

REPORT OF THE APPOINTMENTS AND REMUNERATION COMMITTEE TO THE BOARD OF DIRECTORS OF ENCE ENERGÍA Y CELULOSA, S.A. PURSUANT TO ARTICLE 529 NOVODECIES OF THE CAPITAL COMPANIES ACT IN RELATION TO THE PROPOSAL TO APPROVE THE DIRECTORS' REMUNERATION POLICY

1. Purpose of the Report

This report is prepared by the Appointments and Remuneration Committee of ENCE ENERGÍA Y CELULOSA, S.A. (the "**Company**") in accordance with article 529 novodecies of the Capital Companies Act, which establishes that the remuneration policy for Directors will be approved by the general shareholders' meeting at least every three years, will be reasoned and must be accompanied by a report from the appointments and remuneration committee (hereinafter, the "**Report**").

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 Companies Act.

In compliance with the foregoing, the Appointments and Remuneration Committee has agreed to submit this report to the Board of Directors regarding the remuneration policy for the Company's Directors, whose approval is proposed to the General Shareholders' Meeting under item seven of the Agenda.

2. REPORT ON THE PROPOSAL FOR THE APPROVAL OF THE DIRECTORS' REMUNERATION POLICY

The Ordinary General Shareholders' Meeting held on 22 March 2018 approved the remuneration policy for the Company's directors, with a period of validity for the years 2018, 2019 and 2020. Although the policy's period of validity has not ended in 2020, the appointments and remuneration committee has considered it appropriate to propose to the Board that it submits a new remuneration policy to the 2020 General Shareholders' Meeting, in order to regulate the current situation of the coincidence of the position of CEO and Chairman of the Board of Directors in a single person, as well as to incorporate the information received from institutional investors and "proxy advisors" in the periodic consultation process carried out by the company in matters of good governance, and the rest of incorporations indicated below.

Notwithstanding the above, the remuneration policy presented for approval is in a spirit of continuity with the 2018 policy and is based on the principles that have been the basis of the remuneration system in the Company, i.e.:

- Promote the achievement of the company's social interest, incorporating the necessary mechanisms to prevent excessive risk-taking and the rewarding of negative results.
- Align Remunerations with market practices applied by other Spanish listed companies with equivalent turnover and market capitalization, an international vocation, and with staff sizes and levels of complexity similar to ENCE, within a criteria of remunerative moderation in line with the circumstances of the applicable markets.
- Take measures to ensure that the remuneration of External Directors is suitable and incentivizes their dedication, without creating an obstacle for the independence of Independent Directors.

- Make the remuneration of Executive Directors comply with the general guidelines applicable to employees and executives of the Company.

On this basis, the main changes proposed by the Appointments and Remuneration Committee in the new remuneration policy, which is submitted for approval by the General Shareholders' Meeting, are as follows:

A. Elements of the remuneration policy for directors for their executive functions

Some changes are proposed to the remuneration policy for directors for their executive functions for three main reasons:

- (i) The need to expressly incorporate into the policy the regulation of the remuneration scheme applicable to the situation of coincidence of the position of CEO and Chairman of the Board in the same person.

The proposed new policy provides that, if the CEO is also Chairman of the Board of Directors, he will receive, in addition to his remuneration for executive functions, the amounts corresponding to him as remuneration for his position as Chairman of the Board, under the terms approved by the Board of Directors on the proposal of the Appointments and Remuneration Committee.

The amount foreseen in the new policy as fixed remuneration for executive functions is 664,125 euros, with no change since 2013.

However, in the 2016 financial year the concept of "whole fixed remuneration" was introduced, in order to include within the total fixed remuneration of the CEO the functions carried out as a director in his capacity as such (but not those attributed in his capacity as Chairman), and this full fixed remuneration was set at 664,125 euros.

In light of the new situation of coincidence of positions, the Appointments and Remuneration Committee considered it appropriate to expressly include the applicable remuneration scheme in the new policy, so that (i) the amount of 664,125 euros is restored as fixed remuneration for the CEO (fixed in 2013) for his executive functions, (ii) the concept of "whole fixed remuneration" is eliminated, and (iii) the separate payment corresponding to the position of Chairman of the Board is regulated in the terms approved by the Board of Directors (currently consists of the amount of 135,000 euros, without perceiving attendance fees to the Board, nor as President of the Executive Committee).

With regard to the specific amounts to be received as CEO and Chairman, although it has already been indicated that these do not represent variations with respect to the previous situation, the Company's position with regard to remuneration on the market has been assessed, taking as a reference the report published by the National Securities Market Commission on the remuneration reports for directors of listed companies for the 2018¹ financial year, and it has been verified that they are below the average remuneration.

Consequently, this committee proposes that the amounts indicated above be maintained, under the terms and conditions set out in the proposed new policy, recognising the right of the CEO to receive independently the amounts corresponding to the chairmanship of the Board in view of

¹ http://cnmv.es/DocPortal/Publicaciones/Informes/IARC_2018.pdf

the relevant corporate and institutional functions attributed to this position, which differ notably from the attributed to a director.

- (ii) The information received from institutional investors and proxy advisors in the periodic consultation process ("engagement") carried out by the Company, as well as the general recommendations on good governance.

This consultation process has led the Company to expand the breakdown of information and to take a more detailed look at the specific situations that may give rise to the accrual of the fixed and variable remuneration items provided for in the policy, including, with respect to variable annual remuneration, the specification of the type of objectives (quantitative and qualitative), their specific weight, the way in which they are evaluated and the method of calculating their fulfilment.

- (iii) The updating of the long-term variable remuneration provided for in the policy in accordance with the provisions of the new long-term incentive plan in force.

Since the long-term incentive plan provided for in the 2018 policy ended in 2019, the detail of the 2019-2023 long-term incentive plan was incorporated into the new policy, which was approved by the General Shareholders' Meeting on 28 March 2019 with the favourable vote of 96.60% of the shareholders present or represented.

B. Technical improvements

Editorial improvements and changes in format have been incorporated, and references to certain concepts have been simplified, such as those relating to savings and worker benefit plans, which have been included in the list provided in the section "other remuneration items" and which will be detailed in the corresponding Annual Report on Directors' Remuneration.

C. Period of validity

The proposed new policy, if approved by the General Shareholders' Meeting, will be applicable to the financial years 2020, 2021 and 2022.

Nevertheless, the lack of express regulation in the 2018 policy of the remuneration scheme applicable in the event of the position of CEO and Chairman of the Board overlapping in the same person justifies the application of the remuneration system envisaged for these cases in the new policy, as of the appointment of the CEO as Chairman of the Board on 30 April 2019, the date from which he has been carrying out the dual function, so that in the event of approval by the General Shareholders' Meeting, he will be paid the amounts not received for this item which are pending until such approval.

For all these reasons, this Committee issues this report to be presented together with the Remuneration Policy proposal of the Board of Directors for approval by the next General Shareholders' Meeting.

Madrid, 24 February 2020