

## ANNUAL REPORT ON DIRECTORS' REMUNERATION

FISCAL YEAR 2019

ENCE ENERGÍA Y CELULOSA, S.A.

### A. COMPANY REMUNERATION POLICY FOR THE CURRENT FINANCIAL YEAR

**A.1. Explain the current directors' remuneration policy applicable to the current financial year. To the extent relevant, certain information may be included by reference to the remuneration policy approved by the General Shareholders' Meeting, 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 the determining and approval of 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, amongst 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 above, the General Shareholders' Meeting held on 22 March 2018 approved the current remuneration policy for directors, for which ENCE was advised by KPMG, which likewise prepared a report analysing and aligning the remuneration with the market.

To establish the remuneration policy, a group of comparable companies belonging to the non-financial sector and of a similar size and complexity to ENCE (Portucel, Altri and Europac) was taken into account, based on the analysis carried out by the external consultant.

The current remuneration policy regulates the compensation system applicable to the Company Directors, and in particular:

- the objectives and principles pursued by the policy
- the general composition of the Remuneration of Directors
- the fixed remuneration items applicable to directors in their capacity as such, including their maximum limit

- the fixed and variable (short- and long-term) remuneration items applicable to executive directors
- other elements of worker benefits or remuneration in kind
- ex-post adjustments of variable remuneration (*malus and clawback*)
- compensation, notice and non-competition clauses in the event of termination
- other contractual clauses

As regards the specific determinations for the current year, in application of the Directors' Remuneration Policy, the following actions have been carried out in 2020:

- With respect to the short-term variable remuneration of the CEO for financial year 2019, on 27 January 2020 the Appointments and Remuneration Committee assessed the degree of compliance with the targets 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 28 January 2020.

- With regard to the short-term variable remuneration of the CEO for financial year 2020, the Appointments and Remuneration Committee at its meeting on 27 January 2020 reported favourably on the proposal to set targets that was approved by the Board of Directors at its meeting on 28 January 2020.

The Board of Directors foresees to propose to the 2020 General Shareholders' Meeting a new remuneration policy which, if approved, will be applicable to the current financial year (2020) and the following two financial years.

Details of the proposed new policy, as well as the report of the Appointments and Remuneration Committee in relation to the main changes, are available to shareholders on the Company's website from the date the General Meeting is called.

**The relative importance of variable remuneration items with respect to those 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/multi-annual 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.

The determination of the variable remuneration targets for 2020 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 targets 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 those 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 multi-annual 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, approved by the General Shareholders' Meeting of 2019, 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 achieving the business targets committed to in the 2019-2023 strategic plan.

The performance metrics, which are referred to in more detail in point 6 of Section A.1 of this report, are directly related to the company's growth, the generation of value for shareholders and have a specific focus on the working environment and sustainability, through the establishment of a specific index made up of 10 objectives that address material issues for the company, identified after the corresponding materiality analysis in which the opinion of the stakeholders has been taken into account.

These include, among other parameters, those related to people, the environment, customers and the surroundings. 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.

Likewise, for the variable remuneration, both short- and long-term, clauses for the reduction or return of remunerations received are established for when such remunerations were based on

data whose inaccuracy has since been evidently shown or on cases of serious breach by the Executive Director (malus/clawback).

**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 that is expected to accrue during the financial year for directors in their capacity as such is that determined in the 2018 financial year by the Board of Directors, following a report by the Appointments and Remuneration Committee, in particular 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 Chairman of the Board and the CEO, who does not receive attendance per diems pursuant to his service provision agreement) in the current financial year shall be as follows:

Members of the Board: € 2,020

Chairmen of the Committees: 4,050 € (except for the Chairman of the Executive Committee, who is the Chairman of the Board, and pursuant to his service contract does not receive a per diem)

Members of the Committees: € 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.

As of the date of this Report, the only Executive Director of the Company is the CEO, Mr. Ignacio de Colmenares Brunet, who was appointed Chairman of the Board of Directors on 30 April 2019.

The fixed remuneration of the CEO for his executive functions is 619,625 euros; his services contract includes the concept of "Whole Fixed Remuneration", which refers to a mechanism for adjusting the overall remuneration of the Executive Director, which includes fixed remuneration for executive functions (619,625 euros) and fixed remuneration for his condition as a director

(44,500 euros), up to the amount of 664,125 euros. But this amount does not take into account the current situation in which the CEO is also Chairman of the Board.

This is because the current remuneration policy (2018-2020) does not expressly provide for the overlapping of both positions in the same person, which is, however, regulated in the proposed 2020-2022 remuneration policy to be submitted to the General Shareholders' Meeting for approval.

The approval of the new 2020-2022 remuneration policy by the General Meeting would entail the elimination of the concept of "Whole Fixed Remuneration" and the restoration of the amount of 664,125 euros as fixed remuneration of the CEO for his executive functions, established by the Board in 2013, with the amounts corresponding to his capacity as Chairman of the Board being received separately.

Until the new policy is approved, the concept of Whole Fixed Remuneration is maintained, which means that the CEO will receive the amount of 664,125 euros (including the amount of 44,500 euros corresponding to his condition as Director) as the fixed amount that he had been receiving before his appointment as Chairman of the Board, and, as will be explained in detail below, only the rest in respect to the amount of 135,000 euros for his condition of Chairman.

Once this approval has been given, the new policy will apply to the fixed remuneration of the Chairman and CEO from his appointment as Chairman of the Board of Directors on 30 April 2019, and he will receive in this case the amounts not received for this concept in the previous year.

**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 Honoured Chairman of the Board of Directors (Mr. Juan Luis Arregui Ciarsolo), 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 welfare 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. When the contingency arises from an accident, the additional capital shall be equivalent to 70 monthly instalments of the annual Full 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 Full Fixed Remuneration in this respect. The excess over this amount will be fully assumed by the Company.

**2. Defined social welfare system:** Independently of the previous social welfare system, the CEO shall be entitled to a retirement benefit from 62 years old, which shall be an amount equal to 1 year of the Full 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 2020 are the following:

Cash Flow PG 2019 (EBITDA - Variation in working capital) (15%)

Cash Cost Cellulose (20%)

Cash Cost Independent Energy Plants (20%)

Structural overheads (10%)

Cellulose Production Volume (tAd) (10%)

Sale of MWh in Independent Energy Plants (10%)

Organizational Climate (5%)

Occupational Safety (5%)

Improved environmental performance (5%)

A qualitative target with a weight of 20% is set for the CEO in 2020, based on the Board of Directors' assessment of the global management by the CEO in the fiscal year.

For the calculation of the final amount of variable remuneration for the year, the quantitative targets result will be multiplied by 0.80 and the qualitative assessment result will be added.

Therefore, short-term variable remuneration is linked to the achievement of quantitative and qualitative objectives (business, financial, operational, environmental performance, etc.) predetermined by the Board of Directors.

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 General Shareholders' Meeting of 28 March 2019 approved the long-term Incentive Plan for financial 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

The following are essential requirements for accrual: a) To achieve the minimum degree of achievement of objectives (minimum level) in accordance with the criteria to which the objectives are referenced. b) That the beneficiary is in a position to effectively provide services for ENCE (registered with the 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.

They are established as minimum levels to be reached:

1. As of 31 December 2021 (Cycle I):

- Group cumulative synthetic EBITDA of 982,000,000 €.
- Accumulated synthetic cellulose EBITDA of 738,000,000 €.
- Accumulated synthetic energy EBITDA of 244,000.00 €.

2. As of 31 December 2023 (Cycle II):

- Group cumulative synthetic EBITDA of 1,834,000,000 €.
- Accumulated synthetic cellulose EBITDA of 1,366,000,000 €.
- Accumulated synthetic energy EBITDA of 468,000,000 €.

Achievement of this minimum level will result in 50% of the target remuneration intended for this objective.

They are established as objective levels ("target") to be reached:

1. As of 31 December 2021 (Cycle I):

- Group cumulative synthetic EBITDA of 1,228,000,000 €.
- Accumulated synthetic cellulose EBITDA of 923,000,000 €.
- Accumulated synthetic energy EBITDA of 305,000,000 €.

2. As of 31 December 2023 (Cycle II):

- Group cumulative synthetic EBITDA of 2,293,000,000 €.
- Accumulated synthetic cellulose EBITDA of 1,708,000,000 €.
- Accumulated synthetic energy EBITDA of 585,000,000 €.

Achievement of this target level will result in 100% of the target remuneration intended for this objective.

The percentage of achievement of this target will grow linearly between 50% and 100%.

They are set as maximum levels:

1. As of 31 December 2021 (Cycle I):

- Group cumulative synthetic EBITDA of 1,474,000,000 €.
- Accumulated synthetic cellulose EBITDA of 1,108,000,000 €.
- Accumulated synthetic energy EBITDA of 366,000,000 €.

2. As of 31 December 2023 (Cycle II):

- Group cumulative synthetic EBITDA of 2,752,000,000 €.
- Accumulated synthetic cellulose EBITDA of 2,050,000,000 €.
- Accumulated synthetic energy EBITDA of 702,000,000 €.

Achievement of this maximum level will result in 130% of the target remuneration for this objective.

The percentage of achievement of this target will grow linearly between 100% and 120%.

**b)** 30% of the amount of the Incentive will be linked to the degree of achievement of the target 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).

1) A minimum percentage revaluation of the average value of ENCE's shares, equal to 80% of the percentage revaluation of the average value of the reference basket of shares, is established for both Cycles as the minimum level to reach.

Achievement of this minimum level will result in 50% of the target remuneration intended for this objective.

2) The target level for both Cycles 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% of the target remuneration intended for this objective.

The percentage of achievement of this target will grow linearly between 50% and 100%.

3) The maximum level is set for both Cycles to reach a percentage revaluation of the average value of ENCE's shares equal to 120% of the percentage revaluation of the average value of the reference basket of shares.

Achievement of this maximum level will result in 130% of target remuneration intended for this criterion.

The percentage of achievement of this target will grow linearly between 100% and 120%.

**c)** 15% of the amount of the incentive will be linked to the degree of achievement of the target related to Sustainability (synthetic index of sustainability), formed by a basket of 10 objectives related to (1) the health and safety of people, (2) diversity, (3) growth in products with attributes of sustainability, (4) reduction of water consumption, (5) the promotion of the circular economy, (6) the reduction of the odour impact, (7) the reduction of noise levels in biofactories and independent energy plants, (8) certified wood, (9) the fulfilment of the indicators of the Biomass

Sustainability Guidelines, and (10) the acceptance of the environment through community relations plans.

The following is set as a minimum level:

1. As of 31 December 2021 (Cycle I): The fulfilment of four of the ten objectives.
2. As of 31 December 2023 (Cycle II): The fulfilment of six of the ten objectives.

Achievement of this minimum level will result in 40% of the target remuneration intended for this objective.

An intermediate level is set between the minimum and the target:

1. As of 31 December 2021 (Cycle I): The fulfilment of five of the ten objectives.
2. As of 31 December 2023 (Cycle II): The fulfilment of seven of the ten objectives.

Achievement of this intermediate level will result in 70% target remuneration intended for this criterion.

The following is established as a target level:

1. As of 31 December 2021 (Cycle I): The fulfilment of six of the ten objectives.
2. As of 31 December 2023 (Cycle II): The fulfilment of eight of the ten objectives.

Achievement of this target level will result in 100% of the target remuneration intended for this objective.

An intermediate level is set between the target and the maximum:

1. As of 31 December 2021 (Cycle I): The fulfilment of seven of the ten objectives.
2. As of 31 December 2023 (Cycle II): The fulfilment of nine of the ten objectives.

Achievement of this intermediate level will result in 115% target remuneration intended for this criterion.

The following is set as the maximum level:

1. As of 31 December 2021 (Cycle I): The fulfilment of eight of the ten objectives.
2. As of 31 December 2023 (Cycle II): The fulfilment of ten of the ten objectives.

Achievement of this maximum level will result in 130% of the target remuneration for this objective.

**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).

The following is set as a minimum level:

1. As of 31 December 2021 (Cycle I): ENCE Trust Index of 2021 equal to the industry average for 2019, 2020 and 2021 minus three points.

2. As of 31 December 2023 (Cycle II): ENCE Trust Index of 2023 equal to the industry average for 2021, 2022 and 2023 minus three points.

Achievement of this minimum level will result in 40% of the target remuneration intended for this objective.

The following is established as a target level:

1. As of 31 December 2021 (Cycle I): ENCE Trust Index of 2021 equal to the industry average for 2019, 2020 and 2021.
2. As of 31 December 2023 (Cycle II): ENCE Trust Index of 2023 equal to the industry average for 2021, 2022 and 2023.

Achievement of this target level will result in 100% of the target remuneration intended for this objective.

The percentage of achievement of this objective will grow linearly between 40% and 100% in the case of obtaining intermediate Trust Index values between those mentioned above.

The following is set as the maximum level:

1. As of 31 December 2021 (Cycle I): ENCE Trust Index of 2021 equal to the industry average for 2019, 2020 and 2021 plus three points.
2. As of 31 December 2023 (Cycle II): ENCE Trust Index of 2023 equal to the industry average for 2021, 2022 and 2023 plus three points.

Achievement of this maximum level will result in 130% of the target remuneration for this objective.

The percentage of achievement of this objective will grow linearly between 100% and 120% in the case of obtaining intermediate Trust Index values between those mentioned above.

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.

The amount of the Long-Term Incentive in the event of achievement of the "target level" in each of the criteria to which the objectives are referenced, for the CEO, shall be five annuities of the average annual fixed remuneration of the financial years 2019/20/21/22/23.

If the "maximum level" is reached in each of the criteria to which the objectives refer, the amount of the Incentive may reach up to 130% of the previous amounts.

And if the "minimum level" is achieved in each of the criteria referred to in the objectives, the amount of the Incentive to achieve may vary according to the type of metrics, establishing a

minimum payment schedule of 50% for the targets of synthetic EBITDA and Relative TRS, and 40% for the objectives of Sustainability and Organisational Climate.

The maximum number of shares that the CEO may receive for this item is 520,714.

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.

**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 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 Fixed Remuneration and the Company contributes 5.25% of it.

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 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, for other reason than change in control in the terms defined in the services contract, before the age of 62.
- Non-compliance by the CEO with the non-competition obligation after cessation.

In relation to life and accident insurance, the CEO contributes 50% of the cost of the premium (with a limit of 1.125% of the Full 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 Full 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 1 February 2016, a defined social welfare system was established in addition to the mixed social welfare system. 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.

**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 be 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 Regulations of the Board of Directors establishes that if, when informed by the Appointments and Remuneration Committee, the Board of Directors understands that the 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 Full Fixed Remuneration according to the period of notice not complied with and (ii) to an indemnity of one annual Full 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 Director may present his resignation, and is entitled to receive a sum equivalent to two annuities of the Full 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 covers, in addition to the clauses detailed in the above section, the following terms and conditions:

i) The Director may resign from his 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 full and exclusive dedication of the Director is demanded, notwithstanding 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.

iii) 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 Full Fixed Remuneration, having a deadline of 6 years to make said investment, that will be extended for a further 2 years under certain circumstances.

iv) 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.

v) The contract for the provision of services remains in force whilst 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.**

Not applicable

**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 for Directors in the current financial year.**

Not applicable

**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 Meeting.**
- **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 resolved 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.**

As indicated above, on 26 February 2020, following a favourable report from the Appointments and Remuneration Committee, the Board of Directors resolved to present to the General Shareholders' Meeting, to which this annual report will be submitted, a new policy for the remuneration of Directors for the years 2020, 2021 and 2022.

Since the current policy does not provide for the position of CEO and Chairman of the Board of Directors to overlap, the approval of the new 2020-2022 remuneration policy by the Shareholders' Meeting would entail the elimination of the concept of "Whole Fixed Remuneration" and the restoration of the amount of 664,125 euros as fixed remuneration of the CEO for his executive functions, established by the Board in 2013, with the amounts corresponding to his capacity as Chairman of the Board being received separately.

Until the new policy is approved, the concept of Full Fixed Remuneration is maintained, which means that the CEO will receive the fixed amount of 664,125 euros that he had been receiving for his executive functions and for his condition as Director before his appointment as Chairman of the Board, plus the remuneration corresponding to his position as Chairman of the Board (135,000 euros) after deducting the remuneration corresponding to his condition as Director (44,500 euros) included as explained before into the Whole Fixed Remuneration.

Once this approval has been given, the new policy will apply to the fixed remuneration of the Chairman and CEO from his appointment as Chairman of the Board of Directors on 30 April 2019, and he will receive in this case the amounts not received for this concept in the previous year.

Likewise, the new remuneration policy offers a greater detail of the Fixed and Variable Remuneration to be received by Directors for their executive functions, includes the provisions of the Long-Term Incentive Plan 2019-2023 which was approved at the General Shareholders' Meeting held on 28 March 2019 and incorporates some improvements in its wording and structure of contents.

The proposed policy itself, as well as the report of the Appointments and Remuneration Committee in this regard, are available to shareholders and stakeholders on the Company's website, [www.ence.es](http://www.ence.es), as of the date of the call for General Shareholders' Meeting.

**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/inversores/gobierno-corporativo/codigo-de-conducta-y-politicas-corporativas/>

**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 nine of the Agenda of the General Shareholders' Meeting held on 28 March 2019, relating to the consultative vote on the Annual Remuneration Report for 2018, 169,726,309 valid votes were cast, representing 68.92% of the share capital and approved by a majority of 124,928,075 votes (73.60% of the votes validly cast).

Although the approval rate for the 2018 report is high, acknowledging the decrease from the previous year, the Board of Directors has adopted measures for the purpose of completing the information provided in the Report for this financial year 2019 and, amongst other issues, the specific metrics applicable to the CEO's annual Variable Remuneration have been broken down, as well as the possible levels of compliance with the objectives set out in the long-term Incentive Plan 2019-2023.

## **B. GENERAL SUMMARY OF HOW THE REMUNERATION POLICY IS 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.

With respect to the short-term variable remuneration of the CEO for financial year 2019, on 27 January 2020 the Appointments and Remuneration Committee assessed the degree of compliance with the targets 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 28 January 2020.

As regards long-term variable remuneration, on 26 February 2019, following a favourable report from the Appointments and Remuneration Committee, the Board of Directors agreed to approve the degree of compliance with the targets of the 2016-2018 Long-Term Incentive Plan,

and consequently the amount of the resulting incentive in cash and shares, to be received by the beneficiaries on the payment date, 4 July 2019.

With regard to the fixed remuneration of the CEO for his executive duties reported in section C of this report (referred to as "Salary" in the table of that section C), the amount indicated (620 thousand) corresponds to the remuneration established by the Board of Directors adjusted in application of the concept "Whole Fixed Remuneration" provided for in the remuneration policy in force.

On the other hand, the "Fixed Remuneration" of the CEO reported in section C of this report (105 thousand euros), corresponds to (i) his fixed remuneration for his condition as a Director, until the month of April, and (ii) his fixed remuneration for his condition as Chairman for the period from May to December 2019 in the terms explained in section A.2 of this Report.

**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/multi-annual variable remuneration, (iv) welfare benefits and (v) remuneration in kind.

As regards the remuneration mix of the CEO for 2019, taking total remuneration as a reference, Fixed Remuneration represents 20.37% and Variable Annual and Multi-annual Remuneration 79.63%. The calculation of the remuneration mix has taken into account long-term remuneration in cash and shares.

If we only take into account annual Variable Remuneration, the remuneration mix is 38% short-term Variable Remuneration compared to Fixed Remuneration.

The short-term incentive for 2019 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 targets 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, as well as the general assessment of their management during the financial year based on certain activities that are especially

noteworthy, detailed in section B.6. All of them, as a whole, are aligned with the social 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 multi-annual 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 2019, also favourably reported by the Appointments and Remuneration Committee and approved by the Board of Directors, has a duration of five years, covering the period 2019-2023, in coherence with ENCE's Strategic Plan.

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 re-evaluating the Company, improving the organizational climate and incentivizing the attainment of the business targets committed to in the 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 annual 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 targets associated with annual and multi-annual Variable Remuneration, the Fixed Remuneration represents around 1/4 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, short- and long-term, 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/multi-annual variable remuneration, (iv) welfare benefits and (v) remuneration in kind.

The previous sections have explained in detail how the remuneration accrued in the year, referring to the above-mentioned remuneration elements, complies with the provisions of the Remuneration Policy in force.

As regards the relationship between the remuneration obtained by the Directors and the results or other performance measures of the Company, short- and long-term, as explained in the previous section, the achievement of the Executive Director's targets, both annual and multi-year, is linked to a series of different metrics, financial and non-financial, with the aim of not restricting short-term Variable Remuneration solely to annual compliance goals, such as financial ones, but also including long-term goals related to other material aspects for the sustainability of the Company such as environmental performance and workplace safety.

The metrics of the CEO's short- and long-term Variable Remuneration, which have been broken down in this report, are in line with the above.

On the other hand, the Company's financial aggregates in 2019 were considerably lower than in the previous year, reflecting, for example, the EBITDA margin obtained in 2019. Within this framework, the level of compliance with short-term objectives of the CEO in 2019 was 35.28%, which shows how variations in the company's performance have influenced the variation in Directors' remuneration.

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	169,726,309	68.92%

	Number	% of emitted
Votes against	44,754,540	26.37%
Votes in favour	124,928,075	73.60%
Abstentions	43,694	0.03%

**B.5. Explain how the fixed components accrued during the financial 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 have not changed with respect to the previous year.

The fixed remuneration of the Directors in their capacity as such for financial year 2019 was set at 44,500 euros and 135,000 euros for the Chairman of the Board of Directors.

The amount of the daily allowance for attending meetings of the Board and its committees in financial year 2019 was set at the following amounts:

Members of the Board: € 2,020

Chairmen of the Committees: €4,050

Members of the Committees: € 3,000

The Chairman of the Board and of the Executive Committee does not receive an attendance fee.

**B.6. Explain how the salaries accrued, during the previous financial 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 signed 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 reached a total of € 619,625 in 2019 (in application of the corresponding adjustment for the "Whole Fixed Remuneration" concept). In addition, during the 2019 financial year, the CEO received 104,830 euros corresponding to fixed remuneration for his position as a Director until April 2019, and for his condition as Chairman from May to December 2019, in the terms explained in section A.2 of this Report.

The fixed remuneration received as compensation for executive functions pursuant to the terms of the service provision contract totalled 619,625 euros in 2018. In addition, in financial year 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.

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

**Specifically:**

- Identify each of the Remuneration Plans that determined the various Variable Remuneration accrued by each of the Directors during the previous financial 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 Nominee 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 27 January 2020, which was approved by the Board of Directors at its meeting on 28 January 2020.

The targets set for 2019 were:

Cash Flow PG 2019 (EBITDA - Variation in working capital) (12%)

Cellulose production volume (8%)

Structural costs (4%)

Sale of MWh in Energy-Independent Plants (8%)

Cash Cost Cellulose (10%)

Cash Cost Energy- Independent Plants (10%)

Meet time and cost in start-up of new investments (8%)

Organizational Climate (4%)

Security (4%)

Improved environmental performance (4%)

EBITDA Huelva Plant (8%)

Assessment by the Board of the overall management during the financial year (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.

With regard to the Board of Directors' assessment of the qualitative objective consisting of the CEO's overall management during financial year 2019, the Board has evaluated it very positively, especially highlighting the actions taken and measures adopted as a result of the Spanish Government's decision to give up defending its position within the litigation concerning the concession of the Pontevedra biofactory, the cost reduction plan implemented as a result of the drop in the price of cellulose produced during 2019, as well as the development of 240MW of photovoltaic projects, agreeing to a level of 100% achievement. In 2019, the level of achievement of the objectives associated with the annual variable remuneration of the CEO is 35.28%.

**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.

Along these lines, on 28 March 2019, the General Shareholders' Meeting approved a Long-Term Incentive Plan for 2019-2023, whose characteristics were detailed in section A of this Report.

On the other hand, the accrual and payment of the amount corresponding to the Long-Term Incentive Plan 2016-2018 took place, in accordance with the Regulations, on 30 June and 4 July 2019, respectively. According to the detail reported in the Annual Remuneration Report for 2018, the Plan targets were the following: (a) Strategic Plan EBITDA 2016/18, (b) Performance of Ence's share, and (c) Talent development of the management team. The global level of compliance for the targets linked to the CEO's long-term variable remuneration was 85.35%. The resulting amounts are those reported in section C of this Report.

**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 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 Fixed Remuneration and the Company contributes 5.25% of it. The consolidated rights at 31/12/2019 amount to €414 thousand, of which €374.76 thousand correspond to contributions from the company and €66.24 thousand correspond to contributions from the CEO. The consolidated rights at the age of 65 of the contributions amount to €1,218.72 thousand, of which €1,140.55 thousand correspond to the company's contributions and €78.17 thousand 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 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, for other reasons than change in control in the terms defined within the service contract, 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 CEO's Whole Fixed Remuneration 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 1 February 2016, a defined social welfare system was established in addition to the mixed social welfare system. The contribution for financial year 2019 amounted to €185.52 thousand, 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 CEO's rights under this policy in 2019 is €728.67 million.

**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 financial year, unless they have already been explained in section A.1.**

As a result of the appointment of Mr. Ignacio de Colmenares as Chairman of the Board of Directors on 30 April 2019, and after a review and favourable report from the Appointments and Remuneration Committee, the Board agreed to approve on that same date the modification of the service lease of the CEO, in order to regulate the new situation of overlapping of the

positions of Chairman of the Board and CEO, and in particular with regard to the incorporation of the position of Chairman of the Board and of the Executive Committee together with that of CEO of the Company, and the applicable Fixed Remuneration.

With regard to this last point, the amendment of the aforementioned contract meant the restoration of the amount of 664,125 euros as Fixed Remuneration of the CEO for his executive functions (fixed amount that he has been receiving since financial year 2013), notwithstanding the amounts that correspond to him as Fixed Remuneration for his condition as Chairman of the Board, as approved at each moment by the Board of Directors, without him being entitled to receive allowances for attending the Board of Directors or any of its committees.

Consequently, the restoration of the aforementioned amount does not imply an increase in the CEO's Fixed Remuneration, since said amount was set by resolution of the Board of Directors in 2013 and adjusted as of 2016 in accordance with the concept of "Whole Fixed Remuneration", as has been reported annually, maintaining in any case as a reference the amount of 664,125 euros. Thus, the change in the service contract is limited to the elimination of the concept of "Whole Fixed Remuneration", the additional receipt of his remuneration as Chairman of the Board and the express exclusion of the receipt of attendance fees.

However, the aforementioned amendment to the CEO's service contract, with regard to the provisions on his Fixed Remuneration for executive functions, and in particular the concept of "Whole Fixed Remuneration", is subject to the condition precedent consisting of the approval of the new Directors' Remuneration Policy for Directors for the period 2020-2022 by the 2020 General Shareholders' Meeting.

Therefore, if the policy is approved, he will receive the amounts not received as Chairman of the Board since his appointment on 30 April 2019.

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

The Director Mr. Pedro Barato Triguero received a remuneration of 33,000 euros during financial year 2019 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 Honorary 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 2019 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 2019 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 2019 Fiscal year
IGNACIO DE COLMENARES BRUNET	Executive President	01/01/2019 to 31/12/2019
JUAN LUIS ARREGUI CIARSOLO	Proprietary	01/01/2019 to 31/12/2019
RETOS OPERATIVOS XXI, S.L.	Proprietary	01/01/2019 to 31/12/2019
TURINA 2000, S.L.	Proprietary	01/01/2019 to 31/12/2019
VÍCTOR URRUTIA VALLEJO	Proprietary	01/01/2019 to 31/12/2019
LA FUENTE SALADA, S.L.	Proprietary	01/01/2019 to 31/12/2019
JOSÉ CARLOS DEL ÁLAMO JIMÉNEZ	Independent	01/01/2019 to 31/12/2019
ISABEL TOCINO BISCAROLASAGA	Independent	01/01/2019 to 31/12/2019

ROSA MARÍA GARCÍA PIÑEIRO	Independent	01/01/2019 to 31/12/2019
IRENE HERNÁNDEZ ÁLVAREZ	Independent	28/03/2019 to 31/12/2019
AMAIA GOROSTIZA TELLERÍA	Independent	28/03/2019 to 31/12/2019
LUIS LADA DIAZ	Independent	01/01/2019 to 28/03/2019
PEDRO BARATO TRIGUERO	Other external member	01/01/2019 to 28/03/2019
FERNANDO ABRIL-MARTORELL HERNÁNDEZ	Other external member	01/01/2019 to 31/12/2019
JAVIER ECHENIQUE LANDIRIBAR	Other external member	01/01/2019 to 31/12/2019
JOSÉ GUILLERMO ZUBÍA GUINEA	Other external member	01/01/2019 to 31/12/2019

**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 2019 financial year	Total for the 2018 financial year
IGNACIO DE COLMENARES BRUNET	105	0	0	620	234	510	0	0	1,469	1,103
JUAN LUIS ARREGUI CIARSOLO	75	34	38	0	0	0	0	0	147	239
RETOS OPERATIVOS XXI, S.L.	44	22	30	0	0	0	0	0	96	83
TURINA 2000, S.L.	44	22	39	0	0	0	0	0	105	104
VÍCTOR URRUTIA VALLEJO	44	18	12	0	0	0	0	0	74	83
LA FUENTE SALADA, S.L.	44	22	15	0	0	0	0	0	81	69
JOSÉ CARLOS DEL ÁLAMO JIMÉNEZ	44	25	40	0	0	0	0	0	109	101
ISABEL TOCINO BISCAROLASAGA	44	24	47	0	0	0	0	0	115	108
ROSA MARÍA GARCÍA PIÑEIRO	44	24	33	0	0	0	0	0	101	63

IRENE HERNÁNDEZ ÁLVAERZ	33	16	15	0	0	0	0	0	64	0
AMAIA GOROSTIZA TELLERÍA	33	16	12	0	0	0	0	0	61	0
LUIS LADA DIAZ	11	8	8	0	0	0	0	0	27	94
PEDRO BARATO TRIGUERO	11	8	12	0	0	0	0	0	31	287
FERNANDO ABRIL-MARTORELL HERNÁNDEZ	44	22	36	0	0	0	0	0	102	111
JAVIER ECHENIQUE LANDIRIBAR	44	22	21	0	0	0	0	0	87	112
JOSÉ GUILLERMO ZUBÍA GUINEA	44	24	65	0	0	0	0	0	133	138

**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			422,858	422,858	3,96	1,678			

**Observations**

The information of the chart refers to the payment of the Long Incentive Plan 2016-2018 which took place in July 4, 2019. Currently, the Plan in force is the Long-Term Incentive Plan 2019-2023. According to this plan, the number of shares which, in case of compliance with the target level (100%) and with the other conditions set for in the Plan Regulation, will correspond to the CEO as part of his variable remuneration on the payment dates, is 400,549 shares.

**iii) Long-term saving schemes**

	Remuneration for consolidation of rights to savings systems (thousands of €)
Ignacio de Colmenares Brunet	0

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		Systems with consolidated economic rights		Systems with non-consolidated economic rights	
	2019	2018	2019	2018	2019	2018	2019	2018
Ignacio de Colmenares Brunet	35	33	182	186	414	304	728	543

Observations
<p>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 the contract for the provision of services with the CEO:</p> <ul style="list-style-type: none"> <li>- termination of the contract for breach of law or serious breaches of the contract that result in verifiable harm to the company.</li> <li>- voluntary resignation of the CEO, for other reasons than change in control in the terms defined in the service contract, before the age of 62.</li> <li>- breach by the director of the non-competition obligation after cessation.</li> </ul>

#### iv) Details of other items

Name	Concept	Amount (thousand euros)
IGNACIO DE COLMENARES BRUNET	Premium for accident insurance, health insurance and medical examinations	26
JUAN LUIS ARREGUI CIARSOLO	Premium for accident insurance, health insurance and medical examinations	2
RETOS OPERATIVOS XXI, S.L.	Premium for accident insurance, health insurance and medical examinations	1
TURINA 2000, S.L.	Premium for accident insurance, health insurance and medical examinations	2
VÍCTOR URRUTIA VALLEJO	Premium for accident insurance, health insurance and medical examinations	2
LA FUENTE SALADA, S.L.	Premium for accident insurance, health insurance and medical examinations	2
JOSÉ CARLOS DEL ÁLAMO JIMÉNEZ	Premium for accident insurance, health insurance and medical examinations	4

ISABEL TOCINO BISCAROLASAGA	Premium for accident insurance, health insurance and medical examinations	2
ROSA MARÍA GARCÍA PIÑEIRO	Premium for accident insurance, health insurance and medical examinations	2
IRENE HERNÁNDEZ ÁLVAREZ	Premium for accident insurance, health insurance and medical examinations	1
AMAIA GOROSTIZA TELLERÍA	Premium for accident insurance, health insurance and medical examinations	1
LUIS LADA DIAZ	Premium for accident insurance, health insurance and medical examinations	1
PEDRO BARATO TRIGUERO	Premium for accident insurance, health insurance and medical examinations	
FERNANDO ABRIL- MARTORELL HERNÁNDEZ	Premium for accident insurance, health insurance and medical examinations	3
JAVIER ECHENIQUE LANDIRIBAR	Premium for accident insurance, health insurance and medical examinations	3
JOSÉ GUILLERMO ZUBÍA GUINEA	Premium for accident insurance, health insurance and medical examinations	2

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

Mr. Ignacio de Colmenares is the only director which is sole administrator of the companies of the group, but he does not receive any remuneration for this function.

**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.

Name	Remuneration earned at the Company				
	Total Cash remuneration	Gross profit on shares or consolidated financial instruments	Remuneration for savings systems	Remuneration for other items	Total 2019
IGNACIO DE COLMENARES BRUNET	1,469	1,678		26	3,173
JUAN LUIS ARREGUI CIARSOLO	147			2	149
RETOS OPERATIVOS XXI, S.L.	96			1	97
TURINA 2000, S.L.	105			2	107
VÍCTOR URRUTIA VALLEJO	74			2	76

LA FUENTE SALADA, S.L.	81			2	83
JOSÉ CARLOS DEL ÁLAMO JIMÉNEZ	109			4	113
ISABEL TOCINO BISCAROLASAGA	115			2	117
ROSA MARÍA GARCÍA PIÑEIRO	101			2	103
IRENE HERNÁNDEZ ÁLVAREZ	64			1	65
AMAIA GOROSTIZA TELLERÍA	61			1	62
LUIS LADA DIAZ	27			1	28
PEDRO BARATO TRIGUERO	31				31
FERNANDO ABRIL-MARTORELL HERNÁNDEZ	102			3	105
JAVIER ECHENIQUE LANDIRIBAR	87			3	90
JOSÉ GUILLERMO ZUBÍA GUINEA	133			2	135
<b>Total</b>	<b>2,802</b>	<b>1,678</b>		<b>54</b>	<b>4,534</b>

#### Observations

In relation to the amount received by the group of directors for their status as such in fiscal year 2019, which amounts to **1,466,230 euros**, it should be noted that this amount does not exceed the maximum limit established by the general shareholders' meeting, set at 1,900,000 euros.

*The annual report on directors' remuneration has been approved in its Spanish version by the company's Board of Directors, at its session of 26/02/2020. In the case of any conflict between the Spanish and English versions, the Spanish version shall prevail.*

