Format and statistics of the Annual Report on Directors' Remuneration of Notice 4/2013, of the CNMV

ANNEX MODEL I ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS IN LISTED COMPANIES

ISSUER IDENTIFICATION DATA

YEAR END DATE OF REFERENCE 31/12/2018

Tax identification code (C.I.F.) A-28212264

Company Name:

ENCE ENERGÍA Y CELULOSA, S.A.

Registered Address:

Beatriz de Bobadilla Street nº 14, 4ª floor, 28040, Madrid, Spain

ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS IN LISTED COMPANIES

A CORPORATE REMUNERATION POLICY FOR THE CURRENT YEAR

A.1 Explain the current directors' remuneration policy applicable to the current fiscal year. To the extent relevant, certain information may be included by reference to the remuneration policy approved by the general meeting of shareholders, provided that the incorporation is clear, specific and concrete.

A description must be given of the specific determinations for the current fiscal year, both of the remuneration of directors for their status as such and for the performance of executive functions, which the board has carried out in accordance with the provisions of the contracts signed with the executive directors and with the remuneration policy approved by the general meeting.

In any case, at least the following aspects should be reported:

- Description of the company's procedures and bodies involved in determining and approving the remuneration policy and its conditions.
- Indicate and, where appropriate, explain whether comparable companies have been taken into account in establishing the company's remuneration policy.
- Information on whether any external advisor has participated and, if so, the identity of the advisor.

The current remuneration policy has been determined and approved through the procedures set out in the Capital Company Act (LSC) and the Articles of Association, with the intervention of the corporate bodies set out in said regulations.

In particular, Article 21.2 of the Articles of Association of Ence includes, among the powers of the General Shareholders' Meeting, the approval of the remuneration policy for Directors under the terms established in the Capital Company Act (LSC). For its part, article 529 novodecies of the Capital Company Act (LSC) establishes that the directors' remuneration policy shall be approved by the general shareholders' meeting at least every three years, shall be reasoned and shall be accompanied by a report from the Appointments and Remuneration Committee.

In accordance with the foregoing, the general shareholders' meeting held on 22 March 2018 approved the current directors' remuneration policy, at the proposal of the Board of Directors and following a favourable report from the Appointments and Remuneration Committee.

The Board of Directors, on the proposal of the Appointments 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 to draw up a Report on analysis, market alignment, and recommendations about the remuneration for ENCE Directors, and to provide advice on drafting a new Remuneration Policy for the Company.

In order to establish the remuneration policy, comparable companies have been taken into account, based on the analysis carried out by the external advisor. Specifically, a segmented sample of companies belonging to the non-financial sector with size and complexity similar to ENCE was chosen.

As regards the specific determinations for the current year, in application of the Directors' Remuneration Policy, the following actions have been carried out in 2019:

– With respect to the short-term variable remuneration of the CEO for fiscal year 2018, on 29 January 2019 the Appointments and Remuneration Committee assessed the degree of compliance with the objectives set, previously audited by the Company's Internal Audit Department, and reported favourably on the proposal for variable remuneration that was approved by the Board of Directors at its meeting on 29 January 2019.

– With regard to the short-term variable remuneration of the CEO for fiscal year 2019, the Appointments and Remuneration Committee at its meetings on 29 January and 13 February 2019 reported favourably on the proposal to set objectives that was approved by the Board of Directors at its meeting on 26 February 2019.

– The Board of Directors of 26 February 2019 has evaluated compliance with the objectives of the 2016-2018 Long-Term Incentive Plan and approved the resulting variable remuneration for the CEO. In accordance with the Regulations of the 2016-2018 Long-Term Incentive Plan, this amount shall be deemed accrued, once the established requirements have been met, on 30 June 2019, in which case payment will be made on 4 July 2019.

The following sections provide greater detail of the characteristics and amounts of the foregoing determinations.

– With regard to the 2019-2023 long-term incentive plan, on 21 February 2019 the Appointments and Remuneration Committee gave a favourable report on the new long-term incentive plan that the Board of Directors, at its meeting on 26 February 2019, agreed to submit for approval by the general shareholders' meeting for the current year, the characteristics of which are detailed later in this report.

– The relative importance of variable remuneration items with respect to the fixed (remuneration mix) and what criteria and objectives have been taken into account in their determination and to guarantee an appropriate balance between the fixed and variable components of remuneration. In particular, state the actions taken by the company in relation to the remuneration system in order to reduce exposure to excessive risks and adjust it to the long-term objectives, values and interests of the company, which will include, where appropriate, a reference to: measures intended to ensure that the remuneration policy addresses the long-term performance of the company, the measures adopted in relation to the categories of personnel whose professional activities have a material impact on the entity’s risk profile, and measures planned to avoid conflicts of interests, if applicable.

Likewise, state whether the company has established a period for the accrual or consolidation of certain variable remuneration items, in cash, shares or other financial instruments, a period of deferral in the payment of amounts or delivery of financial instruments already accrued and consolidated, or whether a clause has been agreed to reduce deferred remuneration or oblige the director to return the remuneration received, when such remuneration has been based on data whose inaccuracy has subsequently been clearly demonstrated.

The remuneration policy foresees among its objectives regarding the Executive Directors, the promotion of 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.

The total compensation of the Executive Directors is made up of different compensation elements, which basically consist of: (i) a fixed remuneration, (ii) a short-term variable remuneration, (iii) a long-term/multiannual variable remuneration, (iv) welfare benefits and (v) remuneration in kind.

The remuneration of Directors in their capacity as members of the Board of Directors and its committees consists of a fixed allowance and allowances for attendance at meetings, and the possibility of receiving other remuneration consisting of different types of insurance (life insurance, accident insurance, health care). Non-executive Directors are not expected to receive variable remuneration.

For the Executive Director in a scenario of 100% compliance with the objectives in 2019, the long-term element has significant weight since 31.2% of the total remuneration is fixed and the remaining 68.8% is variable in nature, annual and multiannual.

The determination of the variable remuneration targets for 2019 for the CEO, approved by the Board and reported favourably by the Appointments and Remuneration Committee, which is referred to in more detail in section A.1.6 of this report, includes quantifiable and measurable metrics that reflect the company's value levers and at the same time ensure the company's sustainability in the long term. In this sense, the objectives are linked to the growth of the company, to the operative execution, to the generation of cash, to the fulfilment of parameters of environmental behaviour and, related to people, their safety and the organisational climate. All of them, as a whole, are aligned with the interests of the Company and offer a balanced balance focused on sustainable growth.

Long-term variable remuneration schemes, on the other hand, are part of a multiannual framework, always longer than two years, to ensure that the evaluation process is based on long-term results and takes into account the corresponding economic cycle. The long-term incentive designed for the current fiscal year, also favourably reported by the Appointments and Remuneration Committee and approved by the Board of Directors, which will be submitted for approval at the next General Shareholders' Meeting, is aligned in its duration with the Company's Strategic Plan, covering the period from 2019 to 2023. One of the objectives of this plan is to promote the sustainability of the Company for the creation of long-term value and to reinforce the orientation of the Executive Team and the CEO towards the achievement of the business objectives committed to in the 2019-2023 strategic plan. The performance metrics, which are referred to in more detail in item 6 of Section A.1 of this report, relate directly to the company’s growth, the generation of shareholder value and have a specific focus on sustainability by setting a specific index composed of 10 objectives that address key issues for the company including, among other parameters, those related to people, customers and the environment.

It also establishes that the achievement of the part of the long-term incentive linked to Ebitda will be conditioned on the need to ensure the net debt/Ebitda ratio included in the 2019/2023 strategic plan.

70% of the long-term remuneration of the CEO is paid in shares on the basis of value creation so that the interests of the CEO are aligned with those of the shareholders. In addition, there is an obligation for the CEO to hold a number of shares equivalent to 2 times his fixed annual remuneration during the 3-year term.

In conclusion, the Company's remuneration policy establishes an appropriate balance between its fixed and variable components, so that in a scenario of standard compliance with the objectives associated with variable remuneration, the fixed remuneration represents around one third of the total compensation.

At the date of issue of this Report, the Vice-Chairman and CEO, Mr. Ignacio de Colmenares Brunet is the sole Executive Director of ENCE ENERGÍA Y CELULOSA, S.A.

The Regulations of the 2016-2018 Long-Term Incentive Plan, approved by the Board of Directors on 16 March 2016, which regulate the conditions for granting said incentive, expressly state that the accrual and payment thereof will take place in the current financial year.

In particular, the Regulations establish that the Long Term Incentive starts on 1 January 2016 (the "Start Date") and will end on 30 June 2019 (the "Accrual Date"), being essential requirements for its accrual: (i) achieve the minimum degree of objectives (critical level) in each of the criteria to which the objectives are referenced (Strategic Plan, increase in share value and development of talent); and (ii) that the beneficiary is in a situation of effective provision of services for ENCE (registered with Social Security) on the Accrual Date, with the exception of the assumptions contemplated in said document. Without prejudice to the necessary fulfilment of the second of the aforementioned requirements (section (ii) above), for the purposes of verifying compliance with the first (section (i) above), the objectives to which the aforementioned criteria refer will refer to the period between 1 January, 2016 and 31 December, 2018; the "Generation Period" of the Long-Term Incentive being the period between the Starting Date and the Accrual Date. If applicable, the payment date of the incentive will occur on 4 July, 2019 (the "Payment Date").

However, the Regulations provide that the Company reserves the right to claim reimbursement for the Long-Term Incentive paid in cash and in shares when it has been paid based on data whose inaccuracy is subsequently accredited. In this case, the beneficiary must reimburse the Company, within ninety (90) business days of its claim, any amount unduly received by virtue of the Long-Term Incentive.

Likewise, the contract for the provision of services by the CEO describes the situations that may result in the reduction or loss of the CEO's right to receive annual or multiannual variable remuneration.

- Amount and nature of the fixed components expected to accrue to directors in their capacity as such during the year.

ENCE's Articles of Association (Articles 42 and 43) allow Directors, as such, to receive a fixed remuneration—made up of a periodic allowance and an allowance for attending the Board of Directors and their Committees' meetings—and, additionally, (ii) a remuneration consisting of shares or option rights to shares or through any other remuneration system that is linked to the value of the shares, whether they are of the Company itself or of companies in its group, and (iii) other compensation consisting of life, accident and illness and healthcare insurance and for Executive Directors a pension system for the event of death, retirement, disability, inability to exercise the position or civil retirement.

The fixed remuneration determined by the Board of Directors, following a report from the Appointments and Remuneration Committee, as remuneration for the directors in their capacity as such shall be 44,500 euros for each of the directors and 135,000 euros for the Chairman of the Board of Directors. In addition, the amount of the per diems for attending the meetings of the Board and its committees, except for the CEO, in the current financial year shall be as follows:

Chairman of the Board: €4,050
Members of the Council: € 2,020
Chairmen of the Commissions: €4,050
Members of the Commissions: € 3,000

- Amount and nature of the fixed components that will be accrued in the year for the performance of senior management functions of the executive directors.

The Articles of Association establish that the remuneration provided for in the preceding paragraph is compatible with and independent of salaries, remuneration, indemnification, pensions or compensation of any kind, established in a general or specific manner for members of the Board of Directors who maintain a common or special labour relationship of senior management or who render services to the Company, relationships that must be compatible with being a member of the Board of Directors.

The CEO, Mr. Ignacio de Colmenares Brunet, for performing the roles delegated to him and his condition as the Company's CEO, receives the remuneration provided for in the service provision contract formalised between himself and the Company.

The fixed remuneration received as compensation for executive functions pursuant to the terms of the service provision contract and Remuneration Policy totalled 619,625 euros in 2017.

– The amount and nature of any remuneration component in kind that will be accrued in the financial year including, but not limited to, the insurance premiums paid in favour of the director.

The Company has taken out a policy that insures the group which is formed by all the Directors against the following risks derived from accidents: death, absolute permanent disability and partial permanent disability (the risk of permanent disability is not covered by the Directors who are over the age of 75 years). Additionally, the Company offers the Directors and their spouses the possibility of an annual medical check-up.

The Chairman of the Board of Directors, in addition to the aforementioned fixed remuneration, is a beneficiary of health insurance.

On the other hand, the CEO, for performing executive functions, and in accordance with the service provision contract, is the beneficiary of:

1 Mixed social security system: The CEO shall have the right to participate in a social welfare system to cover the contingencies of his retirement, death and total, absolute or severe permanent disability.

While the CEO remains in office, the compensation for death, absolute, permanent or major disability shall be increased by an additional capital equivalent to 35 monthly instalments of the annual Whole Fixed Remuneration (the Whole Fixed Remuneration refers to the CEO's Fixed Remuneration for executive functions and his fixed remuneration for non-executive functions). When the contingency arises from an accident, the additional capital shall be equivalent to 70 monthly instalments of the annual Whole Fixed Remuneration.

The contributions required to finance the system will be made by both the Company and the CEO:

(i) The Company will make an annual contribution to the insurance contract consisting of 5.25% of the annual Whole Fixed Remuneration.

(ii) The CEO shall make an annual contribution to the insurance contract consisting of 1% of the annual Whole Fixed Remuneration.

Likewise, the part of the premium of the mixed life insurance contract that is necessary to finance the additional capital due to death, absolute, permanent or major disability will be paid in half by the Company and the CEO. However, the CEO will contribute 1.125% of the annual Whole Fixed Remuneration in this respect. The excess over this amount will be fully assumed by the Company.

2 Defined benefit social security system: Independently of the previous social welfare system, the CEO shall be entitled to a retirement benefit, which shall be an amount equal to 1 year of the Whole Fixed Remuneration and the amount of the variable remuneration received in the year immediately prior to the time of cessation.

3 Other remuneration: In addition, the CEO shall be entitled to medical insurance for himself, his spouse and unmarried children living in the family home, the cost of which shall be borne by the Company.

In addition, the CEO will have at his disposal a company vehicle and a driver, the costs of which will be borne by the Company.

- Amount and nature of the variable components, differentiating between those established in the short and long term. Financial and non-financial parameters, including social, environmental and climate change parameters, selected to determine variable remuneration in the current year, an explanation of the extent to which these parameters relate to the performance of both the director and the entity and to its risk profile, and the methodology, period required and techniques envisaged to determine, at the end of the year, the degree of compliance with the parameters used in the design of variable remuneration.

  Indicate the range in monetary terms of the different variable components according to the degree of compliance with the established objectives and parameters, and whether there is any maximum monetary amount in absolute terms.

The Directors do not receive any variable remuneration due to their status as such. The CEO, in accordance with the Remunerations Policy and his service provision contract, receives the following variable remuneration in the short term and is the beneficiary of the following variable long-term remuneration:

A) Short-term variable remuneration: The short-term variable remuneration will be determined by the Board of Directors, at the proposal of the Appointments 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 CEO's last Whole Fixed Remuneration.
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 recognise good performance.

The targets set for 2019 are classified into 3 categories:

The first category consists of objectives whose results, in addition to coming from the management of the Executive Team, such as cash cost and volume of production and sales, are partly affected by exogenous variables such as the price of cellulose or the exchange rate, with a weight of 20% and includes Cash Flow and EBITDA objectives.

A second category is made up of management objectives and has an impact on the results in the short and medium term, with a weight of 20% and includes the following objectives of cellulose production volume; Sale of MWh and structure expenses.

A third category consists of management objectives of the Executive Team with an impact on long-term results, with a weight of 60% and includes objectives of Cash cost, Time and cost of investments; Labour safety; Improvement of environmental behaviour and Labour climate.

Finally, there is a qualitative objective of a Global Assessment of the management of the CEO by the Board of Directors with a weight of 20%

The compliance scale consists of three levels: critical level, target level (100%) and maximum level (120%). The final amount is calculated taking into account the degree of compliance and the weight assigned to each objective, applying the procedure that the company has defined for this purpose.

This Variable Remuneration shall be paid in cash after the annual accounts are formulated and, in any case, within the three (3) months immediately following the end of the fiscal year except for exceptional circumstances.

B) Long-term variable remuneration: The Remuneration Policy states that, in order to recognise the effort and value generation for the Company by 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.

In this regard, the Board of Directors will propose to the General Shareholders’ Meeting to be held this year the approval of a long-term Incentive Plan for the years 2019 to 2023, as a monetary remuneration plan and delivery of the Company's shares of a multi-year nature, the basic conditions of which are as follows:

This is a five-year Plan, aligned with the duration of the Strategic Plan, consisting of two cycles, with an intermediate milestone at three years. The first has a duration of three years from 1 January 2019 to 31 December 2021 and the second, of five years from 1 January 2019 to 31 December 2023

The generation period of the Long-Term Incentive begins on 1 January, 2019 and the two Cycles will begin on the same date. Cycle I will end on 31 December 2021 and Cycle II will end on 31 December 2023. Cycle I of the incentive will be paid, if applicable, in July 2022 and Cycle II of the Incentive, if applicable, in July 2024

They are essential requirements for their accrual:

a) Achieving the minimum degree of objectives (minimum level) in accordance with the criteria to which the objectives are referenced.

b) That the beneficiary is in a situation of effective provision of services for ENCE (registered with Social Security) on the corresponding accrual date, with the usual exceptions for this type of Incentive.

For the purposes of determining the final amount of the Incentive, the criteria to which the objectives will refer and their degree of weighting will be as follows:

a) 45% of the amount of the Incentive will be linked to the degree of achievement of the Group's and/or Division's cumulative synthetic EBITDA targets contained in the 2019/2023 Strategic Plan. Synthetic EBITDA has been highlighted with a lower Cash Cost, thus measuring management independently from exogenous variables.
b) 30% of the amount of the Incentive will be linked to the degree of achievement of the objective related to the increase in the value of ENCE’s shares with respect to the increase in the value of the basket of shares of companies in the sector (relative TSR).
c) 15% of the amount of the Incentive will be linked to the degree of achievement of the objective related to Sustainability (Synthetic Sustainability Index).
d) 10% of the amount of the Incentive will be linked to the degree of achievement of the objective related to the organisational climate (synthetic climate index defined by an external consultant and measured according to its criteria).

Detailed information on the new Long-Term Incentive Plan will be made available to shareholders from the date on which the current year's General Shareholders' Meeting is called.

As regards the methodology for determining, at the end of the year, the degree of compliance with the various objectives, once the levels of compliance with the parameters by the involved company areas have been provided, the results are confirmed by the Company's Internal Audit Department. This information is made available to the Appointments and Remuneration Committee, which, after study and evaluation, reports favourably to the Board for final approval.
In the case of annual variable remuneration, the methodology described is developed at the beginning of the year, for payment in the first three months of the financial year. In the case of long-term variable remuneration, the process takes place throughout the year on the basis of the accrual and payment periods established in the corresponding Plan Regulations.

- Main features of long-term savings schemes Among other information, the contingencies covered by the system, if it is a defined contribution or defined benefit system, the annual contribution to be made to defined contribution systems, the benefit to which the beneficiaries are entitled in the case of defined benefit systems, the conditions of consolidation of the economic rights in favour of the directors and their compatibility with any type of payment or indemnity for termination or early termination, or deriving from the termination of the contractual relationship, under the terms envisaged, between the company and the director shall be indicated.

  Indicate whether the accrual or consolidation of any of the long-term savings plans is linked to the achievement of certain objectives or parameters related to the short and long-term performance of the director.

The Directors receive only a fixed remuneration consisting of a periodic allowance and a per diem for attendance at meetings, without the Company making contributions to pension plans or other long-term savings schemes.

By virtue of his executive duties and in accordance with the service provision contract, the CEO is the beneficiary of a mixed social welfare system to cover the contingencies of retirement, death and total, absolute or severe permanent disability, as well as a defined benefit social welfare system that is independent of the previous social welfare system.

The aforementioned mixed social welfare system is a defined contribution system in which the CEO contributes 1% of his Whole Fixed Remuneration and the Company contributes 5.25% of it. The consolidated rights at 31/12/2018 amount to € 362.40 m, of which € 304.42 m correspond to contributions from the company and € 57.98 m correspond to contributions from the CEO. The consolidated rights at the date of the 65th anniversary of the contributions made up to 31/12/2018 amount to € 447.36 m, of which € 375.78 m correspond to the company's contributions and € 71.58 m correspond to the contributions of the CEO.

These consolidated rights of the defined contribution mixed savings insurance contract in its savings component are compatible with any type of indemnity for early termination or termination of the contractual relationship between the company and the CEO. The CEO shall lose the rights relating to the contributions made by the company in the cases contemplated in clause 3.c of the contract for the provision of services:
- Termination of the contract due to legal infringement or serious breaches of the contract that result in verifiable damage to the company.
- Voluntary resignation of the CEO before the age of 62.
- Non-compliance by the CEO with the non-competition obligation after cessation.

In relation to the life and accident insurance, the CEO contributes 50% of the cost of the premium (with a limit of 1.125% of the Whole Fixed Remuneration) and the company contributes 50% of the premium plus the difference of the cost in the event that the contribution of the CEO exceeds the aforementioned limit. The contingencies covered by the insurance policy are as follows: retirement, total permanent disability expressly declared by the competent administrative or judicial body, absolute permanent disability expressly declared by the competent administrative or judicial body, severe disability expressly declared by the competent administrative or judicial body and death.
The insured capital is equivalent to 35 monthly payments of the Whole Fixed Remuneration of the CEO or, in the event that contingencies result from an accident, the capital received would be equivalent to 70 of these monthly payments.

On the other hand, as of February 1, 2016, a defined benefit social welfare system was established in addition to the mixed social welfare system. The contribution for 2018 amounted to € 185.75 m, all of which was assumed by the company. It is linked to an age of 62 or over, and the right to retirement insurance is introduced when the following conditions are met: (a) termination of the contract due to the resignation of the CEO in the contractually stipulated cases; and (b) such termination occurs at an age equal to or greater than 62 years. This benefit will be of an amount equal to one annual Fixed Remuneration, plus the annual remuneration for non-executive functions, plus the variable remuneration received in the year leading up to the termination. The amount of the rights of the CEO under this policy in 2018 is € 542.66 m.

- Any type of payment or indemnity for early termination or termination of the contractual relationship under the terms established between the company and the director, whether the termination at the will of the company or the director, as well as any type of agreed pacts, such as exclusivity, post-contractual non-attendance and permanence or loyalty, which give the director the right to any type of payment.

Article 23.3 of the Board of Directors Regulations establishes that if, when informed by the Appointments 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 shall be calculated within the limit referred to in Article 42.1 of the Articles of Association.

The foregoing provision has never been applicable, so there are no indemnities paid or agreed with the directors for termination of their functions as company directors in their capacity as such, and so far their calculation formula has not been determined.

The contract between Ence and the CEO for the provision of services establishes the following provisions:

i) The Board may at any time revoke the powers delegated to the Director. This termination will entail the Director not being re-elected as a Board member when their appointment expires. In this case, the Director will have the right to (i) a minimum notice of three months or, as the case may be, to gross compensation equivalent to the Whole Fixed Remuneration according to the period of notice not complied with and (ii) to an indemnity of one Whole annual Fixed Remuneration received at that moment, and the variable remuneration received the year immediately prior to termination.

Any remuneration from long-term incentive plans is not included in this calculation. If the termination of the 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.

ii) If, during the term of the Contract, a major shift in control of the Company occurs, as defined within the Contract, 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.

iii) During the twelve months following his dismissal for any reason, the Director may not compete with the Company. 15% of the fixed remuneration received by the Director will be deemed paid as compensation for the obligation of non-competition with the Ence group. If this requirement is not complied with, the Director will have to pay back the compensation paid for this item to the Company, without prejudice to the damages which may be claimed.

- Indicate the conditions that must be respected in the contracts of those who perform senior management functions as Executive Directors. Among others, information shall be supplied about the duration, limits to the compensation amounts, permanency clauses, notice periods, as well as payment in lieu of the aforementioned notice period and any other clauses related to hiring bonuses, as well as a compensation or golden parachute clauses for early termination or cancellation of the contractual relationship between the company and the Executive Director. Include, among others, covenants or agreements of non-competition, exclusivity, permanence or loyalty and prevention of post-contractual competition, unless they have been explained in the previous section.

The service provision contract between Ence and the CEO includes the following terms and conditions:

i) The 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.

ii) The Board may at any time revoke the powers delegated to the Director. This termination will entail the Director not being re-elected as a Board member when their appointment expires. In this case, the Director will have the right to (i) a minimum notice of three months or, as the case may be, to gross compensation equivalent to the Whole Fixed Remuneration according to the period of notice not complied with and (ii) to an indemnity of one Whole annual Fixed Remuneration received at that moment, and the variable remuneration received the year immediately prior to termination.

Any remuneration from long-term incentive plans is not included in this calculation. If the termination of the 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.

iii) If, during the term of the Contract, a major shift in control of the Company occurs, as defined within the Contract, 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.

iv) The full and exclusive dedication of the Director is demanded, without prejudice to any functions they may perform (i) in other companies in the Company's group or (ii) 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.

v) During the twelve months following his dismissal for any reason, the Director may not compete with the Company. 15% of the fixed remuneration received by the Director will be deemed paid as compensation for the obligation of non-competition with the Ence group. If this requirement is not complied with, the Director will have to pay back the compensation paid for this item to the Company, without prejudice to the damages which may be claimed.

vi) Additional multi-year variable remuneration: is linked appropriately to the delivery of shares or options on shares or financial instruments referenced to their value. The Director undertakes to maintain ownership of the number of shares in the Company resulting from having invested in the purchase thereof an amount equivalent to twice the annual Whole Fixed Remuneration, having a deadline of 6 years to make said investment, that will be extended for a further 2 years under certain circumstances.

vii) The severance pay shall be paid when the Company verifies, within three months following the severance, that there have been no serious infractions or breaches resulting in verifiable harm to the Company or, if applicable, that other performance criteria that can be agreed in advance have been met.

viii) The contract for the provision of services remains in force while Mr. Ignacio de Colmenares Brunet occupies his position as CEO of the Company.

- The nature and estimated amount of any other supplementary remuneration that will be accrued by the directors in the current financial year in consideration for services rendered other than those inherent to their position.

- Other remuneration items such as those deriving, where applicable, from the granting by the company to the director of advances, loans and guarantees and other remunerations.

The Company has not granted advances, credits or guarantees to its Directors.

- The nature and estimated amount of any expected supplementary remuneration not included in the previous sections, whether paid by the entity or another entity in the group, which will accrue to directors in the current year.

The Directors do not receive any remuneration other than those explained in the previous sections.

A.2 Explain any significant change in the remuneration policy applicable in the current year arising from:

- A new policy or a modification of the policy already approved by the Board.
- Significant changes in the specific determinations established by the Board for the current year of the remuneration policy in force with respect to those applied in the previous year.
- Proposals that the Board of Directors has agreed to submit to the General Shareholders' Meeting to which this annual report will be submitted and that are proposed to be applicable to the current fiscal year.

No changes were made to the Remuneration Policy approved by the General Shareholders' Meeting held on 22 March 2018.

The Board of Directors has agreed to submit to the General Shareholders' Meeting to which this annual report will be submitted a proposal for the approval of a new Long-Term Incentive Plan for the years 2019 to 2023, the characteristics of which have been described in section A of this report.

A.3 Identify the direct link to the document containing the company's current remuneration policy, which must be available on the company's website.

The direct link to the document containing the current Remuneration Policy available on the website is as follows:

https://ence.es/wp-content/uploads/2019/01/Pol%C3%ADtica-de-Remuneraciones-del-Consejo.pdf

A.4 Explain, taking into account the data provided in section B.4, how the vote of the shareholders was taken into account at the general meeting at which the annual remuneration report for the previous year was submitted to a consultative vote.

In the vote on item eight of the agenda of the General Shareholders' Meeting held on 22 March 2018, relating to the consultative vote on the annual remuneration report for 2017, 176,129,006 valid votes were cast, representing 71.52% of the share capital and approved by a majority of 166,380,275 votes (94.46% of the votes validly cast).

Likewise, in the vote on the sixth item on the agenda of said Meeting, relating to the approval of the Directors' Remuneration Policy, 176,129,006 valid votes were cast, representing 71.52% of the share capital and was approved by a majority of 175,267,412 votes (99.51% of the votes validly cast).

The high percentage of approval of both the report and the remuneration policy for the previous year was considered to be an expression by the shareholders of their conformity and agreement with the system of directors' remuneration established and applied in the Company.

B GENERAL SUMMARY OF HOW THE REMUNERATION POLICY WAS APPLIED IN THE PREVIOUS FISCAL YEAR

B.1 Explain the process followed to apply the remuneration policy and determine the individual remuneration reflected in section C of this report. This information shall include the role played by the remuneration committee, the decisions taken by the board of directors and, where applicable, the identity and role of the external advisers whose services have been used in the process of applying the remuneration policy in the closed financial year.

The individual remunerations reflected in section C of this Report have been approved by the Board of Directors, following a favourable report from the Appointments and Remuneration Committee, in application of the Remuneration Policy.

In particular, the Appointments and Remuneration Committee of 29 January 2018 approved a favourable report on the increase in the fixed remuneration of directors, within the maximum limit established by the General Meeting in the Remuneration Policy, in the figures detailed in section B.5 of this Report, approved at the meeting of the Board of Directors on 30 January 2018.

With respect to the short-term variable remuneration of the CEO for fiscal year 2018, on 29 January 2019 the Appointments and Remuneration Committee assessed the degree of compliance with the objectives set, previously audited by the Company's Internal Audit Department, and reported favourably on the proposal for variable remuneration that was approved by the Board at its meeting on 29 January 2019.

The Board of Directors of 26 February 2019 has evaluated compliance with the objectives of the 2016-2018 Long-Term Incentive Plan and approved the resulting variable remuneration for the CEO. In accordance with the Regulations of the 2016-2018 Long-Term Incentive Plan, this amount shall be deemed accrued, once the established requirements have been met, on 30 June 2019, in which case payment will be made on 4 July 2019.

With regard to the short-term variable remuneration of the CEO for fiscal year 2019, the Appointments and Remuneration Committee at its meetings on 29 January and 13 February 2019 reported favourably on the proposal to set objectives that was approved by the Board of Directors at its meeting on 26 February 2019.

B.2 Explain the different actions taken by the company in relation to the remuneration system and how they have contributed to reducing exposure to excessive risks and adjusting it to the company's long-term objectives, values and interests, including a reference to the measures that have been adopted to ensure that the remuneration accrued has taken into account the long-term performance of the company and achieved an appropriate balance between the fixed and variable components of remuneration, what measures have been adopted in relation to those categories of personnel whose professional activities have a material impact on the entity's risk profile, and what measures have been adopted to avoid conflicts of interest, if any.

The remuneration policy foresees among its objectives regarding the Executive Directors, the promotion of 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.

The total compensation of the Executive Directors is made up of different compensation elements, which basically consist of: (i) a fixed remuneration, (ii) a short-term variable remuneration, (iii) a long-term/multiannual variable remuneration, (iv) welfare benefits and (v) remuneration in kind.

The remuneration mix of the CEO for 2018 was 60.19% Whole Fixed Remuneration and 39.81% short-term variable remuneration. Bearing in mind that long-term variable remuneration is accrued and paid in 2019. However, taking into account the level of compliance with the long-term variable remuneration established by the Board at its meeting of 26 February 2019, the remuneration mix would be 23.69% Whole Fixed Remuneration and 76.31% annual and multiannual variable remuneration.

The short-term incentive for 2018 for the CEO, approved by the Board and favourably reported by the Appointments and Remuneration Committee, referred to in more detail in section B.7 of this report, includes quantifiable and measurable metrics that reflect the company's value levers and at the same time ensure the company's long-term sustainability. In this sense, the objectives are linked to the growth of the company, to the operative execution, to the generation of cash, to the fulfilment of parameters of environmental behaviour and, related to people, their safety and the organisational climate. All of them, as a whole, are aligned with the interests of the Company and offer a balanced balance focused on sustainable growth.

Long-term variable remuneration schemes, on the other hand, are part of a multiannual framework, always longer than two years, to ensure that the evaluation process is based on long-term results and takes into account the corresponding economic cycle. The long-term incentive corresponding to 2018, also favourably reported by the Appointments and Remuneration Committee and approved by the Board of Directors, has a duration of three years, covering the period 2016-2018. One of the objectives of this plan is to promote the sustainability of the Company for the creation of long-term value, to reinforce the orientation of the executive team and the CEO towards achieving the business objectives set out in the strategic plans and to retain the Company's executive talent. The performance metrics, which are referred to in greater detail in Section B.7 of this report, are directly related to the growth of the Company, the generation of value for shareholders and the development of the talent of the team of collaborators.

70% of the long-term remuneration of the CEO is paid in shares on the basis of value creation so that the interests of the CEO are aligned with those of the shareholders. In addition, there is an obligation for the CEO to hold a number of shares equivalent to 2 times his annual Whole Fixed Remuneration during the 3-year term.

In conclusion, the Company's remuneration policy establishes an appropriate balance between its fixed and variable components, so that in a scenario of standard compliance with the objectives associated with annual and multiannual variable remuneration, the fixed remuneration represents around 1/3 of the total compensation.

B.3 Explain how the remuneration accrued during the year complies with the provisions of the remuneration policy in force.

Likewise, provide details of the relationship between the remuneration earned by the Directors and the entity's results or other performance measures, on short and long terms, explaining, where appropriate, how variations in the company's performance have influenced the Directors' remuneration variations, including accrued debts whose payment was deferred, and how they contribute to the short and long-term results of the company.

In accordance with the remuneration policy in force, the total compensation of executive directors is made up of different remuneration elements, which basically consist of: (i) a fixed remuneration, (ii) a short-term variable remuneration, (iii) a long-term/multiannual variable remuneration, (iv) welfare benefits and (v) remuneration in kind.

In accordance with the foregoing, the fixed annual remuneration of the CEO has risen to € 619,625 in fiscal year 2018. 625 euros. On the other hand, the variable remuneration accrued in the year by the CEO has been 439,000, which represents a remuneration mix of 60.19% fixed remuneration and 39.81% of variable annual remuneration.

In accordance with the Regulations of the Long-Term Incentive Plan for 2016-2018, multi-year variable remuneration is accrued and paid in the second half of 2019. However, the Board of Directors, at its meeting on 26 February 2019, assessed the level of compliance of this incentive, after a favourable report from the Appointments and Remuneration Committee. Based on this level of compliance, the remuneration mix of the CEO would be 23.69% fixed remuneration and 76.31% variable annual and multiannual remuneration.

On the other hand, as explained in the previous section, the achievement of both annual and multiannual objectives is linked to a series of different types of metrics and not only to economic-financial parameters with the aim of not limiting short-term variable remuneration only to annual compliance targets such as financial ones, but also including long-term targets related to other sustainability parameters. This is why, despite the positive evolution of the economic-financial figures in 2018, the EBITDA margin in 2018 having increased by 35% with respect to the previous year and the normalised free cash flow by 36%, and due to the combination of the weightings associated with the different objectives, the annual variable remuneration of the CEO represents 63.7% of his remuneration without reaching the maximum level of achievement.

As may be deduced from the foregoing, the mechanisms established in the remuneration policy have been duly applied and fulfil their objective of aligning the remuneration of the director with the achievement of the Company's short and long term results.

B.4 Provide details of the result of the advisory vote of the General Shareholders' Meeting on the annual report on remuneration in the preceding period, indicating the number of votes against, if any:

	Number	% of the total
Votes cast	17,6129,006	71.52%

	Number	% of emitted
Votes against	8,580,892	4.87%
Votes in favour	166,380,275	94.46%
Abstentions	1,167,839	0.66%

Observations

B.5 Explain how the fixed components accrued during the year by the directors in their capacity as such were determined, and how they varied with respect to the previous year

The fixed components accrued during the year by the directors in their capacity as such were modified in fiscal year 2018, with effect from 1 January, by resolution of the Board of Directors following a favourable report from the Appointments and Remuneration Committee.

The proposal to modify these fixed components was prepared by the Appointments and Remuneration Committee in accordance with the recommendations included in the December 2017 report on the remuneration of the Board and Committees prepared by KPMG.

The approved proposal modified the fixed remuneration of the directors by the following amounts:

The fixed remuneration of the directors in their capacity as such for fiscal year 2018 was set at 44,500 euros and 135,000 euros for the Chairman of the Board of Directors.

The amount of the daily subsistence allowance for attending meetings of the Board and its committees in the financial year 2018 was set at the following amounts:
Chairman of the Board: €4,050
Members of the Council: € 2,020
Chairmen of the Commissions: €4,050
Members of the Commissions: € 3,000

The fixed remunerations for the condition of director in the financial year 2017 were as follows:
Members of the Council: € 44,044
Chairman of the Board: € 133,620

The amount of the daily subsistence allowance for attending the meetings of the Board and its committees in the financial year 2017 was as follows:
Chairman of the Board: € 4,033
Members of the Council: € 2,017
Chairman of the Commissions: € 4,033
Members of the Commissions: € 2,017

The CEO does not receive a per diem for attending the Board.

B.6 Explain how the salaries accrued, during the previous fiscal year, by each of the executive directors for the performance of management duties have been determined and how they have varied with respect to the previous year.

The CEO, Ignacio de Colmenares Brunet, is the only Executive Director, and for performing the roles delegated to him and his condition as the Company's CEO, he receives the remuneration provided for in the service provision contract formalised between himself and the Company.

The fixed remuneration received as compensation for executive functions pursuant to the terms of the service provision contract and Remuneration Policy rose to a total of € 619,625 in 2018. In addition, in 2018 the CEO received a fixed remuneration of 44,500 euros for his condition as a director, which corresponds to the periodic assignment received by the directors, not including, therefore, attendance fees.
The fixed total amount received by the CEO was therefore 664,125 euros.

In 2017, the fixed remuneration received as remuneration for executive functions under the terms of the contract for the provision of services rose to 620,121 euros (in 2018 there was no change in the remuneration for executive functions, but rather an adjustment provided for in the contract for the provision of services signed with the CEO, so that the sum of the remuneration received annually as a Fixed Remuneration does not exceed 664,125 euros, in compliance with the Remuneration Policy). In addition, in 2017 the CEO received a fixed remuneration of 44,004 euros for his condition as a director, which corresponds to the periodic assignment received by the directors, not including, therefore, attendance fees.

B.7 Explain the nature and main characteristics of the variable components of the remuneration systems accrued in the previous fiscal year.

Specifically:

- Identify each of the remuneration plans that determined the various variable remuneration accrued by each of the directors during the previous fiscal year, including information on their scope, date of approval, date of implementation, accrual periods and validity, criteria used to evaluate performance and how this has impacted on the determination of the variable amount accrued, as well as the measurement criteria used and the period necessary to be able to adequately measure all the conditions and criteria stipulated.

  In the case of share option plans or other financial instruments, the general characteristics of each plan shall include information about the conditions both for acquiring unconditional ownership (consolidation) and for exercising those options or financial instruments, including the price and term of exercise.

- Each of the Directors and their types (Executive Directors, external Proprietary Directors, independent External Directors or other External Directors) who are beneficiaries of remuneration systems or plans that include variable remuneration.

- Where applicable, information will be provided on established payment accrual or deferment periods that have been applied and/or the retention/non-disposition periods of shares or other financial instruments, if they exist.

Explain the short-term variable components of the remuneration systems.
The Directors do not receive any variable remuneration due to their status as such. In accordance with the provisions of the Remuneration Policy and its service provision contract, the CEO receives a short-term variable remuneration determined by the Board of Directors, at the proposal of the Appointments and Remuneration Committee, depending on the degree of compliance with the Company's annual objectives and the performance of the CEO. The Appointments and Remuneration Committee reported favourably on the variable annual remuneration to be received by the CEO at its meeting on 15 February 2018, which was approved by the Board of Directors at its meeting on 20 February 2018. The targets set for 2018 are classified into 3 categories: A first category is made up of objectives whose results, in addition to coming from the management of the Executive Team, such as cash cost and volume of production and sales, are

partly affected by exogenous variables such as the price of cellulose or the exchange rate, with a weight of 20% and includes Cash Flow objectives.

A second category is made up of management objectives and has an impact on results in the short and medium term, with a weight of 20% and includes the following objectives of cellulose production volume and sale of MWh.

A third category consists of management objectives of the Executive Team with an impact on long-term results, with a weight of 60% and includes objectives for Cash cost; Work safety; Improvement of environmental behaviour and Work climate.

The compliance scale consists of three levels: critical level, target level (100%) and maximum level (120%). The final amount is calculated taking into account the degree of compliance and the weight assigned to each objective, applying the procedure that the company has defined for this purpose.

In 2018, the level of achievement of the objectives associated with the annual variable remuneration of the CEO is 46.26% (much lower than the Management Committee's average) In view of this, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, resolved that Mr. Ignacio de Colmenares Brunet would receive, as part of his annual variable remuneration, an extraordinary bonus in the amount of 132.000 euros to more adequately remunerate his particularly relevant personal performance during fiscal year 2018, which does not reflect this year the mere automatic application of the percentages of achievement of quantitative objectives; in particular, the Board highlighted the leadership that Mr. Colmenares has exercised over the teams for the achievement of results and the development of the company's businesses and his successful overall management of the company.

Explain the long-term variable components of the remuneration systems.

The Remuneration Policy states that, in order to recognise the effort and value generation for the Company by 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 the 2016-2018 fiscal years, on a proposal from the Board of Directors of the Company signed on 12 February 2016, which is summarised below.

It is a plan of monetary remuneration (30%) and issue of Company shares (70%) of a multi-year nature whose main purposes are: (i) to encourage the results and professional performance of the Executive Team in the long term, (ii) to promote the Company's sustainability for creating long-term value, (iii) to reinforce the Executive Team's orientation toward achieving the business objectives committed in the strategic plans, (iv) committing the senior management levels to the shareholders' interests, and (v) to retain the Company's management talent and reward their dedication, qualification and 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 2016/18 Strategic Plan: the adjusted annual EBITDA of the group of companies of which Ence is the parent company is set out in the 2016/2020 strategic plan is set as a target and it is added that in order to receive this part of the incentive, the levels of indebtedness established in said strategic plan may not be exceeded.

Three levels of compliance are established for this objective:

i. A critical EBITDA of € 132,000,000, which is the average between the synthetic value of EBITDA from 2015, i.e. € 111,000,000 (at price and dollar 720 and 1.25 respectively and volume and real cash cost) is established as a critical level by 31 December 2018. and the EBITDA that appears in the strategic plan for 2018, which is € 153,000,000, calculated with a cellulose price at 720 USAD and a $/€ exchange rate of 1.25, and with the volume and cash cost of the strategic plan.

Achievement of this critical level will result in 50% compliance with this criterion.

ii. The objective is to reach a synthetic EBITDA of € 153,000,000 by 31 December, 2018, which is the one from the strategic plan, calculated with a price of cellulose at 720 USAD and a $/€ exchange rate of 1.25 and with the volume and cash cost of the strategic plan. The percentage of compliance with this criterion will grow linearly between 50% and 100% for a synthetic EBITDA between € 132,000,000 and € 153,000,000.

Achievement of this target level will result in 100% compliance with this criterion.

iii. The maximum level established at 31 December, 2018 is a synthetic EBITDA of € 183,000,000, calculated with a price of cellulose at 720 USAD and an $/€ exchange rate of 1.25 and with the volume and cash cost of the strategic plan. The percentage of compliance with this criterion will grow linearly between 100% and 120% for a synthetic EBITDA between €153,000,000 and €183,000,000.

Achievement of this maximum level will result in 120% compliance with this criterion.

b) Increase in the value of ENCE shares: the percentage of revaluation of the average value of ENCE shares in the last quarter of 2018 is taken with respect to € 3.495, equivalent to the quoted value of Ence shares at the close of trading on 31 December 2015, in relation to the percentage of revaluation of the unit value of a basket of shares of companies in the same sector of activity as the Company at 31 December 2015 with respect to the average value in the last quarter of 2018 of said basket of shares. This basket of shares will be made up of the following reference companies in the sector: Fibria, Suzano, Portucel and Altri, each weighing 25%.

i. The critical level is set to reach a minimum percentage revaluation of the average value of Ence’s shares equal to 75% of the percentage revaluation of the average value of the reference basket of shares.
Achievement of this critical level will result in 50% compliance with this criterion.

ii. The target level is set to reach a percentage revaluation of the average value of Ence’s shares equal to 100% of the percentage revaluation of the average value of the reference basket of shares.
Achievement of this target level will result in 100% compliance with this criterion.
The percentage of compliance with this criterion will grow linearly between 50% and 100% for a revaluation of Ence’s share between 75% and 100% with respect to the revaluation of the average value of the basket of shares.

iii. The maximum level is set to reach a percentage revaluation of the average value of Ence’s shares equal to 130% of the percentage revaluation of the average value of the reference basket of shares.
Achievement of this maximum level will result in 120% compliance with this criterion.
The percentage of compliance with this criterion will grow linearly between 100% and 120% for a revaluation of Ence’s share between 100% and 130% with respect to the revaluation of the average value of the basket of shares.
In order to determine this criterion, the market value of Ence's shares, as well as that of the other companies in the sector that make up the aforementioned basket of shares, will be adjusted, where appropriate, to the dividend distributions that have occurred during fiscal years 2016, 2017 and 2018 or significant corporate transactions. Likewise, in order to determine the value of the basket of shares of the other companies in the sector, the necessary adjustments will be made so that the value of said basket is in Euros.

c) Development of the talent of the team of collaborators: this is defined as the fulfilment of commitments to dynamise talent in the Company. Includes (i) Identification of successors to critical positions (ii) Definition of development plans for successors and key employees (iii) Compliance with development plans for successors and key employees (iv) Promotion of project work with the effective involvement of employees from other directorates or areas (v) Mobility after 7 years in a critical position.
In accordance with the criteria approved by the Annual Talent Review Committee and the Organisation of the Steering Committee in 2015, 2016 and 2017, respectively
i. It is established as a critical level to be reached by 31 December 2018:
- Successors identified for 75% of critical positions.
- 75% of successors and key employees have a defined development plan.
- 75% compliance with development plans.
Achievement of this critical level will result in 50% compliance with this criterion.
ii. It is established as a target level to be reached by 31 December 2018:
- Successors identified for 100% of critical positions.
- 100% of successors and key employees have a defined development plan.
- 90% compliance with development plans.
- At least 3 projects in the period in each General Directorate with the involvement of employees of other General Directorates.

Achievement of this target level will result in 100% compliance with this criterion.
The percentage of compliance with this criterion will grow linearly between 50% and 100%.
iii. It is established as a maximum level to be reached by 31 December 2018:
- Successors identified for 100% of critical positions.
- 100% of successors and key employees have a defined development plan.
- 100% compliance with development plans.
- At least 3 projects in the period in each General Directorate with the involvement of employees of other General Directorates.
- Mobility performed for employees after 7 years of performing a critical position.

Achievement of this maximum level will result in 120% compliance with this criterion.

The percentage of compliance with this criterion will grow linearly between 100% and 120%.
The amount of the Long-Term Incentive will be the result of the sum of the following items:
- 50% = % compliance with the EBITDA objectives of the Strategic Plan 2016/18
- 30% = % of compliance with the objective of revaluation of the average value of Ence's shares with respect to the revaluation of the basket of shares of companies in the sector.
- 20% = % of fulfilment of the development objectives of the talent of the team of collaborators.

The amount of the Incentive for the chief executive (CEO) in the case of achieving 100% of objectives is three times the average annual Fixed Remuneration for 2016, 2017 and 2018. In the event of maximum achievement of objectives, the amount may be increased to as much as 120% of the amounts mentioned above.

Regarding the issue of the Company's shares, the maximum number of shares that may correspond to the CEO is 594,528 shares. On the other hand, this number will be 495,440 shares if it is assumed that the objectives of EBITDA, revaluation of the average value of the Company's share and development of the talent of the team of collaborators are met at their target level.
The CEO 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.

The Company reserves the right to claim reimbursement of the long-term incentive paid in cash and in shares when it has been paid based on data whose inaccuracy is subsequently accredited. In this case, the beneficiary must reimburse any amount unduly received within 90 days.

Although the accrual and payment of the amount corresponding to the 2016-2018 Long-Term Incentive Plan will take place, in accordance with the Regulations, on 30 June and 4 July 2019, respectively, in order to provide information in the current financial year, it is reported that the Board of Directors of 26 February 2019, following a report from the Appointments and Remuneration Committee, has evaluated compliance with the objectives of this Plan and the resulting variable remuneration for the CEO. In particular, the level of compliance with the CEO's objectives was 85.35%, resulting in 510,147.62 euros and 422,858 shares.

B.8 Indicate whether certain variable components have been reduced or claimed back when, in the first case, payment has been consolidated and deferred or, in the second case, consolidated and paid, on the basis of data whose inaccuracy has subsequently been proven manifestly inaccurate. Describe the amounts reduced or refunded by the application of the clawback clauses, why they were executed, and the years to which they relate.

During the year, no variable component returns have been reduced or claimed.

B.9 Explain the main characteristics of long-term savings systems whose amount or annual equivalent cost is shown in the tables in Section C, including retirement and any other survival benefit, which are financed, either partially or totally, by the company, whether internally or externally endowed, indicating the type of plan, if it is a defined contribution or benefit, the contingencies it covers, the conditions for consolidating the economic rights in favour of the directors and their compatibility with any type of compensation for early termination or termination of the contractual relationship between the company and the director.

The Directors receive only a Fixed Remuneration consisting of a periodic allowance and a per diem for attendance at meetings, without the Company making contributions to pension plans or other long-term savings schemes.

By virtue of his executive duties and in accordance with the service provision contract, the CEO is the beneficiary of a mixed social welfare system to cover the contingencies of retirement, death and total, absolute or severe permanent disability, as well as a defined benefit social welfare system that is independent of the previous social welfare system.

The aforementioned mixed social welfare system is a defined contribution system in which the CEO contributes 1% of his Whole Fixed Remuneration and the Company contributes 5.25% of it. The consolidated rights at 31/12/2018 amount to € 362.40 m, of which € 304.42 m correspond to contributions from the company and € 57.98 m correspond to contributions from the CEO. The consolidated rights at the date of the 65th anniversary of the contributions made up to 31/12/2018 amount to € 447.36 m, of which € 375.78 m correspond to the company's contributions and € 71.58 m correspond to the contributions of the CEO.

These consolidated rights of the defined contribution mixed savings insurance contract in its savings component are compatible with any type of indemnity for early termination or termination of the contractual relationship between the company and the CEO. The CEO shall lose the rights relating to the contributions made by the company in the cases contemplated in clause 3.c of the contract for the provision of services:

- Termination of the contract due to legal infringement or serious breaches of the contract that result in verifiable damage to the company.
- Voluntary resignation of the CEO before the age of 62.
- Non-compliance by the CEO with the non-competition obligation after cessation.

In relation to the life and accident insurance, the CEO contributes 50% of the cost of the premium (with a limit of 1.125% of the Whole Fixed Remuneration) and the company contributes 50% of the premium plus the difference of the cost in the event that the contribution of the CEO exceeds the aforementioned limit. The contingencies covered by the insurance policy are as follows: retirement, total permanent disability expressly declared by the competent administrative or judicial body, absolute permanent disability expressly declared by the competent administrative or judicial body, severe disability expressly declared by the competent administrative or judicial body and death.

The insured capital is equivalent to 35 monthly payments of the Whole Fixed Remuneration of the CEO or, in the event that contingencies result from an accident, the capital received would be equivalent to 70 of these monthly payments.

On the other hand, as of February 1, 2016, a defined benefit social welfare system was established in addition to the mixed social welfare system. The contribution for 2018 amounted to € 185.75 m, all of which was assumed by the company. It is linked to an age of 62 or over, and the right to retirement insurance is introduced when the following conditions are met: (a) termination of the contract due to the resignation of the CEO in his position in accordance with the contractual clauses; and (b) such termination occurs at an age equal to or greater than 62 years. This benefit will be of an amount equal to one annual Fixed Remuneration, plus the annual remuneration for non-executive functions, plus the variable remuneration received in the year leading up to the termination. The amount of the rights of the CEO under this policy in 2018 is € 542.66 m.

B.10 Explain, if applicable, the indemnities or any other type of payment arising from early termination, whether at the will of the company or of the director, or from the termination of the contract, under the terms provided therein, accrued and/or received by the directors during the previous financial year.

No indemnities or payments have been accrued during the year as a result of cessations.

B.11 Indicate whether there have been any significant changes in the contracts of those exercising senior management functions as executive directors and, if so, explain them. Likewise, explain the main conditions of the new contracts signed with executive directors during the year, unless they have already been explained in section A.1.

In accordance with the new Remuneration Policy, in fiscal year 2018 an addendum has been made to the contract for the provision of services by the CEO, by virtue of which the following adjustments have been included:

(i) Modification of the indemnity clause in the event of termination:
According to the previous wording, the compensation in the event of termination due to a change of control amounted to a gross amount consisting of one annuity of the Whole Fixed Remuneration and the amount of the variable remuneration received in the year immediately prior to the time of termination, which is extended to two annuity payments.
Under the new wording, should there be a significant change in the control structure of the Company during the term of the contract, the CEO shall be entitled to receive as compensation a gross amount consisting of two years of the Whole Fixed Remuneration and the amount of the variable remunerations received in the two years immediately prior to the date of cessation.

ii) Modification of the "Clawback and Malus" clause by virtue of which the situations that may lead to the reduction or loss of the CEO's right to receive the annual or multiannual variable remuneration are completed.

iii) Modification of the annual variable remuneration clause:
Under the foregoing wording, the planned variable annual remuneration could reach a maximum amount of 100% of the Whole Fixed Remuneration.
Under the new wording, the planned annual variable remuneration may reach a maximum amount of 120% of the Whole Fixed Remuneration.

B.12 Explain any supplementary remuneration accrued to Directors as consideration for services rendered other than those inherent to their position.

The director Mr. Pedro Barato Triguero received a remuneration of 167,000 euros during the financial year 2018 derived from the contract for the provision of services signed between said director and the Company on 1 March 2018.

B.13 Explain any remuneration derived from the granting of advances, credits and guarantees, indicating the interest rate, its essential characteristics and any amounts returned, as well as the obligations assumed on account of them as collateral.

The Company has not granted advances, credits or guarantees to the Directors.

B.14 Detail the remuneration in kind accrued by the directors during the year, briefly explaining the nature of the different salary components.

As explained in Section A, the Company has taken out a policy that insures the group which is formed by all the Directors against the following risks derived from accidents: death, absolute permanent disability and partial permanent disability (the risk of permanent disability is not covered by the Directors who are over the age of 75 years). Additionally, the Company offers the Directors and their spouses the possibility of an annual medical check-up.

The Chairman of the Board of Directors, in addition to the fixed remuneration described in section C of this report, is a beneficiary of health insurance.

Details of directors' remuneration for these items in 2018 are included in section C.1 of this Report.

The CEO, for the performance of his executive duties, and in accordance with the service provision contract, is the beneficiary of a company car, and family medical insurance with the option of a medical check-up or reimbursement and mixed savings, life and accident insurance.

The amount of the premium corresponding to the life and accident insurance is paid in equal parts by the CEO and the Company, the risks covered by the insurance are as follows: retirement, total permanent disability expressly declared by the competent administrative or judicial body, permanent absolute incapacity declared expressly by the competent administrative or judicial body, severe disability declared expressly by the competent administrative or judicial body and death. The insured capital is equivalent to 35 monthly payments of the fixed remuneration of the CEO or, in the event that contingencies result from an accident, the capital received would be equivalent to 70 of these monthly payments.

The detail of the CEO's remuneration for these items in 2018 is included in section C.1.

B.15 Explain the remuneration accrued by the Director by virtue of payments made by the listed company to a third party in which the Director provides services, when said payments are intended to remunerate the services of the latter in the company.

No Director accrues remuneration by virtue of the payments made by the listed company to a third entity in which the Director provides services.

B.16 Explain any other remuneration element different from the previous ones, whatever its nature or the group entity that pays it, especially when it is considered a related operation or its payment distorts the true image of the total remuneration accrued by the Director.

The Directors do not receive any remuneration other than those explained in the previous sections.

C DETAIL OF INDIVIDUAL REMUNERATION CORRESPONDING TO EACH OF THE DIRECTORS

Name	Type	Accrual period 2017 Fiscal year
IGNACIO DE COLMENARES BRUNET	**Executive**	**01/01/2018 to 31/12/2018**
VÍCTOR URRUTIA VALLEJO	**Proprietary**	**01/01/2018 to 31/12/2018**
FERNANDO ABRIL-MARTORELL HERNÁNDEZ	**Other external member**	**01/01/2018 to 31/12/2018**
JUAN LUIS ARREGUI CIARSOLO	**Proprietary**	**01/01/2018 to 31/12/2018**
LUIS LADA DIAZ	**Independent**	**01/01/2018 to 31/12/2018**
RETOS OPERATIVOS XXI, S.L.	**Proprietary**	**01/01/2018 to 31/12/2018**

ISABEL TOCINO BISCAROLASAGA	**Independent**	**01/01/2018 to 31/12/2018**
JAVIER ECHENIQUE LANDIRIBAR	**Other external member**	**01/01/2018 to 31/12/2018**
JOSÉ GUILLERMO ZUBÍA GUINEA	**Independent**	**01/01/2018 to 31/12/2018**
JOSÉ CARLOS DEL ÁLAMO JIMÉNEZ	**Independent**	**01/01/2018 to 31/12/2018**
PEDRO BARATO TRIGUERO	**Other external member**	**01/01/2018 to 31/12/2018**
MENDIBEA 2002, S.L.	**Proprietary**	**01/01/2018 to 22/03/2018**
TURINA 2000, S.L.	**Proprietary**	**01/01/2018 to 31/12/2018**
ROSA MARÍA GARCÍA PIÑEIRO	**Independent**	**22/03/2018 to 31/12/2018**
LA FUENTE SALADA, S.L.	**Proprietary**	**22/03/2018 to 31/12/2018**

C.1 Complete the following tables regarding the individual remuneration of each Director (including remuneration for the performance of executive duties) earned during the financial year.

a) Remuneration of the company covered by this report:

i) Remuneration earned in cash (in thousands of €)

Name	Fixed Remuneration	Per Diem	Remuneration for belonging to commission of the Board	Salary	Short-term variable remuneration	Long-term variable remuneration	Compensation	Other items	Total for the 2018 financial year	Total for the 2017 financial year
IGNACIO DE COLMENARES BRUNET	**44**	**0**	**0**	**620**	**439**	**0**	**0**	**0**	**1103**	**1275**
VÍCTOR URRUTIA VALLEJO	**44**	**18**	**21**	**0**	**0**	**0**	**0**	0	**83**	**79**
FERNANDO ABRIL-MARTORELL HERNÁNDEZ	**44**	**22**	**45**	**0**	**0**	**0**	**0**	**0**	**111**	**103**
JUAN LUIS ARREGUI CIARSOLO	**135**	**49**	**55**	**0**	**0**	**0**	**0**	**0**	**239**	**229**
LUIS LADA DIAZ	**44**	**24**	**26**	**0**	**0**	**0**	**0**	**0**	**94**	**79**
RETOS OPERATIVOS XXI, S.L.	**44**	**24**	**15**	**0**	**0**	**0**	**0**	**0**	**83**	**75**
ISABEL TOCINO BISCAROLASAGA	**44**	**24**	**40**	**0**	**0**	**0**	**0**	**0**	**108**	**86**

JAVIER ECHENIQUE LANDIRIBAR	**44**	**20**	**48**	**0**	**0**	**0**	**0**	**0**	**112**	**95**
JOSÉ GUILLERMO ZUBÍA GUINEA	**44**	**24**	**70**	**0**	**0**	**0**	**0**	**0**	**138**	**122**
JOSÉ CARLOS DEL ÁLAMO JIMÉNEZ	**44**	**22**	**35**	**0**	**0**	**0**	**0**	**0**	**101**	**101**
PEDRO BARATO TRIGUERO	**44**	**24**	**52**	**0**	**0**	**0**	**0**	**167**	**287**	**319**
MENDIBEA 2002, S.L.	**11**	**6**	**6**	**0**	**0**	**0**	**0**	**0**	**23**	**77**
TURINA 2000, S.L.	**44**	**24**	**36**	**0**	**0**	**0**	**0**	**0**	**104**	**0**
ROSA MARÍA GARCÍA PIÑEIRO	**33**	**18**	**12**	**0**	**0**	**0**	**0**	**0**	**63**	**0**
LA FUENTE SALADA, S.L.	**33**	**18**	**18**	**0**	**0**	**0**	**0**	**0**	**69**	**0**

Observations
The remuneration for 2017 includes other items in kind which in this Report are broken down in section iv of the section "Details of other items"

ii) Table of movements in share-based remuneration systems and gross profit on consolidated financial instruments or shares

Name	Name of the Plan	Financial instruments at the start of the 2018 financial year		Financial instruments granted during the 2018 financial year		Consolidated financial instruments in the year				Instruments defeated and not exercised	Financial instruments at the end of the 2018 financial year	
		Instruments No	No Equivalent shares	Instrument No	No. of Equivalent shares	No. of instruments	No Equivalent shares/ Consolidated	Price of Shares Consolidated	Benefit Gross of shares or instrument consolidated financial (thousands of €)	No of instrument	Instrument No	No Equivalent shares
Ignacio de Colmenares Brunet	2016-2018 Long-Term Incentive Plan	422,858	422,858	0	0	0	0	0	0	0	422,858	422,858

Observations
The figures included in the table above will accrue on 30 June 2019 and will be paid on 4 July 2019, in accordance with the provisions of the Regulations of the 2016-2018 Long-Term Incentive Plan.

iii) Long-term saving schemes

	Remuneration for consolidation of rights to savings systems (thousands of €)

Ignacio de Colmenares Brunet	218

Name	Company's contribution for the period (thousands of €)				Amount of the accumulated funds (thousands of €)			
	Savings systems with consolidated economic rights		Savings systems with non-consolidated economic rights		2018 financial year		2017 financial year	
	Financial year 2018	2017 financial year	Financial year 2018	2017 financial year	Systems with consolidated economic rights	Systems with non-consolidated economic rights	Systems with consolidated economic rights	Systems with non-consolidated economical rights
Ignacio de Colmenares Brunet	33	33	186	182	362	360	971	1,251

Observations
Contributions to savings systems with consolidated economic rights refer to the mixed pension system described in section B.9. Without prejudice to the fact that the economic rights are consolidated, the CEO shall lose the rights relating to the contributions made by the company in the cases contemplated in clause 3.c of the contract for the provision of services with the CEO: 1- termination of the contract for breach of law or serious breaches of the contract that result in verifiable harm to the company. 2- voluntary resignation of the CEO before the age of 62. 3- breach by the director of the non-competition obligation after cessation.

iv) Details of other items

Name	Concept	Remuneration amount
Director 1		

Observations
The figures shown below are expressed in thousands of euros:

	Accident insurance	Health insurance	Medical examinations	Total
APRIL MARTORELL HERNANDEZ, FERNANDO	0.58		1.80	2.38
ARREGUI CIARSOLO, JUAN LUIS	0.86	0.84	1.01	2.72
BARATO TRIGUERO, PEDRO	0.58			0.58
DEL ALAMO JIMENEZ, CARLOS	1.57		1.74	3.31

ECHENIQUE LANDIRIBAR, JAVIER	0.58		1.68	2.26
BISCAROLASAGA BACON, ISABEL	1.57		0.20	1.77
ZUBIA GUINEA, JOSÉ GUILLERMO	0.86		0.89	1.76
DE URRUTIA VALLEJO, VICTOR	1.14			1.14
LADA DIAZ, LUIS	1.57		0.84	2.41
GARCIA PIÑEIRO, ROSA MARIA	0.28			0.28
RETOS OPERATIVOS XXI, S.L.	0.58		0.90	1.48
MENDIBEA 2002, S.L.	0.14			0.14
LA FUENTE SALADA, S.L.	0.43			0.43
TURINA 2000, S.L.	0.58		2.15	2.73

	Life and accident insurance	Health insurance	Vehicle	Medical examinations	Total
IGNACIO DE COLMENARES BRUNET	15.98	3.36	3.45	1.68	24.47

b) Remuneration of Directors of the company for their membership of boards in other companies of the group:

i) Remuneration earned in cash (in thousands of €)

Name	Fixed Remuneration	Per Diem	Remuneration for belonging to commission of the Board	Salary	Short-term variable remuneration	Long-term variable remuneration	Compensation	Other items	Total for the financial year t	Total for the financial year t-1
Director 1										
Director 2										

Observations

ii) Table of movements in share-based remuneration systems and gross profit on consolidated financial instruments or shares

Name	Plan Name	Financial instruments at beginning of year t		Financial instruments granted during financial year t		Consolidated financial instruments in the year				Instruments defeated and not exercised	Financial instruments at end of year t	
		No. of instruments	No Equivalent shares	No. of instruments	No Equivalent shares	No. of instruments	No Equivalent shares/ Consolidated	Price of Shares Consolidated	Benefit Gross of shares or instrument consolidated financial (thousands of €)	No. of instruments	Instrument No	No. of Equivalent shares
Director 1	Plan 1											
	Plan 2											

Observations

iii) Long-term saving schemes

	Remuneration for consolidation of rights to savings systems
Director 1	

Name	**Company's contribution for the period (thousands of €)**				**Amount of the accumulated funds (thousands of €)**			
	Savings systems with consolidated economic rights		**Savings systems with non-consolidated economic rights economic rights**		**Financial year t**		**Financial year q-1**	
	Financial year q	**Financial year q-1**	**Year t**	**Financial t-1**	**Systems with consolidated economic rights**	**Systems with non-consolidated economic rights**	**Systems with consolidated economic rights**	**Systems with non-consolidated economical rights**
Director 1								

Observations

iv) Details of other items

Name	**Concept**	**Remuneration amount**
Director 1		

Observations

c) Summary of remuneration (in thousands of €):

The summary must include the amounts corresponding to all the types of remuneration covered in this report which have been earned by the Director, in thousands of euros.

	Remuneration earned at the Company	**Remuneration earned at companies of the group**

Name	Total Cash remuneration	Gross profit on shares or consolidated financial instruments	Remuneration for savings systems	Remuneration for other items	Total from company for the 2018 period	Total Cash remuneration	Gross profit from exercised options Consolidated financial instruments	Remuneration for savings systems	Remuneration for other concepts	Total from group for the 2018 period
IGNACIO DE COLMENARES BRUNET	1103		218.5	24	1,345					
VÍCTOR URRUTIA VALLEJO	83			1	84					
FERNANDO ABRIL-MARTORELL HERNÁNDEZ	111			2	113					
JUAN LUIS ARREGUI CIARSOLO	239			3	242					
LUIS LADA DIAZ	94			2	96					
RETOS OPERATIVOS XXI, S.L.	83			1	84					
ISABEL TOCINO BISCAROLASAGA	108			2	110					
JAVIER ECHENIQUE LANDIRIBAR	112			2	114					
JOSÉ GUILLERMO ZUBÍA GUINEA	138			2	140					
JOSÉ CARLOS DEL ÁLAMO JIMÉNEZ	101			3	104					
PEDRO BARATO TRIGUERO	287			1	288					
MENDIBEA 2002, S.L.	23			0	23					
TURINA 2000, S.L.	104			3	107					
ROSA MARÍA GARCÍA PIÑEIRO	63			0	63					
LA FUENTE SALADA, S.L.	69			0	69					
Total	2718		218	46	2,982					

Observations
In relation to the amount received by the group of directors for their status as such in fiscal year 2018, which amounts to 1,525,480 euros, it should be noted that this figure does not exceed the maximum limit established by the general shareholders' meeting, set at 1,900,000 euros.

D OTHER RELEVANT INFORMATION

Briefly provide details of any other relevant aspects of Director' remuneration which are not included in the other sections of this report, but which must be covered if the report is to contain the most comprehensive and well-founded information on the company's pay structure and practices with regard to its Directors.

The remuneration received by Pedro Barato Triguero as indicated in section B.12 of this Report has been included as "other items" in section C.1.a.i., which is included as "Total cash remuneration" in section C.1.c.

This annual report on remuneration has been approved by the company's Board of Directors, at its session of 26/02/2019.

Indicate whether any Directors voted against or abstained from approving this report.

Yes ☐ No X

Name or corporate name of the members of the board of directors who have not voted in favour of the approval of this report	Reasons (against, abstention, non-attendance)	Explain the reasons