



DIRECTORS' REMUNERATION POLICY

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Contents

1.	Introduction and general regulatory framework	2
2.	Objective and principles of the Remuneration Policy	3
3.	General composition of the Remuneration of Directors	4
4.	The remuneration of the Directors in their capacity as such	5
4.1	Legal framework	5
4.2	Elements of the Remuneration Policy for Directors in their capacity as such	5
4.3	Maximum annual remuneration amount for Directors in their capacity as such	7
5.	Remuneration Policy for Directors for the performance of executive functions	7
5.1	Legal framework	7
5.2	Elements of the Remuneration Policy for Directors for their executive functions	8
5.3	Ex-Post Adjustments to Variable Remuneration	12
5.4	Other contractual clauses: Termination as Executive Director and indemnification, notice-giving and non-concurrence clauses and exclusivity	12
5.5	Possible additions of new Executive Directors	14
6.	Validity of the Remuneration Policy	14

1. Introduction and general regulatory framework

This document sets out the Remuneration Policy for the Directors of ENCE ENERGIA Y CELULOSA, S.A. (hereinafter “**ENCE**” or “the **Company**”), for the period 2020-2022, both for their duties as members of the Board of Directors and for their executive functions, which will be submitted to a binding vote at the General Shareholders' Meeting in 2020 as a separate item on the Agenda.

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

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

In this regard, the Company's Board of Directors, at the proposal of the Appointments and Remuneration Committee, resolved at its meeting held on 26 February 2020 to review the current remuneration system and to submit the approval of a new Remuneration Policy to the General Shareholders' Meeting.

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

2. Objective and principles of the Remuneration Policy

The general objective of the Remuneration Policy for ENCE Directors is to establish a suitable remuneration to attract and retain Directors with a desired profile, and to remunerate their dedication, qualification, and responsibilities, without compromising their independence of judgement.

The Company bases its Remuneration Policy on the following principles:

- a) The remuneration of Directors in their capacity as such, for exercising their functions of oversight and joint decision-making, will be determined by the Board of Directors in accordance with the following principles:
 1. Promote the achievement of the company's interest, incorporating the necessary mechanisms to prevent excessive risk-taking and the rewarding of negative results.
 2. Align Remunerations with market practices applied by other Spanish listed companies with equivalent turnover and market capitalization, an international vocation, and with staff sizes and levels of complexity similar to ENCE, within a criteria of remunerative moderation in line with the circumstances of the applicable markets.
 3. Take measures to ensure that the remuneration of External Directors is suitable and incentivizes their dedication, without creating an obstacle for the independence of Independent Directors.

- b) The remuneration of Executive Directors will comply with the general guidelines applicable to employees and executives of the Company as follows:
 1. Remunerate comprehensively with monetary and non-monetary components.
 2. Invest in remuneration when there is a mutual and reasonable profit, recognizing the effort and activity that impact the achievement of results.
 3. Remunerate equitably - differentiating based on responsibilities and the person - and competitively - attracting and retaining the best professionals, especially in key positions.
 4. Remunerate ensuring there is no discrimination due to gender, provenance, affiliation, ideology, race or any other reason not included in these principles.
 5. Promote a culture of commitment to the objectives and of sharing the successes and risks of the business, aligning remuneration with short- and long-term objectives.
 6. Remunerate people who demonstrate satisfactory performance in line with the relevant market, and remunerate people who produce exceptional results and who are recognized as model professionals exceptionally.
 7. Systematically and uniformly evaluate professional development and performance, providing suitable training, information and decision-making ability to enable people to reach their maximum professional development.

3. General composition of the Remuneration of Directors

The **Articles of Association (Articles 42 and 43)** establish the following system of remuneration of the Board of Directors, which distinguishes **(i)** the remuneration of the **Directors in their capacity as such** and **(ii)** the remuneration foreseen for the **Directors who carry out executive functions**.

(i) The remuneration of the Directors in their capacity as such

a) Fixed Remuneration:

1. Comprised of a Periodic allocation and Expenses for attending meetings of the Board and its Commissions. These remunerations are paid fully in cash.
2. The General Shareholders' Meeting determines the maximum annual amount of remunerations paid to all Directors for these items.

b) Insurance and retirement systems: Life, accident and health insurance policies may be taken out for the Directors, in which case the premiums paid count toward the maximum remuneration limit for Directors set by the General Shareholders' Meeting. Likewise, a retirement system may be established for Executive Directors in the event of death, retirement, disability, or inability to perform the function; the amount, conditions and characteristics will be set by the Board of Directors, following a report from the Appointments and Remuneration Committee.

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

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

(ii) Remuneration of Directors performing executive functions

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

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

Thus, among other actions, Executive Directors may:

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

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

4. The Policy for the remuneration of the Directors in their capacity as such

4.1 Legal framework

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

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

4.2 Elements of the Remuneration Policy for Directors in their capacity as such

	Description	Determination and Limits
Fixed Remuneration	Comprised of: <ul style="list-style-type: none"> - Periodic allocation (fees), and - Allowances for attendance at meetings of the Board of Directors and its committees 	<p>The Board of Directors sets the amount to be paid, within the limit or maximum amount approved by the General Meeting.</p> <p>The Board of Directors likewise sets how it will be distributed amongst the Directors, and the frequency of their payment, and will take into account (i) the functions and responsibilities assigned to each Director, (ii) their membership on</p>

		Board Committees and (iii) other objective circumstances the Board considers relevant.
Other remunerative components	The ENCE Articles of Association allow Directors, in their capacity as such, to receive other remunerations consisting of different types of insurance, including life, accident, and health insurance.	The premiums paid shall be calculated for the purposes of the maximum limit set by the General Meeting.
Possibility of payments in shares	Optionally, in addition to, and independently from the Fixed Remuneration, and in accordance with the provisions of Articles 29 bis 2. of the Regulations of the Board of Directors , Directors may be remunerated through the awarding of shares, stock options, or any other system linked to the value of shares of the Company or of the Companies in its Group.	These remunerative components, when granted, must be agreed to by the General Shareholders' Meeting.
Special non-competition clause	<p>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.</p> <p>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.</p>	Should the Board of Directors decide to apply this clause, such compensation shall be calculated within the limit agreed by the General Shareholders' Meeting referred to in Article 42.1 of the Articles of Association

4.3 Maximum annual remuneration amount for Directors in their capacity as such

The maximum annual amount of Remuneration for all Directors in their capacity as such is 1,900,000 euros, which coincides with the amount approved by the General Shareholders' Meeting on 22 March 2018, and will remain in force until it is modified at a subsequent General Shareholders' Meeting.

Pursuant to the Articles of Association, the calculation of that limit will not include amounts pertaining to salaries, variable remunerations, compensation, pensions or payments of any kind generally or uniquely established for Directors who have a common or special working relationship with the Company as a senior executive or service provider, relations that will be compatible with the condition as member of the Board of Directors, notwithstanding the fact that these retribution items must comply with the remuneration policy approved by the General Meeting, formally noted in the annual report and must be approved in terms given in the Capital Companies Act and other applicable provisions.

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

5.1 Legal framework

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

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

5.2 Elements of the Remuneration Policy for Directors for their executive functions

Notwithstanding the remuneration that they may receive for their position as members of the Board of Directors, including, where appropriate, the chairmanship of the Board, the elements that make up the Executive Directors' remuneration packages for the performance of their executive duties are as follows:

	Quantity and Metrics	Description
Fixed Remuneration	<p>CEO: 664,125 euros.</p> <p>It is not expected to modify the previous fixed remuneration during the term of this policy. However, if circumstances so require, remuneration may vary according to a possible change in responsibilities, development in the position, as well as in case of special needs for retention and motivation, taking into account market standards. The reasons for the variation will be explained in the corresponding annual report on the remuneration of the Directors.</p>	<p>The CEO, for performing the assigned functions and being the Company's Chief Executive, receives the remuneration indicated in the service provision contract which, as legally required, has been approved by the Board of Directors, subject to a favourable report from the Appointments and Remuneration Committee.</p> <p>In the event that the CEO is also Chairman of the Board of Directors, he shall receive, in addition to his remuneration for executive functions, the amounts corresponding as remuneration for his position as Chairman of the Board under the terms to be approved by the Board of Directors on the proposal of the Appointments and Remuneration Committee.</p>
Short-Term Variable Remuneration	<p>Maximum: 120% of the Fixed Remuneration.</p> <p>Metrics: Short-term Variable Remuneration is linked to the achievement of quantitative and qualitative targets (business, financial, operational, environmental performance, etc.) predetermined by the Board of Directors.</p> <p>These targets will not only encompass occasional or extraordinary events, but also those that promote the</p>	<p>The Board of Directors, at the proposal of the Appointments and Remuneration Committee, is responsible for approving the objectives at the beginning of each financial year and evaluating their fulfilment at the end of the year.</p> <p>At the end of the year, the Board determines the variable remuneration accrued during the year based on the level of compliance with the aforementioned targets. In order to ensure that the annual variable remuneration is effectively related to the professional performance of the beneficiaries, when determining the level of compliance with the</p>

	<p>sustainability of the Company and the recognition of good performance. In the components related to the Company's results, deductions will be considered for any qualifications stated in the external auditor's report.</p> <p>The quantitative targets will have a weight of at least 80% in the overall incentive. They will be composed of metrics that guarantee an adequate balance between the financial and non-financial aspects of the Company's management.</p> <p>The qualitative targets will have a weight of a maximum of 20% in the whole incentive. They will be linked to the evaluation of the CEO's individual performance.</p> <p>The targets will be determined annually for the CEO in each of the years covered by this Remuneration Policy through its approval by the Board of Directors, at the proposal of the Appointments and Remuneration Committee, and will be reported in the corresponding Annual Remuneration Reports.</p> <p>The Annual Report on Directors' Remuneration will provide information on the metrics defined for each year, as well as the overall percentage of achievement reached by the CEO.</p>	<p>quantitative targets, the Board and the Appointments and Remuneration Committee may disregard extraordinary circumstances that could introduce distortions in the evaluation criteria.</p> <p>In calculating the amount of the Variable Remuneration, the degree of compliance with and weighting of each of the targets will be considered and the internal rules and procedures for evaluating objectives, established by the Company for its executives, will be applied.</p> <p>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 financial year except for exceptional circumstances.</p> <p>The possible payment of some or all of the Short-Term Variable Remuneration in the form of shares, stock options, or any other system linked to the value of the shares of the Company or Companies in its Group, will be agreed to by the General Shareholders' Meeting.</p>
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<p>Long-Term Variable Remuneration (2019-2023 Long-Term Incentive Plan)</p>	<p>Target: For the CEO, five (5) annual payments of the average annual Fixed Remuneration for financial years 2019/20/21/22/23.</p> <p>Maximum: 130% of average annual Fixed Remuneration for the financial years 2019/20/21/22/23</p> <p>Metrics: Economic and financial targets of the Group's and/or Division's accumulated synthetic EBITDA as set out in the 2019/2023 Strategic Plan; targets linked to the increase in the value of ENCE's shares in relation to the increase in value of the basket of shares of companies in the sector (relative TSR); and targets related to Sustainability and the organisational Climate.</p>	<p>In order to recognize the effort and value generation for the Company of its Executive Directors, Long-Term Variable Remuneration Plans, linked to the achievement of the Company's objectives, may be established. These plans must contain the specific period of time over which to measure results (always more than 2 years), include specific objectives and metrics for results, maximum and minimum achievement thresholds, and set a target and maximum amount to receive in cash and/or shares if the set objectives are achieved.</p> <p>The General Shareholders' Meeting of 28 March 2019 approved the Long-Term Incentive Plan for financial years 2019 to 2023.</p> <p>Period: It is a five-year cash compensation and share delivery remuneration plan consisting of two cycles, the first from 1 January 2019 to 31 December 2021 and the second from 1 January 2019 to 31 December 2023.</p> <p>Targets: (i) to encourage the results and professional performance of the management team in the long term, (ii) to promote the Company's sustainability for creating long-term value, (iii) to reinforce the management team's orientation toward achieving the business objectives committed in the strategic 2019-2023 plan, (iv) committing the senior management levels to the shareholders' interests, and (v) to retain the Company's management talent and reward their dedication, qualification and responsibility of the position.</p>
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		<p>Requirements for accrual:</p> <p>a) Achieving the minimum degree of targets (minimum level) in accordance with the criteria to which the targets are referenced.</p> <p>b) That the beneficiary is in a situation of effective provision of services for ENCE (registered with Social Security) on the corresponding accrual date. Except in cases considered as "Good Severance": 1. Forced retirement 2. Voluntary retirement on agreed terms for each case; 3. Death (the incentive is received by heirs of the deceased); 4. Total or absolute permanent incapacity, or great disability recognised by the public health organization or by a final judicial sentence, which results in the extinction of the labour relationship; 5. Termination of the service or contract with the Company without cause; 6. Objective dismissal; or 7. Disciplinary dismissal declared or recognized as inappropriate by a final court decision, or when so agreed by mutual agreement reached in judicial or extra judicial conciliation; 8. Resolution by mutual agreement; 9. Or unilateral withdrawal from the Company without cause. In addition, the Board, following a proposal from the Appointments and Remuneration Committee, may determine at its own discretion whether to assign any Beneficiary the status of Good Severance.</p>
<p>Other remunerative components</p>	<p>Executive Directors may receive other amounts than the ones described in the sections above, including a company vehicle, life insurance, health insurance, accident insurance, pension plans (amongst others, mixed employee benefits or defined</p>	

	<p>payouts) and other remunerations in kind determined by the Board of Directors, on the proposal of the Appointments and Remuneration Committee, in accordance with the general criteria and policies adopted by the Company in this area and industry best practices.</p> <p>The sum insured is in line with the market.</p> <p>The Annual Report on Directors' Remuneration shall detail the amounts accrued in each financial year.</p>	
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5.3 Ex-Post Adjustments to Variable Remuneration

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

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

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

5.4 Other contractual clauses: Termination as Executive Director and indemnification, notice-giving and non-concurrence clauses and exclusivity

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

The Board may at any time revoke the powers delegated to the Executive Director. This should be the same case of termination when the Director is not re-elected as a Board member when his/her appointment expires even when the Contract is still on period of validity.

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

If, during the term of the contract, a major change in control of the Company occurs, the Executive Director may present his resignation, and is entitled to receive a sum equivalent to twice the Fixed Remuneration being received at that time plus the Variable Remuneration received the two previous years. For these purposes, a significant change of control shall be understood to mean (i) any acquisition, directly or indirectly, by an investor who is not currently a significant shareholder of the Company, who is subject to the obligation to make a takeover bid for the Company's shares in accordance with the regulations in force at any given time, either by purchasing shares or other securities, by means of shareholder agreements or by means of any other cases that such regulations consider to be of a similar nature, or, (ii) in the event that the cases contemplated under point (i) above do not occur, any succession of the company or relevant transfer of shares that has as an effect of a modification of the conditions for the provision of his services by the CEO that results in his functions being vacated or substantially affected in any way.

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

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

Finally, the contracts for common or special employment relationships or for the provision of services by Executive Directors with the Company shall generally be indefinite and shall include an exclusivity clause in the sense that full and exclusive dedication is required of the Executive Director, notwithstanding the positions he may hold in companies of the Company's group and in family companies of a proprietary nature, provided that this does not affect his dedication and does not entail a conflict of interest with the Company.

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

5.5 Possible additions of new Executive Directors

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

6. Validity of the Remuneration Policy

In accordance with **Article 529 novodecies of the Corporate Companies Act**, the Company will apply this Remuneration Policy for Directors in financial years 2020, 2021 and 2022.

However, with regard to the provision of section 5.2 relating to the Fixed Remuneration of the CEO, this Remuneration Policy will be understood to apply from 30 April 2019, the date on which the current CEO of the Company was appointed Chairman of the Board of Directors, as the previous remuneration policy did not specifically provide for the overlapping of both positions in the same person.

In addition, the payment of any amounts that may correspond to the CEO by way of deferred variable remuneration corresponding to previous years is subject to the conditions established for the same by the previous remuneration policy.
