

## **REPORT PREPARED BY THE BOARD OF DIRECTORS OF ENCE ENERGÍA Y CELULOSA, S.A. ON THE AMENDMENT OF THE REGULATIONS OF THE BOARD OF DIRECTORS**

### **1. PURPOSE OF THE REPORT**

The Board of Directors of Ence Energía y Celulosa, S.A. prepares this report under Article 528 of the Spanish Companies Act, with the purpose of informing the General Shareholders' Meeting, convened for 27 March 2019 on first call and for 28 March on second call, of the modification of certain articles of the Board of Directors' Regulations that have been approved since the last General Meeting was held.

This amendment was approved by the Company's Board of Directors on 24 April 2018 and the revised text of the Regulations of the Board of Directors is registered in the Mercantile Registry.

### **2. GENERAL JUSTIFICATION FOR THE AMENDMENT**

In accordance with the provisions of Article 19 bis.3) of the Board Regulations, the Board of Directors must devote at least one meeting a year to evaluating its system and functioning and that of its Committees, based on the self-evaluation reports submitted to the Board and the Board evaluation report submitted by the Appointments and Remuneration Committee.

In accordance with the foregoing, the annual evaluation of the Board and the Committees for financial year 2017 was carried out with the help of an independent consultant, KPMG, on the basis of the individual and anonymous completion by each Director of a self-evaluation questionnaire and the interviews held with each of them.

The Board of Directors, at its meeting on 20 February 2018, agreed with the conclusions reached by KPMG in the evaluation reports of the Board and the various Committees and unanimously agreed to implement an action plan. Among other initiatives, it was suggested that the Board Regulations be revised in order to redistribute and modify the functions of the Committees in the terms considered most convenient for the corporate governance of the Company. As a result, the Board of Directors entrusted the Appointments and Remuneration Committee and the Forestry and Regulatory Policy Advisory Committee with some of the functions currently performed by the Audit Committee.

In relation to the Advisory Committee on Forestry and Regulatory Policy, the advisability of redefining and expanding its functions was raised.

In the light of these suggestions for improvement, the amendment of the Board Regulations was based on:

- (i) The Appointments and Remuneration Committee's assumption of the powers relating to the company's corporate governance system, which until then had been attributed to the Audit Committee.
- (ii) The change of name of the Advisory Committee on Forestry and Regulatory Policy, which was renamed to Sustainability Committee, and the assumption, among other functions, of the review of the corporate social responsibility policy, which was previously attributed to the Audit Committee. Amendments were also made to the maximum number of members of the Committee and to the ex officio nature of some of them.

Finally, some technical improvements were included to make the wording clearer.

### **3. DETAILED ANALYSIS OF MODIFICATIONS**

Having established the general terms, the specific modifications to the Articles of the Regulations of the Board of Directors are explained in greater detail below.

#### **3.1 Amendment to Sections 2 and 3 of Article 3.**

Sections 2 and 3 are amended to replace the Audit Committee by the Appointments and Remuneration Committee, and some technical improvements are incorporated.

Sections 2 and 3 of Article 3 shall read as follows:

<b>Previous version</b>	<b>Current version</b>
<p><b>Article 3. Modification</b></p> <p><i>2. Proposed modifications must be reported by the Audit Committee.</i></p> <p><i>3. The text of the proposal, the justification memorandum of its authors and, if applicable, the Audit Committee Report must be attached to the notice of the Board meeting that is to deliberate on the proposal.</i></p> <p><i>In order to be valid, amendments to the Regulations shall require a resolution adopted by a majority of present or represented Directors.</i></p>	<p><b>Article 3. Modification</b></p> <p><i>2. Proposed modifications must be reported by <u>the Appointments and Remuneration Committee</u>. 3. The text of the proposal, <u>the report of the Appointments and Remuneration Committee and, where appropriate, the justification memorandum of its authors, shall be made available to the Directors sufficiently in advance of the meeting of the Board that is to deliberate on it</u>In order to be valid, amendments to the Regulations shall require a resolution</i></p>

	<i>adopted by a majority of the present or represented Directors</i>
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**3.2 Amendment to Article 9, Section 2 concerning the composition of the Board.**

Article 9, Section 2 is amended to delete the reference to ensuring that the number of Directors is odd. It is considered unnecessary in view of the decisive nature of the Chairman's vote in the event of a tie.

Article 9, Section 2 shall read as follows:

<b>Previous version</b>	<b>Current version</b>
<p><b>Article 9.2. Composition.</b></p> <p><i>2. The Board shall propose to the General Shareholders' Meeting the number that, in accordance with changing circumstances, is most appropriate to ensure the due representativeness and efficient operation of the body, endeavouring to appoint an odd number.</i></p>	<p><b>Article 9.2. Composition.</b></p> <p><i>2. The Board shall propose to the General Shareholders' Meeting the number that, in accordance with changing circumstances, is most appropriate to ensure the due representativeness and effective functioning of the body.</i></p>

**3.3 Amendment to Article 15, Section 3 concerning the Executive Committee.**

The second paragraph of Article 15, Section 3 is amended in order to improve its wording:

<b>Previous version</b>	<b>Current version</b>
<b>Article 15.3 The Executive Committee</b>	<b>Article 15.3 The Executive Committee</b>

<p>3. <i>The Chairman of the Executive Committee shall be appointed by the Board of Directors. The Secretary of the Executive Committee shall be the Secretary of the Board, who may be replaced by the Vice-Secretary.</i></p> <p><i>The Executive Committee will hold its meetings as many times as it deems necessary and at the request of at least three of its members or the Chairman. The Secretary shall draw up the minutes of the resolutions adopted at the meeting, which shall be reported to the next Plenary Meeting of the Board of Directors. Copies of the minutes of the Executive Committee meetings shall also be sent to all Directors.</i></p>	<p>3. <i>The Chairman of the Executive Committee shall be appointed by the Board of Directors. The Secretary of the Executive Committee shall be the Secretary of the Board, who may be replaced by the Vice-Secretary.</i></p> <p><i>The Executive Committee will hold its meetings as many times as it deems necessary and at the request of at least three of its members or the Chairman. The Secretary shall draw up the minutes of the resolutions adopted at the meeting, which shall be reported to the next Board of Directors. Copies of the minutes of the meetings of the Executive Committee shall also be <u>made available</u> to all Directors.</i></p>
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### 3.4 Amendment of Sections 1, 2 and 3 of Article 16 concerning the audit committee.

Sections 1, 2 and 3 of Article 16 concerning the composition and basic responsibilities of the Audit Committee are amended to adapt them to the new distribution of powers between Committees. In addition, some technical improvements are incorporated.

Sections 1, 2 and 3 of Article 16 shall read as follows:

Previous version	Current version
<b>Article 16.1.</b>	<b>Article 16.1</b>
<p>1. <i>The Audit Committee shall be made up of the number of directors determined by the Board of Directors, within the provisions of the Bylaws, with a minimum of three and a maximum of seven members. Its members shall be exclusively non-Executive Directors, the majority of whom shall be</i></p>	<p>1. <i>The Audit Committee shall be made up of the number of directors determined by the Board of Directors, within the provisions of the Bylaws, with a minimum of three and a maximum of seven members. Its members shall be exclusively non-Executive Directors, the majority of whom shall be Independent</i></p>

<p><i>Independent Directors. They shall be appointed based on their knowledge and experience in accounting, auditing, or both.</i></p> <p><i>The Chairman of the Audit Committee shall be elected from among the independent Directors who form part of it and must be replaced at least every four years. The Chairman may be re-elected after one year has elapsed since termination.</i></p> <p><i>The Board of Directors may also appoint the Secretary of the Committee from among the members of the Audit Committee. In the absence of an express appointment, the Secretary of the Audit Committee shall be the Secretary of the Board of Directors, and where appropriate, the Deputy Secretary, even when they are not Directors.</i></p>	<p><i>Directors. They shall be appointed based on their knowledge and experience in accounting, auditing, <u>risk management or in all three.</u></i></p> <p><i>The Chairman of the Audit Committee shall be elected from among the independent Directors who form part of it and must be replaced at least every four years. The Chairman may be re-elected after one year has elapsed since termination.</i></p> <p><i>The Board of Directors may also appoint the Secretary of the Committee from among the members of the Audit Committee. In the absence of an express appointment, the Secretary of the Audit Committee shall be the Secretary of the Board of Directors, and where appropriate, the Deputy Secretary, even when they are not Directors.</i></p>
<p><b>Article 16.2.</b></p>	<p><b>Article 16.2.</b></p>
<p><i>14) Examine the Company's compliance with government rules and make the necessary proposals for improvement. In particular, the Audit Committee is responsible for receiving information and, where appropriate, issuing reports on disciplinary measures to members of the Company's Board of Directors and periodically evaluating the adequacy of the company's corporate governance system.</i></p>	<p><u><i>Suppressed after function is assumed by the Appointments and Remuneration Committee.</i></u></p>

<p>19) <i>Inform the Board of Directors of the general corporate social responsibility policy, including the basic principles and the general framework of action for the management of corporate social responsibility practices assumed by the Company. Monitor and evaluate compliance, ensuring that it is geared towards the creation of value.</i></p> <p><i>In the event that the Audit Committee prepares an annual report on the corporate social responsibility policy during its aforementioned duty of informing the Board of Directors, said report shall be published on the Company's website sufficiently in advance of the ordinary General Shareholders' Meeting;</i></p>	<p><u><i>Suppressed after function is assumed by the Sustainability Committee.</i></u></p>
<p>20) <i>Monitor and evaluate the company's interaction with its stakeholder groups;</i></p>	<p><u><i>Suppressed after function is assumed by the Sustainability Committee.</i></u></p>
<p>23) <i>Any others specifically provided for in these Regulations.</i></p>	<p><u><i>20)</i></u> <i>Those specifically provided for in <u>the Law, the Articles of Association</u> and these Regulations.</i></p>
<p><b>Article 16.3</b></p>	<p><b>Article 16.3</b></p>
<p><i>3. The Audit Committee will meet periodically as necessary, and at least four times a year. One of the meetings will be aimed at evaluating efficiency and compliance with the company's rules of governance. During said meeting, the information to be approved by the Board of Directors and included in its annual public documentation must be prepared.</i></p>	<p><i>3. The Audit Committee will meet periodically as necessary, and at least four times a year.</i></p>

## 2.6 Modification of Sections 2 and 4 of Article 17 relating to the functions of the Appointments and Remuneration Committee.

Sections 2 and 4 of Article 17 are amended in order to adapt them to the new distribution of powers between Committee. In addition, some technical improvements are incorporated.

Sections 2 and 4 of Article 17 shall read as follows:

Previous version	Current version
<b>Article 17. 2</b>	<b>Article 17.2</b>
b) Review the annual corporate governance report prior to its approval by the Board of Directors in order to verify the character attributed to each director within the different possible categories (executive, proprietary, independent or external)	b) <u>Examine the Company's compliance with corporate governance rules and its code of conduct and make the necessary proposals for improvement. Specifically, the Appointments and Remuneration Committee is responsible for reviewing the Annual Corporate Governance Report prior to its approval by the Board of Directors, carrying out a periodic evaluation of the adequacy of the company's corporate governance system and receiving information and, where appropriate, issuing a report on disciplinary measures to members of the company's Board of Directors.</u>
o) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.	<u>Suppressed after function is assumed by the Sustainability Committee.</u>
(p) Any others specifically provided for in this Regulation	<u>o) Any others specifically provided for in the Law, the Articles of Association and these Regulations.</u>
<b>Article 17.4</b>	<b>Article 17.4</b>
4. The Appointments and Remuneration Committee will meet every time the	4. The Appointments and Remuneration Committee will meet every time the Board or

<p><i>Board or its Chairman requests the issue of a report or the adoption of proposals, whenever it is appropriate to ensure the proper performance of its functions, and at least 4 times a year. In all cases, it shall meet once a year to prepare the information on Directors' remuneration that the Board of Directors must approve and include in its annual public documentation.</i></p>	<p><i>its Chairman requests the issue of a report or the adoption of proposals, whenever it is appropriate to ensure the proper performance of its functions, and at least 4 times a year. In all cases, it shall meet once a year to prepare the information on Directors' remuneration that the Board of Directors must approve and include in its annual public documentation.</i></p> <p><u><i>One of the meetings will be aimed at evaluating the efficiency and compliance with the company's governance rules and procedures that the Board of Directors must approve and include in its annual public documentation.</i></u></p>
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### 3.5 Amendment of Article 17 bis on the Advisory Committee on Forestry and Regulatory Policy.

Article 17 bis has been amended to reflect the new distribution of powers between committees. Some technical improvements have also been made.

Article 17 bis shall read as follows:

Previous version	Current version
<p><b>Article 17 bis. Forestry and Regulatory Policy Advisory Committee.</b></p> <p>1. The Forestry and Regulatory Policy Advisory Committee shall consist of the number of Directors determined by the Board of Directors, up to a maximum of eight members. The Chairman of the Board of Directors and the Managing Director of the Company are ex officio members of the Committee. The remaining</p>	<p><b>Article 17 bis <u>Sustainability Committee</u></b></p> <p>1. The <u>Sustainability Committee</u> shall be made up of the number of Directors determined by the Board of Directors, up to a maximum of <u>seven</u> -members. The Chairman of the Board of Directors <u>shall be an ex officio member of the Committee, provided that the said member is not an executive</u>. The remaining members shall be chosen from among the</p>



<p>members shall be elected from among the Company Directors, based on their experience and knowledge with regard to the responsibilities assigned to the Committee.</p> <p>2. The Chairman of the Advisory Committee on Forestry and Regulatory Policy may be elected from among the non-ex officio members, in which case the Chairman of the Administrative Board shall replace the Chairman of the Committee in the absence of the latter.</p> <p>3. The Board of Directors may also appoint the Secretary of the Committee from among the members of the Advisory Committee on Forestry and Regulatory Policy. In the absence of an express appointment, the Secretary of the Appointments and Remuneration Committee shall be the Secretary of the Board of Directors and, where appropriate, the Deputy Secretary, even when they are not Directors.</p> <p>In all cases, the Advisory Committee on Forestry and Regulatory Policy may request that this function be carried out by any Director of the Company who attends its meetings.</p>	<p>Company's Directors, taking into account their experience and knowledge in the field of the competences assigned to the Committee.</p> <p>2. The Chairman of the <u>Sustainability Committee</u> may be elected from among the non-executive members, in which case the Chairman of the Board of Directors will replace the Chairman of the Committee in the event of the latter's absence.</p> <p>3. The Board of Directors may also appoint the Secretary of the Committee from among the members of the <u>Sustainability Committee</u> . In the absence of an express appointment, the Secretary of the <u>Sustainability Committee</u> shall be the Secretary of the Board of Directors and, where appropriate, the Deputy Secretary, even when they are not Directors.</p> <p>4. <u>The Sustainability Committee shall meet whenever appropriate for the proper performance of its functions</u> and at least four times a year. Anyone required to do so may attend the sessions of the Committee, and shall have a voice but no voting rights.</p> <p>5. The Committee shall reports its actions to the Board of Directors</p>
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<p>4. <i>The Forestry and Regulatory Policy Advisory Committee meets as many times as it deems necessary, at the request of the Chairman of the Board of Directors or the Managing Director of the Company, and at least 4 times a year. Anyone required to do so may attend the sessions of the Committee, and shall have a voice but no voting rights.</i></p> <p>5. <i>The Committee shall reports its actions to the Board of Directors periodically and whenever it deems it appropriate to do so.</i></p> <p>6. <i>Without prejudice to other tasks which may be assigned to it by the Board, the Forestry and Regulatory Policy Advisory Committee is responsible for reporting, advising, collaborating and making proposals in the following areas, as well as any others related thereto:</i></p> <p>a) <i>the Company's actions in relation to policies and regulation, as well as management in areas which are directly or indirectly linked to the Company's activities and operations, particularly with regard to forest management;</i></p> <p>b) <i>institutional relations with the various authorities competent in the establishment of policies, regulations, management and planning in said areas, at a state level, in the autonomous communities, and locally; and</i></p>	<p><i>periodically and whenever it deems it appropriate to do so.</i></p> <p>6. <u><i>Without prejudice to other tasks that may be assigned to it by the Board of Directors, the main functions of the Sustainability Committee shall be the following:</i></u></p> <p>a) <u><i>Periodically review the corporate social responsibility policy and propose to the Board of Directors that it be updated so that it is geared towards the creation of value.</i></u></p> <p>b) <u><i>Monitoring the company's corporate social responsibility strategy and practices and evaluate compliance, reporting to the Board of Directors, as needed.</i></u></p> <p>c) <u><i>Reporting, prior to approval by the Board of Directors, on the annual corporate social responsibility report.</i></u></p> <p>d) <u><i>Coordinating non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.</i></u></p> <p>e) <u><i>Being aware of significant legal changes in the area of social responsibility and responsible innovation, as well as trends in this area, such as those related to the circular economy, in order</i></u></p>
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c) the establishment and development of policies, regulations, management and planning before the various administrative and territorial departments with competence in said areas, especially when intended to promote cooperation in the management of forest areas or cooperation, or centralisation with regard to forest ownership.

to analyse them and, where appropriate, promote action plans.

f) To supervise and evaluate the communication strategy and relationship with the different stakeholders other than shareholders and investors.

g) To know and guide corporate environmental and safety policies, checking that they are effective and that they are managed to promote and ensure compliance.

h). To know and promote the company's social action strategy and its sponsorship and patronage plans.

i) Knowing, reviewing and monitoring the company's initiatives and actions directly related to sustainability of the cellulose market and the production of renewable energy with biomass and, especially, to the availability of forestry and agricultural wood and fuel.

j) Knowing, reviewing and monitoring the company's actions in relation to its forest heritage and, in particular, for promoting sustainable management of forest areas, their

	<u>cultivation, care and maintenance for the extraction of wood and biomass, integrating the rational use of all assets.</u>
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### 3.6 Modification to Subsection 3 c) of Article 24 on the removal of Directors

Subsection 3 c) of Article 24 is amended in order to adapt it to the new distribution of powers between Committees.

Subsection 3 c) of Article 24 shall read as follows:

Previous version	Current version
<p><b>Article 24. Removal of Directors</b></p> <p>3 c) when severely admonished by the Audit Committee for having infringed their obligations as Directors;</p>	<p><b>Article 24. Removal of Directors</b></p> <p>3 c) when they are seriously admonished by <u>the Appointments and Remuneration Committee</u> for having breached their obligations as Directors.</p>

### 3.7 Amendment to Section 2 of Article 34 concerning the use of company assets

Section 2 of Article 34 is amended in order to adapt it to the new distribution of powers between Committees.

Section 2 of Article 34 reads as follows:

Previous version	Current version
<p><b>Article 34. Use of company assets</b></p> <p>2. As an exception, the director may be exempted from the obligation to pay the consideration, but in this case the patrimonial advantage shall be considered indirect remuneration and must be authorised by the Board</p>	<p><b>Article 34. Use of company assets</b></p> <p>2. As an exception, the Director may be exempted from the obligation to pay the consideration, but in this case the patrimonial advantage will be considered indirect remuneration and must be authorised by the Board following a report</p>

<i>following a report from the Audit Committee.</i>	<i>from <a href="#">the Appointments and Remuneration Committee</a></i>
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### 3.8 Amendment to Section 1 of Article 35 on the use of non-public information.

Section 1 of Article 35 is amended in order to adapt to the new distribution of powers between committees.

Section 1 of Article 35 reads as follows:

Previous version	Current version
<p><b>Article 35. Non-public information.</b>  <i>1. Directors may not use non-public information of the company or of companies in its group for private purposes without the prior agreement of the Board of Directors, in accordance with the provisions contained in the Spanish Companies Act. The Board of Directors shall request a prior report from the Audit Committee.</i></p>	<p><b>Article 35. Non-public information.</b>  <i>1. Directors may not use non-public information of the company or of companies in their group for private purposes without the prior agreement of the Board of Directors, in accordance with the provisions contained in the Spanish Companies Act. The Board of Directors shall request a prior report from the <a href="#">Appointments and Remuneration Committee</a></i></p>

### 3.9 Amendment to Section 1 of Article 36 on business opportunities.

Section 1 of Article 36 is amended in order to adapt to the new distribution of powers between committees.

Section 1 of Article 36 reads as follows:

Previous version	Current version
<p><b>Article 36. Business Opportunities</b>  <i>1. Directors may not take direct or indirect advantage, for their own benefit or that of a related person, of a business opportunity of the company, unless authorised by the</i></p>	<p><b>Article 36. Business Opportunities</b>  <i>1. Directors may not take direct or indirect advantage, for their own benefit or that of a related person, of a business opportunity of the company, unless authorised by the</i></p>

<i>General Shareholders' Meeting or by the Board, in accordance with the provisions contained in the Spanish Companies Act, following a report from the Audit Committee.</i>	<i>General Shareholders' Meeting or by the Board, in accordance with the provisions contained in the Spanish Companies Act, following a report from <a href="#">the Appointments and Remuneration Committee</a></i>
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**3.10 Modification to Section 3 of Article 37 relating to Directors' duties to provide information**

Section 3 of Article 37 has been amended to adapt to the provisions of the Criminal Procedure Act following the reform introduced by Act 13/2015 of 5 October, which replaces the term “suspect” with the term “under investigation”.

Section 3 of Article 37 shall read as follows:

<b>Previous version</b>	<b>Current version</b>
<p><b>Article 37. Directors' reporting duties.</b></p> <p><i>3. The Directors must notify the Board, as soon as possible, of any event or situation that may be relevant to their performance as Directors of the Company, especially those circumstances that affect them and that may damage the credit and reputation of the company, in particular criminal cases in which they appear as suspects.</i></p>	<p><b>Article 37. Directors' reporting duties.</b></p> <p><i>3. The Directors must notify the Board, as soon as possible, of any event or situation that may be relevant to their performance as Directors of the Company, especially those circumstances that affect them and that may damage the credit and reputation of the company and, in particular, criminal cases in which they appear as being <a href="#">under investigation</a></i></p>

**3.11 Amendment to Section 2 of Article 40 concerning transactions with significant shareholders.**

Section 2 of Article 40 is amended to make a technical improvement to its wording:

<b>Previous version</b>	<b>Current version</b>
<b>Article 40. Transactions with significant shareholders</b>	<b>Article 40. Transactions with significant shareholders</b>

<p><i>2. In all cases, the approval by the Board of Directors of the transactions described in the previous paragraph is subject to a previously issued report by the Audit Committee, in which the transaction shall be assessed to establish whether it respects the principle of equal treatment of shareholders and is carried out under market conditions.</i></p>	<p><i>2. In all cases, the approval by the Board of Directors of the transactions described in the previous paragraph is subject to a previously issued report by the Audit Committee, in which the transaction shall be assessed, <u>especially from the point of view of market conditions and, when applicable, from that of equal treatment of shareholders.</u></i></p>
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Madrid, 26 February 2019