

**REPORT OF THE BOARD OF DIRECTORS OF
ENCE ENERGÍA Y CELULOSA, S.A.
ON THE SALE OF SHARES REPRESENTING 49% OF THE SHARE CAPITAL OF ENCE ENERGÍA,
S.L.U.**

1. Purpose of the report

The board of directors of Ence Energía y Celulosa, S.A. (the “**Company**”) issues this report for the purpose of evaluating and issuing a recommendation on the sale by the Company of shares representing 49% of the share capital of Ence Energía, S.L.U. (“**Ence Energía**”) (the “**Transaction**”). The Company will retain control of Ence Energía by continuing to own 51% of its share capital.

The agreement reached foresees the possibility of assigning 49% of the Company's stake in a shareholder loan granted to Ence Energía for an amount of EUR 100 million or, alternatively, the capitalisation of the amount drawn down from the loan (EUR 75 million) and the transfer of 49% of the shares assumed as a result of that capitalisation.

The 50 MW thermosolar power plant located in Puertollano (the “**Thermosolar Power Plant**”) acquired in November 2018 will be excluded from the scope of the Transaction and the Company has started a process to sell its 100% stake in Ence Energía Solar S.L.U., which in turn owns 90% of the shares of Ence Energía Termollano, S.A., owner of the Thermosolar Power Plant.

The buyer in the Transaction will be a company resident in Luxembourg controlled by Ancala Partners LLP (the “**Buyer**”). Founded in 2010, Ancala is a UK-based independent infrastructure investment manager, which also has offices in Luxembourg. Ancala invests in a broad variety of infrastructure sectors, including renewable energy, utilities, intermediate infrastructure, telecommunications and transportation.

The Transaction was unanimously approved by the board of directors at its meeting of 12 November 2020. However, in accordance with section 160.f) of the Corporate Enterprises Act (*Ley de Sociedades de Capital*), 49% of Ence Energía is considered an essential asset for the Company, to the extent that the amount of the Transaction exceeds 25% of the value of the assets that appear in the Company's last approved balance sheet. Therefore, the formalisation of the Transaction will be subject to the approval of the Company's shareholders' meeting that will be called by resolution of the board of directors on the same date so that it may adopt the corresponding resolution.

This report will be available to the Company's shareholders from the announcement of the meeting to which the Transaction will be submitted for approval.

2. Appraisal of the Transaction by the board of directors

The board of directors of the Company believes that the Transaction is favourable to its shareholders based on the positive assessment of the following circumstances:

- 1.- The terms of the Transaction imply valuing the scope of the Transaction at EUR 886 million, which includes EUR 154 million of debt. These figures do not include Thermosolar Power Plant.

The board of directors has obtained two fairness opinions from reputable firms that support this assessment.

- 2.- On the closing date, the Company will receive as initial consideration for 49% of Ence Energía's share capital, excluding the Thermosolar Power Plant, a fixed price of EUR 225 million, minus the amount of restricted cash outflow.
- 3.- In addition, it has been agreed that, at various times over a maximum period of eight years, the Company will receive a contingent variable deferred price for a maximum potential amount of EUR 134 million, subject to compliance with certain economic parameters related to the development of future projects ("*Pipeline Projects*"). This deferred price depends, among other variables, on the regulated remuneration obtained by these projects in the auctions called by the Government.
- 4.- The agreed price will generate an estimated capital gain of up to EUR 184 million in the next eight years, of which EUR 50 million will be generated at the closing of the Transaction. In addition, the cash inflow from the sale of 49% of Ence Energía will reduce the debt of Ence Energía y Celulosa, at a time when paper pulp prices are at their lowest point in the cycle, while making part of the investment in Ence Energía over the last eight years profitable and promoting the development of the Company's businesses.

Besides this, in its appraisal of the Transaction, the board considers its structure to be reasonable and highlights the following points:

- 1.- In addition to the authorisation of the Company's shareholders' meeting, the purchase agreement is subject to various conditions precedent, consisting of the authorisation to substitute the Company by Ence Energía as the representative before the regulated market, the authorisation of the lenders under the revolving facility agreement signed by the Company and a syndicate of financial institutions, the authorisation of the lenders and noteholders under the Ence Energía corporate financing agreement and, in the event that the closing of the Transaction takes place after 31 December 2020, the foreign investment authorisation.
- 2.- As is usual in this type of transactions, during the period between the signing of the purchase agreement and closing of the Transaction, provisions have been established to prevent Ence Energía and its subsidiaries from performing extraordinary transactions that may fall outside their ordinary course of business.

- 3.- The Company's liability regime for the sale has been agreed in the usual terms for this type of transactions with regard to minimum and maximum liability limits and liability periods. This implies that the Company must compensate the Buyer for any losses that may arise from the breach of the management obligations agreed during the interim period between the signing and the closing of the Transaction, inaccuracies in the representations and warranties given by the Company in favour of the Buyer, and any labour or tax obligations resulting from the group of companies of which the Company is parent prior to the closing of the Transaction.

On the basis of the above, the board unanimously supports the Transaction on the grounds that it enables the Company to crystallise the value of the substantial growth of ENCE Energía in recent years, generate substantial revenue to reduce debt in the pulp business, finance the growth of the energy business through Pipeline Projects, partner with the Buyer, who has extensive experience in the growth of energy and infrastructure platforms, and, furthermore it represents an opportunity for the Company to improve its market position and gain access to new resources to expand and improve its activities in the coming years.

3. Agreement between the Company and the Buyer

Likewise, the Company and the Buyer will sign a shareholders agreement on the closing date of the Transaction to govern their relationship as shareholders of Ence Energía.

The main terms of this shareholders agreement are as follows:

- 1.- The shareholders have agreed that, as long as it continues to hold shares representing more than 50% of Ence Energía's share capital, the Company will retain control of Ence Energía and, therefore, must consolidate the financial statements of Ence Energía (and its corresponding subsidiaries) in accordance with IFRS-EU.
- 2.- Ence Energía's board of directors will be made up of five directors, of whom Ence Energía will appoint three (including the chair and secretary) and the Buyer two.
- 3.- The shareholders have agreed on a series of matters related to decisions to be taken by the shareholders' meeting or the board of directors, in terms that are usual for this type of transaction and aimed at protecting the rights of the minority shareholder, which must be passed by a reinforced majority that will imply the need for a favourable vote by Ence Energía and the Buyer or the representatives appointed by them on the Ence Energía board of directors.

If, in the future, the Buyer's stake in Ence Energía falls below 25%, the list of reserved matters will be reduced and these will disappear if the Buyer reduces its stake below 15%.

- 4.- Ence Energía will maximise the six-month distribution of available free cash, although the Buyer must commit to reinvesting up to 20% of the amounts received for a maximum period of seven years in order to finance the business investment needs during the six months after the distribution.

- 5.- Ence Energía's shareholders do not assume any obligation to make contributions of additional funds to Ence Energía and, barring certain exceptions, these must be approved by both shareholders. The shareholder that does not make a duly approved capital contribution will see their participation diluted.
- 6.- The shareholders have assumed various reciprocal non-compete obligations for a 10-year period according to the usual terms for this type of transaction, and protection mechanisms have been established in relation to access to sensitive information in conflict of interest situations.
- 7.- The shareholders will have right of first refusal if the other shareholder wishes to transfer its shares in Ence Energía.

Likewise, subject to certain exceptions, the list of possible buyers of the shares that a party intends to sell may be limited, including, in particular, the sale of shares to competitors of Ence Energía.
- 8.- The three shareholders with the largest interest in the Company have signed an irrevocable commitment to vote in favour authorising the Transaction at the shareholders' meeting.

4. Recommendation of the Company's board of directors

For the reasons explained in section 2 above, the Company's board of directors unanimously recommends that the shareholders' meeting approve the Transaction.

Likewise, the Company's board of directors considers it beneficial to have a partner with the Buyer's characteristics, given that it is an independent investment manager investing mainly in portfolios of infrastructure and energy projects. The Buyer has formed a team that combines broad experience in financial, operational, execution and institutional management issues in infrastructure investments. It has a long history of collaborating with management teams to develop infrastructure assets, seeking to reduce portfolio risks and increase cash flow.

In addition to providing capital, the Buyer offers financial and strategic support to the management team to optimise the transactions in which it participates, including the experience of its partners.

Madrid, 12 November 2020