

NAME		RISK MANAGEMENT AND CONTROL POLICY	
MANAGEMENT		INTERNAL AUDIT	
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- 1. OBJECTIVE**
- 2. SCOPE AND APPLICATION.**
- 3. RISK MANAGEMENT.**
- 4. RISK MANAGEMENT OBJECTIVES**
- 5. PRINCIPLES OF RISK MANAGEMENT.**
- 6. RISK CATEGORIES.**
- 7. RISK APPETITE.**
- 8. ENCE GROUP RISK MANAGEMENT FRAMEWORK.**
 - 8.1.** Risk Management Framework
 - 8.2.** Risk Management Process
- 9. INTERNAL CONTROL AND INFORMATION SYSTEMS.**
- 10. ROLES AND RESPONSIBILITIES.**
- 11. SCHEDULE: FLOW CHART OF THE RISK MANAGEMENT PROCESS.**

1.- Objective

The purpose of this document is to formalise the Risk Control and Management Policy applied by Ence Energy and Celulosa, S.A. and its subsidiaries (the "ENCE Group").

By implementing this policy, the ENCE Group undertakes to develop all its capabilities in order to ensure that the risks of all kinds it faces to meet its objectives are duly manage, i.e., identified, assessed, prioritised and processed. This commitment is assumed by the Board of Directors and falls under its direct responsibility, as set forth in the Board Regulations.

This Policy defines the contribution of Risk Management to the Corporate Governance structure of the ENCE Group and includes the definition of the competencies, functions and responsibilities of the various members of the organisation that participate in the Group's Risk Management.

The Risk Management System defined in this Policy is complemented by the Internal Control Over Financial Reporting (ICFR) system implemented at ENCE, in accordance with the requirements of the Spanish National Securities Market Commission (CNMV) in this area.

2.- General principles

The Risk Control and Management Policy is applicable to all direct and indirect participants in the ENCE Group's Risk Management Process¹.

This process covers all types of risk that may threaten the achievement of its objectives.

It is the responsibility of all employees, executives, managers, directors and collaborators of the ENCE Group to contribute to the Risk Management Process in an effective and efficient manner.

¹ This Risk Control and Management Policy will apply to the companies composing the ENCE Group — understood as each and every company in whose share capital Ence Energy and Celulosa, S.A. holds, either directly or indirectly, a majority of the shares or voting rights, or in whose governing or administrative body it has appointed, or has the power to appoint, the majority of its members, such that it effectively controls the company.

3.- Risk management

Risk management is a continuous process carried out by the Board, the Management and the staff of the ENCE Group, applied in the definition and execution of the strategy and designed to identify, assess and address risks that, if they materialise, may adversely affect the achievement of the Group's objectives, keeping them within a risk appetite considered acceptable.

The ENCE Group is aware of the importance of risk management in fulfilling the expectations of its stakeholders, taking into account the risk-return tradeoff and, therefore, is not a risk-averse organisation. ENCE firmly believes that risks should be managed appropriately and not simply eliminated. The Group's Policy therefore implies an adequate and effective risk management that will enable the company to:

- From an external standpoint:
 - ✓ Create and protect the value for shareholders.
 - ✓ Build trust between its stakeholders (shareholders and investors, suppliers, clients, regulators, employees, forest owners, public administrations, etc.).
 - ✓ Ensure compliance with laws and recommendations on Corporate Governance.
- From an internal standpoint:
 - ✓ Achieve its goals and objectives.
 - ✓ Provide support during the decision-making process
 - ✓ Strengthen the internal control environment
 - ✓ Improve supervision

Likewise, ENCE considers that, to properly manage risk, it is essential to maintain the maximum level of transparency in the information provided, both inside and outside the organisation. Group personnel must take into account that the information provided on risk management must meet the following requirements:

- ✓ It is complete, ensuring that all relevant information is transmitted for proper risk management.
- ✓ It is correct and accurate, ensuring that the information transferred contains no errors.
- ✓ It creates value by fostering the development of a culture of risk control and management.
- ✓ It must be transmitted in a timely manner, i.e., when it is known and relevant for adequate risk management

4.- Risk management objectives

The main objective of formal Risk Management is to integrate information from the different functions and areas of the company to provide joint vision to the managers and, thus, improve the organisation's ability to manage risks efficiently.

Specifically, the tasks associated with risk management are intended to achieve the following objectives:

- **Form part of and support decision-making processes.**

The activities carried out are focused on supporting the organisation's management in the decision-making process in a qualified manner.

Likewise, a complementary objective of Risk Management is to improve the degree of efficiency of the information available for decision-making and its use in the processes planned within the organisation, taking into account the context of the limitations determined by possible risk situations that may arise.

- **Obtain reasonable assurance that the objectives will be met.**

Risk Management at ENCE aims to address aspects of decision making that are uncertain, with the aim of:

- ✓ Increasing the probability of meeting the Company's objectives.
- ✓ Improving knowledge transfer skills in Risk Management aimed at improving the management of the other units in the organisation.
- ✓ Avoiding unexpected situations, minimising unexpected events.
- ✓ Providing an alert system to anticipate potential problems.

- **Determine the risk profile.**

Risk Management at ENCE aims to ensure that the activities in the various areas of the business are aligned with the level of risk that the Group considers appropriate, in accordance with the Organisation's objectives and priorities.

- **Provide a common language and methodology in relation to risks.**

Risk Management at ENCE aims to provide a common and unique understanding of risk, documented in a set of solid and consistent rules, procedures and measurement methodologies.

Furthermore, it aims to establish common guidelines for action to implement the Risk Management process within the various ENCE Group companies.

- **Enable efficient allocation of resources.**

Risk Management at ENCE aims to reflect the risks that have a greater impact on the Company's objectives, so that it is possible to reduce costs based on the prioritisation of resources, with a focus on those areas where risk is most critical.

- **Establish guidelines for Good Corporate Governance.**

Risk Management at ENCE aims to provide an adequate basis to integrate risk management and Internal Control processes, as an essential part of effective Corporate Governance principles.

- **Assign responsibilities to participants.**

Lastly, Risk Management at ENCE aims to define the roles and responsibilities of the participants, guaranteeing an adequate segregation of duties between those who have a direct responsibility in risk management (the managers) and those who have a responsibility in the development, implementation and maintenance of the Risk Management Model (the Risk Committee).

5.- Principles of risk management

The principles on which Risk Management at ENCE is based are as follows:

Risk Management:
<ul style="list-style-type: none"> ✓ Creates and protects value. ✓ It is an integral part of all ENCE processes. ✓ It forms part of decision-making processes. ✓ It deals explicitly with uncertainty. ✓ It is systematic, structured and timely. ✓ It is based on the best information available. ✓ It is customised to the organization. ✓ It takes into account human and cultural aspects. ✓ It is transparent and inclusive. ✓ It is dynamic, repeatable and responds to change. <p style="margin-left: 40px;">It facilitates the continuous improvement of ENCE.</p>

Table 1: Principles of Risk Management at ENCE.

6.- Risk categories

ENCE has identified the following types of risk:

Environmental risks: situations that may entail possible losses of value or results due to uncertainty linked to changes in the business, competition and market scenario or changes in the legal framework (economic environment, behaviour of clients of competitors, legislative changes, government relations, sale price, reputational).

Risks associated with decision-making: situations that may lead to possible errors arising from an incorrect process for preparing the information that could be useful for decision-making (strategic planning, environment analysis, valuation, financial and accounting information, fiscal and tax information).

Legal risks: situations arising from the breach of rules internal or external to the company, and from conflicts with third parties (formalisation of contracts, regulatory compliance, arbitration and litigation, criminal risk, ICFR compliance)

Financial and tax risks: interest rate, foreign exchange, liquidity, default, capital availability, tax risk, counterparty in commercial transactions.

Operational risks: arising from ENCE's operations (production, clients, suppliers, technology and information systems, fraud, human capital, environmental and environment).

7.- Risk appetite

Risk Appetite is the "level of risk" that the company wants to accept to achieve its objectives.

ENCE recognises that its risk appetite varies based on the activities carried out and that its degree of acceptance of the risk is conditional upon ensuring that the potential benefits and risks are fully understood before making a decision, and establishing, where applicable, reasonable measures to manage such situations.

Based on the risk-return tradeoff, ENCE analyses each situation to evaluate how willing the organisation is to face this type of situation. In this respect, the analysis includes factors such as strategy, stakeholder expectations, current law, the environment and relationships with third parties:

- Ence adopts a zero risk appetite for all situations in which the safety and health of employees and collaborators could be compromised, making it a priority in its actions.

- ENCE has an approach to minimise its exposure to those situations that are related to compliance with the law and the regulations affecting the company.
- ENCE has a team of external advisors, as well as specialised internal staff, who have established internal guidelines for tax compliance and no risk assumption in this area.
- ENCE adopts a moderate risk appetite for situations related to the research, development and innovation of its products, aimed at providing solutions that fully meet the needs of its clients and become a benchmark in the pulp market.
- Likewise, aware of the current difficulties in relation to the economic environment in which ENCE operates, the Company is committed to establishing financial discipline that will allow it to keep the organisation's total debt under control and provide it with sufficient liquidity to meet its payments and priority investments. ENCE adopts a low risk appetite for financial transactions.
- However, a large volume of ENCE's transactions are associated with the exchange rate between the dollar and the euro. Aware of the economic environment and the evolution of the exchange rate between the two currencies, ENCE adopts a low risk appetite in this area, by means of rigorous management, in accordance with the guidelines established by the Executive Committee of the Board and, where applicable, the Directorate General of Finance.

8.- ENCE group risk management framework

8.1 Risk Management Framework.

The philosophy of this Risk Management Framework is summarised in that ENCE, as an organisation that has a specific vision, mission and values, seeks to achieve its goals by adopting and implementing a global strategy that focuses on specific objectives from four different perspectives; strategic objectives, operational objectives, compliance objectives and financial reporting and information objectives.

To achieve these objectives and, therefore, fulfil its mission, things must happen as they have been conceived and planned. However, the internal characteristics of the organisation, i.e., its people, processes and systems, together with the environment external to the business (market, legislation, regulations, environment, etc.) do not provide absolute certainty as to whether ENCE will achieve its objectives and, if so, how it will be able to do so.

This uncertainty is reflected in specific situations of threat to ENCE's objectives (at all levels), and that is why a Risk Management process has been created within the organisation, for the purpose of identifying, assessing, prioritising and responding to this uncertainty, developing methodologies, facilitating channels and flows of information and reporting and assigning specific roles and responsibilities to the actors participating in this process, all with the ultimate goal of trying to provide a reasonable level of security for the organisation to achieve its goals.

The Risk Management Framework facilitates a systematic and common infrastructure establishing, maintaining and improving the main guidelines and directives that compose the process for dealing with risks throughout the Group. It is implemented through a process aimed at continuous improvement, in which the participants and their main responsibilities are identified.

This framework is aligned with best practices in Internal Control and Corporate Risk Management (COSO's ERM² Report and ISO 31000 regulations on Risk Management³) and is shown in the following diagram, although it is explained in detail in the ENCE Group's risk management procedure.

8.2 Risk Management Process.

² COSO: *Committee of Sponsoring Organizations of the Treadway Commission*, a voluntary private sector organisation dedicated to improving the quality of financial reporting through business ethics, effective internal controls and corporate governance. The COSO I Report establishing the 5 basic components of the Internal Control Framework was published in 1992. In 2004, COSO published "*Enterprise Risk Management — Integrated Framework*" (COSO II), expanding the Initial Internal Control Framework.

³ ISO 31000:2009 - *Risk Management - Principles and guidelines on implementation*, ISO 31010:2009 – *Risk Management - Risk Assessment Techniques* and ISO Guide 73:2009 – *Risk Management – Vocabulary*.

The risk management process is based on the Risk Management Framework defined in the previous point, and consists of the following elements:

a) Objectives and context.

ENCE defines its objectives and the environment in which it operates, both internally and externally, taking into account the interests of its stakeholders, which affects its way of managing the risks, facilitating their prioritisation.

b) Risk assessment.

- Risk detection: identify **potential events** that could threaten the objectives.
- Risk analysis: determine its causes, areas of impact and possible consequences.
- Risk assessment: estimate the consequences and their probability of occurrence, in order to prioritise the most worrisome situations, based on the **risk classification scale**.

c) Risk management.

It consists of selecting and applying the best **response to the risk**, in accordance with the situation in question. Once implemented, it provides new **control** or modifies an existing one. The response to the risks may be to accept, transfer, mitigate or eliminate them.

d) Information.

We must facilitate the exchange of relevant risk information to and from all levels involved in the risk management of the ENCE Group, by means of tools such as the **risk log** and the **risk map**.

e) Communication.

We have a suitable environment and a risk management philosophy shaped by specific communications from the Audit Committee, aimed at the expectations regarding the behaviour and responsibilities of staff.

Likewise, ENCE adopts an internal communication program aimed at supporting the integration of its risk management philosophy based, inter alia, on the following points:

- Management discusses the risks and associated risk responses in regular briefings with its employees at all levels.
- Risk management policies, standards and procedures are provided to employees, along with firm statements about compliance.
- New employee orientation sessions include information and documentation on the Risk Management and Control Policy and philosophy.

- The risk management philosophy is reinforced through continuous internal and external communication programs to consolidate the principles of the organisation's culture.

f) Control and Review of the Process.

The risk management process is continuously monitored and reviewed to identify, propose and implement any necessary improvements.

9.- Internal control and information systems

Each year, ENCE identified and assesses new risks and monitors the evolution of risks identified in previous periods and risks that have ended during the year. Information on controls and action plans related to the risks identified is also updated.

To do so, ENCE has the following management tools:

a) Risk Log.

The Risk Log is the format used for the periodic reporting of the main risks identified and assessed in the various business units.

The Risk Log is a tool that provides strategic and operational information to the business units involved in the risk management process.

b) Risk Map.

The Risk Map is the format used to graphically represent the probability and impact associated with each risk, and to be able to immediately identify whether it must be treated with the corresponding level of priority.

In this way, risk managers can focus their actions on managing the most urgent risks and, at the same time, monitor changes in the situation of the other risks.

10.- Roles and responsibilities

The roles and responsibilities of each member of the organisation involved in Risk Management are as follows:

a) Audit Committee.

It is the supervisory body for Risk Management. Its main functions include, inter alia:

- ✓ Supervising internal audit services.
- ✓ Being familiar with the Company's internal control systems.
- ✓ Verifying the adequacy and integrity of the internal control systems.
- ✓ Supervising proper risk management.
- ✓ Supervising the proper management of environmental aspects and occupational hazard prevention audits.
- ✓ Supervise the risk map prior to its approval by the Board of Directors.

b) Board of Directors.

Its roles are those attributed in the Regulations, specifically:

- ✓ Establish the risk control and management policy, including tax risks, and the supervision of internal information and control systems.
- ✓ Approve corporate governance policies, and by extension the Risk Control and Management Policy.

c) Internal audit:

It is responsible for:

- ✓ Preparing the group's procedures and criteria for risk management and submitting them to the Board, through the Audit Committee, for approval.
- ✓ Ensuring the proper functioning of the risk control and management systems and, in particular, that all significant risks affecting ENCE are identified, managed, and appropriately quantified.
- ✓ Ensuring that the risk control and management systems adequately mitigate risks within the framework of this risk control and management policy.
- ✓ Providing support and advice to risk managers on all matters relating to risk management.
- ✓ Notifying the Audit Committee, for its approval, of the risks identified, as well as the plans and actions proposed by the risk manager.
- ✓ Preparing and periodically update the ENCE risk map based on those previously approved.
- ✓ Reporting to the Board, through the Audit Committee, of the risks that have materialised, indicating the circumstances that gave rise to them and whether the control systems in place have worked.
- ✓ Periodically monitoring the degree of implementation of the approved action plans.
- ✓ Periodically reporting to the Audit Committee and the Board on the emergence of new risks, the evolution of the risks identified, the degree of implementation of the approved action plans and the general functioning of the company's risk management system.
- ✓ Reporting on the risks that have materialised, indicating the circumstances that gave rise to them and whether the control systems in place have worked.

d) Risk managers.

The directors and managers of ENCE's different departments are responsible for risks within their areas and perform the following functions, inter alia:

- ✓ Using the procedures and criteria approved by the ENCE Group for risk management. Specifically:
 - Identifying risk situations that affect the achievement of ENCE's objectives, within its area of responsibility.
 - Assessing the risks identified, in accordance with the methodology available.
 - Reporting their risks, by participating in the risk reporting process established for this purpose and through the tools made available to them.
- ✓ Following the guidelines indicated at any given time regarding risk management
- ✓ Informing the internal auditor of the risks identified, the plans and actions proposed, as well as the degree of progress or implementation thereof.

11.- SCHEDULE: Flow chart of the risk management process

