

## **DIRECTOR REMUNERATION POLICY**

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## 1. Introduction and general regulatory framework

In this Document, ENCE ENERGIA Y CELULOSA, S.A. (henceforth “ENCE” or the “Company”) establishes the criteria and general practices that will govern the Company’s Remuneration of its Directors, both Executives and Non-Executives. This Remuneration Policy, with a temporary 2018-2020 timeframe, will apply to all members of the Board of Directors.

In accordance with the provisions of **Article 529r** of the Consolidated Text of the **Capital Companies Act**, approved by Royal Legislative Decree 1/2010, of 2 July, in the latest version amended by Royal Decree-Law 18/2017, of 24 November (henceforth, “Capital Companies Act”), the Remuneration Policy of the ENCE Directors will comply in all cases with the remuneration system described in the Articles of Association and the Board of Directors Regulations, and will be approved at least every 3 years by the General Shareholders’ Meeting as a separate point on the agenda. Additionally, it will comply with the provisions of the Principles and Recommendations of the National Securities Market Commission’s **Unified Good Governance Code of Listed Companies**, and with the future transposition of **Directive 2017/828**, which will govern the right to vote on Remunerative Policies, the content of the Remuneration Report, and its transparency, among other issues.

The principles and criteria of the Remuneration Policy for Directors are reviewed regularly by the Nomination and Remuneration Committee and the Board of Directors, in order to keep this Company Policy in line with best practices and market trends. Likewise, the Nomination and Remuneration Committee, with or without advising from specialized consultants where necessary, makes timely reviews of the remuneration packages of Executive Directors in order to determine their suitability and alignment with the market situation of comparable companies, and with the Company’s economic and financial status.

Thus, the Company’s Board of Directors, on the proposal of the Nomination and Remuneration Committee, agreed in its meeting held on 31 October 2017 to review the Remuneration system and amounts for Directors, and to hire KPMG, an international consulting firm specialized in this area, to draw up a Report on analysis, market alignment, and recommendations about these Remunerations for ENCE Directors, and to provide advice on drafting a new Remuneration Policy for the Company.

Any amendment or replacement of this Remuneration Policy during its period of validity would require the prior approval of the General Shareholders’ Meeting, in accordance with the procedure established for that purpose.

## 2. Objective and principles of the Remuneration Policy

The general objective of the Remuneration Policy for ENCE Directors is to establish a suitable remuneration to attract and retain Directors with a desired profile, and to remunerate their

dedication, qualification, and responsibilities, without compromising their independence of judgement.

The Company bases its Remuneration Policy on the following principles:

- a) The remuneration of Directors in their capacity as such, for exercising their functions of oversight and joint decision-making, will be determined by the Board of Directors in accordance with the following principles:
  1. Promote the achievement of the company's interest, incorporating the necessary mechanisms to prevent excessive risk-taking and the rewarding of negative results.
  2. Align Remunerations with market practices applied by other Spanish listed companies with equivalent turnover and market capitalization, an international vocation, and with staff sizes and levels of complexity similar to ENCE, within a criteria of remunerative moderation in line with the circumstances of the applicable markets.
  3. Take measures to ensure that the remuneration of External Directors is suitable and incentivizes their dedication, without creating an obstacle for the independence of Independent Directors.
- b) The remuneration of Executive Directors will comply with the general guidelines applicable to employees and executives of the Company, specifically:
  1. Remunerate comprehensively with monetary and non-monetary components.
  2. Invest in remuneration when there is a mutual and reasonable profit, recognizing the effort and activity that impact the achievement of results.
  3. Remunerate equitably - differentiating based on responsibilities and the person - and competitively - attracting and retaining the best professionals, especially in key positions.
  4. Remunerate ensuring there is no discrimination due to gender, provenance, affiliation, ideology, race or any other reason not included in these principles.
  5. Promote a culture of commitment to the objectives and of sharing the successes and risks of the business, aligning remuneration with short- and long-term objectives.
  6. Remunerate people who demonstrate satisfactory performance in line with the relevant market, and remunerate people who produce exceptional results and who are recognized as model professionals exceptionally.
  7. Systematically and uniformly evaluate professional development and performance, providing suitable training, information and decision-making ability to enable people to reach their maximum professional development.

### **3. General composition of the Remuneration of Directors**

The **Articles of Association (Articles 42 and 43)** establish the following system in relation to the Remuneration of the Board of Directors:

- a) Fixed Remuneration:

1. Comprised of a Periodic allocation and Expenses for attending meetings of the Board and its Commissions. These remunerations are paid fully in cash.
  2. The General Shareholders' Meeting determines the maximum annual amount of remunerations paid to all Directors for these items.
- b) Insurance and retirement systems: Life, accident and health insurance policies may be purchased for the Directors, in which case the premiums paid count toward the maximum remuneration limit for Directors set by the General Shareholders' Meeting. Likewise, a retirement system may be established for Executive Directors in the event of death, retirement, disability, or inability to perform the function; the amount, conditions and characteristics will be set by the Board of Directors, following a report from the Nomination and Remuneration Committee.

Moreover, the Company is authorized to contract a civil liability insurance for its Directors.

- c) Possible remuneration in shares: optionally, in addition to, and independently from the Fixed Remuneration, Directors may be remunerated through the awarding of shares, stock options, or any other system linked to the value of shares of the Company or of the Companies in its Group, the application of which will be agreed to be the General Shareholders' Meeting.

In particular reference to the Remuneration of Executive Directors, the Remuneration detailed in sections a), b), and c) above will be compatible with and independent from the fixed salary, variable remunerations, indemnities, pensions or payments of any kind that have been generally or uniquely established for Directors who have a common working relationship with the Company or a special working relationship as a top executive or service provider.

These specific remunerative components for Executive Directors granted for the performance of their executive functions, as well as the terms and conditions of their contracts with the Company, will be set in accordance with the Capital Companies Act, the Articles of Association, Board of Directors Regulations, and this Remuneration Policy.

Thus, among other actions, Executive Directors may:

- a) Benefit from remuneration systems comprising the awarding of shares, stock options, or other remuneration system linked to the value of the shares of the Company or of Companies in its Group, the application of which will be agreed to by the General Shareholders' Meeting.
- b) Benefit from Variable Remuneration systems linked to the performance of the Company, or of the opportune retirement and savings systems described in the Articles of Association.

The following sections describe in greater detail the components of the Remuneration of Directors mentioned above.

#### **4. Remuneration Policy for Directors in their capacity as such**

##### ***4.1 Legal framework***

In accordance with the provisions of **Article 529p of the Capital Companies Act**, the Remuneration Policy for Directors will determine the remuneration of Directors in their capacity as such, within the remuneration system described in the Articles of Association, and will necessarily include the maximum annual remuneration amount to be paid to the group of Directors in their capacity as such.

The individual remuneration of each Director in their capacity as such will be determined by the Board of Directors, who will take into account for such purposes the functions and responsibilities assigned to each Director, their membership on Board Committees, and other objective circumstances considered to be relevant.

##### ***4.2 Fixed Remuneration***

The ENCE Articles of Association allow Directors, in their capacity as such, to receive a Fixed Remuneration comprised of a Regular allocation (fees) and Expenses for attending meetings of the Board of Directors and its Committees.

The Board of Directors sets the amount to be paid, within the aforementioned limit or maximum amount, how it will be distributed among the Directors, and the regularity of payment, and will take into account the functions and responsibilities assigned to each Director, their membership on Board Committees, and other objective circumstances considered to be relevant.

##### ***4.3 Other remunerative components and the option of share-based payment***

The ENCE Articles of Association allow Directors, in their capacity as such, to receive other remunerations consisting of different types of insurance, including life, accident, and health insurance, in which case the premiums paid will count toward the maximum limit set by the General Shareholders' Meeting

Additionally, the company may contract a civil liability insurance for Directors and executives.

Optionally, in addition to, and independently from the Fixed Remuneration, and in accordance with the provisions of **Articles 29a 2. of the Board of Directors Regulations**, Directors may be remunerated through the awarding of shares, stock options, or any other system linked to the value of shares of the Company or of the Companies in its Group, the application of which will be agreed to be the General Shareholders' Meeting These remunerative components, when granted, must be agreed to by the General Shareholders' Meeting.

##### ***4.4 Special non-competition clause***

**Article 23.3 of the Board of Directors Regulations** establishes that if, when informed by the Nomination and Remuneration Committee, the Board of Directors understands that interests of the Company would be put at risk, a Director who is ending their term or who for any other reason ceases to serve in the position, may not provide services to any other entity competing with the Company during the established time period, which will never exceed two years. In such cases, the Director in question shall be entitled to a reasonable indemnity payment to offset any actual damages he/she may suffer as a result of said measure. This compensation will be calculated within the limit referred to in **Article 42.1 of the Articles of Association**, and section 4.5 below.

#### **4.5 Maximum annual remuneration amount for Directors in their capacity as such**

Until the entry into force of this Policy, the maximum annual Remuneration amount for all Directors in their capacity as such had been agreed upon by the General Shareholders' Meeting on 28 June 2006 to be 1,500,000 euros.

This amount, not modified since the aforementioned date, was set under a different organizational and business reality, a different configuration of the Board and its Committees, and a different regulatory and good corporate governance context. In accordance with the review performed by KPMG, this amount has been determined to be obsolete with respect to the market.

Therefore, the new maximum limit is established to be 1,900,000 euros, in accordance with the suggestion of the consultant mentioned above, and will take force starting on the effective date of this Policy (1 January 2018), pending the approval of its amendment at the subsequent General Shareholders' Meeting.

In accordance with the provisions of the Articles of Association, the calculation of this limit will not include amounts corresponding to salaries, remunerations, indemnities, pensions or payments of any kind that have been generally or uniquely established for Directors who have a common working relationship with the Company or a special working relationship as a top executive or service provider.

## **5. Remuneration Policy for Directors for the performance of executive functions**

### **5.1 Legal framework**

In accordance with the provisions of **Article 529q of the Capital Companies Act**, the remuneration of Directors for the performance of their executive functions will comply with this Remuneration Policy, whenever those functions are envisioned in the contracts approved under **Article 249 of the Act**. The Policy must include the annual Fixed Remuneration amount and its variation in the corresponding period, the different parameters for setting variable components, and the principle terms and conditions for contracts, including, in particular, their duration, compensations for early termination of services or termination of the contractual

relationship, and exclusivity agreements, post-contractual non-competitive clauses, and vesting.

The Board of Directors is responsible for setting the remuneration of Directors for performance of executive functions and the terms and conditions of their contracts with the Company, in accordance with the provisions of **Article 249.3 of the Act**, with **Article 29a 1. of the Board of Directors Regulations**, and with Remuneration Policy approved by the General Shareholders' Meeting.

### **5.2 Fixed Remuneration**

The Articles of Association establish that the Fixed Remuneration envisioned for Directors, in their capacity as such, is compatible with and independent from any remuneration Board of Directors members may receive for a common working relationship with the Company or a special working relationship as a top executive or service provider.

The Managing Director, for performing the assigned functions and being the Company's Chief Executive, receives the remuneration indicated in the service provision contract which, as legally required, has been approved by the Board of Directors, subject to a favourable report from the Nomination and Remuneration Committee.

While this Policy is valid, the Fixed Remuneration for the Managing Director will be increased to a gross annual salary of 620,121 euros, in addition to the remunerative amount received as a Director in capacity as such.

However, this fixed remuneration will be adjusted, if necessary, in order to ensure that the remunerations received annually by the Managing Director (i) in their capacity as Director of the Company and/or (ii) for belonging to the governing bodies of other companies in the Company's group, added to the Fixed Remuneration as Executive Director, will never exceed an annual gross total of 664.125 euros (six hundred sixty-four thousand one hundred twenty-five).

### **5.3 Variable Remuneration**

The Managing Director and the Executive Directors, if there are any, will receive the following Variable Remunerations in accordance with their respective contracts for a common working relationship, special working relationship, or service provision:

#### **5.3.1 Short-Term Variable Remuneration**

The short-term variable remuneration will be determined by the Board of Directors, at the proposal of the Nomination and Remuneration Committee, based on the degree of achievement of the Company's annual objectives and/or level of personal performance. This Variable Remuneration can reach a maximum amount of 120% of the last Whole Fixed Remuneration in the case of the Managing Director.

The Short-Term Variable Remuneration is linked to preset and measurable criteria that will not only take into account occasional and extraordinary events, but also promote the sustainability of the Company and recognize good performance. In the components related to the Company's results, deductions will be considered for any qualifications stated in the external auditor's report.

This Variable Remuneration will be paid (in cash and/or shares, in accordance with the authorizations under **Article 29a 2. of the Board of Directors Regulations**) after the formulation of the financial statements, and always within the three (3) months immediately following the year-end financial closing, except in exceptional circumstances.

The possible payment of some or all of the Short-Term Variable Remuneration in the form of shares, stock options, or any other system linked to the value of the shares of the Company or Companies in its Group, will be agreed to by the General Shareholders' Meeting.

### ***5.3.2 Long-Term / Multiannual Variable Remuneration***

In order to recognize the effort and value generation for the Company of its Executive Directors, Long-Term Variable Remuneration Plans, linked to the achievement of the Company's objectives, may be established. These plans must contain the specific period of time over which to measure results (always more than 2 years), include specific objectives and metrics for results, maximum and minimum achievement thresholds, and set a target and maximum amount to receive in cash and/or shares if the set objectives are achieved.

Therefore, on 16 March 2016 the General Shareholders' Meeting approved a Long-Term Incentive Plan for 2016-2018, on a proposal from the Board of Directors of the Company signed on 12 February 2016, which is summarized below. However, with the termination of this Plan in 2018, a new Plan will be established for the years 2019-2021 (both inclusive). This plan is yet to be defined and then approved by the General Shareholders' Meeting on the proposal of the Board of Directors, subject to a report from the Nomination and Remuneration Committee, and like the 2016-2018 Plan, it will be based on similar principles, and will be subject to preset metrics, maximum and minimum achievement thresholds, eligibility, amounts, etc. that promote the achievement of relevant results, the creation of shareholder value, and the sustainability and corporate social responsibility of the Company. The Program may be paid in cash or shares, in accordance with the provisions of **Article 29a 2. of the Board of Directors Regulations**.

Additionally, in upcoming years the Board of Directors, on proposal from the Nomination and Remuneration Committee, may approve new long-term variable remuneration programs similar to the ones described in this section. As an example, the Long-Term Incentive Plan for 2016-2018 consists of a monetary remuneration plan

(30%) and awarding of Company shares (70%) on a multiyear basis, aiming to incentivize the achievement of the defined objectives, and primarily in order to:

- a) Incentivize the long-term professional performance and development of the executive team.
- b) Promote the sustainability of the Company for the creation of long-term value.
- c) Strengthen the executive team's focus on achieving the business objectives committed to in the strategic plans.
- d) Engage top executives in the interests of shareholders.
- e) Retain the Company's executive talent and reward dedication, qualification and the responsibility of the position.

The plan covers the period between 1 January 2016 and 31 December 2018, inclusive, with payment scheduled for June 2019. The requirements for its accrual are: 1) reaching the lowest level of achievement of objectives (critical level) in each of the criteria references in the objectives; and 2) that the beneficiary is effectively providing services for ENCE on the date of accrual, except in the situations mentioned in the Plan Regulations.

The set objectives are associated with a specific weighting to determine the final amount of Long-Term Variable Remuneration, and a maximum and minimum achievement threshold, under which they lose their right to the incentive. These objectives are:

- a) EBITDA of the 2016-2018 Strategic Plan
- b) Increase in the ENCE share value.
- c) Developing their team's talent.

The amount of the Incentive for the chief executive (Managing Director) in the case of achieving 100% of objectives is three times the average annual fixed remuneration for 2016, 2017 and 2018. For the second executive level (Management Committee), the objective amount is two times the average annual Fixed Remuneration.

In the event of maximum achievement of objectives, the amount may be increased to as much as 120% of the amounts mentioned above. The Managing Director must keep a number of shares equivalent to twice their annual fixed remuneration under the conditions established in the Plan for a period of 3 years.

#### **5.4 Ex-Post Adjustments to Variable Remuneration**

The Variable Remuneration that has yet to be paid, either in cash and/or in shares, will be subject to reduction or cancellation by the Company (“malus”) if, during the period of time between the end date of the Plan (Short- and/or Long-Term) and the time of payment, errors or inaccuracies are accredited in the data used to calculate the final amount, on the basis of the ENCE results, the results of the business unit, and/or of the person concerned.

Likewise, Executive Directors are required to reimburse amounts unduly received as Short- and/or Long-Term Variable Remuneration paid in cash and/or shared (“clawback”) if the Company demands reimbursement of the Variable Remuneration paid based on data whose error in inaccuracy was later accredited. In this case, the beneficiary must reimburse any amount unduly received within 90 days.

Up to 100% of the total Variable Remuneration will be subject to remuneration reduction (“malus”) clauses and recovery of remuneration payments made (“clawback”) clauses. These clauses will apply to active Executive Directors as well as those who have left the Company.

### **5.5 Retirement Plan**

In accordance with **Article 43.2 of the Articles of Association**, Executive Directors can receive savings and retirement plans as determined by the Board of Directors, within the applicable internal and external remunerative regulations.

Currently, the Managing Director, for performing executive functions and in accordance with the service provision contract in force, benefits from a mixed retirement system and one with a defined benefit.

- a) Regarding the mixed retirement system, the Managing Director contributes a percentage of their Fixed Remuneration and the Company contributes an additional percentage, with retirement, death, total disability, or severe disability covered by the insurance. The sum insured is in line with the market.

Retirement will be understood as meeting the following conditions:

1. Expiration of the Managing Director Contract as a result of having left the position.
2. If this expiration occurs at an age of 62 or older.

The benefit will be an amount equal to the contributions made plus accumulated yields.

- b) Regarding the defined benefit system, the Managing Director will be entitled to an additional retirement benefit, with retirement understood as meeting the following conditions:

1. Expiration of the Contract due to the resignation of the Managing Director in accordance with the stipulations of their service provision contract.
2. If this expiration occurs at an age of 62 or older.

The benefit will be an amount equal to one annual Fixed Remuneration, plus the Variable Remuneration received in the year leading up to the termination.

In any case, the contributions made by the Company to both retirement plan systems may not exceed the amount the Managing Director may have received for both items in the last fiscal year, or natural year, whichever is larger.

#### **5.6 Other remunerative components**

Executive Directors may receive other amounts than the ones described in the sections above, including a company vehicle, life insurance, health insurance or other remunerations in kind determined by the Board of Directors, on the proposal of the Nomination and Remuneration Committee, in accordance with the general criteria and policies adopted by the Company in this area and industry best practices.

Therefore, the Managing Director benefits from certain payments in kind that include, among others, a company vehicle, medical insurance, and combined savings, life and accident insurance.

#### **5.7 Termination as Executive Director and indemnification, notice-giving and non-concurrence clauses**

The Executive Director may resign from their position at any time, with a written notice at least three months in advance, with no right to compensation of any kind. If this notice is not given, the Company will be entitled to a compensation equivalent to the Fixed Remuneration corresponding to the non-observed term of notice.

The Board may at any time revoke the powers delegated to the Executive Director. This termination will entail the Director not being re-elected as a Board member when their appointment expires.

In this case, the Executive Director will be entitled to notice of at least three months or, where applicable, a gross compensation equivalent to the Whole Fixed Remuneration for the non-observed notice period, and to an indemnity payment to be established contractually by approval of the Board of Directors, subject to a report from the Nomination and Remuneration Committee. In the case of the Managing Director, the indemnity payment will be equivalent to one year of the Whole Fixed Remuneration being received at that time plus the Variable Remuneration received the previous year.

If, during the term of the contract, a major shift in control of the Company occurs, as defined within the Company, the Executive Director may present their resignation, and is entitled to receive a sum equivalent to twice the Whole Fixed Remuneration being received at that time plus the Variable Remuneration received the two previous years.

Any remuneration from long-term incentive plans is not included in this calculation. If the termination of the Executive Director is a result of the commission of infractions against the law, contracts, articles of association or other applicable company regulations, the notice and indemnity payment mentioned above are also excluded.

Finally, it is established that during the twelve months following termination for any reason, the Executive Director may not compete with the Company, and the Board of Directors will determine an appropriate economic compensation (in the case of the Managing Director, this compensation will be equivalent to 15% of the Fixed Remuneration and is included therein). If this contractual non-competition requirement is not complied with, the Executive Director will have to pay back the compensation paid for this item to the Company, without prejudice to the damages that may be claimed.

### **5.8 Other contractual clauses**

Executive Directors' contracts for common working relationships, special working relationships, or service provisions with the Company are generally indefinite, and will include, among others, the following clauses:

- a) Exclusivity: the full and exclusive dedication of the Executive Director is demanded, without prejudice to any functions they may perform in other companies in the Company's group or in family companies under their ownership, provided that these functions do not affect their dedication and do not entail a conflict of interest with the Company.
- b) Personal data protection: the information generated in the Executive Director contract and while carrying out their functions will be processed by the Society to manage and control the performance of their functions.

These and other opportune clauses will be included in the text of contracts and will be decided by the Board of Directors, when necessary.

### **5.9 Possible additions of new Executive Directors**

When there are additions of new Executive Directors, the corresponding contract for the common working relationship, special working relationship, or service provision, in accordance with the conditions and principles included in this Policy, will determine a comprehensive and competitive remuneration package, to be determined by the assigned level of responsibility and their experience and knowledge, ensuring that internal equity and external competitiveness are maintained, and establishing a remuneration in line with industry best practices. Moreover, it will be linked to performance, contribution, and the achievement of objectives in order to recognize effort and the achievement of results.

The remunerative components and their corresponding limits, as well as the contractual conditions and the rest of the sections included in this Policy, will apply to any new Director who is assigned executive functions.

The procedure and conditions established in this Remuneration Policy for the addition of new Executive Directors will be in accordance with the provisions of the Capital Companies Act, the Articles of Association, the Board of Directors Regulation, and other applicable regulations.

## 6. Validity of the Remuneration Policy

In accordance with **Article 529r of the Corporate Enterprises Act**, the Company will apply this Remuneration Policy for Directors for three years (fiscal years 2018, 2019 and 2020). Any amendment or replacement of this Policy during that time would require the prior approval of the General Shareholders' Meeting, pursuant to the provisions of current legislation.

In any case, the Policy will be understood to apply without prejudice to any payments that must be made to Executive Directors corresponding to potential deferred amounts of variable remunerations for previous years.

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