

**REPORT OF THE NOMINATING AND COMPENSATION COMMITTEE TO THE BOARD OF DIRECTORS OF ENCE ENERGÍA Y CELULOSA, SA PURSUANT TO ARTICLE 529R 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 Nominating and Compensation Committee of ENCE ENERGÍA Y CELULOSA, S.A. (the "**Company**") in accordance with article 529r 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 NOMINATING AND COMPENSATION 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. It also establishes that the remuneration policy will remain in force during the three fiscal years following the one in which it was approved, unless it is modified by a new resolution of the General Shareholders' Meeting.

In compliance with the foregoing, the Nominating and Compensation 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 sixth of the agenda.

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

In order to keep the remuneration policy aligned with best market practices and with the economic and financial situation of the Company, the Board of Directors, at the proposal of this committee, agreed at its meeting of October 31, 2017 to review the system and the amount of remuneration set in the policy approved by the General Shareholders' Meeting of April 28, 2015, which is valid until the 2018 fiscal year (inclusive). To this end, it commissioned KPMG to prepare a report, which this entity issued on February 1, 2018.

This report contains a series of recommendations that have been included in the remuneration policy proposal that is the subject of this report, which is attached as Appendix I. If this proposal is approved, it will mean that the remuneration policy currently in force will be rendered null and void, and that a new document will be approved, valid for 2018, 2019 and 2020.

Among the recommendations of the KPMG report that has been included in the remuneration policy proposal is the increase in the maximum annual amount of Directors' remuneration, which has remained unchanged for the past 12 years. KPMG has shown in its report that when the shareholders meeting of June 2006 set the amount currently in force at 1,500,000 Euros, the organization of the company and the business was different and less complex, the Board of Directors and its commissions had a different and smaller configuration, and the regulatory and corporate governance context was also different.

Therefore, the aforementioned report has recommended increasing the amount of fixed remuneration by 400,000 Euros, and agreeing a new amount of 1,900,000 Euros.

In compliance with the legal requirement set forth in article 529r of the Capital Companies Act, the Board of Directors needs the favorable report of this committee in order to be able to submit, for approval by the General Shareholders' Meeting, its remuneration policy proposal that would enter into Effect from January 1, 2018 so that, if the board decides to approve it, it will substitute the remuneration policy currently in force.

In view of the foregoing, this Nominating and Compensation Committee considers that the proposed remuneration policy:

- (i)** conforms to the principles established for it in the Capital Companies Act, the Good Governance Code and the internal regulations of the Company;
- (ii)** establishes the precise mechanisms to ensure a remuneration aligned with the market and avoid an excessive assumption of risks; and
- (iii)** aims to establish an adequate remuneration to attract and retain Directors of the desired profile and reward their dedication, qualification and responsibilities without compromising their independence.

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.