

BOARD OF DIRECTORS REPORT ON THE REDUCTION IN SHARE CAPITAL THROUGH THE AMORTIZATION OF TREASURY SHARES CHARGED AGAINST AVAILABLE RESERVES, AND A REWORDING OF ARTICLES 5 AND 6 IN THE COMPANY BYLAWS

1. PURPOSE

One of the requirements contemplated in article 286 of the Spanish Corporate Enterprises Act that must be met to validly adopt resolutions on amending company bylaws, is that the directors must draw up a written report justifying said amendment that must be made available to the shareholders together with the full text of the proposed amendment.

Article 318 of the cited Act in turn states that the reduction in share capital must be approved by the general meeting with the requirements for amending the bylaws.

Given that the agenda for the general shareholders' meeting of Ence Energía y Celulosa, S.A. (hereinafter also referred to as the “**Company**”) called to be held on 29 March 2017 at 12:30 on first call or on the next day, 30 March 2017 on second call, includes a share capital reduction to amortize treasury shares (point six) and, to do so, requires the amendment of articles 5 and 6 of the bylaws insofar as they concern the share capital amount and number of shares pertaining thereto, the purpose of the present report is to fulfil the legislation cited above.

2. JUSTIFICATION OF THE MOTION

On 23 June 2016, the board of directors approved the Share Buyback Program as a manner of shareholder remuneration through the subsequent reduction of company capital and the corresponding increase in profit per share.

In execution of this programme and within the scope of the authorisation granted at the general meeting on 24 July 2012, the company has acquired 4,000,000 treasury shares, representing 1.6% of its share capital.

Insofar as the Commission Regulation (EC) No 2273/2003 of 22 December 2003 states that treasury shares acquired within the framework of buy-back programmes should be amortised through the corresponding reduction in capital, and given the number of

treasury shares referred to in the programme, the board of directors considers this an appropriate moment to propose the amortization of said shares to the general meeting with the resulting reduction in share capital.

The board thus proposes that the appropriate capital reduction be made against the available reserves of the company, constituting a new restricted reserve for the amount of the nominal value of the amortized shares in accordance with article 335.c) of the Spanish Corporate Enterprises Act. Therefore, and in accordance with this cited article, company creditors will have no right to oppose this capital reduction.

As a result, a motion is handed to the general shareholders' meeting for the reduction of the company's share capital against the unrestricted reserves for an amount of €3,600,000 with the amortization of 4,000,000 held treasury shares, representing 1.6% of the company's current share capital.

Should the motion to reduce the share capital contemplated in this report be approved, articles 5 and 6 of the bylaws will be amended to contain the new capital amount and number of shares in circulation following the reduction.

With a view to simplifying the execution of this resolution, the general shareholders' meeting is also asked to grant the necessary powers to the board of directors (likewise with the possibility of delegating, in turn, this power to the executive committee, chairman of the board, CEO or secretary of the board of directors, or any other person to whom the board of directors may thus grant such a proxy) to fully execute the resolution adopted within the term of thirty 30 days following its adoption.

3. COMPLETE TEXT OF THE MOTION PROPOSED TO THE GENERAL MEETING

The resolution that the board of directors proposes to the general shareholders' meeting for approval regarding this item on the agenda is worded as follows:

“SIX: REDUCTION IN SHARE CAPITAL THROUGH THE AMORTIZATION OF TREASURY SHARES AND REWORDING OF ARTICLES 5 AND 6 IN THE COMPANY BYLAWS.

A) To reduce the share capital of Ence Energía y Celulosa, S.A. by €3,600,000 through the amortization of 4,000,000 treasury shares of 0.90 euro of nominal value per share.

This reduction is in execution of the Share Buyback Program approved by the Board of Directors on 23 June 2016 and based on the figure authorised at its moment by the General Shareholders' Meeting.

The reduction in capital will be made against the unrestricted reserves through the provision of a reserve in amortized capital of €3,600,000 (amount equal to the nominal value of the amortized shares), which will only be available under the same requirements applicable for share capital reduction, pursuant to article 335 c) of the Corporate Enterprises Act.

Consequently, and in keeping with the provisions therein, the creditors of the Company will not be entitled to challenge insofar as the agreed capital reduction as stipulated in article 334 of the Corporate Enterprises Act. Given that the purpose of the reduction is to amortize treasury shares of which the Company is proprietor, the reduction will entail no return of contributions to partners.

Execution of the reduction resolution will amend articles 5 and 6 of the bylaws insofar as the figure pertaining to share capital, which will be worded as follows:

"Article 5.- Share Capital.

The Company's share capital is €221,645,250, fully subscribed and paid up."

"Article 6.- Shares.

The share capital comprises 246,272,500 shares, each pertaining to a single class with a nominal value of €0.90 and represented by book entries.

The 246,272,500 shares constituting the share capital, represented by book entries, are considered to be marketable securities and are governed by securities market regulations."

- B) To vest the board of directors with sufficient powers so that the present resolution can be executed within a term of 30 days, in addition to determining any steps not been expressly contemplated in the present resolution or that may be a consequence hereof, and adopting the agreements, taking the pertinent actions and publicly or privately rendering the documents that may be necessary or appropriate for the most comprehensive execution of the present resolution,*

including yet not restricted to the publication of announcements that might be required by law and the undertaking of requests and notifications that may be necessary to exclude the amortized shares from the stock listing. In this regard, these powers may be delegated by the board of directors to the executive committee, chairman of the board, CEO or secretary of the board of directors, or to any other person to whom the board of directors wishes to grant powers.”

Madrid, 27 February 2017