its <b>results</b>, are the professionals who work in or for the company.</p> <p>Showing <b>faith</b> in and <b>recognition</b> of the people who work in or for the company and their <b>development</b> are part of our <b>management strategy</b>.</p> <p>They are <b>key parts</b> of the company and <b>opinion leaders</b> on our activity and our commitment to sustainability.</p>	<ul style="list-style-type: none"> <li>• Annual Report</li> <li>• Sustainability Report</li> <li>• Intranet</li> <li>• Management policy</li> <li>• Biannual working environment survey</li> <li>• Performance assessment</li> <li>• Health &amp; Safety Committees</li> <li>• Annual training plan</li> <li>• Monthly area meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Changes in the workforce</li> <li>• Continuous improvement of employment conditions</li> <li>• Labour relations</li> <li>• Recognition</li> <li>• Development</li> <li>• Training</li> <li>• Management systems</li> <li>• Working conditions</li> <li>• Information on the company</li> </ul>

Stakeholders	Level of significance	Communications channels	Relevant aspects
<b>Customers</b>	Generate <b>revenue</b> . It is vital to supply them with <b>quality</b> products and create a <b>relationship</b> with them based on <b>trust, respect</b> and the <b>guarantee</b> of punctual delivery. They are <b>essential opinion leaders</b> in the pulp and energy market.	<ul style="list-style-type: none"> <li>• Annual Report</li> <li>• Sustainability Report</li> <li>• Publication of significant events</li> <li>• Regular visits</li> <li>• Satisfaction surveys</li> <li>• Environmental product profile</li> </ul>	<ul style="list-style-type: none"> <li>• Supply</li> <li>• Data confidentiality</li> <li>• R&amp;D+i</li> <li>• References</li> <li>• FSC and PEFC certification</li> <li>• Competitiveness</li> <li>• Meeting their needs</li> <li>• Fulfilment of requirements</li> </ul>
<b>Allies and Suppliers</b>	<p>Included as an essential part of all the company's <b>management systems</b> (quality, environment, occupational risk prevention, chain of custody, sustainable forest management, etc.).</p> <p>They guarantee <b>supplies</b> and the optimal operation of <b>activities</b>, in addition to presenting themselves to society as an essential part of <b>sustainable forest management</b>.</p>	<ul style="list-style-type: none"> <li>• Annual Report</li> <li>• Sustainability Report</li> <li>• Participation in debating forums at the heart of associations</li> <li>• Monitoring of compliance with current regulations</li> <li>• Personal visits</li> <li>• Regular meetings</li> <li>• Proposed framework and other agreements</li> <li>• Public Summary of the Management Plan</li> </ul>	<ul style="list-style-type: none"> <li>• Fulfilment of what was agreed</li> <li>• Security in the long-term contracting of the service</li> <li>• Selection criteria</li> <li>• Improved employment conditions</li> <li>• Financial support that enables them to receive a return on investment</li> <li>• Wood market</li> </ul>
<b>Forest owners</b>	Ence works with forest owners, having a strategy of <b>getting ever closer</b> to them, promoting <b>access, communication</b> and <b>direct liaison</b> with them. They are also included in the company's <b>management systems</b> . The owners provide <b>credibility</b> and are a fundamental part of the strategy to <b>reduce timber imports</b> . They are needed to promote a strategy of greater implementation of sustainable forest certification.	<ul style="list-style-type: none"> <li>• Annual Report</li> <li>• Sustainability Report</li> <li>• Press kits and press releases</li> <li>• Visits to plants</li> <li>• Website</li> <li>• Public Summary of the Management Plan</li> <li>• Receipt and handling of complaints, suggestions and information requests</li> <li>• CSR Actions</li> </ul>	<ul style="list-style-type: none"> <li>• Social benefits</li> <li>• Appropriate forest management</li> <li>• Fulfilment of what was agreed</li> <li>• Legal compliance</li> <li>• Business performance</li> <li>• Common interests</li> <li>• Exchange of information</li> <li>• Forest certification</li> </ul>
<b>Public authorities and regulatory bodies</b>	Ence works with the public authorities in the identification and defence of <b>sector and private interests</b> , in <b>control tasks</b> , in the <b>promotion</b> of new activities and in <b>carrying out</b> projects. They are essential to Ence's activity and influence market conditions.	<ul style="list-style-type: none"> <li>• Annual Report</li> <li>• Sustainability Report</li> <li>• Environmental statements</li> <li>• Round tables, working groups</li> <li>• Periodic communications</li> <li>• Regular meetings</li> <li>• Specific reports on each environmental authorisation</li> <li>• Partnership agreements</li> </ul>	<ul style="list-style-type: none"> <li>• Checking compliance with legal requirements</li> <li>• Application of Best Available Techniques</li> <li>• Support in the design and achievement of public policy</li> <li>• Joint collaboration in technical-scientific development</li> <li>• Promotion of sustainable development</li> <li>• Promotion of rational use of forestry products and services</li> </ul>

Stakeholders	Level of significance	Communications channels	Relevant aspects
<b>Community and surroundings</b>	<p>The relationship with Ence's surroundings is essential. Being aware of the <b>interests and concerns of local communities</b> and all the groups representing them is fundamental to sharing in and benefiting from Ence's good management.</p> <p>They are fundamental groups and people in the relationship between Ence and its immediate surroundings.</p>	<ul style="list-style-type: none"> <li>• Annual Report</li> <li>• Sustainability Report</li> <li>• Environmental statements</li> <li>• Talks, symposiums and conferences</li> <li>• Guided tours</li> <li>• CSR Actions</li> <li>• Receipt of and responding to complaints, suggestions and information requests through the info@ence.es mailbox</li> <li>• Website (corporate and Pontevedra's own specific site)</li> </ul>	<ul style="list-style-type: none"> <li>• Minimisation of environmental impacts</li> <li>• Common interests</li> <li>• Interaction with other economic and/or cultural activities</li> <li>• Conservation and promotion of the environment</li> <li>• Conservation of protected and specially protected species and habitats</li> <li>• Protection of our natural heritage</li> <li>• Creation of jobs and wealth</li> </ul>
<b>Influence groups (analysts, media, NGOs)</b>	<p>Fundamental in generating <b>reputation</b> and to the change which needs to occur in some places about <b>perceptions</b> held on our environmentally-friendly <b>industrial activity</b>, which generates jobs and wealth.</p> <p>They are <b>general opinion formers</b> on Ence's activity.</p>	<ul style="list-style-type: none"> <li>• Annual Report</li> <li>• Sustainability Report</li> <li>• Environmental Statements</li> <li>• Constant attention, sending of press kits and press releases</li> <li>• Visits to plants</li> <li>• Website</li> <li>• Collaboration and activities</li> <li>• Public Summary of the Management Plan</li> </ul>	<ul style="list-style-type: none"> <li>• Conflict resolution.</li> <li>• R&amp;D+i</li> <li>• Environmental, economic and social impact of our activity</li> <li>• Economic data and activity results</li> </ul>

## Relationship with shareholders

Ence has an **Investor Relations team** in order to maintain a **permanent dialogue** with the **financial markets**, both **equity** markets, including shareholders, institutional investors and the group of eighteen financial analysts who regularly report on the company's evolution on the market, and fixed income, including bond holders, institutional investors and analysts, in addition to other market agents, such as the Spanish National Securities & Exchange Commission (CNMV).

The department's objective is to keep all the participants in the financial markets up to date with the company's **strategy**, the **operating and financial results**, as well as the main **relevant facts** and **corporate operations**,

where simple, effective communication is a key factor for Ence, which is committed to **credible and transparent** communication.

Similarly, with the shareholders able to identify, evaluate and manage the **risks**, they guide the company's **strategy** based on decisions which enable growth of the main economic indicators and determine the company's **operational and financial development**.

In order to achieve these objectives, in 2012 the Investor Relations team were intensely active in the form of holding **face-to-face meetings** and **conferences with analysts and investors** in Madrid and the main financial centres in Europe and North America. Ence conducted **16 road shows** during the year and held **15 conferences** with analysts and investors to inform them transparently of the company's results and situation.



## Ence, the best company in its sector in investor relations

**Institutional Investor**

The financial magazine *Institutional Investor* recognised Ence in its annual study on company relations with investors in Europe by placing it top of the pulp and paper sector rankings.

This study consisted of a survey carried out with 825 managers from 435 investment institutions and 1,470 analysts from 150 brokers. This result then represents a significant recognition of transparency and closeness to

the market of investor relations management. In addition, the study highlights Ence among the most prestigious companies in the European equities market, underlining its profile as a sound, reliable company.

Ence's Chief Financial Officer and Head of Investor Relations were also recognised in the top positions in their respective categories in this ranking.

## Relationship with customers

A **new system** was implemented in 2012 to enable **recording of incidents** with our customers, setting a **level of relevance** depending on whether they are:

- **Incidents:** Failure to fulfil the product or service requirements agreed internally by the organisation or directly with the customer, which may affect the latter in any aspect: quality, quantity, price, service, etc. The incident is recorded without the need to have received a complaint from the customer. Their documentation must be used to analyse internal failings which were avoided before they reached the customer, but which imply a risk, with the aim of making possible improvements. Included in this type are deviations in quality between the quality delivered and that requested by the customer.
- **Complaints:** Lack of customer satisfaction with any requirement set for the service provided or product delivered, which does not affect the fulfilment of guarantees, cause any accidents or involve any additional costs.
- **Claims:** Lack of customer satisfaction with any requirement set for the service provided or product delivered, which affects the fulfilment of guarantees, the occurrence of accidents caused by the product or service supplied, incurs additional cost, leads to returns, etc.

This system is proactive, i.e. we do not wait for the customer to complain, but through the sales managers, **regular visits are made to customers** to understand how their expectations on the pulp provided by Ence are developing.

In the management of claims, the final communication with the customer is made with the **preparation of an 8D report** (problem description, containment actions, root cause analysis, corrective actions, actions to ensure the problem does not recur, verification actions). The **level of customer satisfaction** is obtained from the feedback they give.

The **VOC (Voice of the Customer) Project** was also initiated in 2012, with the aim of finding out customer

perceptions and expectations, to implement **improvement initiatives** contributing to decommoditizing its products and increasing market share and capillarity in Europe. **Twenty-eight customer visits** were made in 2012, attended by various people from the different plants, always including someone from the industrial, logistics, commercial and quality areas. In these visits, **interviews** are carried out with questions on **six subjects** (Ence's image, products, commercial service, logistics service, technical support service and future prospects - market related aspects). Fourteen proposals were made based on the information collected during these visits, aimed at **improving our customers' perception and satisfaction**.

## Relationship with forest owners

In 2011, Ence launched a **strategy** to increase supply volume through the **direct purchase of wood from forest producers'** associations. In that year, Ence purchased 250,000 tonnes of cultivated eucalyptus wood for industrial use from producers' groups in Galicia. This figure increased by 140% in 2012. The company signed contracts for timber purchase with wood producers' groups for **600,000 tonnes**.

The contracts signed with these groups go beyond simple acquisition of wood and set the basis for establishing **sound, mutually beneficial relationships**. Indeed, these agreements set guidelines for collaboration on structural matters for the future of the forestry sector, such as **forest crop planning, plant health improvement, sustainable management** of eucalyptus forests and the provision of **greater transparency** to the timber market.

Proof of this is the efforts made by Ence to **promote good practices** in cultivation and obtaining sustainable forest management certification. Ence carries out **training initiatives** aimed at forest owners where it works and where eucalyptus cultivation is particularly suitable. These initiatives tackle subjects such as **plant location, the price of wood or certification**, as well as covering the keys to developing a plantation. Furthermore, Ence shares with forest owners the **advantages of improved Eucalyptus Globulus plants**, the result of decades of work and selection of the best plants by Ence's experts in forestry research, which exhibit growth rates of 30%, or more, faster than plants from eucalyptus seeds, provided that appropriate forestry practices and treatments are applied. In 2012, the training initiatives carried out in **Vegadeo** and

neighbouring municipalities (Asturias) and in **Cabana** and the Bergantiños sector (Galicia) are worthy of note.

Economically, direct purchases from producers' associations benefit both the timber producers and the company. On **eliminating intermediation costs**, the company and the producers can operate with the margin allocated to third parties when there is a middle man between the seller and the buyer.

### Relationship with regulators

Ence maintains **direct relations** with the main **authorities in the sector** (the Ministry of Industry, the Directorate General for Energy Policy and Mines, Autonomous Regions, local authorities, the Spanish National Energy Commission - CNE, the Spanish electricity grid operator - REE, the Spanish electricity market operator - OMIE, etc.) to show irrefutably the **great benefits** provided to society by **biomass management** and to **present proposals**, based on promoting biomass as an energy source, which improve the **socio-economic sphere for populations** in regions where Ence operates.

Ence is also a member of various associations, such as ACOGEN, APPA and ASPAPEL, in which it actively participates in **support of biomass energy generation**.

Ence participates with the Ministry of Agriculture, Food and Environment, through ASPAPEL, in the preparation of the **new version of the "Reference document on Best Available Techniques in the Pulp and Paper Industry"** (BREF), in the framework of developing regulations on Integrated Pollution Protection and Control at the European level. This document, which is purely a **reference document** in its current version, will probably be published during 2013 and become one of the aspects treated as **legal requirements** in Europe.

Through ASPAPEL, Ence also participates in preparing comments on the draft versions of **new regulations being developed**.

In the field of **forestry activity**, Ence actively collaborated in the **modification and adaptation** of the regulations relating to **sustainable forest management**.

In the case of the **FSC system**, Ence formed part of a working group to adapt the **Spanish regulations** to the **management situation**, both for small and large properties. The work was carried out with social (universities and owners' associations) and economic (certifying bodies and consultancy companies) players, with the support of environmental NGOs, and always with the knowledge and support of the FSC. The **modifications proposed** by the working group were unanimously **approved** at the FSC Spain's annual assembly. Currently, the work being carried out consists of adapting the Spanish standard to the **new international reference** through the **Technical Committee** created.

As for the **PEFC system**, Ence participates in the Technical Standardisation Committee, **CTN-162**, responsible for the voluntary rules related to sustainable forest management, as regards classification of forest types, the preparation of indicators, the definition of management units and unregulated training aspects related to the subject.

Furthermore, in 2012, Ence worked with the FSC and PEFC and the competent public authorities at Spanish autonomous region, Spanish domestic and European level to clarify the framework for implementation in Spain of the **European Due Diligence Regulation for Timber Legality**, which will come into force in 2013. Ence's participation consisted of raising queries and making proposals for designing a simple and clear system which guarantees the **legality of all the timber commercialised** in our setting.

## Active collaboration with domestic and international bodies

- 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 (Associação 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 Madera)
- APPA (Asociación de Productores de Energías Renovables)
- ASAJA (Asociación Agraria y Ganadera Andalucía)
- 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 Algarvivo)
- 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
- COAHSIQ (Comisión Autónoma de Seguridad e Higiene en el Trabajo)
- Comunidad de Regantes de Andevalo (Guadiana, Sur y Minero)
- Compromiso Asturias XXI.
- CONFEMADERA (Confederación de Empresas de la Madera)
- Cluster de la Madera de Galicia.
- Confederación de empresarios de Galicia
- DIRCOM
- 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 Florestal (Federación Portuguesa de Propietarios Forestales)
- Fundación Entorno
- Fundación Rías do Sur
- Amigos de la Ría de Navia







# 8 About this report

# Scope

This Sustainability Report is the seventh published by Ence since 2004, annually since 2008, offering **reliable and complete information on management as regards sustainability** and referring to the period between **1 January and 31 December 2012**. This report includes information relating to the activities carried out by Ence in the **forestry and industrial fields for the production of pulp and renewable energy in Spain, Portugal and Uruguay** (until December 2012, in which month the sale of the forest assets in the latter company was communicated).

If any limitation in the scope of the information reported exists, this will be indicated in each case, except in the cases indicated below:

- In the information reported on **Human Resources**, the data corresponding to **Uruguay** is not

reported, as **data for year end** is reported and, after the sale of the forest assets in that country, these **data are no longer material**.

- In the case of the **Forestry** business unit, as indicated in the corresponding chapter, information is included which not only relates to the company's own **forest areas**, but also **leased, syndicated and mixed** areas. In spite of communicating the sale of Ence's **assets in Uruguay**, its area is included in the data on managed area as the sale had not been formalised at year end.
- Additionally, information is included throughout the report relating to the **activity carried out jointly with forest owners**, indicating this in each case.

# Report preparation process

Ence understands the exercise of preparing a Sustainability Report to be a process of continuous improvement and for this reason it attempts to incorporate processes which help to define the **most relevant contents** for its stakeholders, while ensuring the **quality and reliability of the information** at all times.

To prepare this Report, Ence carried out a **materiality analysis**. Based on the identification of the relevant stakeholders for Ence, an in-depth analysis was carried out on the **material subjects for the sector** according to their relevance and maturity, from which the material matters for Ence were obtained. These matters are grouped into three categories: **business development and sustainability, environmental and social sustainability**.

If changes occur relating to **information reported in previous years**, these changes and the reasons for them will be explained in each case.

The information on Ence and its business which is included in the Sustainability Report 2012 is complemented by information published in the **Annual Report**, the **Annual Corporate Governance Report** and the **Annual Accounts and Management Report**. The first two of these are available on the corporate website ([www.ence.es](http://www.ence.es)), together with further specific information for investors and on sustainability. The Annual Accounts and the Management Report are available on the website of the Spanish National Securities & Exchange Commission ([www.cnmv.es](http://www.cnmv.es)).



# Global Reporting Initiative

This Sustainability Report was prepared in accordance with the following guidelines:

- **Sustainability reporting guidelines**, version 3.1 of the *Global Reporting Initiative*.
- **Indicator protocols** from G3.1 of the *Global Reporting Initiative*.

Ence covers the requirements associated with the **A+ level** applying to G3.1, by responding to indicators for Profile, Management Focuses and Performance Indicators. For the first time, the Report was **verified by the independent firm PwC**.

In the **GRI Indicators Table**, the **coverage** of the requirements set for each indicator is shown, along with the **reference** to the Report pages in which the response to these indicators is given. If any performance indicator is **omitted**, the reason for the omission is explained in the same table, with the materiality principle for these cases having been considered.

When the metrics or the calculations indicated in the GRI are not applicable, this will be indicated in the corresponding section of the Report.

# Significant changes

Three significant changes occurred in Ence in 2012:

- **Sale of the forest assets in Uruguay:** the asset sale operation corresponding to 27,780 hectares of eucalyptus in Uruguay and the associated timber sawing and chipping facilities will bring \$77.3 million into the company (December 2012).
- **Redemption of 7.7 million of its own shares:** this capital reduction, equivalent to 3%, resulted in profit per share through dividends of 11%.
- **Buy back of 12.8 of its own shares:** this purchase of 5.12% of its equity from Fidalser, S.L. follows the company line of creating value and profitability for shareholders.

# Ence Energía y Celulosa

**Ence Energía y Celulosa S.A.** has its **registered address** and **head office** at Paseo de la Castellana 35, 28046 Madrid, Spain.

In case of any **queries relating to the Sustainability Report**, please contact:

Ence Energía y Celulosa, S.A.  
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# APPENDIX I: GRI indicators table

# Disclosure

		Page	Reporting level
<b>1. Strategy and Analysis</b>			
<b>1.1</b>	Statement from the most senior decision-maker of the organisation (e.g. CEO, chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy	6, 7	Total
<b>1.2</b>	Description of key impacts, risks and opportunities	58-66, CAC (23-25)	Total
<b>2. Organisational Profile</b>			
<b>2.1</b>	Name of the organisation	93	Total
<b>2.2</b>	Primary brands, products and/or services	11	Total
<b>2.3</b>	Operational structure of the organization, including main divisions, operating companies, subsidiaries and joint ventures.	38, 52, 72	Total
<b>2.4</b>	Location of organisation's headquarters	93	Total
<b>2.5</b>	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	90	Total
<b>2.6</b>	Nature of ownership and legal form	93	Total
<b>2.7</b>	Markets served (including geographical breakdown, sectors served and types of customers/beneficiaries)	53	Total
<b>2.8</b>	Scale of the reporting organisation	10, 23, 38, 52, 72, 73	Total
<b>2.9</b>	Significant changes during the reporting period regarding size, structure and ownership of the organisation	93	Total
<b>2.10</b>	Awards received in the reporting period	54, 84	Total
<b>3. Report Parameters</b>			
Report profile			
<b>3.1</b>	Reporting period for information provided	90	Total
<b>3.2</b>	Date of most recent previous report	90	Total



		Page	Reporting level
<b>3.3</b>	Reporting cycle	90	Total
<b>3.4</b>	Contact point for questions regarding the report or its contents	93	Total

### Report scope and boundary

<b>3.5</b>	Process for defining report content, including: determining materiality; prioritising topics within the report; and identifying stakeholders the organisation expects to use the report	81-83, 91	Total
<b>3.6</b>	Boundary of the report	90	Total
<b>3.7</b>	State any specific limitations on the scope or boundary of the report	90	Total
<b>3.8</b>	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	90	Total
<b>3.9</b>	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	92	Total
<b>3.10</b>	Explanation of the effect of any re-statements of information provided in earlier reports and the reasons for such re-statement	91	Total
<b>3.11</b>	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report	93	Total
<b>3.12</b>	Table identifying the location of the Standard Disclosures in the report	96-109	Total
<b>3.13</b>	Policy and current practice with regard to seeking external assurance for the report.	92	Total

## 4. Corporate Governance, Commitments, Challenges and Stakeholder Engagement

### Governance

<b>4.1</b>	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight	ACGR (7-14), RBD (12-21)	Total
<b>4.2</b>	Indicate whether the Chair of the highest governance body is also an executive officer	ACGR (22)	Total
<b>4.3</b>	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	ACGR (9-11)	Total

		Page	Reporting level
<b>4.4</b>	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	32, 81, 83	Total
<b>4.5</b>	Linkage between compensation for members of the highest governance body, senior managers and executives and the organisation's performance	ACGR (19)	Total
<b>4.6</b>	Processes in place for the highest governance body to ensure conflicts of interest are avoided	ACGR (40, 41)	Total
<b>4.7</b>	Process for determining the composition, qualifications and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity	RBD (6-10, 13-21)	Total
<b>4.8</b>	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	12, 24	Total
<b>4.9</b>	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	ACGR (5/12, 6/12)	Total
<b>4.10</b>	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	ACGR (21), RBD (23)	Total

### Commitments to external initiatives

<b>4.11</b>	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	34, 35, 44-47, 56-66	Total
<b>4.12</b>	Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or endorses	16, 17, 57, 62, 63	Total
<b>4.13</b>	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; and views membership as strategic	87	Total

### Stakeholder engagement

<b>4.14</b>	List of stakeholder groups engaged by the organisation (including local communities)	80	Total
<b>4.15</b>	Basis for identification and selection of stakeholders with whom to engage	80	Total
<b>4.16</b>	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	80-87	Total
<b>4.17</b>	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	80-83	Total

## Economic performance indicators

		Page	Reporting level
<b>Aspect: Economic performance</b>			
Management approach		14-19	Total
<b>EC1</b>	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	10	Total
<b>EC2</b>	Financial implications and other risks and opportunities for the organisation's activities due to climate change	63	Total
<b>EC3</b>	Coverage of the organisation's defined benefit plan obligations	33, CAC (57)	Total
<b>EC4</b>	Significant financial assistance received from governments	110, 111, CAC (40, 41)	Total

### Aspect: Market presence

Management approach		14-19	Total
<b>EC5</b>	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	24, 25	Total
<b>EC6</b>	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	38, 39, 58	Total
<b>EC7</b>	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	110, 111	NA

### Aspect: Indirect economic impacts

Management approach		14-19	Total
<b>EC8</b>	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	110, 111	Total
<b>EC9</b>	Understanding and describing significant indirect economic impacts, including the extent of impacts	76	Total

## Environmental performance indicators

		Page	Reporting level
<b>Aspect: Materials</b>			
	Management approach	18, 19, 54, 56	Total
<b>EN1</b>	Materials used by weight or volume	38, 39, 58, 65	Total
<b>EN2</b>	Percentage of materials used that are recycled input materials	58	Total
<b>Aspect: Energy</b>			
	Management approach	18, 19, 54, 56	Total
<b>EN3</b>	Direct energy consumption by primary energy source	60	Total
<b>EN4</b>	Indirect energy consumption by primary energy source	60	Total
<b>EN5</b>	Energy saved due to conservation and efficiency improvements	57, 60	Total
<b>EN6</b>	Initiatives to provide energy-efficient or renewable energy based products and services and reductions in energy requirements as a result of these initiatives	72, 73	Partial
<b>EN7</b>	Initiatives to reduce indirect energy consumption and reductions achieved	40	Partial
<b>Aspect: Water</b>			
	Management approach	18, 19, 54, 56	Total
<b>EN8</b>	Total water withdrawal by source	64	Total
<b>EN9</b>	Water sources significantly affected by withdrawal of water	110, 111	Total
<b>EN10</b>	Percentage and total volume of water recycled and reused	110, 111	N/A

Page Reporting level

## Aspect: Biodiversity

Management approach		18, 19, 42-47	Total
<b>EN11</b>	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	45	Total
<b>EN12</b>	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	44-47, 110, 111	Total
<b>EN13</b>	Habitats protected or restored	44-47	Total
<b>EN14</b>	Strategies, current actions and future plans for managing impacts on biodiversity	44-47	Total
<b>EN15</b>	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	46, 47	Total

## Aspect: Emissions, discharges and waste

Management approach		18, 19, 54, 56	Total
<b>EN16</b>	Total direct and indirect greenhouse gas emissions by weight	61	Total
<b>EN17</b>	Other relevant indirect greenhouse gas emissions by weight	110, 111	N/A
<b>EN18</b>	Initiatives to reduce greenhouse gas emissions and reductions achieved	57, 60, 61	Partial
<b>EN19</b>	Emissions of ozone-depleting substances by weight	110, 111	N/A
<b>EN20</b>	NO, SO and other significant air emissions by type and weight	62	Total
<b>EN21</b>	Total water discharge by quality and destination	64	Total
<b>EN22</b>	Total weight of waste by type and disposal method	65	Total
<b>EN23</b>	Total number and volume of significant spills	110, 111	Total

		Page	Reporting level
<b>EN24</b>	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	110, 111	Total
<b>EN25</b>	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	64	Total

### Aspect: Products and services

	Management approach	18, 19, 42-44, 54-56	Total
<b>EN26</b>	Initiatives to mitigate environmental impacts of products and services and extent of impact mitigation	57-66, 76	Total
<b>EN27</b>	Percentage of products sold and their packaging materials that are reclaimed by category	65	Total

### Aspect: Compliance

	Management approach	18, 19, 56	Total
<b>EN28</b>	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	110, 111	Total

### Aspect: Transport

	Management approach	18, 19, 40	Total
<b>EN29</b>	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations and transporting members of the workforce	110, 111	Partial
<b>EN30</b>	Total environmental protection expenditures and investments by type	67	Total

# Labour practices and decent work performance indicators

		Page	Reporting level
<b>Aspect: Employment</b>			
Management approach		18, 19, 22, 23	Total
<b>LA1</b>	Total workforce by employment type, employment contract and region, broken down by gender	23	Total
<b>LA2</b>	Total number and rate of employee turnover by age group, gender and region	30	Total
<b>LA3</b>	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	33	Total
<b>LA15</b>	Return to work and retention rates after parental leave, by gender	24	Total
<b>Aspect: Labour/Management relations</b>			
Management approach		18, 19, 22, 23, 32	Total
<b>LA4</b>	Percentage of employees covered by collective bargaining agreements	23	Total
<b>LA5</b>	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	32	Total
<b>Aspect: Occupational Health and Safety</b>			
Management approach		18, 19, 22, 23, 34, 35	Total
<b>LA6</b>	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	35	Total
<b>LA7</b>	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	35	Total
<b>LA8</b>	Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families or community members regarding serious diseases	28, 29	Total
<b>LA9</b>	Health and safety topics covered in formal agreements with trade unions	35	Total

## Aspect: Training and Education

Management approach		18, 19, 22, 23, 28, 29	Total
<b>LA10</b>	Average hours of training per year per employee by gender and by employee category	29	Total
<b>LA11</b>	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	28, 29	Total
<b>LA12</b>	Percentage of employees receiving regular performance and career development reviews, by gender	29	Total

## Aspect: Diversity and Equal Opportunity

Management approach		18-27	Total
<b>LA13</b>	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	ACGR (3, 18, 19)	Partial

## Aspect: Equal remuneration for men and women

Management approach		18-27	Total
<b>LA14</b>	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	25	Total



## Human rights performance indicators

	Page	Reporting level
<b>Aspect: Investment and procurement practices</b>		
Management approach	16, 17	Total
<b>HR1</b> Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns or that have undergone human rights screening	48	Total
<b>HR2</b> Percentage of significant suppliers, contractors and other business partners that have undergone human rights screening and actions taken	48	Total
<b>HR3</b> Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the number of employees trained	110, 111	Total

### Aspect: Non-discrimination

Management approach	16, 17	Total
<b>HR4</b> Total number of incidents of discrimination and corrective actions taken	25	Total

### Aspect: Freedom of association and collective bargaining

Management approach	16, 17	Total
<b>HR5</b> Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk and actions taken to support these rights	48	Total

### Aspect: Child labour

Management approach	16, 17	Total
<b>HR6</b> Operations and significant suppliers identified as having significant risk for incidents of child labour and measures taken to contribute to the effective abolition of child labour	48	Total

## Aspect: Forced and compulsory labour

Management approach		16, 17	Total
<b>HR7</b>	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour and measures to contribute to the elimination of all forms of forced or compulsory labour	48	Total
<b>HR8</b>	Percentage of security personnel trained in the organisation's policies or procedures concerning relevant aspects of human rights	110, 111	Total

## Aspect: Indigenous rights

Management approach		16, 17	Total
<b>HR9</b>	Total number of incidents of violations involving rights of indigenous people and actions taken	110, 111	Total

## Aspect: Assessment

Management approach		16, 17	Total
<b>HR10</b>	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments	48	Total

## Aspect: Remediation

Management approach		16, 17	Total
<b>HR11</b>	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms	110, 111	Total

## Society performance indicators

	Page	Reporting level
<b>Aspect: Local communities</b>		
Management approach	80, 83	Total
<b>S01</b> Percentage of operations with implemented local community engagement, impact assessments and development programmes	110, 111	Partial
<b>S09</b> Operations with significant potential or actual negative impacts on local communities	110, 111	Total
<b>S010</b> Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities	110, 111	Total
<b>Aspect: Corruption</b>		
Management approach	16, 17	Total
<b>S02</b> Percentage and total number of business units analysed for risks related to corruption	110, 111	Total
<b>S03</b> Percentage of employees trained in the organisation's anti-corruption policies and procedures	110, 111	Total
<b>S04</b> Actions taken in response to symptoms of corruption	110, 111	Total
<b>Aspect: Public policy</b>		
Management approach	80, 82, 86	Total
<b>S05</b> Public policy positions and participation in public policy development and lobbying	86	Total
<b>S06</b> Total value of financial and in-kind contributions to political parties, politicians or related institutions by country	110, 111	Total
<b>Aspect: Anti-competitive behaviour</b>		
Management approach	16, 17	Total
<b>S07</b> Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes	110, 111	Total
<b>Aspect: Compliance</b>		
Management approach	18, 19	Total
<b>S08</b> Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	110, 111	Total

## Product responsibility performance indicators

		Page	Reporting level
<b>Aspect: Customer Health and Safety</b>			
Management approach		18, 19	Total
<b>PR1</b>	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	59	Total
<b>PR2</b>	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	110, 111	Total
<b>Aspect: Product and service labelling</b>			
Management approach		18, 19	Total
<b>PR3</b>	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements	69	Total
<b>PR4</b>	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	110, 111	Total
<b>PR5</b>	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	85	Partial
<b>Aspect: Marketing communications</b>			
Management approach		18, 19, 42-44	Total
<b>PR6</b>	Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	42, 43	Total
<b>PR7</b>	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes	110, 111	Total

## Aspect: Customer privacy

	Page	Reporting level
Management approach	18, 19	Total
<b>PR8</b> Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	110, 111	Total

## Aspect: Compliance

Management approach	18, 19	Total
<b>PR9</b> Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	110, 111	Total

**Note:**

**ACGR** – Annual Corporate Governance Report 2012.

**RBD** – Regulations of the Board of Directors 2012.

**CAC** – Consolidated Annual Accounts 2012.

\* Explanatory information

The aim of the information given below is to clarify Ence's performance concerning the GRI indicators.

<b>EC4</b>	In 2012, Ence Energía y Celulosa, S.A. did not receive any significant assistance from governments, considering as significant any amount which could be considered material in the annual accounts.
<b>EC7</b>	Indicator not material. Ence Energía y Celulosa, S.A. carries out its significant activities in Spain.
<b>EC8</b>	In 2012, Ence Energía y Celulosa, S.A. did not make any significant investments in infrastructures and services provided for public benefit, considering as significant any amount which could be considered material in the annual accounts.
<b>EN9</b>	Ence Energía y Celulosa, S.A. has no record of any occurrence of the sources of water used by the company being affected significantly in 2012. This withdrawal is carried out within the framework of the requirements laid down by the corresponding authorities.
<b>EN10</b>	In spite of the efforts made to improve efficiency in water consumption, Ence Energía y Celulosa, S.A. does not currently have data available on the amount of water recycled and reused in the pulp production process.
<b>EN12</b>	Ence activity in protected areas and areas of high biodiversity conforms to the restrictions and limitations imposed by the Competent Forestry Administration, in addition to the additional checks by the company in order to minimize the impact to the environment, in environments of high ecological value.
<b>EN17</b>	Ence Energía y Celulosa, S.A. does not currently have data available on indirect emissions.
<b>EN19</b>	Indicator not material. Ence Energía y Celulosa, S.A. does not generate significant emissions of ozone-depleting substances.
<b>EN23</b>	In 2012, no significant accidental spills of polluting substances occurred in any of Ence Energía y Celulosa, S.A.'s facilities.
<b>EN24</b>	Ence Energía y Celulosa, S.A. does not transport hazardous waste.
<b>EN28, PR4, PR7, PR9, S08</b>	Ence Energía y Celulosa, S.A. was not subject in 2012 to any significant fines or sanctions due to non-compliance with environmental laws and regulations, regulations concerning product information and labelling, regulations concerning marketing communications, regulations concerning the provision and use of products and services or any other type of laws and regulations, considering significant any amount could be material in the annual accounts.
<b>EN29</b>	Ence Energía y Celulosa, S.A. does not transport its own products. It outsources this service.
<b>HR3, HR8, S03</b>	Ence Energía y Celulosa, S.A. did not carry out training initiatives on policies and procedures concerning aspects of human rights or corruption during 2012.
<b>HR9</b>	Ence Energía y Celulosa, S.A. has no record of any incident concerning violations involving rights of indigenous people having occurred in the places where it operates.
<b>HR11</b>	Ence Energía y Celulosa, S.A. did not receive any grievances concerning human rights through the communications channels set up for relation with stakeholders or through any other means in 2012.

<b>S01</b>	All activities subject to Integrated Environmental Authorisation are submitted to processing of public information to incorporate the opinions and concerns of interested parties. Local communities are stakeholders for Ence Energía y Celulosa, S.A., hence there are communications channels set up for them (available on pages 50 and 51).
<b>S02, S04</b>	Ence Energía y Celulosa, S.A. did not identify any incidents related to corruption in the company in 2012, hence it did not carry out any measures to manage it.
<b>S06</b>	Ence Energía y Celulosa, S.A. did not make any significant financial or in-kind contributions to political parties, politicians or related institutions in 2012.
<b>S07</b>	Ence Energía y Celulosa, S.A. was not reported in 2012 for carrying out any type for anti-competitive behaviour, anti-trust or monopoly practices.
<b>S09, S010</b>	By applying preventive measures, mainly concerned with potential environmental impacts, Ence Energía y Celulosa, S.A. prevents the occurrence of these impacts. No operations with significant impacts on local communities were identified in 2012.
<b>PR2</b>	Ence Energía y Celulosa, S.A., with its customers, commits to complying with the requirements on their products and services. In 2012, no incidents related to health and safety impacts of products and services were recorded.
<b>PR8</b>	Ence Energía y Celulosa, S.A. did not record any complaints regarding breaches of customer privacy and losses of customer personal data in 2012.







APPENDIX II:  
Independent Review  
Report



*Free translation of the report on independent review of the 2012 Sustainability Report of Ence Energía y Celulosa originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

## REPORT ON INDEPENDENT REVIEW OF THE 2012 SUSTAINABILITY REPORT OF ENCE ENERGÍA Y CELULOSA

To the Management of Ence Energía y Celulosa, S.A.:

### Scope of the work

We have reviewed the conformity of the contents of the 2012 Sustainability Report of Ence Energía y Celulosa, S.A. and its subsidiaries, hereinafter referred to as Ence, for the year ended 31 December 2012, to the Guidelines for drawing up Sustainability Reports contained in the Global Reporting Initiative (GRI), version 3.1 (G3.1), as well as the validation of core and additional performance indicators proposed in these Guidelines.

The preparation and contents of the 2012 Sustainability Report are the responsibility of the Management of Ence, who is also responsible for defining, adapting and maintaining the internal control and management systems from which the information is obtained. Our responsibility is to issue an independent report based on the procedures applied in our review.

We have undertaken our review in accordance with ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and with the Corporate Responsibility Report Review Guidelines issued by the *Instituto de Censores Jurados de Cuentas de España*.

Our review has consisted of making enquiries to Management and the various Ence units that have participated in the preparation of the 2012 Sustainability Report, and applying certain analytical procedures and sample-based testing described below:

- Meetings with Ence personnel to ascertain the management approaches applied and to obtain the information required for the external review.
- Analysis of the processes used in compiling and validating the indicators presented in the 2012 Sustainability Report.
- Review of the actions taken with respect to the identification and analysis of the stakeholders during the year, as well as the coverage, relevance and completeness of the information included in the 2012 Sustainability Report on the basis of Ence's understanding of the requirements of the stakeholder groups.
- Analysis of the conformity of the contents of the 2012 Sustainability Report to the GRI G3.1 Guidelines.

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- Review of the information concerning management approaches applied to each group of indicators.
- Verification, through sample-based review tests, of the quantitative and qualitative information used in core and additional indicators of the G3.1 Guidelines, relating to the Global Reporting Initiative (GRI) and included in the 2012 Sustainability Report. Furthermore, we have verified the appropriate compilation thereof on the basis of the data supplied by the information sources of Ence.

The scope of a review is significantly less than that of a reasonable assurance engagement. Accordingly, the degree of assurance provided is also lower. Under no circumstances can this report be construed as an audit report.

#### **Independence**

We have performed our work in accordance with the independence rules set out in the Code of Ethics of the International Federation of Accountants (IFAC). The work has been carried out by a team formed by sustainability specialists with wide experience in the review of this kind of report.

#### **Conclusion**

The "GRI Indicators Table" of the 2012 Sustainability Report details the indicators which have been reviewed, as well as limitations in the scope of the review and indicators that do not cover all the aspects included in the G3.1 Guidelines. On the basis of the results of our review, nothing has come to our attention that causes us to believe that the 2012 Sustainability Report of Ence contains significant mistakes or has not been prepared, in all material aspects, in accordance with the GRI Guidelines 3.1 version (G3.1) for the preparation of Sustainability Reports.

PricewaterhouseCoopers Auditores, S.L.

(Originally signed in Spanish)

Mª Luz Castilla  
Director

May 13, 2013





## APPENDIX III: GRI application level check statement





## Statement GRI Application Level Check

GRI hereby states that **Ence Energía y Celulosa S.A.** has presented its report “2012 Sustainability Report” to GRI’s Report Services which have concluded that the report fulfills the requirement of Application Level A+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines. For methodology, see [www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf](http://www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf)

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 28 March 2013

Nelmara Arbex  
Deputy Chief Executive  
Global Reporting Initiative



The “+” has been added to this Application Level because Ence Energía y Celulosa S.A. has submitted (part of) this report for external assurance. GRI accepts the reporter’s own criteria for choosing the relevant assurance provider.

*The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world’s most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. [www.globalreporting.org](http://www.globalreporting.org)*

**Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 19 March 2013. GRI explicitly excludes the statement being applied to any later changes to such material.



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ENERGÍA & CELULOSA